

Mindanao Trust Fund -  
Reconstruction and Development  
Project (Phase 2)  
*(Community and Family Services  
International, Inc. - Trust Fund Recipient,  
A Nonstock, Nonprofit Organization)*

Financial Statements  
December 31, 2018

and

Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Community and Family Services International, Inc.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Mindanao Trust Fund - Reconstruction and Development Project (Phase 2) [MTF-RDP/2] funded by the World Bank, for which Community and Family Services International, Inc. (CFSI) serves as the Trust Fund Recipient, which comprise the statement of assets, liabilities, and fund balances as at December 31, 2018, and the statement of revenues and expenses, statement of changes in fund balances and statement of cash flows for the period from April 10, 2018 to December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities and fund balances of MTF-RDP/2 as at December 31, 2018 and its revenues and expenses and its cash flows for the period from April 10, 2018 to December 31, 2018 in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

We have also reviewed the translation of the financial statements mentioned above to U.S. Dollar on the basis described in Note 2 to the financial statements. In our opinion, the financial statements have been properly translated on such basis.

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of MTF-RDP/2 in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS for SMEs, 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.



In preparing the financial statements, management is responsible for assessing the MTF-RDP/2's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the MTF-RDP/2 or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MTF-RDP/2's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MTF-RDP/2's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the MTF-RDP/2's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the MTF-RDP/2 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.





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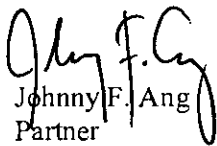
- 3 -

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### Restriction on Distribution and Use

The financial statements have been prepared by the MTF-RDP/2 solely to comply with the financial reporting requirement of the World Bank. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the MTF-RDP/2 and the World Bank and should not be distributed to or used by parties other than the MTF-RDP/2 and the World Bank.

SYCIP GORRES VELAYO & CO.



Johnny F. Ang  
Partner

CPA Certificate No. 0108257

SEC Accreditation No. 1284-AR-2 (Group A),  
May 16, 2019, valid until May 15, 2022

Tax Identification No. 221-717-423

BIR Accreditation No. 08-001998-101-2018,  
November 6, 2018, valid until November 5, 2021

PTR No. 7332518, January 3, 2019, Makati City

May 21, 2019



**MINDANAO TRUST FUND - RECONSTRUCTION AND DEVELOPMENT  
PROJECT (PHASE 2)**

**(Community and Family Services International, Inc. - Trust Fund Recipient,  
A Nonstock, Nonprofit Organization)**

**STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE**

	Philippine Peso	U.S. Dollar (Note 2)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	₱27,678,396	\$526,405
Other current assets (Note 5)	2,777,201	52,819
	<b>₱30,455,597</b>	<b>\$579,224</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	₱18,333,910	\$348,686
<b>Fund Balance</b>	<b>12,121,687</b>	<b>230,538</b>
	<b>₱30,455,597</b>	<b>\$579,224</b>

*See accompanying Notes to Financial Statements.*



**MINDANAO TRUST FUND - RECONSTRUCTION AND DEVELOPMENT  
PROJECT (PHASE 2)**

**(Community and Family Services International, Inc. - Trust Fund Recipient,  
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**STATEMENT OF REVENUES AND EXPENSES  
FOR THE PERIOD FROM APRIL 10, 2018 TO DECEMBER 31, 2018**

	Philippine Peso	U.S. Dollar (Note 2)
<b>REVENUES</b>		
Grants, donations, support and contributions (Note 1)	₱86,738,723	\$1,649,652
Interest income (Note 4)	17,193	327
	<u>86,755,916</u>	<u>1,649,979</u>
<b>PROJECT EXPENSES</b>		
Community service and capacity building expenses (Note 6)	59,107,920	1,124,152
Professional, technical and other consultancy fees (Note 7)	14,431,968	274,476
	<u>73,539,888</u>	<u>1,398,628</u>
<b>OTHER EXPENSES</b>		
Foreign exchange loss	1,086,861	20,671
Bank charges	7,480	142
	<u>1,094,341</u>	<u>20,813</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>₱12,121,687</u>	<u>\$230,538</u>

*See accompanying Notes to Financial Statements.*



**MINDANAO TRUST FUND - RECONSTRUCTION AND DEVELOPMENT  
PROJECT (PHASE 2)**

**(Community and Family Services International, Inc. - Trust Fund Recipient,  
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**STATEMENT OF CHANGES IN FUND BALANCE  
FOR THE PERIOD FROM APRIL 10, 2018 TO DECEMBER 31, 2018**

	Philippine Peso	U.S. Dollar (Note 2)
Balance at beginning of period	₱-	\$-
Excess of revenues over expenses	₱12,121,687	\$230,538
Balance at end of period	₱12,121,687	\$230,538

*See accompanying Notes to Financial Statements.*



**MINDANAO TRUST FUND - RECONSTRUCTION AND DEVELOPMENT  
PROJECT (PHASE 2)**

**(Community and Family Services International, Inc. - Trust Fund Recipient,  
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**STATEMENT OF CASH FLOWS**

**FOR THE PERIOD FROM APRIL 10, 2018 TO DECEMBER 31, 2018**

	Philippine Peso	U.S. Dollar (Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	₱12,121,687	\$230,538
Adjustment for:		
Interest income (Note 4)	(17,193)	(327)
Operating income before working capital changes	12,104,494	230,211
Increase in:		
Other current assets	(2,777,201)	(52,819)
Accounts payable and accrued expenses	18,333,910	348,686
Cash generated from operations	27,661,203	526,078
Interest received	17,193	327
Net cash provided by operating activities	27,678,396	526,405
<b>CASH AT END OF PERIOD (Note 4)</b>	<b>₱27,678,396</b>	<b>\$526,405</b>

*See accompanying Notes to Financial Statements.*





# MINDANAO TRUST FUND - RECONSTRUCTION AND DEVELOPMENT PROJECT (PHASE 2)

(Community and Family Services International, Inc. - Trust Fund Recipient,  
A Nonstock, Nonprofit Organization)

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Project Information

Community and Family Services International, Inc. (CFSI) is a nonstock, nonprofit, humanitarian organization, committed to peace and social development, with a particular interest in the psychosocial dimension. Established in the Philippines in 1981, CFSI was incorporated in 1982. The registered office address of CFSI is 8F Gam Parklane Building, 210 EDSA Extension, Barangay 79, Pasay City.

The mission of CFSI is to vigorously protect and promote human security—specifically, the lives, well-being, and dignity of people uprooted by persecution, armed conflict, disasters, and other exceptionally difficult circumstances. These include refugees, internally displaced persons (IDPs), disaster survivors, and others who are vulnerable, exploited or abused.

The Government of the Republic of the Philippines (GRP), in collaboration with the World Bank, the Official Development Assistance community in the Philippines, and Mindanao stakeholders, established the Mindanao Trust Fund (MTF) in late 2005 as a mechanism for pooling and channeling resources from development partners to conflict-affected communities in Mindanao. CFSI was selected to serve as the Trust Fund Recipient (TFR) for Phase 1 of the Mindanao Trust Fund - Reconstruction and Development Program (MTF-RDP or the “Project”). This initiative is informed by the multi-donor Joint Needs Assessment (JNA) carried out in the conflict-affected areas in 2004.

The MTF-RDP aims to assist the economic and social recovery in the conflict-affected areas through inclusive and effective governance processes. The MTF-RDP is expected to have two phases: the first phase focused on capacity building starting before the signing of a peace agreement between the GRP and the Moro Islamic Liberation Front (MILF); and the second phase focused on reconstruction and development activities beginning after the signing of a peace agreement.

From December 2005 to June 2017, MTF financed the operations of the MTF-RDP. MTF-RDP initially focused on establishing the organizational set-up and capacity building needs of the Bangsamoro Development Agency (BDA), and building relationships with local government units as well as stakeholders for the planning, implementation, and management of the socio-economic development projects in conflict-affected areas of Mindanao.

The 11-year MTF-RDP responded well to the ups and downs of the peace process by adopting shifts in its program strategic directions. From 2009, much of MTF-RDP activities were devoted to intensifying peace building efforts and delivering socio-economic assistance to conflict-affected communities. With the signing of the Framework Agreement on Bangsamoro (FAB), the MTF-RDP, on top of the regular socio-economic assistance activities, also supported expanded measures, specifically Joint GPH-MILF development initiatives such as the formulation and publication of the Bangsamoro Development Plan (BDP) and the Sajahatra Bangsamoro. In 2015, the activities of MTF-RDP focused on confidence-building measures in conflict-affected communities. It is within these confidence-building measures, that MTF-RDP piloted activities in the six (6) previously acknowledged MILF camps, in 2016-2017.



In July 2016, the GRP made peace and development in Mindanao a top government priority, as reflected in the 2017-2022 Philippine Development Plan. In addition, the government announced a Six-Point Roadmap and a Strategic Framework for Mindanao Peace and Development, including the full implementation of the 2014 Comprehensive Agreement on the Bangsamoro (CAB) with the MILF as a central element of the government's plan.

The centerpiece of the CAB is the establishment of a new autonomous political entity, known as the Bangsamoro, to replace the existing Autonomous Region in Muslim Mindanao (ARMM). On July 17, 2018, a joint Government-MILF-Moro National Liberation Front (MNLF) Bangsamoro Transition Commission submitted a new draft enabling law for submission to the Philippine Congress to create the Bangsamoro. To keep the momentum in MILF communities while the government puts in place a longer-term new financing facility, the government and the donors of the MTF facility agreed to extend the MTF facility and to finance among others access to basic socio-economic services and institutional capacity building in conflict-affected communities.

The MTF-RDP Phase 2 (MTF-RDP/2) proposed activities would support elements of the implementation of the CAB commitments to intensify socio-economic development in conflict-affected areas, including transforming the six (6) previously acknowledged MILF camps into peaceful and productive communities as a confidence-building measure to underpin the peace process as progress continues on the political track. Support for the anticipated transition to the Bangsamoro will be carried out through 1) capacity building interventions in the ranks of the MILF and other groups on development planning, budgeting, and delivery of basic services to the poor; and 2) socio-economic development in the six (6) previously acknowledged MILF Camps is expected to provide access to basic services for the remote communities.

MTF-RDP/2 "activities would support elements of the implementation of the CAB's commitment to intensify socio-economic development in conflict-affected areas, including transforming the six (6) previously acknowledged MILF camps into peaceful and productive communities as a confidence-building measure to underpin the peace process as progress continues on the political track. The development assistance is also expected to support the anticipated transition to the Bangsamoro by building capacity in the ranks of the MILF and other groups on development planning, budgeting, and delivery of basic services to the poor." (World Bank Project Paper, 14 March 2018)

MTF-RDP/2 supports activities organized under three components, as follows: Community Development Activities; Capacity and Institution-Building and Project Administration, Monitoring and Evaluation.

*Community Development Activities.* This component supports the provision of community sub-project in the form of socio-economic infrastructures; Capacity Building for Joint Task Forces on Camps Transformation (JTFACTs), BDA, and People's Organization (POs); and support BDA with technical specialist and operational resources.

*Capacity and Institution-Building.* This component involves Capacity Building for BDA, and support for BDA with technical specialists and operational resources.

*Project Administration, Monitoring and Evaluation.* This component involves project management, implementation, monitoring and evaluation, assistance for specialized staff, procurement, incremental operating costs, and audit.



CFSI signed a Project Partnership Agreement with the BDA as the main implementing partner for the MTF-RDP/2 in communities within the six (6) previously acknowledged MILF Camps – Camp Abubakar; Camp Omar; Camp Rajamuda, Camp Badre, Camp Bushra, and Camp Bilal – starting April 2018.

As the TFR and the Project Management Unit (PMU), CFSI is primarily responsible and accountable for efficient and effective implementation of the approved subprojects, and is responsible for procurement, financial management, program management support and provision of capacity-building services to enable BDA, JTFCTs and POs/community volunteers (CVs) to manage and implement the subprojects. CFSI and BDA, through experiential learning, will work hand in hand with camp JTFCTs and POs/CVs across subproject cycles. CFSI will be closely coaching/ “twinning” with BDA Project Implementing Unit in the implementation of MTF-RDP/2. Underpinning these activities will be ongoing operational and capacity-building support for the BDA.

The grant agreement amounting to US\$3,200,000, covered two grant numbers, was signed in April 2018 between CFSI and the World Bank for MTF-RDP/2. The details follow:

	US\$ Amount	Equivalent In Philippine Peso
Grant TF0A7280	\$2,650,000	₱132,500,000
Grant TF0A7281	550,000	27,500,000
<b>Total grant agreement</b>	<b>\$3,200,000</b>	<b>₱160,000,000</b>

The original closing date of the Grant Agreement was February 28, 2019 but was later extended by the World Bank to August 31, 2019.

### *Community Development Activities*

Under the MTF-RDP/2, a total of twenty-two (22) socio-economic infrastructure (SEIs) sub-projects are in various levels of implementation across the six (6) previously acknowledged MILF Camps: eighteen (18) SEIs; twelve (12) Community-Driven Development (CDD); and a special allocation for four (4) SEIs in select IP communities. The sub-projects and the respective managing POs are as follows:

#### Camp Bilal

	People’s Organization (PO)	Barangay/Municipality/Province	Subprojects
1	People’s Organization for Cooperation, Transparency and Accountability (POCTA)	Brgy. Barit, Balindong, Lanao del Sur	Construction of 1.013 Km. Concrete Pathway
2	Malimono Livelihood Marketing Cooperative	Brgy. Malimono, Marawi City	Construction of Warehouse with Solar Dryer
3	Noble Action for Social Reforms (NASR)	Brgy. Balintad, Madamba, Lanao del Sur	Construction of 900M Concrete Tire Path

#### Camp Bushra

	PO	Barangay/Municipality/Province	Subprojects
1	E-Wagon Family for Peace and Development	Brgy. Wago, Lumbayanague, Lanao del Sur	Construction of Water System Level II



	PO	Barangay/Municipality/Province	Subprojects
2	Maahad Nouroll Hedayah Al-Islamihan, Inc. Satamerah Association	Brgy. Bualan, Lumbayanague, Lanao del Sur	Construction of Water System Level II
3	Sawer Pag-asa Service Cooperative	Brgy. Sawer, Masiu, Lanao del Sur	Construction of Hanging Bridge with 200M Pathway

Camp Omar

	PO	Barangay/Municipality/Province	Subprojects
1	United Bangsamoro Farmers Association	Brgy. Saniag, Ampatuan, Maguindanao	Construction of 1.13 Km. One (1) Lane Concrete Road
2	United Bangsamoro Farmers Association	Brgy. Saniag, Ampatuan, Maguindanao	Construction of Water System Level II
3	Darul Wihdah People's Organization	Brgy. Tuayan, Datu Hoffer, Maguindanao	Construction of Warehouse and Solar Dryer
4	Saniag Highlander Farmers Producer Cooperative	Brgy. Saniag, Ampatuan, Maguindano	Construction of Bleyeh Ketab Selemudon (Tribal Hall)
5	Descendant of Mamalo-Tabunaway Farmers Marketing Association	Brgy. Tuayan, Datu Hoffer, Maguindanao	Construction of Bleyeh Ketab Selemudon (Tribal Hall)

Camp Badre

	PO	Barangay/Municipality/Province	Subprojects
1	Mamalu-Tabunaway Descendants Organization (MATADO) Inc.	Brgy. Kinebeka Datu Odin Snsuat, Maguindanao	Construction of 1.45 Km. One (1) Lane Concrete Road
2	Mamalu-Tabunaway Descendants Organization (MATADO) Inc.	Brgy. Kinebeka, Datu Odin Sinsuat, Maguindanao	Construction of Five (5) Solar Dryers
3	Datalpandan Teduray Peoples Organization (DTPO)	Brgy Datalpandan, Guindulungan, Maguindanao	Construction of Water System Level II
4	Kinebeka Mamalu Sebangkeson Organization (KMSO)	Brgy. Kinebeka, Datu Odin Sinsuat, Maguindanao	Construction of Three (3) Solar Dryers
5	Datalpandan Teduray Peoples Organization (DTPO)	Brgy. Datalpandan, Guindulungan, Maguindanao	Provision and Installation of 30 IP Lighting Facilities

Camp Rajamuda

	PO	Barangay/Municipality/Province	Subprojects
1	Sadangen Farmer Pamana Marketing Cooperative	Brgy. Sadangen, Gen. Salipada K. Pendatun, Maguindanao	Construction of Two (2) Units Solar Powered Water System Level II
2	Dungguan United Bangsamoro Agri-Fisheries Association	Brgy. Dungguan, Datu Montawal, Maguindanao	Construction of Solar Powered Water System Level II
3	Bangsamoro Green Life Producers Cooperative	Brgy. Buliok, Pikit, North Cotabato	Construction of Solar Powered Water System Level II



Camp Abubakar

	<u>PO</u>	<u>Barangay/Municipality/Province</u>	<u>Subprojects</u>
1	Nabalawag Peace and Development Organization	Brgy. Nabalawag, Barira Maguindanao	Construction of 1.5Km. One (1) Lane Concrete Road
2	Barangay Nituan Water System Consumers Association	Brgy. Nituan, Parang, Maguindanao	Construction of Water System Level II
3	O Pakatu Bangsabai Sa Mataya Association (OBAMA)	Brgy. Mataya, Buldon, Maguindanao	Construction of Warehouse with Solar Dryer

Another subproject undertaken within the six (6) major camps of the MILF is the Alternative Learning System (ALS) in partnership with the Department of Education (DepEd) in ARMM. The ALS provided two (2) types of literacy interventions: Basic Literacy Program (BLP), and the Continuing Education: Accreditation and Equivalency (A&E) Program or the literacy classes aligned to the Elementary and Secondary Levels. The ALS started in July 2018 and was completed on March 31, 2019.

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**2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis.

Reporting Currency and Translation of Philippine Peso Statements into U.S. Dollar Statements

The accompanying financial statements are presented in Philippine Peso, the functional currency and the currency of the country in which the project is operating, as well as in U.S. Dollar. The translation of the Philippine Peso amounts into U.S. Dollar amounts is included solely for the convenience of the users of the financial statements. All accounts were translated using the rate of ₱52.58 to a U.S. Dollar based on the closing rate of the Bankers Association of the Philippines as at December 31, 2018. The convenience translation should not be construed as a representation that the Philippine Peso amounts have been, or could have been, or could in the future be, converted into U.S. Dollar amounts at this or any other rate of exchange.

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

Cash

Cash includes cash in banks, which are restricted to specific purposes bound by contracted agreements, and cash on hand.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are obligations on the basis of normal credit terms and do not bear interest.

Fund Balance

The amount included in fund balance includes accumulated excess of revenues over expenses reduced by funds returned to funding agencies/partners and other adjustments. Funds to be returned to funding agencies/partners are recognized as a liability and deducted from fund balances in accordance



with specific provisions of the contract related to the funds. Fund balances may also include effect of changes in accounting policy as may be required by the transitional provisions of new accounting standards and interpretations.

#### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to CFSI and the amount of the revenue can be reliably measured.

*Grants, Donations, Support and Contributions.* Grants, donations, support and contributions are recognized when the donor conditions are satisfied, which generally coincide with the receipt of the grants, donations, support and contributions.

*Interest Income.* Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

#### Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in fund balance. Costs and expenses are recognized in the statement of revenues and expenses in the year these are incurred.

#### Foreign Currency-denominated Transactions

Foreign currency-denominated transactions are recorded in Philippine Peso by applying to the foreign currency amount the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. Exchange differences arising on the settlement and restatement of monetary items at rates different from those at which they were initially recorded during the year are recognized in the statement of revenues and expenses in the year such difference arises.

#### Provisions

Provisions, if any, are recognized when the Project has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Period

Post year-end events that provide additional information about the Project's assets and liabilities at reporting period (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.

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### 3. Significant Accounting Judgments

The preparation of the financial statements in accordance with PFRS for SMEs requires the management to make judgments that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities, at the end of the reporting period.



However, uncertainty about these judgments could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future years.

#### Judgments

In the process of applying accounting policies, management has made the following judgments, which has the most significant effect on the amounts recognized in the financial statements:

*Determination of Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Project, the functional currency has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Project operates. It is the currency that mainly influences the Project's revenues and expenses.

*Revenue.* CFSI assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. CFSI has concluded that it is acting as principal in all of its revenue arrangements.

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#### 4. Cash

This account consists of the following as of December 31, 2018:

	Philippine Peso	U.S. Dollar (Note 2)
Cash on hand	₱15,000	\$285
Cash in banks	27,663,396	526,120
	<u>₱27,678,396</u>	<u>\$526,405</u>

Interest income earned from cash in banks amounted to ₱17,193 (\$327) in 2018.

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#### 5. Other Current Assets

This account consists of the following as of December 31, 2018:

	Philippine Peso	U.S. Dollar (Note 2)
Project advances to:		
BDA	₱2,660,815	\$50,605
Project operations	116,386	2,214
	<u>₱2,777,201</u>	<u>\$52,819</u>

Project advances to BDA include personnel funds, training funds and operational funds under the MTF-RDP/2 grant agreement between CFSI and World Bank, which started on April 10, 2018 and ran until February 28, 2019. The project was extended until August 31, 2019. The advances also include funds for project operations of CFSI.



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**6. Community Service and Capacity Building Expenses**

	Philippine Peso	U.S. Dollar (see Note 2)
Community service and capacity building expenses	₱55,380,310	\$1,053,258
Trainings and workshops	1,864,819	35,467
Field transportation and travel	1,470,544	27,968
Vehicle rental	275,000	5,230
Communication	100,075	1,903
Field allowance of community volunteers	15,565	296
Materials and supplies	1,487	28
Repairs and maintenance	120	2
	<u>₱59,107,920</u>	<u>\$1,124,152</u>

Community service and capacity building expenses refer to costs directly benefiting the population and institutions in the conflict-affected communities in Mindanao.

Payments for work for twenty-two (22) socio-economic infrastructures (SEIs) in the six (6) camps were partially disbursed in 2018.

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**7. Professional, Technical and Other Consultancy Fees**

	Philippine Peso	U.S. Dollar (see Note 2)
Management fees (Note 8)	₱7,130,558	\$135,613
Consultancy fees - Capacity Building	6,940,810	132,005
Audit fee	360,600	6,858
	<u>₱14,431,968</u>	<u>\$274,476</u>

During 2018, CFSI continued to contract individual consultants to train BDA in camps activities, to assist them in their community activities and to ensure that BDA's human resources are properly supported. The consultants also assisted BDA in developing their Work and Financial Plans for the MTF-RDP/2 Project Partnership Agreement.

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**8. Related Party Transactions**

BDA received a total of ₱21,136,298 (\$401,984), ₱9,269,640 (\$176,296) and ₱2,127,852 (\$40,469) for allowances, operations and capacity trainings respectively, related to the MTF-RDP/2 in 2018.

The Project covers the management fee of CFSI for the overall supervision, monitoring and evaluation of operations of the Project. Management fees amounted to ₱7,130,558 (\$135,613) in 2018.

