Isla Lipana & Co.

A member firm of
PRICEWATERHOUSECOOPERS

**Isla Lipana & Co.**
29th Floor Philamlife Tower
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Statement Required by Rule 68, Section 3.c,
Securities Regulation Code (SRC),
As Amended on October 25, 2005

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

The supplemental written statement being required by the Securities and Exchange Commission with respect to the number of stockholders owning one hundred (100) or more shares each is not applicable because the SRC rules on the subject matter apply only to stock corporations. Gawad Kalinga Community Development Foundation, Inc. is a Foundation which does not issue shares of stock. A stock corporation is one which has capital stock divided into shares and is authorized to distribute dividends or allotments of retained earnings on the basis of the shares held.

**Isla Lipana & Co.**

Angelito M. Gabriel
Partner
CPA Cert. No. 41815
P.T.R. No. 1579220; January 13, 2009, Makati City
SEC A.N. (individual) as general auditors 0052-AR-1
SEC A.N. (firm) as general auditors 0009-FR-1
T.I.N. 112-070-983
BIR A.N. 08-000745-8-2007; issued on August 24, 2007; effective until August 24, 2010
BOA/PRC Registration No. 0142, effective until December 31, 2010

Makati City
March 17, 2009

# Isla Lipana & Co.

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**Independent Auditor's Report**

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

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 of December 31, 2007 and 2006, and the related statements of support, revenues and expenses, changes in fund balances and cash flows for the years then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 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.

*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 of December 31, 2007 and 2006, and its support, revenues and expenses, and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

**Isla Lipana & Co.**

Angelito M. Gabriel
Partner
CPA Cert. No. 41815
P.T.R. No. 1579220; January 13, 2009, Makati City
SEC A.N. (individual) as general auditors 0052-AR-1
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Makati City
March 17, 2009

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 22 2009
GRACE J. SORIANO
COLLECTION SECTION

GAWAD KALINGA COMMUNITY DEVELOPMENT FOUNDATION, INC.
(A non-stock, non-profit organization)

SEC CENTRAL RECEIVING AND RECORDS DIV. HRAD APR 2 4 2009

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
DECEMBER 31, 2007 AND 2006
(All Amounts in Philippine Pesos)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 5 | P156,187,510 | P158,025,966 |
| Advances to GK areas | 6 | 178,626,992 | 110,183,522 |
| Receivable from affiliated foundations | 7 | 11,047,804 | 5,499,507 |
| Other receivables | 8 | 9,653,475 | 10,277,003 |
| Total current assets | | 355,515,781 | 283,985,998 |
| **Non-current assets** | | | |
| Property and equipment, net | 9 | 1,929,052 | 1,440,710 |
| **Total assets** | | P357,444,833 | P285,426,708 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **Current liabilities** | | | |
| Deferred grant | 10 | P 48,181,820 | P 48,181,820 |
| Accrued expenses and other current liabilities | 11 | 8,647,941 | 9,924,237 |
| Total current liabilities | | 56,829,761 | 58,106,057 |
| **Non-current liabilities** | | | |
| Retirement benefit obligation | 13 | 4,994,713 | 2,785,255 |
| Total liabilities | | 61,824,474 | 60,891,312 |
| **Fund balances** | | | |
| Undesignated fund balance | 2 | (13,357,374) | (3,030,722) |
| Designated fund balance | 2 | 308,977,733 | 227,566,118 |
| Total fund balances | | 295,620,359 | 224,535,396 |
| **Total liabilities and fund balances** | | P357,444,833 | P285,426,708 |

The notes on pages 1 to 15 are integral part of these financial statements.

BUREAU OF INTERNAL REVENUE REGION 7 RDO 41 MANDALUYONG CITY APR 2 2 2009 COLLECTION SECTION

GAWAD KALINGA COMMUNITY DEVELOPMENT FOUNDATION, INC.
(A non-stock, non-profit organization)

STATEMENTS OF SUPPORT, REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(All Amounts in Philippine Pesos)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **Revenues and expenses** | | | |
| Program donations | 10 | P 417,223,239 | P 323,902,915 |
| Program expenses | 12 | (335,811,624) | (213,457,368) |
| Excess of revenues over expenses | | 81,411,615 | 110,445,547 |
| **Support and expenses** | | | |
| Donations to administration | 10 | 24,833,640 | 24,693,180 |
| Donations to special events | 10 | 15,728,175 | 7,440,337 |
| | | 40,561,815 | 32,133,517 |
| Staff costs | 14 | (27,010,580) | (20,839,379) |
| GK777 Expo event expenses | | (12,308,190) | (6,835,052) |
| Travel and transportation | | (7,241,582) | (3,238,214) |
| Professional fees | | (3,215,949) | (582,990) |
| Communication, light and water | | (1,433,081) | (1,003,722) |
| Printing and supplies | | (1,085,871) | (806,581) |
| Depreciation | 9 | (905,967) | (475,419) |
| Repairs and maintenance | | (331,330) | (257,893) |
| Meetings, planning, and trainings | | (125,692) | (2,437,667) |
| Rent | 16 | (58,200) | (349,200) |
| Taxes and licenses | | (14,733) | (43,939) |
| Miscellaneous | | (132,475) | (209,507) |
| Excess of support over expenses | | (13,301,835) | (4,946,046) |
| **Interest income** | 5 | 2,540,751 | 1,153,081 |
| **Foreign exchange gain/(loss)** | 17 | 434,432 | (470,794) |
| **Excess of support and revenues over expenses** | | P 71,084,963 | P 106,181,788 |

The notes on pages 1 to 15 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, 2007 AND 2006
(All Amounts in Philippine Pesos)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **Undesignated** | 2 | | |
| Balance at beginning of year | | P (3,030,722) | P 1,233,037 |
| Excess of support and revenues over expenses | | (10,326,652) | (4,263,759) |
| Balance at end of year | | (13,357,374) | (3,030,722) |
| **Designated** | 2 | | |
| Balance at beginning of year | | 227,566,118 | 117,120,571 |
| Excess of support and revenues over expenses | | 81,411,615 | 110,445,547 |
| Balance at end of year | | 308,977,733 | 227,566,118 |
| **Total fund balances** | | P 295,620,359 | P224,535,396 |

The notes on pages 1 to 15 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, 2007 AND 2006
(All Amounts in Philippine Pesos)

| | Note | 2007 | 2006 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Excess of support and revenues over expenses | | P 71,084,963 | P106,181,788 |
| Adjustments for: | | | |
| Depreciation and amortization | 9 | 905,967 | 475,419 |
| Unrealized foreign exchange loss | 17 | (434,432) | 470,794 |
| Retirement benefit expense | 13 | 2,209,458 | 1,948,786 |
| Interest income | 5 | (2,540,751) | (1,153,081) |
| Operating income before changes in working capital | | 71,225,205 | 107,923,706 |
| (Increase) decrease in: | | | |
| Advances to GK areas | 6 | (68,443,470) | (33,040,410) |
| Receivable from affiliated foundations | 7 | (5,548,297) | (1,618,063) |
| Other receivables | 8 | 623,528 | (5,782,731) |
| Other current assets | | - | 107,850 |
| Deferred grant | 10 | - | 30,456,628 |
| Accrued expenses and other current liabilities | 11 | (1,276,296) | 140,890 |
| **Cash generated from (used in) operations** | | (3,419,330) | 98,187,870 |
| Interest received | 5 | 2,540,751 | 1,153,081 |
| Net cash provided by (used in) operating activities | | (878,579) | 99,340,951 |
| **Cash flow from an investing activity** | | | |
| Acquisition of property and equipment | 9 | (1,394,309) | (544,198) |
| **Net increase (decrease) in cash** | | (2,272,888) | 98,796,753 |
| Effects of exchange rate changes on cash | 17 | 434,432 | (470,794) |
| Cash at beginning of year | | 158,025,966 | 59,700,007 |
| **Cash at end of year** | 5 | P156,187,510 | P158,025,966 |

The notes on pages 1 to 15 are integral part of these financial statements.

**GAWAD KALINGA COMMUNITY DEVELOPMENT FOUNDATION, INC.**
(A non-stock, non-profit organization)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006
(All Amounts in Philippine Pesos 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 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 118 and 105 regular employees as of December 31, 2007 and 2006, respectively.

The Foundation's financial statements were approved and authorized for issue by its Executive Director, Mr. Jose Luis M. Oquiñena and Finance Head, Mr. Michael P. Goco as authorized by the Board of Trustees on March 17, 2009.

## Note 2 - Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below. These 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 Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Standing Interpretations Committee (SIC), International Financial Reporting Interpretations Committee (IFRIC) and Interpretation of the Philippine Interpretations Committee (PIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

These financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities.

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

*(a) Standard effective in 2007*

The Foundation adopted the following applicable standard approved by the FRSC which is effective for annual periods beginning on or after 1 January 2007:

- PFRS 7 - Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements - Capital Disclosures (effective 1 January 2007), introduce new disclosures relating to financial instruments and do not have any impact on the classifications and valuation of the Foundation's financial instruments.

The Foundation has availed of the transitional relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments which were approved by FRSC in December 2007 and adopted by SEC in January 2008. An entity that applies PFRS 7 for annual periods beginning on or after January 1, 2007 need not present comparative information for the disclosures required, unless the disclosure was previously required under PAS 32, Financial Instruments : Disclosure and Presentation.

*(b) Standards, amendments and interpretations effective in 2007 but not relevant*

The following standards, amendments, and interpretations to published standards are mandatory for the annual accounting periods beginning on or after 1 January 2007 but they are not relevant to the Foundation's operations:

- PFRS 4 - Insurance Contracts
- Philippine Interpretation IFRIC 7 - Applying the Restatement Approach under PAS 29, Financial Reporting in Hyper-inflationary Economies
- Philippine Interpretation IFRIC 8 - Scope of PFRS 2
- Philippine Interpretation IFRIC 9 - Restatement of Embedded Derivatives
- Philippine Interpretation IFRIC 10 - Interim Financial Reporting and Impairment
- Amendment to the effective date of PAS 101 - Financial Reporting Standards for Non-Publicly Accountable Entities

*(c) Standard that is not yet effective and not early adopted*

The following standard has been published and is mandatory for the accounting periods beginning on or after 1 January 2008 or later periods, but the Foundation has not early adopted it:

- PAS 1 (2007) (Amended), Presentation of Financial Statements (effective 1 January 2009), establishes the amendments to the presentation of information in the financial statements. PAS 1 (2007) describes the "balance sheet" and the "cash flow statement" as the "statement of financial position" and "statement of cash flows", respectively. However, the use of other terms with clear meaning is allowed. It also requires the presentation of all non-owners changes in equity (i.e., comprehensive income) in a statement of comprehensive income or in a statement of profit or loss together with a statement of comprehensive income, separately from owner changes in equity. PAS 1 (2007) also requires, as a minimum, the presentation of three statements of financial position (balance sheet) in a complete set of financial statements whenever there is a prior period adjustment or a reclassification of items in the financial statements - as at the end of the current period, the end of the comparative period and the beginning of the comparative period. In other cases, only two statements of financial position are required. Dividends recognized as distributions to owners and related per-share amounts should be presented on the face of the statement of changes in equity or in the notes and not on the face of the statement of comprehensive income or the face of the statement of income. The Company has not early adopted PAS 1 (2007) and will apply PAS 1 (2007) in its financial statements for the period commencing from 1 January 2009.

*(d) Standard, amendment and interpretations to existing standards those are not relevant*

The following standard, amendment and interpretations to existing standards have been published and are effective for accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the Foundation's operations:

- Philippine Interpretation IFRIC 11 - Group and Treasury Share Transactions (effective from 1 January 2008)
- Philippine Interpretation IFRIC 12 - Service Concession Arrangements (effective from 1 January 2008)
- Philippine Interpretation IFRIC 13 - Customer Loyalty Program (effective on or after 1 July 2008)
- Philippine Interpretation IFRIC 14 - PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective on or after 1 January 2008)
- PAS 23 (Amendment) - Borrowing Costs (effective from 1 January 2009)
- PFRS 8 - Operating Segments (effective 1 January 2009)

## 2.2 Fund accounting

The accounts of the Foundation are maintained to reflect the resources for various activities which observes 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:

Undesignated fund represents the resources available for the Foundation's operations.

Designated fund represents the resources which can only be utilized for the main programs of the Foundation.

## 2.3 Cash

Cash is carried in the statement of assets, liabilities and fund balance at face value. For purposes of the statements of cash flow, cash consists of cash on hand and deposits held at call with banks.

APR 2 2 2009

### 2.4 Financial assets

The Foundation classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Foundation did not hold any financial assets during the year except for loans and receivables (see Note 2.5).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as receivables in the statement of assets, liabilities and fund balance (see Note 2.5).

Purchases and sales of financial assets are recognized on trade date - the date on which the Foundation commits to purchase the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Foundation has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity financial assets are carried at amortized cost using the effective interest method.

The Foundation assesses at each reporting date whether there is objective evidence that a financial asset is impaired.

### 2.5 Receivables

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 supports, revenues and expenses within miscellaneous expenses. When a receivable is uncollectible, it is written-off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited against other expenses in the statement of support, revenues and expenses.

### 2.6 Property and equipment

Property and equipment are carried at historical cost less subsequent depreciation, amortization and impairment losses. 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, revenues and 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 | 1 - 3 years |
| Office equipment | 1 - 5 years |
| Computer and other equipment | 1 - 3 years |
| Leasehold improvements | 5 years |

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the statement of support, revenues and expenses.

### 2.7 Impairment of non-financial assets

Property and equipment that have a definite useful life 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.

### 2.8 Accrued expenses and other payables

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. These are measured at amortized cost, normally equal to its nominal amount.

### 2.9 Support, revenue and expense recognition

Support and donations are recognized in the period received and reported as revenues of the fund for which they are intended. Revenue from designated support is recognized upon fulfillment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred. Revenue from undesignated support is recognized upon receipt of the support and expenses are reported when incurred. Designated support for which restrictions and conditions have not yet been met, are deferred in the accounts.

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

Expenses are recognized when incurred.

### 2.10 Leases

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.

## 2.11 Employee benefits

*(a) Pension obligations*

The Foundation has a defined benefit pension plan which 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, together with any adjustments for unrecognized gains or losses and past service costs. In cases when the amount determined results in (a) a surplus (being an excess of the fair value of the plan assets over the present value of the defined benefit obligation), the Foundation measures the resulting asset at the lower of such amount determined, and (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available to the Foundation in the form of refunds or reductions in future contributions to the plan. 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 arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

*(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Foundation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Foundation recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

## 2.12 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, revenues and expenses.

### 2.13 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, revenues and expenses over the period necessary to match them with the costs that they are intended to compensate. Unliquidated government grants are also classified as deferred grant.

Government grants relating to the purchase of property and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of supports, revenues and expenses on a straight line basis over the expected lives of the related assets.

### 2.14 Related party transactions and relationships

Related party relationships 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, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

### 2.15 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.

### 2.16 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.

### 2.17 Reclassification

Certain amounts in the 2006 financial statements and supporting note disclosure have been adjusted to reclassify a donation of P4,438,498 from donations to special events – others to program donations – others to conform to the current period's presentation. The reclassification was done to provide more relevant information about the Foundation's designated and undesignated fund balances.

These reclassifications did not affect the statement of cash flows nor did it impact the previously reported statements of supports, revenues and expenses.

## Note 3 - Financial risk management

### 3.1 Financial risk factors

The Foundation's activities expose it to certain financial risks: foreign exchange risk, credit risk and liquidity risk. Risk management is carried out by the finance department, through its finance director under policies approved by the Board of Trustees. The finance director identifies, evaluates and hedges financial risks in close cooperation with its partner banks. The Board of Trustees provides principles for overall risk management.

*(a) Foreign exchange risk*

The Foundation receives grants and donations from various organizations and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. Dollar. Foreign exchange risk arises when future transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. The Foundation does not speculate in currencies. Active management of exposures involves an ongoing assessment of the risks, determining the most efficient methods of minimizing these risks, and reducing the overall cost of currency to the operations.

*(b) Credit risk*

The Foundation has no significant concentrations of credit risk although its receivables are limited to related parties but with an appropriate credit history. Transactions are limited to related parties and high credit-quality financial institutions. The Foundation has policies that limit the amount of credit exposure to any financial institution.

*(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding. The Foundation aims to maintain flexibility in funding by monitoring and ensuring that there are available funds prior to involving in major activities.

**3.2 Fair value estimation**

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Foundation for similar financial instruments.

## Note 4 - Critical accounting assumptions, estimates and judgment

The Foundation makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. While estimates were used in the following areas, the Foundation believes that these will not cause significant adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(a) Impairment of receivables*

The provision for impairment of receivables is based on the Foundation's assessment of the collectibility of payments from donors/grantors and other debtors. This assessment requires judgment regarding the outcome of disputes and the ability of each of the donor/grantor and other debtors to pay the amounts owed to the Foundation. Any change in the Foundation's assessment of the collectibility of receivables could significantly impact the calculation of such provision and the result of operations.

*(b) Property and equipment*

The useful life of each item of property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practice of similar business, internal technical evaluation and experience with similar assets.

*(c) Functional currency*

The Board of Trustees considers the Philippine peso as the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Philippine peso is the currency of the primary economic environment in which the Foundation operates. It is the currency in which the Foundation measures its performance and reports its results.

## Note 5 - Cash

The account at December 31 consists of:

| | 2007 | 2006 |
|---|---|---|
| Kalinga Luzon fund | P 15,007,540 | P 66,541,589 |
| National Program fund | 127,063,160 | 55,555,473 |
| Kalinga Bicol fund | 8,762,050 | 23,049,631 |
| Kalinga Leyte fund | 3,466,286 | 12,221,360 |
| Administration fund | 410,454 | 174,157 |
| GK 777 Expo event fund | 1,478,020 | 483,756 |
| | P156,187,510 | P158,025,966 |

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, 2007 and 2006 is 4.5% and 5.5%, respectively.

## Note 6 - Advances to GK areas

The account consists of remittance to various GK areas for various program expenses and is subject to liquidation, the details of which are as follows:

| | 2007 | 2006 |
|---|---|---|
| Kalinga Luzon | P 33,262,762 | P 42,003,935 |
| Kalinga Leyte | 11,204,952 | 12,843,851 |
| Other GK areas | 134,159,278 | 55,335,736 |
| | P178,626,992 | P110,183,522 |

## Note 7 - Related party transactions

The following transactions were carried out with related parties:

i) Year-end balances arising from advances to and from related parties follow:

| | 2007 | 2006 |
|---|---|---|
| Couples for Christ Global Mission Foundation, Inc. (CFC) | | |
| Receivable from | P 15,193,023 | P 14,664,794 |
| Payable to | (12,581,373) | (12,509,173) |
| | 2,611,650 | 2,155,621 |
| Receivable from Probiotics project | 1,237,729 | 3,316,579 |
| Receivable from Ancop Foundation International, Inc. (Ancop) | 7,198,425 | 27,307 |
| | P 11,047,804 | P 5,499,507 |

Receivables from CFC pertain to donations received by CFC in behalf of the Foundation while payables pertain to share in rent, salaries, printing costs, and others. Receivable from Probiotics are funds placed by the Foundation for the operations of the project. Receivable from Ancop reports donations from other countries, such as the United States of America, it received in behalf of the Foundation.

Salaries and other short-term benefits of key management personnel for the years ended December 31, 2007 and 2006 amounted to P1,759,583 and P1,739,400, respectively. There are no long-term benefits granted to key management personnel.

## Note 8 - Other receivables

The account at December 31 consists of:

| | 2007 | 2006 |
|---|---|---|
| Receivables - GK 777 Expo event | P 6,024,119 | P 8,777,879 |
| Allowance for doubtful accounts | (1,000,000) | - |
| | 5,024,119 | 8,777,879 |
| Advances to employees | 195,340 | 385,897 |
| Others | 4,434,016 | 1,113,227 |
| | P 9,653,475 | P 10,277,003 |

The values presented above closely approximate the fair values of these receivables. The Foundation has no significant concentrations of credit risk although its receivables are limited to related parties but with an appropriate credit history.

Allowance for doubtful accounts has been provided for over 1 year past due accounts receivable as approved by the Board of Trustees on December 6, 2007.

Other receivables of P4,434,016 (2006 - P1,113,227) substantially represents advances for travel related expenses that is subject to reimbursement by other partners or donors.

## Note 9 - Property and equipment

The details of property and equipment at December 31 follow:

| | Office furniture and fixtures | Office equipment | Computer and other equipment | Leasehold improvements | Transportation Equipment | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| January 1, 2006 | P17,568 | P1,202,292 | P415,176 | P485,411 | P - | P2,120,447 |
| Additions | - | 415,407 | 122,648 | 6,143 | - | 544,198 |
| December 31, 2006 | 17,568 | 1,617,699 | 537,824 | 491,554 | - | 2,664,645 |
| Additions | - | 487,364 | 101,945 | - | 805,000 | 1,394,309 |
| December 31, 2007 | 17,568 | 2,105,063 | 639,769 | 491,554 | 805,000 | 4,058,954 |
| Accumulated depreciation | | | | | | |
| January 1, 2006 | 16,243 | 499,245 | 187,396 | 45,632 | - | 748,516 |
| Depreciation | 1,325 | 285,100 | 97,152 | 91,842 | - | 475,419 |
| December 31, 2006 | 17,568 | 784,345 | 284,548 | 137,474 | - | 1,223,935 |
| Depreciation | - | 445,391 | 208,365 | 104,628 | 147,583 | 905,967 |
| December 31, 2007 | P17,568 | P1,229,736 | P492,913 | P242,102 | P147,583 | P2,129,902 |
| Net book values, | | | | | | |
| December 31, 2007 | P - | P 875,327 | P146,856 | P249,452 | P657,417 | P1,929,052 |
| December 31, 2006 | - | 833,354 | 253,276 | 354,080 | - | 1,440,710 |

There were no disposals for both the years ended December 31, 2007 and 2006. Depreciation charges amounting to P905,967 in 2007 (2006 - P475,419) were charged to expenses.

## Note 10 - Support, revenues and government grants

Details of the account for the years ended December 31, 2007 and 2006 follow:

| | 2007 | 2006 |
|---|---|---|
| Program donations | | |
| Tatag | | |
| Kalinga Luzon | P 18,564,690 | P 77,539,372 |
| Kalinga Leyte | 7,611,694 | 32,417,089 |
| Kalinga Bicol | 31,230,936 | 26,802,951 |
| National | 350,079,929 | 178,051,430 |
| | 407,487,249 | 314,810,842 |
| Education | 2,853,008 | 2,818,772 |
| Others | 6,882,982 | 6,273,301 |
| Total program donations | 417,223,239 | 323,902,915 |
| Donations to administration | | |
| General fund | 14,829,978 | 11,487,992 |
| Retention fund | 9,477,432 | 9,781,057 |
| International Mission fund | 526,230 | 3,424,131 |
| Total donations to administration | 24,833,640 | 24,693,180 |
| Donations to special events | | |
| GK777 Expo event receipts | 6,785,844 | 7,440,337 |
| Others | 8,942,331 | - |
| Total donations to special events | 15,728,175 | 7,440,337 |
| Total support and revenues | P 457,785,054 | P356,036,432 |

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.

As of December 31, 2007, the following tranches have been received and liquidated:

| | Date received | Amount | Liquidated | Deferred grant |
|---|---|---|---|---|
| Tranche A | April 26, 2005 | P10,000,000 | P10,000,000 | P - |
| 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 | - | 48,181,820 |
| | | P88,181,820 | P40,000,000 | P48,181,820 |

Other collections pertain to contributions to the general fund, a large portion of which was received from Ancop. These are undesignated and are generally for use in the administration or operations.

As of March 16, 2009, the Tranche D has been 59.3% liquidated; additional support will be released to the Foundation once deferred grant is 100% liquidated.

## Note 11 - Accrued expenses and other current liabilities

The account at December 31 consists of:

| | 2007 | 2006 |
|---|---|---|
| Accrued expenses | P 6,037,075 | P 4,371,390 |
| Advances from a partner | - | 2,239,667 |
| Unconfirmed deposits | 752,474 | 1,907,953 |
| Others | 1,858,392 | 1,405,227 |
| | P 8,647,941 | P 9,924,237 |

## Note 12 - Program expenses

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

| | 2007 | 2006 |
|---|---|---|
| Kalinga Luzon | P 76,964,860 | P 73,815,727 |
| Kalinga Leyte | 17,526,767 | 6,831,393 |
| Kalinga Bicol | 42,164,686 | 2,279,507 |
| National | | |
| GK Kawal Kalinga | 50,357,186 | 12,550,000 |
| GK Baseco | 7,468,013 | 11,038,677 |
| Other GK areas | 141,330,112 | 106,942,064 |
| Total program expenses | P335,811,624 | P213,457,368 |

## Note 13 - Employee benefits

In accordance with the provisions of R.A. No. 7641, 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, whichever is earlier. Actuarial valuation of the retirement benefits was sought from an independent actuary as of December 31, 2007 and 2006.

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

| | 2007 | 2006 |
|---|---|---|
| Present value of obligation | P 6,119,239 | P 4,859,370 |
| Fair value of plan assets | - | - |
| Unfunded obligation | 6,119,239 | 4,859,370 |
| Unrecognized actuarial losses | (1,124,526) | (2,074,115) |
| Unrecognized past service cost | - | - |
| Liability | P 4,994,713 | P 2,785,255 |

The movement in the present value of obligation over the periods is as follows:

| | 2007 | 2006 |
|---|---|---|
| Present value of obligation, beginning | P 4,859,370 | P 1,112,707 |
| Interest cost | 402,842 | 126,181 |
| Current service cost | 1,743,089 | 1,813,440 |
| Actuarial (gains) losses | (886,062) | 1,807,042 |
| Present value of obligation, end | P 6,119,239 | P 4,859,370 |

There were no contributions or benefits paid during the period.

The amounts recognized in the statement of support, revenues and expenses under staff costs are as follows:

| | Note | 2007 | 2006 |
|---|---|---|---|
| Current service cost | | P 1,743,089 | P 1,813,440 |
| Interest cost | | 402,842 | 126,181 |
| Net actuarial gain recognized in the year | | 63,527 | 9,165 |
| Total, included in employee benefit expense | 14 | P 2,209,458 | P 1,948,786 |

The movements in the liability account are as follows:

| | 2007 | 2006 |
|---|---|---|
| Beginning | P 2,785,255 | P 836,469 |
| Expense recognized | 2,209,458 | 1,948,786 |
| End | P 4,994,713 | P 2,785,255 |

The principal actuarial assumptions used were as follows:

| | 2007 | 2006 |
|---|---|---|
| Discount rate | 8.35% | 8.29% |
| Salary increase rate | 10.00% | 10.00% |

*Mortality rate*

Assumptions regarding future mortality experience are set based on the 1960 Basic Group Table.

## Note 14 - Staff costs

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

| | Note | 2007 | 2006 |
|---|---|---|---|
| Salaries and wages | | P21,609,006 | P15,606,816 |
| Employee benefits | | 3,192,116 | 3,283,777 |
| Retirement benefits | 13 | 2,209,458 | 1,948,786 |
| | | P27,010,580 | P20,839,379 |

## Note 15 - 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, retirement benefit obligation and the unrealized foreign exchange gain and/or losses because of its tax-exempt status.

## Note 16 - Lease agreement

The Foundation's office premises are commonly occupied with CFC and Ancop. CFC allocates and bills the Foundation 15% of the total rental fee. Monthly expense billed to the Foundation is P29,100, 50% of which is charged by the Foundation to Ancop. Office rental charged to operations in 2007 is P58,200 (2006 - P349,200).

On May 2007, the Foundation transferred its main office to 4th Floor of Pro-friends Building, #55 Tinio Street, Barangay Addition Hills, Mandaluyong City, except for its Communications Group (GKom), which remain within the CFC premises.

The Foundation was permitted to occupy the 4th 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.

Total improvements and refurbishing charged as repairs and maintenance in the statement of supports, revenues and expenses during the year amounted to P331,330.

## Note 17 - Foreign currency denominated monetary assets and liabilities

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

| | 2007 | 2006 |
|---|---|---|
| Cash | US$ 6,146 | US$ 72,252 |
| Cash | - | € 2,850 |
| Peso equivalent | P 253,707 | P 3,726,934 |

The exchange rate was P41.28 per US$1 and P49.03 per US$1 on December 31, 2007 and 2006, respectively. As of December 31, 2007 exchange rate was P60.43 (2006 - P64.71) per €1. Net foreign exchange gain charged to operations in 2007 amounted to P434,432 (2006 - net foreign exchange loss of P470,794).

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Gawad Kalinga Community Development Foundation, Inc. is responsible for all information and representations contained in the financial statements for the year ended December 31, 2007. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company. Isla Lipana & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation in accordance with Philippine Financial Reporting Standards upon completion of such examination, in its report to stockholders.

Signature ____________________
Name of the Chairman of the Board JOSE T. TALE

Signature ____________________
Name of Executive Director JOSE LUIS M. OQUINENA

Signature ____________________
Name of Chief Financial Officer MICHAEL P. GOCO