

CAUCUS OF DEVELOPMENT NGO NETWORKS, INC.

(A Nonstock, Not-for-profit Corporation)

NOTES TO FINANCIAL STATEMENTS

July 31, 2009

Note 1 – Organizational Information and Approval of Financial Statements

Organizational Information

Caucus of Development NGO Networks, Inc. (the Organization) was incorporated and registered in the Philippine Securities and Exchange Commission on January 31, 1991. It is an umbrella organization consisting of six (6) national and six (6) regional development non-government organization networks in the Philippines. The organization's activities are funded principally through the earnings of its endowment fund, grants received from external grantors, membership fees and donations.

The registered address of the Organization is located at 69 Esteban Abada Street, Loyola Heights, Quezon City.

Approval of Financial Statements

The Organization's financial statements were approved and authorized for issue by the Board of Trustees (BOT) on October 29, 2009.

Note 2 – Summary of Significant Accounting Policies

Basis of Preparation

Basis of Measurement

The financial statements of the Organization have been prepared based on historical cost except for available-for-sale investments which are carried at fair value.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with the Philippine Financial Reporting Standards (PFRSs) issued by the Financial Reporting Standards Council (FRSC) which consist of the following:

- a. PFRSs – correspond to International Financial Reporting Standards;
- b. Philippine Accounting Standards (PASs) – correspond to International Accounting Standards (IASs); and
- c. Philippine Interpretations to existing standards – correspond to Interpretations of International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB); these also include Interpretations developed by the Philippine Interpretations Committee (PIC).

Functional and Presentation Currency

The financial statements are prepared in Philippine peso, which is also the Organization's functional currency.

Fund Accounting

The financial statements have been prepared based on the principles of fund accounting, which classifies funds' resources according to their nature and purpose for accounting and reporting. Separate accounts are maintained for each fund.

The Organization maintains fund groups as follows:

- General fund – represents the portion of expendable funds that are available to support the Organization's operations.
- Endowment fund – represents funds restricted for the Organization's long-term sustainability.
- Special fund - represents grants received from certain funding agencies, which can only be used for specific projects upon approval by the grantor.
- Membership fund – represents fees received from members, which can be used for specific projects upon approval by the BOT.
- Equipment fund – represents the equipment donated for the operations of the Organization.

Standards, interpretations and amendments to published standards effective in fiscal year 2009 and onwards

The Organization adopted the following relevant amendment to existing standards, which is effective for accounting periods beginning on or after August 1, 2008.

- PAS 39 and PFRS 7 (Amendment), *Reclassification of Financial Assets (Effective July 1, 2008)*

This amendment to the standards permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair-value-through-profit-or-loss category (FVPL) in particular circumstances. The amendment also permits an entity to transfer from the AFS investments category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial assets had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. In the event of reclassification, additional disclosures are required under IFRS 7. This amendment to the standards does not have any impact on the Organization's financial statements as the Organization did not reclassify its financial assets to a new category.

- Philippine Interpretation IFRIC 14, *The Limit on a Deferred Benefit Asset, Minimum Funding Requirements and their Interaction* (effective January 1, 2008)

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company's adoption of this interpretation does not have any significant impact on its financial statements as Company is not subject to any minimum funding requirement.

The Organization opted not to early adopt the following relevant interpretation to existing standard that are effective in periods subsequent to fiscal year 2009:

- Revised PAS 1, *Presentation of Financial Statements* (Effective January 1, 2009)

The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements; a separate income statement and statement of comprehensive income statement. This revision will result to the preparation of a comprehensive income, which includes the Organization's gains and/or losses that are recognized in the equity. The Organization will apply Revised PAS 1 in its fiscal year 2010 financial statements.

Based on management's initial assessment, except for the revised PAS 1, the adoption of the foregoing revisions and amendments to and interpretation of existing standards will not have any material impact on the Organization's financial statements.

Financial Assets

Initial recognition

Financial assets within the scope of PAS 39 are classified as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, receivables, AFS and HTM investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

- *Cash and cash equivalents*

Cash includes cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

- *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using effective interest rate method. Gains and losses are recognized in the statement of revenues and expenses when the loans and receivables are derecognized or impaired, as well, through the amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method.

The Organization's grant receivables, investment income receivables and other receivables are included under this category (see Note 5).

- *HTM Investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Organization has the positive intention and ability to hold it to maturity. After initial measurement, investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset. Gains and losses are recognized in the statement of revenues and expenses when the investments are derecognized or impaired, as well as through the amortization process.

The Organization's investments in bonds, preferred shares, government securities and other debt securities are included in this category (see Note 6).

- *AFS Financial Assets*

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the statement of revenues and expenses.

The Organization's unit investment trust fund and loan fund are included under this category (see Note 7).

Financial Liabilities

Initial recognition

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans, include directly attributable transactions costs.

The Company's financial liabilities include accrued expenses and other liabilities and deferred grants.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

- *Other Financial Liabilities*

This classification pertains to financial liabilities that are neither held for trading nor designated as FVPL upon inception of the liability. Included in this category are liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

The Organization's accrued expenses and other liabilities and deferred grants are classified under this category (see Note 9).

Impairment of Financial Assets

- *Assessment of Impairment*

The Organization assesses at each statement of assets, liabilities and fund balances date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

- *Evidence of Impairment*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Organization on terms that the Organization would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data

relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

- *Impairment of Assets Carried at Amortized Cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at amortized cost such as loans and receivables carried at amortized cost, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or the through use of an allowance account. The amount of loss shall be recognized in the statement of revenues and expenses.

- *Impairment of Assets Carried at Cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at cost such as an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

- *Reversal of Impairment Loss*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of revenues and expenses, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

Derecognition of Financial Instruments

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when: a) the rights to receive cash flows from the asset have expired; b) the Organization retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or c) the Organization has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Organization has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks

the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the Organization's continuing involvement in the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of revenues and expenses.

Classification of Financial Instruments Between Debt and Equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as an expense.

A financial instrument is classified as debt if it provides for a contractual obligation to: (a) deliver cash or another financial assets to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Organization; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Organization does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of assets, liabilities and fund balances if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The initial cost of property and equipment is comprised of the purchase price and costs directly attributable to bringing the assets to their intended use.

Subsequent expenditures incurred after the assets have been put into operation are capitalized as additional cost of the assets when the resulting future economic benefit exceeds the originally assessed standard of performance of the asset. All other subsequent expenditures incurred such as repairs and maintenance are recognized in the statement of revenues and expenses in the period the costs are incurred.

When assets are sold or retired, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts and any resulting gain or loss is included in the statement of revenues and expenses of such period.

Depreciation is computed using the straight-line method over the estimated useful lives of the following assets:

Office equipment	- 3 - 5 years
Furniture and fixtures	- 3 - 5 years
Transportation equipment	- 10 years

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Impairment of Non-financial Assets

The carrying amounts of the Organization's non-financial assets such as property and equipment are reviewed at each statement of assets, liabilities and fund balances date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Organization makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset or its cash generating unit's (CGU) fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

Whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in the statement of revenues and expenses.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of revenues and expenses.

Employee Benefits

The Organization has less than ten core employees in 2009 and 2008. It is required to provide retirement benefits to qualified employees under Republic Act 7641, which relates to a defined benefit plan. The Organization has not yet set up a formal employee retirement plan. However,

the amounts recognized for retirement benefits expense and the corresponding retirement benefit obligation are included as part of Personnel Costs and is shown under Operating expenses account in the statement of revenues and expenses and Accrued expenses and other liabilities in the statement of assets, liabilities and fund balances, respectively.

Provisions and Contingencies

Provisions are recognized when (a) the Organization has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Organization expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of revenues and expenses net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

Revenue and Expense Recognition

Revenue is recognized to the extent when the significant risks and rewards of ownership of goods has been transferred to the buyer, the Organization retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue can be measured reliably.

The additional specific recognition criteria for each type of revenue are as follows:

Grants

Grants are recognized upon fulfillment of the grantor-imposed conditions attached to the support and/or to the extent that the expenses are incurred. At project completion date, any excess funds are returned to the grantors, unless otherwise agreed by both parties that the excess be retained by the Organization and therefore credited to general fund.

Investment income

Investment income composed is recognized when earned.

Interest income

Interest income is recognized as the interest accrues on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Project expenses, program expenses and other expenses are recognized in the statement of revenues and expenses at the date they are incurred.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of revenues and expenses. Association costs, such as maintenance, are expensed as incurred.

Foreign Currency Denominated Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the statement of assets, liabilities and fund balances date. Exchange gains and losses arising from the foreign currency denominated transactions and translations are credited or charged to operations. Non-monetary assets and liabilities are translated at the closing rate if carried at fair value or at historical rate if carried at cost. Any changes in the carrying amount of non-monetary items are reported in statement of revenues and expenses or in equity to the extent that the gain or loss is directly recognized in equity; otherwise, the exchange difference is recognized in the statement of revenues and expenses.

Events After the Financial Reporting Date

Post year-end events up to the date of the auditors' report that provide additional information about the Organization's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 3 – Significant Accounting Estimates, Assumptions and Judgments

The preparation of the financial statements in conformity with PFRS requires the Organization's management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Held-to-maturity Investments

The Organization follows guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. This classification requires significant judgment. In making the judgment, the Organization evaluates its intention and ability to hold its investment in bonds, preferred shares, government and other debt securities up to maturity.

If the Organization fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. In such a case, the investments would therefore be measured at fair value, not amortized cost. Had the Organization sold or reclassified more than an insignificant amount of held-to-maturity investments, the fair value would increase by P5,380,252 with a corresponding entry in the General Fund in the fund balance section of the statement of assets, liabilities and fund balances.

Impairment of Available-for-sale Financial Assets

The Organization follows the guidance of PAS 39 in determining whether an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Organization evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of the near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

If the assumptions made regarding the duration that, and extent to which, the fair value as of July 31, 2009 increased from that of the prior year, the Organization would recognize a recovery gain of P10,241,101 in its 2009 financial statements representing the transfer of the total Revaluation Reserve to the statement of revenues and expenses.

Operating Lease

The Organization has entered into a lease agreement as a lessee. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2 and relevant disclosures are presented in Note 17.

Retirement benefits

The determination of the Organization's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. However, the Organization has not obtained an actuarial valuation, hence it uses assumptions based on the provisions of R.A. 7641.

The retirement benefit obligation amounted to P832,734 in 2009 and P741,850 in 2008 (see Note 15).

Determination of Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Organization, the functional currency is determined to be Philippine peso. It is the currency that mainly influences the revenues and expenses.

Classification of Financial Instruments

The Organization classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by PAS 32 and 39 on the definitions of a financial asset, a financial liability or an equity. In addition, the Organization also determines and evaluates its intention and ability to keep the investment until its maturity date.

The substance of a financial instrument, rather than its legal form, and the management intention and ability to hold the financial instrument to maturity generally governs its classification in the statement of assets, liabilities and fund balances.

Determination of the Fair Value of Financial Instruments

The Organization carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, if the Organization utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities as of July 31, 2009 amounted to P147,873,095 and P4,554,663, respectively (see Note 21).

Estimation of Allowance for Doubtful Accounts and Probable Losses

Recoverability of specific receivables is evaluated based on the best available facts and circumstances, the length of the Organization's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated to be uncollectible. Allowance for doubtful accounts amounted to nil and P895,200 in 2009 and 2008, respectively.

Estimation of Useful Lives of Property and Equipment

The Organization estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period will be affected by changes in these factors and circumstances. A reduction in estimated useful lives of the property and equipment shall increase recorded operating expenses and decrease non-current assets.

The carrying values of property and equipment net of accumulated depreciation are presented in Note 8.

Estimation of Impairment of Non-Financial Assets

The Organization assesses at each statement of assets, liabilities and fund balances date whether there is an indication that the carrying amount of all non-financial assets may be impaired or that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, or when annual impairment testing for an asset is required, the Organization makes an estimate of the asset's recoverable amount. No impairment loss on non-financial assets was recognized during the year.

There were no impairment losses recognized on non-financial assets during the fiscal years ended July 31, 2009 and 2008.

Note 4 – Cash and Cash Equivalents

The details of the account are as follows:

	<u>2009</u>	<u>2008</u>
Cash on hand	P10,000	P15,000
Cash in bank	417,337	2,518,134
Cash equivalents	300,000	1,609,861
Cash for special projects	1,826,819	259,298
	<u>P2,554,156</u>	<u>P4,402,293</u>

Cash in bank consists of peso and dollar-denominated accounts as follows:

	<u>2009</u>	<u>2008</u>
Philippine Peso	P2,389,823	P4,121,168
US Dollar	US\$3,415	US\$6,369

The US Dollar accounts were translated based on the prevailing exchange rates at fiscal year-end, which were P48.121:US\$1 and P44.140:US\$1 in 2009 and 2008, respectively.

Cash in banks generally earn interest at rates based on daily bank deposit rates. Cash equivalents are composed of money market placements with original maturity of three months or less and earn interest ranging from 4% to 7% per annum. Interest earned from cash and cash equivalents amounted to P75,932 and P46,095 in 2009 and 2008 respectively, and are reported as part of Other income in the statement of revenues and expenses.

Foreign exchange gain from dollar-denominated deposits amounts to P39,268 in 2009 and foreign exchange loss amounts to P31,384 in 2008.

Note 5 – Receivables, net

The details of this account are as follows:

	<u>2009</u>	<u>2008</u>
Investment income receivable	P2,945,677	P1,513,990
Grants receivable	1,021,501	3,242,210
Other receivables	563,830	2,184,929
	4,531,008	6,941,129
Allowance for doubtful accounts	-	(895,200)
	P4,531,008	P6,045,929

Other receivables include due from member and non-member networks as well as advances and loans to officers and employees of the Organization.

A reconciliation of the allowance for impairment at beginning and end of fiscal years 2009 and 2008 is shown below:

	<u>2009</u>	<u>2008</u>
Beginning balance	P895,200	P1,192,356
Additional provision	1,161,442	-
Write-off	(2,056,642)	-
Reversal	-	297,156
Ending balance	P-	P895,200

The accounts written off during the year pertains to grants receivables, advances to member and non-member networks and advances and loans to officers and employees which are long outstanding and are considered impaired after the management has exerted efforts to collect from them.

Note 6 – Held-to-maturity Investments

The details of this account are as follows:

	<u>2009</u>	<u>2008</u>
Republic of the Philippines (ROP) bonds	P44,631,696	P41,238,711
Government and other debt securities	26,400,708	-
Preferred equity shares	15,000,000	-
	P86,032,404	P41,238,711

The ROP bonds are managed by a local bank and has a book value of P43,308,900 and an unamortized premium of P1,322,796 in 2009, and P39,726,000 and P1,512,711, respectively in 2008.

The investment in government and other securities is managed by AB Capital and Investment Corporation. The fund yielded an annualized net rate of return of 12.58%.

The preferred equity shares pertain to the shares of National Confederation of Cooperatives (NATCCO) with a par value of P100 per share. It has a term of 4 years and will mature on November 3, 2012 and has interest rate of 11% per annum.

Investment income earned from these investments, net of premium amortization and investment management fees amounted to P4,962,899 and P3,047,286 in 2009 and 2008, respectively. Foreign exchange gain from investment in ROP bonds amounted to P3,648,135 in 2009 and foreign exchange loss in 2008 amounted to P1,335,138.

The total fair value of the HTM investments as of July 31, 2009 and 2008 is P 91,380,441 and P45,390,589, respectively.

Note 7 – Available-for-sale Investments

The details of the account are as follows:

	<u>2009</u>	<u>2008</u>
Unit investment trust fund (UITF)	P31,954,678	P77,736,208
Loan fund	17,452,812	14,456,083
	<u>P49,407,490</u>	<u>P92,192,291</u>

The reconciliation of the carrying amounts of AFS investments are as follows:

	<u>2009</u>	<u>2008</u>
Balance at August 1, 2008	P92,192,291	P106,035,257
Additions	2,996,729	2,165,539
Disposals (at cost)	(56,022,631)	(2,785,339)
Fair value gains (losses)	10,241,101	(13,223,166)
Balance at July 31, 2009	<u>P49,407,490</u>	<u>P92,192,291</u>

The UITF is a collectible investment scheme that pools the investments of small investors into a larger fund under professional management that is able to access more superior investment opportunities normally not available to individual retail players. The investors share in the gains or losses of the fund, proportionate to their respective participation in the pool. The Organization intends to hold the investment in unitized investment trust fund on a long-term basis.

The loan fund pertains to investment in the loan fund of NATCCO which earns interest at 10% annually.

Investment income earned from AFS investments amounted to P2,710,391 and P1,261,360 in 2009 and 2008, respectively.

Net fair value gain amounted to P10,241,101 for the fiscal year ended July 31, 2009 and net fair value loss amounted to P13,223,166 for the fiscal year ended July 31, 2008. This revaluation reserve on market value of the AFS investments is presented as part of the Endowment Fund.

In October 2008, the Organization sold part of its UITF amounting to P56,022,631 for P40,000,000 from which it incurred a loss of P16,022,631 and which it recognized in the statement of revenues and expenses.

Note 8 – Property and Equipment, net

The details of the account as of July 31, 2009 and 2008 are as follows:

<u>2009</u>	Office Equipment	Furniture and Fixtures	Transportation Equipment	Total
Cost				
At August 1, 2008	P1,184,319	P449,773	P-	P1,634,092
Additions	24,093	-	614,816	638,909
Disposals	(24,800)	(320)	-	(25,120)
Reclassifications	(24,083)	24,083	-	-
At July 31, 2009	<u>1,159,529</u>	<u>473,536</u>	<u>P614,816</u>	<u>2,247,881</u>
Accumulated depreciation				
At August 1, 2008	897,958	368,943	P-	1,266,901
Provision for the year	116,904	22,739	18,620	158,263
Disposals	(14,880)	(105)	-	(14,985)
Reclassifications	(23,801)	23,801	-	-
At July 31, 2009	<u>976,181</u>	<u>415,378</u>	<u>18,620</u>	<u>1,410,179</u>
Net book value				
At July 31, 2009	<u>P183,348</u>	<u>P58,158</u>	<u>P596,196</u>	<u>P837,702</u>
<u>2008</u>				
Cost				
At August 1, 2007	P984,829	P360,719	P-	P1,345,548
Additions	199,490	89,054	-	288,544
At July 31, 2008	<u>1,184,319</u>	<u>449,773</u>	<u>-</u>	<u>1,634,092</u>
Accumulated Depreciation				
At August 1, 2007	762,474	351,916	-	1,114,390
Additions	135,484	17,027	-	152,511
At July 31, 2008	<u>897,958</u>	<u>368,943</u>	<u>-</u>	<u>1,266,901</u>
Net Book Value				
At July 31, 2008	<u>P286,361</u>	<u>P80,830</u>	<u>P-</u>	<u>P367,191</u>

In 2006, Misereor, a development funding organization based in Germany, approved a project grant in favor of the Organization entitled “Civil Society Advocacy on Constitutional Reform (Phase 2)” which was implemented starting May 2006 until April 2009. A component of the grant included the acquisition of a Toyota Innova vehicle which was purchased on November 2006 with a cash purchase price of P794,812. The vehicle was intended to be used by the Organization in implementing the said project. The Project Contract between Misereor and the Organization for the said project included a General Agreement which had a provision concerning purchases of such nature. As provided in Article 12 of the said General Agreement, the vehicle shall become the property of the “legal holder” (that is, the Organization), and the said property shall be duly inventoried; thus, this is hereby reflected as Equipment Fund in the Fund Balance section of the Statement of Assets, Liabilities and Fund Balances.

As of July 31, 2009, the carrying value of the said equipment is P596,196 while its fair market value is estimated to be P500,000.

The management sees no impairment of property and equipment during the year.

Note 9 – Accrued Expenses and Other Liabilities

The details of the account are as follows:

	<u>2009</u>	<u>2008</u>
Accrued expenses	P1,945,689	P2,749,777
Retirement payable	832,734	741,850
Other liabilities	200,850	118,673
	<u>P2,979,273</u>	<u>P3,610,300</u>

The Organization is the custodian of funds for the Change Politics Movement. As of July 31, 2009, funds amounting to P25,000 are maintained in a bank account of the Organization and are recognized as a liability under accrued expenses.

Other liabilities pertain to retention payable to member networks and partner NGOs.

Note 10 – Deferred Grants

Deferred grants represent funds unspent for the period and are applicable to succeeding periods. The funds are to be used only for specific projects and should be in compliance with the terms and conditions of the grant. Unused funds at the end of the project are returned unless otherwise agreed to be retained by the Organization. Certain funds and reflows, therefore, of completed projects may be transferred to the general fund and other contributions upon approval of the BOT.

Deferred grants amounted to P1,575,264 and P950,600 in 2009 and 2008, respectively.

Note 11 – Grants and Donations

Grants and donations represent several project funds received from local and foreign funding agencies to carry out specific national programs based on budgets submitted and approved. All related expenses pertaining to such programs have been classified under the Project expenses account in the statement of revenues and expenses. Grants realized in 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Foreign grants:		
Katholische Zentralstelle fur Entwicklungshilfe e.V.	P3,509,004	P5,524,421
Management Systems International (MSI)	1,418,428	88,826
United Kingdom Charity Commission (UKCC)	137,510	829,437
National Endowment for Democracy (NED)	767,459	-
United Nations (UN)	55,961	-
Park Won Soon Fund	22,887	122,154
Embassy of Japan	-	363,756
Japan Foundation/ACC21	-	11,655
	<u>P5,911,249</u>	<u>P6,940,249</u>
Local grants:		
Peace and Equity Foundation (PEF)	784,815	2,836,955
Commission on Human Rights (CHR)	319,275	-
Initiatives for Dialogue and Empowerment through Alternative Legal Services, Inc. (IDEALS)	30,487	-
Ateneo School of Government	-	358,549
	<u>1,134,577</u>	<u>3,195,504</u>
	<u>P7,045,826</u>	<u>P10,135,753</u>

Note 12 – Project Expenses

The details of the account for the fiscal years ended July 31, 2009 and 2008 are as follows:

<u>Project</u>	<u>Funding Agencies</u>	<u>2009</u>	<u>2008</u>
Civil Society Advocacy on Constitutional Reform (Phase 2)	Katholische Zentralstelle fur Entroicklungshilfe e.V.	P3,559,749	P5,526,287
Department of Agriculture Budget Monitoring	MSI	1,418,428	88,826
Pilot NGO Assessment Tool	UKCC	137,540	830,065
Social Development Week and Multi Sectoral Regional Anti-Poverty Partnerships	PEF	784,815	-
Development and Change Politics	NED	767,459	-
Implementing the Civil Society Index in the Philippines	CHR	319,489	-
United Nations- Civil Society Advisory Committee	UN	55,961	-
MTPDP Assessment	IDEALS	30,487	-
Park Won Soon Fund	Park Won Soon	22,887	122,154
Priority Development Assistance Fund Watch	PEF	-	1,919,910
Multi-Sectoral Regional Anti-Poverty Partnerships	PEF	-	917,883
Social Development Week	Embassy of Japan	-	363,756
Economic Policy Reform Advocacy III	Ateneo School of Government	-	358,549
Philippine-Japan Partnership	Japan Foundation/ ACC21	-	11,655
		P7,096,815	P10,139,085

Note 13 – Program Expenses

The details of the account for the fiscal years ended July 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Personnel Costs – Programs	P1,543,090	P1,572,799

Network Strengthening Fund	1,332,500	3,000,000
Board Meetings, National Assembly	394,072	598,640
Democracy Fund	360,000	629,500
CODE-NGO Advocacy	49,416	235,041
Scholarship Grant Program	42,164	-
Commission on Institution and Capacity Building	32,151	1,340,751
Commission Internal Reform Initiative	23,682	651,538
	<u>P3,777,075</u>	<u>P8,028,269</u>

Note 14 – Operating Expenses

The details of the account for the fiscal years ended July 31, 2009 and 2008 are as follows:

	2009	2008
Personnel costs	P2,017,068	P2,027,850
Professional fees	300,000	410,415
Depreciation	139,643	152,511
Travel and transportation	69,673	149,544
Office tools and supplies	55,105	93,279
Utilities	21,405	87,354
Rent	-	57,412
Others	448,707	533,408
	<u>P3,051,601</u>	<u>P3,511,773</u>

Note 15 – Retirement Benefit Cost

Related to the provisions of Republic Act (RA) No. 7641 (Retirement Law), the Organization has allocated in its yearly budget the equivalent of one month salary for every year of service as retirement expense for its core staff. Pending the approval of the BOT of the Organization's retirement plan policy, this allocation is accumulated annually and treated as retirement payable of the Organization. For the fiscal years ended July 31, 2009 and 2008, the Organization allocated P233,243 and P211,930, respectively. In aggregate since 2006, the accumulated retirement benefit accrual has already amounted to P832,734 and P741,850 as of July 31, 2009 and 2008, respectively.

Note 16 – Endowment Fund

The amount of the endowment fund of the Organization was set up at P147,964,530 through a resolution by the BOT on December 6, 2004. The amount shall be restricted and only its earnings shall be utilized for operations and strengthening of the networks and its members.

The BOT promulgated policies restricting a certain percentage of the annual earnings which must be plowed back to the endowment fund in order to maintain the real value of the fund. The latest

policy of the BOT, passed in December 2005, resolved that the reflows to the endowment fund must be at least equivalent to the prevailing annual inflation rate.

This account consists of the following:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	P-	P4,137,995
Receivables	2,709,350	6,045,929
Investments in:		
Bonds	44,631,696	41,238,711
Government and other debt securities	26,400,708	-
Preferred equity shares	15,000,000	-
Unit investment trust fund	31,954,678	77,736,208
Loan fund	17,452,812	14,456,083
Property and equipment	-	315,848
	<u>P138,149,244</u>	<u>P143,930,774</u>

The movements in the fund are as follows:

	<u>2009</u>	<u>2008</u>
Beginning balance, at cost	P154,421,021	P155,040,821
Additional investments	40,000,000	2,165,539
Disposal of investments	(56,022,631)	(2,785,339)
Ending balance, at cost	<u>138,398,390</u>	<u>154,421,021</u>
Beginning fair value adjustment	(10,490,247)	2,732,919
Unrealized gain (loss) for the year	10,241,101	(13,223,166)
Ending fair value adjustment	<u>(249,146)</u>	<u>(10,490,247)</u>
	<u>P138,149,244</u>	<u>P143,930,774</u>

Mr. Park Won Soon, a Ramon Magsaysay Awardee for Public Service in 2006, donated to the Organization his award money amounting to US\$50,000 on February 25, 2007. The peso equivalent of this was P2,476,000. The Organization's BOT decided to use P476,000 to support PO/NGO activities related to engagement in the 2007 elections. The BOT also decided that the

remaining P2,000,000 will be pooled with the endowment fund of the Organization and its earnings will be used to fund projects for social justice and democracy based on guidelines to be approved by the Board. Due to the losses incurred by the endowment fund investments in 2008 (as a result of the global economic crisis), the value of the fund declined by 0.8% or from P2,000,000 in March 2007 to only P1,983,443 as of July 31, 2009.

The following table shows the movement on the fund from Mr. Park Won Soon from fiscal years 2006 to 2009:

	Share in Income	Share in Inc. (Dec.) in Endowment Fund Balance	Net Effect	Fund Balance, Ending
Fund Balance, Beginning				P2,000,000
FY 2006-2007	P29,359	P35,400	P64,759	2,064,759
FY 2007-2008	68,202	(173,732)	(105,530)	1,959,229
FY 2008-2009	102,914	(78,700)	24,214	1,983,443
Total	P200,475	(P217,032)	(P16,557)	

Note 17 – Commitments and Contingencies

On November 16, 2007, the Organization entered into a lease agreement with PEF for occupying a portion of building owned by PEF for nominal rental fees. The agreement has a term of twenty-five (25) years with an option to renew for another 25 years.

Note 18 – Taxes

The Organization is a non-stock corporation organized for charitable purposes as contemplated under Section 30 of the Tax Reform Act of 1997 (R.A. No. 8424). Accordingly, it is exempt from the payment of income tax on income received by it as such organization. However, it is required to file an income tax return. Income derived from its properties, real or personal, or from any of its activities conducted for profit regardless of the disposition made of such income should be reported for taxation.

Note 19 – Risk Management, Policies and Objectives

The Organization is exposed to a variety of financial risks which result from both its operating and investing activities. The Organization's risk management is coordinated with the BOT, and focuses on actively securing the Organization's short- to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Organization does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Organization is exposed to are described below.

Foreign Currency Risk

Most of the Organization's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from dollar-denominated investment in ROP bonds and bank deposits, and euro-denominated grant receivables. The Organization recognized net foreign exchange gain of P3,687,403 in 2009 and net foreign exchange loss of P1,366,522 in 2008.

To mitigate the Organization's exposure to foreign exchange risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets translated to Philippine pesos at the closing rate amounted to P45,387,768 in 2009 and P46,252,365 in 2008.

Credit risk

Generally, the maximum credit exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of assets and liabilities and fund balances as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	P2,554,156	P4,402,293
Receivables	4,531,008	6,045,929
HTM investments	86,032,404	41,238,711
	<u>P93,117,568</u>	<u>P51,686,933</u>

The details of the Organization's aging analysis of financial assets are as follows:

		Neither past due nor impaired	Past due but not impaired					> 3 years but not impaired	Impaired
			≤ 30 days	31 – 90 Days	91 – 180 days	181 – 360 days	1 – 3 Years		
<u>July 31, 2009</u>	<u>Total</u>								
Cash and cash equivalents	P2,554,156	P2,554,156	P-	P-	P-	P-	P-	P-	
Investment income receivable	2,945,677	2,945,677	-	-	-	-	-	-	
Grants receivable	1,021,501	1,021,501	-	-	-	-	-	-	
Due from member and non-member networks	361,081	-	69,340	100,154	-	13,804	177,782	-	
Advances and loans to officers and employees	202,749	198,051	4,699	-	-	-	-	-	
HTM investments	86,032,404	-	-	-	-	-	86,032,404	-	
	P93,117,568	P6,719,385	P74,039	P100,154	P-	P13,804	P177,782	P86,032,404	P-
<u>July 31, 2008</u>									
Cash and cash equivalents	P4,402,293	P4,402,293	P-	P-	P-	P-	P-	P-	
Investment income receivable	1,513,990	1,513,990	-	-	-	-	-	-	
Grants receivable	3,242,210	-	1,903,559	-	-	-	-	1,338,651	
Advances to partner NGOs	526,282	-	-	-	-	-	-	526,282	
Due from member and non-member networks	422,870	96,746	-	118,389	-	-	50,000	157,734	
Advances and loans to officers and employees	340,577	282,135	-	24,467	-	-	-	33,975	
HTM investments	41,238,711	-	-	-	-	-	41,238,711	-	

P51,686,933	P6,295,164	P1,903,559	P142,856	P-	P-	P50,000	P41,238,711	P2,056,642
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Cash in bank and placements are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P250,000 for every depositor per banking institution. Other financial assets are not secured by any collateral or other credit enhancements.

In respect of receivables, the Organization is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity risk

The Organization manages its liquidity needs by carefully monitoring its cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for 6-month and one-year period are identified monthly.

The Organization maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in cash equivalents. The Organization's receivables are actively monitored to avoid significant concentrations of credit risk.

The details of the maturity analysis of the Organization's liabilities are as follows:

<u>July 31, 2009</u>	<u>Total</u>	<u>On demand</u>	<u>Less than three months</u>	<u>3 – 12 months</u>	<u>1 – 5 years</u>
Accrued expenses and other liabilities	P2,979,273	P474,218	P217,321	P1,167,250	P1,120,484
Deferred grants	1,575,264	-	-	1,575,264	-
	P4,554,537	P474,218	P217,321	P2,742,514	P1,120,484

<u>July 31, 2008</u>	<u>Total</u>	<u>On demand</u>	<u>Less than three months</u>	<u>3 – 12 months</u>	<u>1 – 5 years</u>
Accrued expenses and other liabilities	P3,610,300	P728,164	P-	P2,017,172	P864,964
Deferred grants	950,600	-	-	950,600	-
	P4,560,900	P728,164	P-	P2,967,772	P864,964

Interest rate risk

Interest rate risk is usually classified to cash flow and fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

Interest rate risks are managed by active monitoring of the Organization's short and long-term investments. Currently, the Organization has no financial liabilities with floating interest rates.

Market Price Risk

The Organization's market price risk arises from its investments carried at fair value. It manages its risk from changes in market price by monitoring the changes in the market price. Its AFS investment exposed to market price risk amounts to P49,407,490 and P92,192,291 as of July 31, 2009 and 2008, respectively.

Note 20 – Capital Management, Policies and Objectives

In order to cope with its operational financial requirement, the Organization shall maintain an investment structure that would generate predictable and stable revenue stream sufficient for at least the minimum requirement of its operations.

Investments in mutual or common or other investment funds that are invested in both fixed and non-fixed income instruments, but the value of which is marked to market and thus fluctuating shall be treated as totally non-fixed income investments.

Funds in any one fund manager or financial institution shall not exceed 40% of the total investment of the Organization. At least 80% of the total investments should be in fixed income investment and only 20% in equities.

Note 21 – Financial Instruments

Fair Value

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	P2,554,156	P2,554,156	P4,402,293	P4,402,293
Receivables, net	4,531,008	4,531,008	6,045,929	6,045,929
Held-to-maturity investments	86,032,404	91,380,441	41,238,711	45,390,589
Available-for-sale investments	49,407,490	49,407,490	92,192,291	92,192,291
	P142,525,058	P147,873,095	P143,879,224	P148,031,102
Financial liabilities				
Accrued expenses and other	P2,979,273	P2,979,273	P3,610,300	P3,610,300

liabilities				950,60
Deferred grants	1,575,264	1,575,264	950,600	0
	P4,554,537	P4,554,537	P4,560,900	P4,560,900

Note 22 – Other Matters

- a) Restatement of prior year's financial statements includes derecognition of accounts payable amounting to P315,636.
- b) The 2008 financial statements which were audited by Punongbayan & Araullo are presented herein for comparative purposes.