

***Gawad Kalinga  
Community  
Development  
Foundation, Inc.***  
(A non-stock, non-profit  
organization)

**Financial Statements**

**As at and for the years ended December 31, 2010 and 2009**



## Independent Auditor's Report

To the Board of Trustees of  
**Gawad Kalinga Community Development Foundation, Inc.**  
(A non-stock, non-profit organization)  
4<sup>th</sup> Floor, Pro-friends Building, #55 Tinio Street  
Barangay Addition Hills, Mandaluyong City

### Report on the Financial Statements

We have audited the accompanying financial statements of Gawad Kalinga Community Development Foundation, Inc., which comprise the statements of assets, liabilities, and fund balances as at December 31, 2010 and 2009, and the related statements of support, donations and expenses, statements of changes in fund balances and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

---

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
T: +63 (2) 845 2728, F: +63 (2) 845 2806, www.pwc.com/ph



Independent Auditor's Report  
To the Board of Trustees of  
Gawad Kalinga Community Development Foundation, Inc.  
(A non-stock, non-profit organization)  
Page 2

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Gawad Kalinga Community Development Foundation, Inc., as at December 31, 2010 and 2009, and its support, donations and expenses, and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.

**Report on Bureau of Internal Revenue Requirement**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**

Geraldine Hammond-Apostol  
Partner

CPA Cert. No. 83512

P.T.R. No. 0007723; issued on January 4, 2011 at Makati City

SEC A.N. (individual) as general auditors 0108-AR-2

SEC A.N. (firm) as general auditors 0009-FR-2

T.I.N. 112-071-151

BIR A.N. 08-000745-34-20100; issued on May 31, 2010; effective until May 30, 2013

BOA/PRC Reg. No. 0142, effective until December 31, 2013

Makati City  
August 5, 2011

**Gawad Kalinga Community Development Foundation, Inc.**  
(A non-stock, non-profit organization)

Statements of Assets, Liabilities and Fund Balances  
December 31, 2010 and 2009  
(All amounts in Philippine Peso)

	Notes	2010	2009
			(As restated)
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	5	43,793,961	95,926,004
Advances to GK areas	6	213,227,035	188,597,377
Receivable from affiliated foundations	7	1,615,420	2,020,420
Other receivables, net	8	12,490,605	15,826,878
Total current assets		271,127,021	302,370,679
<b>Non-current assets</b>			
Property and equipment, net	9	1,490,657	1,711,884
Intangible assets and other non-current assets	10	10,860,000	-
Total non-current assets		12,350,657	1,711,884
<b>Total assets</b>		<b>283,477,678</b>	<b>304,082,563</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Current liabilities</b>			
Deferred grant	11	7,807,857	7,807,857
Accrued expenses and other current liabilities	12	9,908,938	9,098,305
Total current liabilities		17,716,795	16,906,162
<b>Non-current liability</b>			
Retirement benefit obligation	14	7,557,169	7,496,671
Total liabilities		25,273,964	24,402,833
<b>Fund balances</b>			
Undesignated fund balance		(60,049,283)	(44,660,197)
Designated fund balance		318,252,997	324,339,927
Total fund balances		258,203,714	279,679,730
<b>Total liabilities and fund balances</b>		<b>283,477,678</b>	<b>304,082,563</b>

(The notes on pages 1 to 19 are integral part of these financial statements.)

**Gawad Kalinga Community Development Foundation, Inc.**  
(A non-stock, non-profit organization)

Statements of Support, Donations and Expenses  
For the years ended December 31, 2010 and 2009  
(All amounts in Philippine Peso)

	Notes	2010	2009
			(As restated)
<b>Designated fund:</b>			
Program support and donations	11	166,112,552	207,335,053
Program expenses	13	(172,199,482)	(175,964,612)
Excess (Deficiency) of support and donations over expenses		(6,086,930)	31,370,441
<b>Undesignated fund:</b>			
<b>Support and donations</b>			
Donations to administration	11	30,223,149	23,361,135
Donations to special events	11	12,574,096	14,153,712
Total support and donations		42,797,245	37,514,847
<b>Expenses</b>			
Staff costs	15	(28,987,616)	(30,313,515)
GK777 Expo event expenses	8	(12,628,038)	(11,122,761)
Travel and transportation		(7,331,514)	(7,860,573)
Professional fees		(4,706,863)	(5,103,030)
Rent	17	(1,663,800)	(2,100,600)
Communication, light and water		(1,115,509)	(627,537)
Provision for impairment of receivables	8	(1,000,000)	(1,000,000)
Depreciation and amortization	9	(941,982)	(897,738)
Printing and supplies		(563,275)	(404,085)
Repairs and maintenance	17	(305,626)	(142,410)
Meetings, planning, and trainings		(124,751)	(300,118)
Taxes and licenses		(8,523)	(5,779)
Miscellaneous		(438,660)	(493,762)
Total expenses		(59,816,157)	(60,371,908)
Interest income	5	1,193,073	1,386,677
Foreign exchange gains (losses)	18	436,753	(35,289)
Deficiency of support and donations over expenses		(15,389,086)	(21,505,673)
<b>Total excess (deficiency) of support and donations over expenses</b>		<b>(21,476,016)</b>	<b>9,864,768</b>

(The notes on pages 1 to 19 are integral part of these financial statements.)

**Gawad Kalinga Community Development Foundation, Inc.**  
(A non-stock, non-profit organization)

Statements of Changes in Fund Balances  
For the years ended December 31, 2010 and 2009  
(All amounts in Philippine Peso)

	Notes	2010	2009
			(As restated)
<b>Undesignated</b>			
Balance at beginning of year, as previously stated		-	(25,642,321)
Restatement of provision for retirement benefit obligation	3	-	2,487,797
Balance at beginning of year, as restated		(44,660,197)	(23,154,524)
Deficiency of support and donations over expenses		(15,389,086)	(21,505,673)
Balance at end of year	1	(60,049,283)	(44,660,197)
<b>Designated</b>			
Balance at beginning of year		324,339,927	292,969,486
Excess (Deficiency) of support and donations over expenses		(6,086,930)	31,370,441
Balance at end of year		318,252,997	324,339,927
<b>Total fund balances</b>		<b>258,203,714</b>	<b>279,679,730</b>

(The notes on pages 1 to 19 are integral part of these financial statements.)

**Gawad Kalinga Community Development Foundation, Inc.**  
(A non-stock, non-profit organization)

Statements of Cash Flows  
For the years ended December 31, 2010 and 2009  
(All amounts in Philippine Peso)

	Notes	2010	2009 (As restated)
<b>Cash flows from operating activities</b>			
Excess (Deficiency) of support and donations over expenses		(21,476,016)	9,864,768
Adjustments for:			
Depreciation and amortization	9	941,982	897,738
Unrealized foreign exchange losses (gains)	18	(436,753)	35,289
Retirement benefit expense	14	60,498	2,569,658
Provision for impairment of receivable	8	1,000,000	1,000,000
Interest income	5	(1,193,073)	(1,386,677)
Operating income (loss) before changes in working capital changes		(21,103,362)	12,980,776
Changes in:			
Advances to GK areas		(24,629,658)	15,020,744
Receivable from affiliated foundations		405,000	(1,214,645)
Other receivables		2,336,273	(4,884,961)
Deferred grant		-	(14,080,838)
Accrued expenses and other current liabilities		810,633	(55,974)
Net cash generated from (absorbed by) operations		(42,181,114)	7,765,102
Interest received	5	1,193,073	1,386,677
Net cash provided by (used in) operating activities		(40,988,041)	9,151,779
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	9	(720,755)	(712,238)
Acquisition of intangible assets and other non-current assets	10	(10,860,000)	-
Net cash used in investing activities		(11,580,755)	(712,238)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(52,568,796)</b>	<b>8,439,541</b>
Effects of exchange rate changes in cash and cash equivalents	18	436,753	(35,289)
Cash and cash equivalents at beginning of year		95,926,004	87,521,752
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>43,793,961</b>	<b>95,926,004</b>

(The notes on pages 1 to 19 are integral part of these financial statements.)

**Gawad Kalinga Community Development Foundation, Inc.**  
(A non-stock, non-profit organization)

Notes to Financial Statements

As at and for the years ended December 31, 2010 and 2009

(All amounts are shown in Philippine Peso unless otherwise stated)

**Note 1 - General information**

Gawad Kalinga Community Development Foundation, Inc. (the "Foundation") was organized and registered with the Securities and Exchange Commission (SEC) as a non-stock, non-profit organization on July 28, 2003 primarily to advance and uphold an integrated, holistic and sustainable community development program, especially in the depressed areas, addressing shelter, livelihood, education and health issues in the spirit of nation building, to strengthen the development and improvement of human and spiritual formation of couples and their children and to foster cooperation with others in the pursuit and realization of the objectives for which the Foundation has been established.

The programs of the Foundation are usually done in partnership with corporate entities, local government units, government agencies, schools and universities and international donors. These partnerships can take the form of land donations, monetary contributions, materials and volunteer work and are either coursed through the Foundation, their affiliates here and abroad, or directly to the project sites. The financial statements account only for all cash donations and financial supports made directly to the Foundation.

The annual deficiency of support and donations over expenses has resulted in a cumulative deficit in the Foundation's undesignated fund balance. While the Foundation is expected not to make profit, it is the nevertheless the Foundation's policy that its operations must be supported fully by its undesignated supports and donations. In line with this policy, the Foundation has instituted plans and programs to raise resources to address the annual deficiency and to resolve the accumulated deficit within 3 to 5 years.

The Foundation is exempt from the payment of taxes pursuant to Section 30 of the Tax Reform Act of 1997. On September 2, 2005, the Foundation was accredited as a duly qualified-donee institution by the Philippine Council for NGO Certification, Inc. (PCNC), a certification body authorized by the government to evaluate non-profit organizations for the tax-exempt status. On July 23, 2007, the Bureau of Internal Revenue issued a certificate of registration to the Foundation as a donee institution. The registration shall be valid for five (5) years from the date of its issuance unless revoked for violation of any provisions of Revenue Regulation No. 13-98 or upon withdrawal of the Certificate of Accreditation by PCNC.

The Foundation's office is located at 4th Floor, Pro-friends Building, #55 Tinio Street, Barangay Addition Hills, Mandaluyong City. It has 105 and 99 regular employees as at December 31, 2010 and 2009, respectively.

The Foundation is governed by a Board of Trustees whose members do not receive compensation.

The Foundation's financial statements were approved and authorized for issuance by the Board Audit Committee, as authorized by the Board of Trustees, on August 4, 2011.

## **Note 2 - Summary of significant accounting policies**

This is the first set of financial statements prepared by the Foundation in accordance with the Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs) issued by the Financial Reporting Standards Council (FRSC) and approved by the SEC. The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The financial statements of the Foundation have been prepared in accordance with the PFRS for SMEs. These financial statements have been prepared under the historical cost convention.

The FRSC and the SEC have adopted PFRS for SMEs which is applicable to all qualified SMEs effective for annual period beginning on or after January 1, 2010. For Philippine financial reporting purposes, PFRS for SMEs shall cover entities that:

- (a) Have total assets of between P3 million and P350 million or total liabilities between P3 million and P250 million;
- (b) Are not required to file financial statements under Securities Regulation Code (SRC) Rule 68.1 (unlisted and non-public entities);
- (c) Are not in the process of filing financial statements for the purpose of issuing any class of instruments in a public market;
- (d) Are not holders of secondary licenses issued by a regulatory agency such as banks, investment houses, finance companies, securities broker/dealers, mutual funds and pre-need companies; and
- (e) Not public utilities.

Based on the total assets and liabilities of the Foundation as at December 31, 2009, it qualified as an SME.

The preparation of financial statements in conformity with the PFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Foundation's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

### **2.2 Funds**

The accounts of the Foundation are maintained to reflect the resources for various activities which observe the limitations and restrictions placed on the use of resources. On overall, the fund balances of the Foundation are reported in the following two fund groups:

- (a) Undesignated fund represents the resources available for the Foundation's operations and administration functions.
- (b) Designated fund represents the resources which carry restrictions and are to be used only for purposes specified by their donors and be utilized for the main programs of the Foundation.

### **2.3 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognized at nominal amount. Cash in bank earns interest at the respective bank deposit rates.

### **2.4 Advances to GK areas**

Advances to GK areas pertain to unutilized and unliquidated advances as at reporting date. These are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of advances to GK areas is established when there is objective evidence that the Foundation will not be able to receive the liquidation reports for all amounts allotted for each project.

When a project is discontinued caused by any administrative, legal or other factors, these are indicators that these advances are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of support, donations and expenses. When advances remain unliquidated despite the completion of specified project and after the Foundation has exerted all administrative remedies, it is written-off against the allowance account for advances.

Subsequent recoveries of amounts previously written-off are credited against expenses in the statement of support, donations and expenses. Reversals of previously recorded impairment provision are credited in the statement of support, donations and expenses based on the result of management's update assessment, considering the available facts and changes in circumstances.

### **2.5 Receivables**

Receivables are recognized initially at the transaction price. They are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Foundation will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of support, donations and expenses. When a receivable remains uncollectible after the Foundation has exerted all legal remedies, it is written-off against the allowance account for receivables. The Foundation first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Foundation determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables 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.

Subsequent recoveries of amounts previously written-off are credited against expenses in the statement of support, donations and expenses. Reversals of previously recorded impairment provision are credited in the statement of support, donations and expenses based on the result of management's update assessment, considering the available facts and changes in circumstances.

## **2.6 Property and equipment**

Property and equipment are carried at historical cost less subsequent depreciation, amortization and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of these items.

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Foundation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of support, donations and expenses within expenses during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	No. of years
Office furniture and fixtures	3
Office equipment	5
Computer and other equipment	3
Transportation equipment	5

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 years, whichever is shorter.

The assets' residual values and useful lives are reviewed and adjusted prospectively as appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and the related accumulated depreciation are removed from the accounts. Any gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the statement of support, donations and expenses.

## **2.7 Intangible assets**

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using straight-line method to allocate the costs over their estimated useful life of ten (10) years from the date the intangible asset is available for use. Amortization ceases when the intangible asset is derecognized.

## **2.8 Impairment of non-financial assets**

Property and equipment and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds its recoverable amount which is the higher of an asset's net selling price and value in use.

## **2.9 Accrued expenses and other payables**

Accrued expenses and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accrued expenses and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Foundation is established or when the corresponding assets and expenses are recognized. These are measured at amortized cost, normally equal to its nominal amount. Accrued expenses and other payables are derecognized when they are discharged or cancelled or expired.

## **2.10 Provisions**

Provisions are recognized when the Foundation has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## **2.11 Support, donations and expense recognition**

Support and donations comprise the fair value of consideration received, either monetary or non-monetary, in the ordinary course of the Foundation's activities.

Support and donations are recognized to the extent that it is probable that the economic benefits will flow to the Foundation and the amount of support and revenue can be measured reliably. The following specific criteria must also be met before support, donations and expense are recognized:

### *(a) Support and donations*

Support and donations are recognized in the period received and reported as revenues of the fund for which they are intended.

- i. Designated support and donation are recognized upon fulfillment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred. Designated support for which restrictions and conditions have not yet been met, are deferred in the accounts.

- ii. Undesignated support and donations are recognized upon receipt of the support and expenses are reported when incurred.

*(b) Interest income*

Interest income on bank deposits, which is presented net of applicable withholding tax, is recognized on a time-proportion basis.

*(c) Expenses*

Administrative expenses are recognized when incurred while program expenses are recognized upon receipt of the liquidation and completion reports for specified projects. Unutilized and unliquidated program expenses are recorded in advances to GK areas (Note 2.4) in the statement of assets, liabilities and fund balances.

**2.12 Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Foundation will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of support, donations and expenses over the period necessary to match them with the costs that they are intended to compensate. Government grants for which restrictions and conditions have not yet been met are also classified as deferred grant.

**2.13 Leases where Foundation is a lessee**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made by the Foundation under operating leases are charged to operations on a straight-line basis over the period of the lease.

**2.14 Employee benefits**

The Foundation has no formal retirement plan. For purposes of determining its retirement costs and obligations, the Foundation considers defined benefit pension plan. Defined benefit pension plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on certain factors such as age, years of credited service, and compensation.

The liability recognized in the statement of assets, liabilities and fund balances is the present value of the defined benefit pension plan at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds (since there is no deep market of high quality corporate bonds in the Philippines) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximates the terms of the related pension liability.

Actuarial gains and losses are immediately recognized in the statement of supports, donations and expenses in the period in which they arise.

Past service costs are recognized immediately in the statement of supports, donations and expenses in the period in which they arise.

## **2.15 Foreign currency translations**

### *(a) Functional and presentation currency*

Items included in the financial statements of the Foundation are measured using the currency of the primary economic environment in which the Foundation operates or in which it primarily generates and expends cash (“functional currency”), while presentation currency is the currency in which the financial statements are presented. The financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Foundation.

### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of support, donations and expenses.

## **2.16 Related party transactions and relationships**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, trustees, or its members. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## **2.17 Subsequent events**

Post year-end events that provide additional information about the Foundation’s position at the 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 - Transition to PFRS for SMEs**

### **3.1 Basis of transition to the PFRS for SMEs**

The Foundation’s financial statements for the year ended December 31, 2010 are its first annual financial statements prepared under accounting policies that comply with PFRS for SMEs. The Foundation’s transition date is January 1, 2009. The Foundation prepared its opening PFRS for SMEs statement of assets, liabilities and fund balances at that date.

Previously, the Foundation prepared its financial statements in accordance with Philippine Financial Reporting Standards (that is, the Foundation’s “previous GAAP”).

In preparing these financial statements in accordance with the PFRS for SMEs, the Foundation has applied all the mandatory exceptions and optional exemptions from full retrospective application of the PFRS for SMEs.

### 3.2 Reconciliation

The following reconciliations show the effect of the transition from the Foundation's previous GAAP to PFRS for SMEs on the Foundation's fund balances at January 1, 2009 and December 31, 2009:

	December 31, 2009	January 1, 2009
Total fund balances under previous GAAP	277,834,017	267,327,165
Adjustment of provision for retirement benefit obligation	1,845,713	2,487,797
Total fund balances under PFRS for SME	279,679,730	269,814,962

Reconciliation of the Foundation's excess of supports and donations over expenses for the year ended December 31, 2009 is as follows:

Excess of supports and donations over expenses	10,506,852
Adjustment in respect of defined benefit obligation	(642,084)
Excess of supports and donations over expenses under PFRS for SMEs	9,864,768

### 3.3 Explanation of transition to the PFRS for SMEs

Under previous GAAP, the Foundation's actuarial gains and losses were deferred using the corridor method whereby the actuarial gains or losses in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation are amortized into profit or loss over the expected remaining working lives of the participating employees. With the Foundation's adoption of PFRS for SMEs, the Foundation opted to immediately recognize all actuarial gains and losses in profit or loss.

### 3.4 Statement of cash flows

The changes made to the presentation of the Foundation's statement of cash flows as at December 31, 2009 follow:

	Under previous GAAP	Adjustment	Under PFRS for SME
Excess of support and donations over expenses	10,506,852	(642,084)	9,864,768
Provision for retirement benefit	1,927,574	642,084	2,569,658

### **Note 4 - Information about key sources of estimation uncertainty and judgments**

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future.

#### *Key sources of estimation uncertainty*

The Foundation makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

#### *Impairment of advances to GK areas and other receivables*

The provision for impairment of advances to GK areas and other receivables is based on the Foundation's assessment of the receipt of liquidation reports and collectibility of payments from related foundations and other debtors, respectively. This assessment requires judgment regarding the outcome of disputes and the ability of each GK area and related foundations and other debtors to provide liquidation reports or to pay the amounts owed to the Foundation. Any change in the Foundation's assessment of the collectibility of advances to GK areas and other receivables could significantly impact the decision to write-off the advances and receivables and calculation of such provision.

Although, the amount and timing of recorded expenses for any period would differ based on the estimates made, advances and receivables are recognized at fair value based on recently observed market conditions. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty as at and for the years ended December 31, 2010 and 2009 (Notes 6 and 8).

#### *Impairment of intangible assets*

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. Management's assessment disclosed no impairment indications that would warrant a review for asset impairment (Note 10).

#### *Retirement benefits*

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for retirement benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of the retirement benefit obligation.

The Foundation determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Foundation considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligation.

Other key assumptions for retirement benefit obligation are based in part on current market conditions.

One or more of the actuarial assumptions may differ significantly and as a result, the actuarial present value of the retirement benefit obligation at the reporting date may differ significantly from the amount reported (Note 14).

**Note 5 - Cash and cash equivalents**

The account at December 31 consists of:

	2010	2009
Cash on hand	10,000	10,000
Cash in banks	30,628,294	42,457,676
Short-term placements	13,155,667	53,458,328
	43,793,961	95,926,004

Cash accounts with banks generally earn interest based on daily bank deposit rate. Average interest rate on savings and time deposits for the years ended December 31, 2010 and 2009 is 3.20% and 3.00%, respectively.

Cash and cash equivalents are designated to the following funds:

	2010	2009
National program fund	37,110,239	90,296,544
Kalinga Luzon fund	3,945,348	2,676,470
Kalinga Bicol fund	1,332,662	1,332,024
GK777 Expo event fund	485,236	832,860
Administration fund	743,072	599,844
Kalinga Leyte fund	177,404	188,262
	43,793,961	95,926,004

Interest income earned from cash in banks and short-term placements during the year amounted to P1,193,073 (2009 - P1,386,677).

**Note 6 - Advances to GK areas**

The account at December 31 consists of remittances to various GK areas for various program expenses and is subject to liquidation upon completion of specific projects, the details of which are as follows:

	2010	2009
National Capital Region	59,419,641	56,516,456
Kalinga Luzon	49,794,814	31,218,406
Bicol Region	20,593,784	23,533,318
Kalinga Mindanao	18,664,927	7,860,545
Kalinga Visayas	16,447,641	10,118,386
MIMAROPA Region	10,476,202	10,516,766
Cebu/Bohol/Siquijor	10,372,783	9,002,059
Aurora/Bulacan	9,302,069	8,254,597
Leyte/Samar	8,700,704	17,128,660
ARMM Region	5,127,359	4,351,638
CARAGA Region	4,327,111	1,755,101
Other GK areas	-	8,341,445
	213,227,035	188,597,377

The level of advances utilized is as follows:

At December 31, 2010	Total advances	Utilized advances in:				Unliquidated/ Unutilized advances
		2007 and preceding years	2008	2009	2010	
2010	196,967,697	-	-	-	109,748,867	87,218,830
2009	175,964,612	-	-	66,991,302	23,741,921	85,231,389
2008	345,005,004	-	223,054,943	42,325,694	38,847,251	40,776,816
2007 and preceding years	1,062,230,612	918,249,246	77,334,050	66,647,316	-	-
	1,780,167,925	918,249,246	300,388,993	175,964,312	172,338,039	213,227,035

At December 31, 2009	Total advances	Utilized advances in:			Unliquidated/ Unutilized advances
		2007 and preceding years	2008	2009	
2009	175,964,612	-	-	66,991,302	108,973,310
2008	345,005,004	295,406,145	223,054,943	42,325,694	79,624,067
2007 and preceding years	1,062,230,612	622,843,101	77,334,050	66,647,316	-
	1,583,200,228	918,249,246	300,388,993	175,964,312	188,597,377

Based on management's assessment as at December 31, 2010 and 2009, none of the above advances to GK areas are impaired.

As at July 31, 2011, the total unliquidated/unutilized advances pertaining to 2010 and preceding years' advances to GK areas amounted to P173,905,815. Utilized and liquidated advances amounting to P39,321,220 is allocated as follows:

At December 31, 2010	Unliquidated/ Unutilized advances in:			Total
	2008	2009	2010	
At December 31, 2010	40,776,816	85,231,389	87,218,830	213,227,035
Utilized and liquidated from January to July 2011	(7,687,521)	(12,120,289)	(19,513,410)	(39,321,220)
At July 31, 2011	33,089,295	84,852,212	67,705,420	173,905,815

#### **Note 7 - Receivable from related foundation**

The following transactions were carried out with related foundation:

Related party	2010	2009
Ancop Foundation International, Inc. (Ancop)		
Donations	-	1,214,645
Reimbursements	(405,000)	-
Outstanding receivables at December 31	1,615,420	2,020,420

Transaction with Ancop pertains to transportation and travelling expenses to other countries, such as the United States of America, committed to be shouldered in behalf of the Foundation.

No receivable from related foundations were written-off as at December 31, 2010 and 2009.

Salaries and other short-term benefits of key management personnel for the years ended December 31, 2010 and 2009 amounted to P3,286,660 and P3,350,940, respectively. There are no long-term benefits granted to key management personnel.

### **Note 8 - Other receivables**

The account at December 31 consists of:

	2010	2009
Receivables - GK777 Expo event	5,377,107	5,377,107
Provision for impairment of receivables	(4,000,000)	(3,000,000)
	1,377,107	2,377,107
Advances to employees	1,241,586	787,983
Others	9,871,912	12,661,788
	12,490,605	15,826,878

An annual Expo event is being held as part of the Foundation's fund raising initiative to generate fund for its GK777 project. Expenses incurred related to the event for the year amounted to P12,628,038 (2009 - P11,122,761) and the related outstanding receivables amounted to P5,377,107 as at December 31, 2010 and 2009. These receivables pertain to advances to certain parties which are not yet liquidated. Due to uncertainty in terms of collectibility of the balances, the Board of Trustees approved to provide provision for impairment of receivables amounting to P1,000,000 beginning 2007.

The movements in the provision for impairment of receivables recognized in the statement of assets, liabilities and fund balances follow:

	2010	2009
Beginning of year	3,000,000	2,000,000
Provision for the year	1,000,000	1,000,000
End of year	4,000,000	3,000,000

Advances to employees are collected through monthly payroll deductions over a period of one year. There is no history of significant write-off or default with respect to these cash advances.

Other receivables of P9,871,912 (2009 - P12,661,788) substantially represent advances for travel- related expenses and other advances that are subject to reimbursement by other partners or donors.

The values presented above closely approximate the fair values of these receivables.

**Note 9 - Property and equipment**

The details of property and equipment at December 31, 2010 and 2009 follow:

	Office furniture and fixtures	Office equipment	Computer and other equipment	Transportation equipment	Total
<b>Cost</b>					
January 1, 2009	17,568	2,111,567	732,769	2,039,587	4,901,491
Additions	-	47,838	159,400	505,000	712,238
December 31, 2009	17,568	2,159,405	892,169	2,544,587	5,613,729
Additions	-	111,166	609,589	-	720,755
December 31, 2010	17,568	2,270,571	1,501,758	2,544,587	6,334,484
<b>Accumulated depreciation</b>					
January 1, 2009	17,568	1,791,104	573,315	622,120	3,004,107
Charges	-	196,443	111,933	589,362	897,738
December 31, 2009	17,568	1,987,547	685,248	1,211,482	3,901,845
Charges	-	120,852	147,601	673,529	941,982
December 31, 2010	17,568	2,108,399	832,849	1,885,011	4,843,827
<b>Net book values</b>					
December 31, 2009	-	171,858	206,921	1,333,105	1,711,884
December 31, 2010	-	162,172	668,909	659,576	1,490,657

Depreciation expense charged to operations for the year ended December 31, 2010 and 2009 amounted to P 941,982 and P 897,738, respectively.

**Note 10 - Intangible assets and other non-current assets**

The account at December 31, 2010 consists of:

Intangible assets	10,760,000
Refundable deposits	100,000
	10,860,000

Intangible assets pertain to the acquisition of accounting software license and costs related to the development of the Foundation's systems to run its project, financial management and partner support database. "GK Unity" is an online platform for Foundation's communities, projects, partners and pledges. "Quicknet" is the Foundation's financial management and accounting software that keeps track of donations, budgeting and comptrollership of Foundation's programs, and the generation of management and financial reports. "GK1World.com" is the Foundation's official website which serves as the public's access to Foundation's programs, objectives and achievements. All three systems are web-based and integrated to streamline Foundation's systems and processes, improve efficiency of operations and ensure transparency with its projects and financial management.

**Note 11 - Support, donations and government grants**

Details of the account for the years ended December 31 follow:

	Note	2010	2009
Program donations			
Tatag			
Kalinga Luzon		-	900,000
Kalinga Bicol		-	400,000
National		149,067,831	197,039,479
		149,067,831	198,339,479
Education		5,607,763	3,425,385
Others		11,436,958	5,570,189
Total program donations		166,112,552	207,335,053
Donations to administration			
General fund	17	17,461,322	6,767,238
Retention fund		12,761,827	16,593,897
Total donations to administration		30,223,149	23,361,135
Donations to special events			
GK777 Expo event receipts		12,574,096	14,153,712
Total support and donations		208,909,797	244,849,900

Other collections pertain to contributions to the general fund. These are undesignated and are generally for purposes of administrative use.

**Deferred grant**

On February 11, 2005, the Foundation entered into a Memorandum of Agreement (MOA) with the Department of Social Welfare and Development (DSWD), in a joint project (Kalinga Luzon) to build and provide shelter to the typhoon-affected families in several areas in Luzon. The MOA called for DSWD's financial commitment to fund half of the cost of each house to be built. The Foundation's pledge is to supply labor in addition to answering for the remaining half of the cost, landscaping, administrative expenses and other costs that may be needed for the completion of the houses. DSWD requires the Foundation to liquidate the grants provided through submission of formal liquidation reports.

As at December 31, 2010 and 2009, the following tranches have been received and liquidated:

	Date received	Amount	Liquidated	Deferred grant
Tranche A	April 26, 2005	10,000,000	10,000,000	-
Tranche B	August 25, 2005	3,304,265	3,304,265	-
Tranche C	September 2, 2005	26,695,735	26,695,735	-
Tranche D	December 15, 2006	48,181,820	40,373,963	7,807,857
		88,181,820	80,373,963	7,807,857

As at August 4, 2011, the corresponding liquidation reports for the remaining amount of P7,807,857 were submitted to DSWD awaiting their approval.

**Note 12 - Accrued expenses and other current liabilities**

The account at December 31 consists of:

	Note	2010	2009
Accrued salaries		4,126,753	5,261,570
Unconfirmed deposits		2,637,123	1,974,659
Payable to GK777 Expo suppliers	8	2,132,618	1,145,396
Retention payable		544,149	367,048
Payable to government agencies		443,869	325,206
Others		24,426	24,426
		9,908,938	9,098,305

Unconfirmed deposits pertain to donations received from unknown donors. These amounts are subsequently reclassified to funds as soon as the identity of the donor is established or after one year from the receipt of these donations as approved by the Board of Trustees, whichever comes first.

**Note 13 - Program expenses**

Details of the account for the years ended December 31 follow:

	2010	2009
Shelter and infrastructure	140,086,269	148,946,105
Food sufficiency	12,862,725	12,895,641
Disaster response	8,075,146	1,704,956
Tourism	4,776,762	6,314,678
Environment	3,659,920	858,698
Education	1,968,443	1,262,147
Health	587,718	731,054
Others	182,499	3,251,333
Total program expenses	172,199,482	175,964,612

**Note 14 - Employee benefits**

The Foundation provides for retirement benefits equivalent to 100% of the monthly pay for every year of credited service based on the salary at the time of retirement, provided that the employee is 60 years old and has rendered 20 years of service. Actuarial valuation of the retirement benefits was sought from an independent actuary as at December 31, 2010 and 2009.

The amounts recognized in the statement of assets, liabilities and fund balances are as follows:

	2010	2009
Present value of obligation	7,557,169	(As restated) 7,496,671
Fair value of plan asset	-	-
Unfunded obligation	7,557,169	7,496,671

The movement in the present value of obligation during the year is as follows:

	2010	2009
Present value of obligation, beginning	7,496,671	4,927,013
Interest cost	730,176	556,260
Current service cost	1,733,974	1,454,443
Actuarial loss (gain)	(2,403,652)	558,955
Present value of obligation, end	7,557,169	7,496,671

There were no contributions or benefits paid during the years ended December 31, 2010 and 2009.

The amounts recognized in the statement of support, donations and expenses are as follows:

	Note	2010	2009
			(As restated)
Current service cost		1,733,974	1,454,443
Interest cost		730,176	556,260
Actuarial loss (gain) recognized during the year		(2,403,652)	558,955
Total included in staff costs	15	60,498	2,569,658

The movements in the liability account are as follows:

	2010	2009
		(As restated)
Beginning	7,496,671	4,927,013
Expense recognized	60,498	2,569,658
End	7,557,169	7,496,671

The principal actuarial assumptions used were as follows:

	2010	2009
Discount rate	10.47%	9.74%
Salary increase rate	10.00%	10.00%

Assumptions regarding future mortality experience are set based on the 2001 CSO Table - Generational.

#### **Note 15 - Staff costs**

Details of the account for the years ended December 31 follow:

	Note	2010	2009
			(As restated)
Salaries and wages		24,789,153	23,797,102
Employee benefits		4,137,965	3,946,755
Retirement benefit	14	60,498	2,569,658
		28,987,616	30,313,515

**Note 16 - Tax exemption**

The Foundation, as a non-stock, non-profit corporation, organized and operated for advancing sustainable community development programs is exempt from income tax pursuant to Section 30 of the Tax Reform Act of 1997 ("R.A. 8424"). Accordingly, the Foundation did not recognize deferred income tax assets for the tax effects of temporary differences arising from net loss carryover, provision for impairment of receivables, retirement benefit obligation and the unrealized foreign exchange gain and/or losses because of its tax-exempt status.

**Note 17 - Lease agreement**

On May 2007, the Foundation transferred its main office to 4<sup>th</sup> Floor of Pro-friends Building, #55 Tinio Street, Barangay Addition Hills, Mandaluyong City.

The Foundation was permitted to occupy the 4<sup>th</sup> floor of Pro-friends Building for five (5) years free of charge for rentals and utilities. The Foundation, however, shall pay for the improvements, refurbishing, repairs and maintenance necessary for its operations. The fair value of free rentals and utilities for the year ended December 31, 2010 amounted to P1,663,800 (2009 - P2,100,600) which was recognized as part of donations to administration on the statement of support, donations and expenses (Note 11).

Total improvements and refurbishing charged as repairs and maintenance in the statement of support, donations and expenses during the year amounted to P305,626 (2009 - P142,410).

**Note 18 - Foreign currency denominated monetary assets and liabilities**

Details of the Foundation's foreign currency denominated monetary asset at December 31 follow:

	2010	2009
Cash		
In USD	37,418	115,556
In Euro	1,964	9,613
Peso equivalent	1,754,376	5,978,144

As at December 31, 2010, exchange rates were P58.03 (2009 - P66.52) per €1 and P43.84 (2009 - P46.20) per US\$1. Net unrealized foreign exchange gains in 2010 amounted to P436,753 (2009 - P35,289 losses).

**Note 19 - Supplementary information required by Revenue Regulations No. 15-2010**

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by Philippine Financial Reporting Standards.

Below is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

*(a) Output and input value-added tax (VAT)*

The Foundation is a non-VAT entity registered as a non-stock and non-profit organization.

*(b) Importations*

The Foundation has no importations subject to import and custom duties and tariff fees for the year ended December 31, 2010.

*(c) Excise tax*

The Foundation has not manufactured or produced goods for domestic sales or importation for the year ended December 31, 2010.

*(d) Documentary stamp tax*

There were no transactions subject to documentary stamp tax during the year ended December 31, 2010.

*(e) All other local and national taxes*

All other local and national taxes paid for the year ended December 31, 2010 consist of:

	Amount
Mayor's permit	8,023
Community tax	500
	8,523

The above local and national taxes are lodged under taxes and licenses account in the statement of support, donations and expenses.

*(f) Withholding taxes*

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2010 consist of:

	Paid	Accrued	Total
Creditable withholding tax	-	-	-
Withholding tax on compensation	2,266,416	127,450	2,393,866
Expanded withholding tax	488,116	49,550	537,666
	2,754,532	177,000	2,931,532

The accrued portion of the above withholding taxes is included within accrued expenses.

*(g) Tax assessments*

The Foundation has no outstanding tax assessments with the BIR for open taxable years 2007 to 2009.

*(h) Tax cases*

The Foundation has no pending tax cases, litigations and/or prosecutions in the Court of Tax Appeals and Local Government Units.