Punongbayan & Araullo

Report of Independent Auditors

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The Board of Trustees
Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc.
(A Non-stock, Nonprofit Organization)
No. 69 Esteban Abada Street
Loyola Heights, Quezon City

Report on the Financial Statements

We have audited the accompanying financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc., which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, 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, 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.

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DATE: APR 07 20[illegible]

Auditors' 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc. as at December 31, 2010 and 2009, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2010 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 22 to the financial statements and the applicable supplementary Schedules I to IV of the Foundation as at December 31, 2010 and for the year then ended as required by the Securities and Exchange Commission, are presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 2641866, January 3, 2011, Makati City
Partner's SEC Accreditation No. 0628-AR-1 (until Aug. 25, 2013)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

March 8, 2011

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DATE: APR 07 2011

PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION, INC.
(A Non-stock, Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	4	**P 32,441,906**	P 28,395,057
Loans and receivables - net	5	**55,512,142**	57,763,133
Available-for-sale financial assets	6	**1,736,396,381**	1,497,813,077
Total Current Assets		**1,824,350,429**	1,583,971,267
NON-CURRENT ASSETS			
Loans and receivables - net	5	**61,105,662**	45,685,393
Property and equipment - net	7	**36,642,116**	38,307,521
Investment properties	8	**5,274,946**	4,845,789
Retirement benefit assets	14	**307,594**	353,070
Total Non-current Assets		**103,330,318**	89,191,773
TOTAL ASSETS		**P 1,927,680,747**	P 1,673,163,040
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	9	**P 1,876,778**	P 3,800,993
Grants payable	10	**12,083,051**	11,795,813
Funds held in trust	11	**125,302,140**	88,952,632
Total Current Liabilities		**139,261,969**	104,549,438
FUND BALANCES			
Restricted		**1,720,176,033**	1,544,682,563
Unrestricted		**68,242,745**	23,931,039
TOTAL FUND BALANCES		**1,788,418,778**	1,568,613,602
TOTAL LIABILITIES AND FUND BALANCES		**P 1,927,680,747**	P 1,673,163,040

See Notes to Financial Statements.

PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION, INC.

(A Non-stock, Nonprofit Organization)

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in Philippine Pesos)

	Notes	2010	2009
REVENUES, GAINS AND OTHER SUPPORTS			
Investment income	6	P 163,929,863	P 136,351,751
Interest income		6,045,239	9,590,105
Reversal of impairment losses - net	5	349,314	-
Others - net		1,099,900	1,318,668
		171,424,316	147,260,524
EXPENSES			
Grant expenses		25,487,887	23,356,767
Project expenses	12	24,532,818	23,693,643
Foreign exchange losses		16,273,839	9,172,688
General and administrative	13	11,812,970	9,096,687
Impairment losses	5	-	15,891,652
Depreciation	7	3,364,902	3,381,018
		81,472,416	84,592,455
EXCESS OF REVENUES OVER EXPENSES		89,951,900	62,668,069
OTHER COMPREHENSIVE INCOME			
Unrealized fair value gains	6	129,853,276	256,599,328
TOTAL COMPREHENSIVE INCOME		P 219,805,176	P 319,267,397

See Notes to Financial Statements.

PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION, INC.
(A Non-stock, Nonprofit Organization)
STATEMENTS OF CHANGES IN FUND BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

	Note	Unrestricted Fund: Members' Contribution	Unrestricted Fund: Cumulative Excess of Revenues over Expenses	Unrestricted Fund: Revaluation Reserve on Available-for-sale Financial Assets	Unrestricted Fund: Total Unrestricted	Restricted Fund	Total
Balance at January 1, 2010		**P 100,000**	**P 65,739,778**	**(P 41,908,739)**	**P 23,931,039**	**P 1,544,682,563**	**P 1,568,613,602**
Total comprehensive income for the year		**-**	**89,951,900**	**129,853,276**	**219,805,176**	**-**	**219,805,176**
Provision for cost of inflation	21	**-**	**(175,493,470)**	**-**	**(175,493,470)**	**175,493,470**	**-**
Balance at December 31, 2010		**P 100,000**	**(P 19,801,792)**	**P 87,944,537**	**P 68,242,745**	**P 1,720,176,033**	**P 1,788,418,778**
Balance at January 1, 2009		P 100,000	P 229,382,578	(P 298,508,067)	(P 69,025,489)	P 1,318,371,694	P 1,249,346,205
Total comprehensive income for the year		-	62,668,069	256,599,328	319,267,397	-	319,267,397
Provision for cost of inflation	21	-	(226,310,869)	-	(226,310,869)	226,310,869	-
Balance at December 31, 2009		P 100,000	P 65,739,778	(P 41,908,739)	P 23,931,039	P 1,544,682,563	P 1,568,613,602

See Notes to Financial Statements.

PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION, INC.

(A Non-stock, Nonprofit Organization)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in Philippine Pesos)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses		P 89,951,900	P 62,668,069
Adjustments for:			
Investment income	6	(163,929,863)	(136,351,751)
Unrealized foreign exchange losses		10,366,746	9,172,688
Interest income		(6,045,239)	(9,590,105)
Depreciation	7	3,428,404	3,471,819
Reversal of impairment losses - net	5	(349,314)	-
Impairment losses	5	-	15,891,652
Loss (gain) on disposal of property and equipment	7	31,734	(204,165)
Operating loss before working capital changes		(66,545,632)	(54,941,793)
Decrease (increase) in loans and receivables		(13,177,819)	32,928,828
Increase in available-for-sale financial assets		(119,096,774)	(142,861,458)
Decrease (increase) in retirement benefit asset		45,476	(197,544)
Decrease in accounts payable and accrued expenses		(1,924,215)	(2,431,892)
Increase (decrease) in grants payable		287,238	(6,290,016)
Increase in funds held in trust		36,349,508	160,242
Net Cash Used in Operating Activities		(164,062,218)	(173,633,633)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment and interest income received		169,975,102	145,941,856
Acquisitions of property and equipment	7	(1,814,588)	(4,633,405)
Increase in investment property		(71,302)	-
Proceeds from sale of property and equipment	7	19,855	289,243
Net Cash From Investing Activities		168,109,067	141,597,694
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,046,849	(32,035,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	28,395,057	60,430,996
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	P 32,441,906	P 28,395,057

Supplemental Information on Noncash Operating and Investing Activities

In 2010, additions to investment properties in settlement of loans and receivables amounted to P357,855.

See Notes to Financial Statements.

PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION, INC.
(A Non-stock, Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc. (the Foundation or PEF) was formed by the Caucus of Development NGO Networks (CODE-NGO) and incorporated on November 27, 2001. It is governed by a Board of Trustees whose members do not receive any compensation.

The purpose of PEF is to provide financial, managerial, technical and policy assistance to non-governmental organizations (NGOs), people's organizations, community associations, social entrepreneurs, educational and research institutions, cooperatives and other similar groups or corporations in their effort to reduce or totally eliminate poverty, by increasing the entitlements of the poor in a sustained manner, through the distribution of resources and provision of public goods and by raising the level and quality of social services, thereby empowering them to improve their socio-economic condition and to participate in community and civic affairs. The Foundation's new strategic direction is to enable Civil Society Organizations (CSO) and other partner-intermediaries to develop and innovate on best practices and models using a social enterprise approach. The Foundation will engage other stakeholders (government, business and academe) in leveraging resources and technologies to replicate and scale up models that work for sustainable communities and enterprises.

On February 14, 2003, CODE-NGO executed a deed of donation in favor of the Foundation, to transfer and convey, an endowment fund in trust of P1.3 billion, the principal amount, plus interest less expenses incurred by the Foundation from October 18, 2001 up to December 31, 2002. The amount advanced from the fund relative to the acquisition of a property (lot with office building currently being used as office site) was also included in the donation granted to the Foundation. The fund represents a portion of the net proceeds earned by CODE-NGO from the sale of Poverty Eradication and Alleviation Certificates (PEACE bonds) in the capital market. As agreed between the Foundation and CODE-NGO, only the earnings of the principal fund shall be utilized for poverty alleviation and development projects, general administrative expenses or acquisition of assets necessary for the furtherance of the Foundation's objectives.

The Foundation reports the income earned and expenses incurred pertaining to the fund under unrestricted activities. Accordingly, the excess of revenues over expenses for the years ended December 31, 2010 and 2009 of P90.0 million and P62.7 million, respectively, were transferred to the unrestricted fund in accordance with the agreement with CODE-NGO.

The Foundation's registered office, which is also its principal place of business, is located at No. 69 Esteban Abada Street, Loyola Heights, Quezon City.

The financial statements of the Foundation for the year ended December 31, 2010 (including the comparatives for the year ended December 31, 2009) were authorized for issue by the Foundation's Board of Trustees on March 8, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Foundation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Foundation presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Foundation applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Foundation's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Foundation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Foundation operates.

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) *Effective in 2010 that are Relevant to the Foundation*

In 2010, the Foundation adopted the 2009 Annual Improvements to PFRS adopted by the FRSC. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Foundation's financial statements but which did not also have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Foundation as cash flow from investing activities.

- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Foundation is the principal in all of its business undertakings.

(b) *Effective in 2010 but not Relevant to the Foundation*

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Foundation's financial statements:

PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Group Cash-settled Share-based Payment Transactions
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 9	:	Embedded Derivatives – Amendments to IFRIC 9 and PAS 39
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Foundation will apply in accordance with their transitional provisions, to be relevant to its financial statements.

(i) PAS 12 (Amendment), *Income Taxes* (effective from January 1, 2012). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, *Investment Property,* it can be difficult and subjective to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made. The amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, Philippine Interpretation SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in Philippine Interpretation SIC-21, which is accordingly withdrawn. As of December 31, 2010, management is still evaluating the effect of this amendment to the Foundation's financial statements.

(ii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19, *Employee Benefits*, surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because it does not usually make substantial advance contributions to its retirement fund.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Foundation believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Foundation usually provides adequate information in its financial statements in compliance with disclosure requirements.

(iii) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

- Phase 1: Classification and Measurement
- Phase 2: Impairment Methodology
- Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being developed.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Foundation. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Foundation expects it can comprehensively assess the impact of the revised standard.

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2010* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PFRS 3 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Foundation's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

2.3 Financial Assets

Financial assets are recognized when the Foundation becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

A more detailed description of the foregoing categories of financial assets applicable to the Foundation follows:

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Foundation provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Foundation will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

The Foundation's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents and Loans and Receivables in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(b) *Available-for-sale Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. This includes various funds held in trust by various fund managers which were invested to different financial assets such as special deposit accounts, debt and equity securities, unit investment trust funds and mutual funds.

All available-for-sale financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Impairment losses and the related reversal are recognized in profit or loss.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Investment Income in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.4 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	10-25 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	3-5 years

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 (see Note 2.11).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.5 Investment Properties

Investment property, accounted for under the fair value model, is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured initially at acquisition cost, including transaction costs. Subsequently, investment property is stated at fair value as determined by independent appraisers on an annual basis. The carrying amounts recognized in the statement of financial position reflect the prevailing market conditions at the end of each reporting period.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is recognized in the statement of comprehensive income in the year of retirement or disposal.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.6 Financial Liabilities

Financial liabilities include accounts payable and accrued expenses, grants payable and funds held in trust, which are measured at amortized cost using the effective interest rate method.

Financial liabilities are recognized when the Foundation becomes a party to the contractual terms of the instrument.

Grants payable represents unreleased and committed grants to project proponents.

Grants received for specific projects are initially recognized as liabilities to the donors at the time the funds are received. These grants are recognized as revenue at the time project related expenses are incurred. The excess of grants received over expenses incurred are shown as Fund Held in Trust, a liability account in the statement of financial position.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.7 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. 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. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Foundation that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Foundation can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Foundation; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Investment income* – Investment income, which principally consist of gain on sale of investments, interest income and other income, are recognized when earned.

(b) *Interest income on loans and receivables* – This is recognized for all financial assets measured at amortized cost using the effective interest method.

(c) *Interest income on bank deposits* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(d) *Revenue from restricted support* – Revenue from restricted support, including government grants, is recognized upon fulfillment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred. For presentation purposes, the related expenses are offset against the revenue. At project completion date, any excess funds are returned to the donors unless otherwise agreed by both parties that the excess be retained by the Foundation and therefore credited to unrestricted support.

Grants, project development, monitoring and other expenses are recognized in the statement of comprehensive income at the date they are incurred.

2.9 Leases

Leases which do not transfer to the Foundation substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2.10 Foreign Currency Transactions

The accounting records of the Foundation are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

2.11 Impairment of Non-financial Assets

The Foundation's property and equipment are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro rata to the other assets in the cash-generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.12 Employee Benefits

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Foundation, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Foundation's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-employment 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.

A defined contribution plan is a post-employment plan under which the Foundation pays fixed contributions into an independent entity. The Foundation has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(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: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting period are discounted to present value.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Accounts Payable and Accrued Expenses account in the statement of financial position at the undiscounted amount that the Foundation expects to pay as a result of the unused entitlement.

2.13 Fund Balances

Members' contribution pertains to the contributions made by the members of the Foundation upon incorporation. The members' contribution is not available for distribution.

Cumulative excess of revenues over expenses includes all current and prior period results as disclosed in the statement of comprehensive income.

Revaluation reserves comprise unrealized fair value gains and losses due to the revaluation of available-for-sale financial assets.

Unrestricted fund accounts for all resources of the Foundation which are not subject to outside restrictions and is used for day-to-day operations.

Restricted fund is used only in accordance with a donor or grantor's specifications. Included in this account is the provision for inflation computed at 3% per year based on the beginning balance of the restricted fund balance.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Foundation's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ ultimately from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Foundation's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of Available-for-sale Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Foundation evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Foundation's available-for-sale financial assets, management concluded that the assets are not impaired as of December 31, 2010 and 2009. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Distinction Between Investment Properties and Owner-occupied Properties

The Foundation determines whether a property qualifies as investment property. In making its judgment, the Foundation considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Foundation accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Foundation considers each property separately in making its judgment.

(c) Operating and Finance Leases

The Foundation has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Useful Lives of Property and Equipment*

The Foundation estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 7. Based on management's assessment as at December 31, 2010, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(b) *Allowance for Impairment of Loans and Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Foundation evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Foundation's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

Reversal of impairment losses amounted to P11.0 million in 2010 (nil in 2009), while provision for impairment losses amounted to P10.7 million in 2010 and P15.9 million in 2009. The Foundation has written-off P7.4 million and P0.7 million long outstanding advances to proponents including impaired interest receivables in 2010 and 2009, respectively (see Note 5).

(c) *Valuation of Financial Assets Other than Loans and Receivables*

The Foundation carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Foundation utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

Fair value gain on available-for-sale financial assets of P129.9 million and P256.6 million in 2010 and 2009, respectively, is reported in the statements of comprehensive income. The carrying values of the assets are disclosed in Notes 6.

(d) *Impairment of Non-financial Assets*

The Foundation's policy on estimating the impairment of non-financial assets is discussed in Note 2.11. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses recognized on the Foundation's non-financial assets in 2010 and 2009.

(e) *Retirement and Other Benefits*

The determination of the Foundation's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The present value of the retirement benefit obligation amounted to P75,162 and P2.2 million as of December 31, 2010 and 2009, respectively, while fair value of plan assets as of those dates amounted to P1.6 million and P2.7 million, respectively (see Note 14).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	Note	2010	2009
Cash on hand and in banks		**P 21,341,906**	P 12,095,057
Short-term placements	11.1	**11,100,000**	16,300,000
		P 32,441,906	P 28,395,057

The cash in banks includes restricted donor funds of P17.1 million in 2010 and P4.7 million in 2009.

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 31 to 90 days and earn effective interest rates ranging from 2.87% to 3.75% in 2010 and 1.00% to 5.00% in 2009.

5. LOANS AND RECEIVABLES

Loans and receivables as at December 31 consist of:

	2010	2009
Current:		
Advances to project proponents (Schedule 1)	**P 74,212,761**	P 78,932,186
Accrued interest	**3,420,683**	3,267,955
Prepayments and other current assets	**344,063**	1,430,856
Receivable from donor-funded projects	**150,183**	1,594,563
Others	**1,261,661**	1,338,814
	79,389,351	86,564,374
Allowance for impairment	**(23,877,209)**	(28,801,241)
	55,512,142	57,763,133
Non-current:		
Advances to project proponents (Schedule 1)	**61,968,632**	49,170,909
Others	**30,770**	40,771
	61,999,402	49,211,680
Allowance for impairment	**(893,740)**	(3,526,287)
	61,105,662	45,685,393
	P 116,617,804	P 103,448,526

Advances to project proponents represent releases to project proponents subject to repayment for micro-finance, micro-enterprise, agricultural development, housing and proactive projects. These advances earn annual interest rates of 6% to 12% to cover administrative costs of servicing the projects except for soft loans, which earn 3% interest annually. Rebate rates of 1% to 6% are given as incentive for prompt payments. Rebates to proponents is presented as part of Project Expenses in the statements of comprehensive income. Financial advances extended to micro-enterprise, housing and other projects involving acquisition of assets are secured with real and chattel mortgages and/or joint security.

The net carrying amount of loans and receivables is considered a reasonable approximation of their fair values.

All of the Foundation's loans and receivables have been reviewed for indicators of impairment. Certain loans and receivables were found to be impaired and provisions have been recorded accordingly. The impaired loans are mostly due from partner organizations that experienced defaults of loan payments from their clients.

A reconciliation of the allowance for impairment at the beginning and end of 2010 and 2009 is shown below.

	Note	**2010**	2009
Balance at beginning of year		**P 32,327,528**	P 17,176,056
Impairment loss during the year	3.2	**11,011,778**	15,891,652
Reversals	3.2	**(11,188,255)**	-
Write-off	3.2	**(7,380,102)**	(740,180)
Balance at end of year		**P 24,770,949**	P 32,327,528

The 2010 total impairment loss and reversals include the following:

	CBRED*	MP3**	PCTAM***
Impairment loss during the year	P 114,439	P 246,352	P 16,730
Reversals	(125,000)	(46,224)	-
	(P 10,561)	P 200,128	P 16,730

**CBRED – Capacity Building to Remove Barriers to Renewable Energy Development in the Philippines*
***MP3 – Mindanao Partnership Project for Peace*
****PCTAM – Philippine Center for Traditional and Asian Medicine, Inc.*

The amount of reversal of impairment loss in the 2010 statement of comprehensive income is determined as follows:

Impairment loss during the year	P 11,011,778
Reversal	(11,188,255)
	(176,477)
CBRED	10,561
MP3	(200,128)
PCTAM	16,730
Reversal of impairment losses – net	(P 349,314)

The reversal and impairment loss for CBRED and MP3, respectively, were excluded from the determination of reversal of impairment losses in the statements of comprehensive income since these are presented net of funds held in trust account in the statements of financial position. On the other hand, the impairment loss for PCTAM pertains to the portion of its advances to proponents directly written-off in 2010, which was not fully covered by the allowance provided in 2009.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets held by the following financial managers at December 31 consist of:

	Note	**2010**	2009
ING Bank, N.Y. (ING)			
PEACE:			
Corporate bonds		**P 188,486,172**	P 313,998,880
Equity securities		**156,122,969**	248,270,402
Unit investment trust fund (UITF)		**210,880,671**	134,829,344
Special savings account		**118,395,449**	114,735,463
Republic of the Philippines (ROP) sovereign bonds		**-**	28,236,103
Loans		**-**	12,149,995
		673,885,261	852,220,187
DOE/UNDP (CBRED)*:	11.2		
UITF		**16,931,451**	15,687,110
Special savings account		**5,580**	5,753
		16,937,031	15,692,863
Subtotal (balance carried forward)		**P 690,822,292**	P 867,913,050

**DOE/UNDP – Department of Energy / United Nation Development Programme*

	2010	2009
Subtotal (balance brought forward)	**P 690,822,292**	P 867,913,050
Asia United Bank (AUB)		
Special savings account	**214,021,845**	220,562,103
Treasury notes	**58,855,282**	54,670,993
Equity securities	**57,876,837**	41,854,313
UITF	**20,435,722**	17,530,486
Corporate bonds	**10,000,000**	10,000,000
	361,189,686	344,617,895
Banco De Oro (BDO)		
Special savings account	**75,337,839**	62,339,132
Equity securities	**19,452,200**	-
ROP bonds and treasury notes	**135,678,483**	148,203,531
	230,468,522	210,542,663
BDO Private Bank		
Special savings account	**32,041,600**	-
Corporate bonds	**83,560,939**	-
	115,602,539	-
Bank of the Philippine Islands (BPI)		
Special savings account	**2,917,274**	-
ROP bonds and treasury notes	**149,320,474**	-
Equity securities	**69,614,890**	-
UITF	**16,844,310**	-
Mutual funds	**9,268,029**	-
	247,964,977	-
Others		
Investment in Equity Projects (see Schedule 3)	**69,552,365**	59,143,469
Special savings account	**20,796,000**	15,596,000
	90,348,365	74,739,469
	P1,736,396,381	P1,497,813,077

Investment in Equity Projects include National Cooperative Movement Fund of the Philippines, Inc. of Philam Asset Management Inc. with the following details:

		2010		2009
Balance at beginning of year	P	28,991,925	P	25,000,000
Contribution		552,304		-
Realized investment gains		-		3,504,396
Unrealized fair value gains - net		6,275,767		487,529
Balance at end of year	P	35,819,996	P	28,991,925

The Foundation pays ING, AUB, BDO, BDO Private Bank and BPI an annual service fee of 0.25% based on the average market value of the fund.

The reconciliation of the carrying amounts of available-for-sale financial assets as of December 31 follows:

A. ING

		2010		2009
Balance at beginning of year	P	867,913,050	P	738,823,981
Realized investment gains		109,883,053		105,376,067
Disposals/withdrawals	(	375,083,330)	(	203,634,104)
Unrealized fair value gains - net		99,242,040		230,868,370
Foreign currency losses	(	11,132,521)	(	3,521,264)
Balance at end of year	P	690,822,292	P	867,913,050

B. AUB

		2010		2009
Balance at beginning of year	P	344,617,895	P	303,681,522
Realized investment gains		20,289,477		17,949,516
Disposals/withdrawals	(	12,500,000)		-
Unrealized fair value gains - net		8,782,314		22,986,857
Balance at end of year	P	361,189,686	P	344,617,895

C. BDO

		2010		2009
Balance at beginning of year	P	210,542,663	P	-
Contributions/deposits		-		203,251,643
Realized investment gains		21,464,802		12,984,729
Unrealized fair value gains - net		4,207,156		305,550
Foreign currency losses	(	5,746,099)	(	5,999,259)
Balance at end of year	P	230,468,522	P	210,542,663

D. BDO Private Bank*

	2010	2009
Balance at beginning of year	**P -**	P -
Contributions/deposits	**105,265,133**	-
Realized investment gains	**5,195,354**	-
Unrealized fair value gains - net	**5,338,896**	-
Foreign currency losses	**(196,844)**	-
Balance at end of year	**P 115,602,539**	P -

**The peso and US dollars trust fund accounts were opened on June 23, 2010.*

E. BPI**

	2010	2009
Balance at beginning of year	**P -**	P -
Contributions/deposits	**235,000,000**	
Realized investment gains	**4,912,201**	-
Unrealized fair value gains - net	**8,052,776**	-
Balance at end of year	**P 247,964,977**	P -

***The trust fund account in peso was opened on June 1, 2010.*

F. Deutsche Bank

	2010	2009
Balance at beginning of year	**P -**	P 9,967,186
Realized investment losses	**-**	(4,674,923)
Disposals/withdrawals	**-**	(10,233,183)
Unrealized fair value gains - net	**-**	4,948,774
Foreign currency losses	**-**	(7,854)
Balance at end of year	**P -**	P -

The balance of net unrealized fair value gains recognized in 2010 and 2009 is shown below.

	2010	2009
Total unrealized fair value gains - net	**P 131,898,949**	P 259,597,080
ING CBRED closed to fund held in trust	**(2,045,673)**	(2,997,752)
Total fair value gains reported in statements of comprehensive income	**P 129,853,276**	P 256,599,328

Special savings accounts have annual interest rates ranging from 0.25% to 3.75% in 2010 and 0.25% to 4.50% in 2009. Equity securities mainly consist of investment in companies listed in the Philippine Stock Exchange.

Corporate bonds include those issued by universal banks, property and telecommunication companies. These earn annual interest rates ranging from 4.90% to 9.88% in 2010 and 3.30% to 9.63% in 2009.

ROPs and treasury notes (Fixed Rate Treasury Notes) earn annual interest rates ranging from 3.60% to 10.63% in 2010 and 5.25% to 17.00% in 2009.

UITFs include placements on ING, AUB and BPI's own funds.

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation of property and equipment at the beginning and end of 2010 and 2009 are shown below.

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
December 31, 2010					
Cost	P 22,124,434	P 19,181,544	P 4,236,952	P 9,110,090	P 54,653,020
Accumulated depreciation	-	(7,059,980)	(2,498,446)	(8,452,478)	(18,010,904)
Net carrying amount	**P 22,124,434**	**P 12,121,564**	**P 1,738,506**	**P 657,612**	**P 36,642,116**
December 31, 2009					
Cost	P 22,115,809	P 18,811,818	P 3,019,532	P 9,995,905	P 53,943,064
Accumulated depreciation	-	(5,159,057)	(1,845,300)	(8,631,186)	(15,635,543)
Net carrying amount	P 22,115,809	P 13,652,761	P 1,174,232	P 1,364,719	P 38,307,521
January 1, 2009					
Cost	P 22,115,809	P 14,466,404	P 4,087,167	P 9,763,531	P 50,432,911
Accumulated depreciation	-	(3,701,186)	(2,141,933)	(7,358,779)	(13,201,898)
Net carrying amount	P 22,115,809	P 10,765,218	P 1,945,234	P 2,404,752	P 37,231,013

A reconciliation of the carrying amounts at the beginning and end of 2010 and 2009, of property and equipment is shown below.

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Balance at January 1, 2010, net of accumulated depreciation	P 22,115,809	P 13,652,761	P 1,174,232	P 1,364,719	P 38,307,521
Additions	8,625	369,726	1,234,170	202,067	1,814,588
Disposals	-	-	(10,701)	(40,888)	(51,589)
Depreciation charges for the year	-	(1,900,923)	(659,195)	(868,286)	(3,428,404)
Balance at December 31, 2010, net of accumulated depreciation	**P 22,124,434**	**P 12,121,564**	**P 1,738,506**	**P 657,612**	**P 36,642,116**
Balance at January 1, 2009, net of accumulated depreciation	P 22,115,809	P 10,765,218	P 1,945,234	P 2,404,752	P 37,231,013
Additions	-	4,345,414	40,266	247,725	4,633,405
Disposals	-	-	(79,578)	(5,500)	(85,078)
Depreciation charges for the year	-	(1,457,871)	(731,690)	(1,282,258)	(3,471,819)
Balance at December 31, 2009, net of accumulated depreciation	P 22,115,809	P 13,652,761	P 1,174,232	P 1,364,719	P 38,307,521

Proceeds and gain (loss) on disposal of certain transportation and office equipment amounted to P19,855 and (P31,734), respectively, in 2010 and P289,243 and P204,165, respectively, in 2009.

Total depreciation expense above includes depreciation charges of property and equipment acquired through funds held in trust which amounted to P63,502 and P90,801 in 2010 and 2009, respectively. Such amounts were excluded from the determination of depreciation expense in the statements of comprehensive income since these are presented net of funds held in trust account in the statements of financial position.

8. INVESTMENT PROPERTIES

The Foundation's investment properties include parcels of lands foreclosed by the Foundation when the borrowers were unable to settle their loans. Real estate tax amounting to P10,545 and P11,962 was recognized as a related expense in 2010 and 2009, respectively.

The changes in the carrying amounts presented in the statements of financial position can be summarized as follows:

	2010	2009
Balance at beginning of year	**P 4,845,789**	P 4,845,789
Additions	**429,157**	-
Balance at end of year	**P 5,274,946**	P 4,845,789

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account includes the following:

	2010	2009
Accrued expenses	**P 1,575,087**	P 2,674,757
Accounts payable	**301,691**	1,126,236
	P 1,876,778	P 3,800,993

Management considers the carrying amounts of accounts payable and accrued expenses recognized in the statement of financial position to be a reasonable approximation of their fair values.

10. GRANTS PAYABLE

The account represents unreleased and committed grants to project proponents (see Schedule 2) and will be released upon compliance with the conditions as set forth in the project agreement.

11. FUNDS HELD IN TRUST

This account includes the following:

	2010	2009
Catholic Organization for Relief and Development Agency for International Development (CORDAID)		
MP3		
Cumulative amount received	**P 64,075,833**	P 62,706,942
Cumulative net profit	**4,773,734**	2,230,325
Balance at end of year	**68,849,567**	64,937,267
Ondoy-Pepeng Rehabilitation Project		
Amount received	**29,931,808**	-
Net profit	**303,352**	-
Balance at end of year	**30,235,160**	-
Disaster Risk Reduction Project (DRR)		
Amount received	**883,519**	-
Cumulative expenses	**(617,255)**	-
Balance at end of year	**266,264**	-
	99,350,991	64,937,267
DOE/UNDP		
CBRED		
Amount received	**26,592,930**	26,592,930
Cumulative comprehensive net loss	**(1,269,625)**	(2,577,565)
Balance at end of year	**25,323,305**	24,015,365
World Health Organization (WHO)/ Department of Health (DOH)		
Amount received	**927,800**	-
Cumulative expenses	**(344,446)**	-
Balance at end of year	**583,354**	-
The Coca-Cola Foundation (Coca-Cola)		
Amount received	**5,148,490**	4,448,490
Cumulative expenses	**(5,104,000)**	(4,448,490)
Balance at end of year	**44,490**	-
	P 125,302,140	P 88,952,632

Details of the above funds are fully discussed as follows:

11.1 CORDAID

In June 2007, the Foundation availed a 5-year P80 million loan fund from CORDAID, Netherlands and was awarded a grant amounting to EUR 70,696. Such fund shall be used for a five-year micro-finance fund program tagged as MP3 that will focus in providing credit assistance and institutional support to eligible borrowers. The available funds have been invested as part of the short-term placements (see Note 4). The Foundation withdraws from this investment to fund the approved projects. At the end of five years, PEF will return to CORDAID the nominal peso value of the entire principal that it has received less any loan write-offs, if any. The net income at the end of the program will be shared 80%-20% by CORDAID and PEF, respectively. The expected completion date of the program is in 2012.

In 2009, the Foundation received a grant from CORDAID amounting to EUR 13,330 for DRR project that supports the implementation of mitigation measures that will prepare partners to reduce risks and manage disasters. The project aims to increase the knowledge and capacities of its partners in disaster risk management and climate change.

In 2010, the Foundation once again partnered with CORDAID for a 5-year EUR 1.5 million loan fund and was awarded a grant amounting to EUR 8,007. Out of the total loan fund, only EUR 525,000 was received during the year, while the grant fund was already obtained in full. The project Ondoy-Pepeng Rehabilitation fund seeks to provide a meaningful contribution to the rebuilding of livelihoods of families affected by the Ondoy and Pepeng typhoons. It is also expected that the project will document best practices in providing financing and development assistance to partners and households who are victims of calamities.

11.2 DOE and UNDP

In October 2006, the Foundation was awarded a grant amounting to $535,500 (P26,746,032) by the Global Environment Facility through UNDP and DOE for the CBRED project. Such grant shall be used to fund micro-finance intermediaries for re-lending to small-scale projects focusing on expanding renewable energy. The proceeds have been invested as part of the Available-for-sale Financial Assets account in the statements of financial position (see Note 6).

11.3 WHO

In August 2010, the Foundation was awarded a grant amounting to P1.9 million by the WHO. Out of the total grant awarded, the actual amount received by the Foundation during the year amounted to P927,800. Such grant shall be used for the development and production of Philippine Prevalence Map on the Neglected Tropical Diseases and Malaria. Releases of the funds are in tranches subject to the submission of Focus Group Discussion results, technical and liquidation reports.

11.4 Coca-Cola

In December 2008, the Foundation was awarded a grant amounting to $65,278 (P3,048,490) by The Coca-Cola Foundation, Atlanta Georgia, USA. Such fund shall be used to provide potable water to the residents of San Jose Municipality in the province of Romblon through the installation of rain water harvester and biosand filters which will help develop the watershed in the said municipality. In 2010 and 2009, the Foundation received additional funds amounting to P700,000 and P1,400,000, respectively, to implement the project, "Construction of Rainwater Harvesting Cisterns for the Municipality of Carlos P. Garcia, Bohol Province". The funds were already paid to the Foundation's partners namely Bol-anon United Sector Working for the Advancement of Community Concerns and Alliance of Romblon Poverty Alleviation Developmentalists, Inc. The project was completed on December 12, 2010. The remaining unexpended funds of P44,490 is to be returned to the donor.

12. PROJECT EXPENSES

The breakdown of this account is as follows:

	Notes	**2010**	2009
Project development, monitoring and evaluation (PDME)	14	**P 17,817,043**	P 13,409,687
Knowledge management		**2,116,972**	405,125
Project support		**1,419,390**	1,739,328
Strategic evaluation		**1,109,300**	2,518,953
Institutional support		**769,198**	884,750
CORDAID related expenses		**460,123**	164,293
Research and management information system		**326,727**	266,084
CBRED related expenses	11, 14	**324,111**	246,372
Rebates to proponents		**189,954**	4,059,051
		P 24,532,818	P 23,693,643

13. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are shown below.

	Note	**2010**	2009
Employee benefits	14	**P 6,795,031**	P 4,971,069
Supplies, services and other operating costs		**3,551,055**	3,138,722
Outside services		**1,267,834**	869,185
Transportation and travel		**199,050**	117,711
		P 11,812,970	P 9,096,687

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Notes	2010	2009
Salaries and wages	12, 13	**P 7,870,794**	P 9,616,527
Separation pay		**6,996,970**	-
Bonuses		**1,732,810**	974,180
Social security costs		**1,033,637**	1,009,512
De minimis benefits		**858,292**	954,750
Compensated absences		**620,005**	391,207
Retirement – defined benefit plan		**308,771**	340,762
		P 19,421,279	P 13,286,938

This account includes the salaries and employee benefits of the regional personnel who are involved in the project development, which is presented as part of the PDME project expense, and of the officers responsible for the implementation of the CBRED project reported as part of total project expenses (see Note 12).

Total personnel cost related to PDME and CBRED as of December 31 are as follows:

	Note	2010	2009
PDME	12	**P 12,626,248**	P 8,077,897
CBRED	12	**-**	237,972
		P 12,626,248	P 8,315,869

During the year, the Foundation has decided to change its organizational structure in line with the changes in their strategic direction. Due to this, some employees were laid off due to the redundancy in the position and the Foundation paid separation pay amounting to P6,996,970 in 2010.

14.2 Post-employment Benefits

The Foundation maintains a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular and full-time employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

The amounts of net retirement benefit assets in the statements of financial position are determined as follows:

		2010		2009
Present value of the obligation	P	75,162	P	2,159,039
Fair value of plan assets	(	1,603,650)	(	2,688,132)
Excess of plan assets	(	1,528,488)	(	529,093)
Unrecognized actuarial gains		5,281		176,023
Amount not recognized as asset due to limit		1,215,613		-
	(P	307,594)	(P	353,070)

The movements in the present value of the retirement benefit obligation recognized in the books follow:

		2010		2009
Balance at beginning of year	P	2,159,039	P	1,696,589
Current service cost and interest cost		253,165		462,450
Actuarial losses		84,927		
Benefits paid by the plan	(	1,230,998)		-
Settlement/curtailment gain	(	1,190,971)		-
Balance at end of year	P	75,162	P	2,159,039

The movement in the fair value of plan assets is presented below.

		2010		2009
Balance at beginning of year	P	2,688,132	P	2,028,139
Contributions paid into the plan		263,295		538,305
Benefits paid by the plan	(	1,230,998)		
Actuarial losses	(	249,036)		
Expected return on plan assets		132,257		121,688
Balance at end of year	P	1,603,650	P	2,688,132

The plan assets consist of the following:

		2010		2009
Investment in BDO Merit Fund – UITF	P	1,601,107	P	2,313,803
Savings deposit		2,543		374,329
	P	1,603,650	P	2,688,132

The amounts of post-employment benefits expense recognized in profit or loss follows:

	2010	2009
Current service costs	**P 15,671**	P 275,825
Interest costs	**237,494**	186,625
Expected return on plan assets	**(132,257)**	(121,688)
Net actuarial loss recognized during the year	**333,963**	-
Effect of asset limit	**1,215,613**	-
Effect of settlement/curtailment	**(1,361,713)**	-
	P 308,771	P 340,762

The movements in the retirement benefit assets recognized in the books are as follows:

	2010	2009
Balance at beginning of year	**(P 353,070)**	(P 155,527)
Expense recognized	**308,771**	340,762
Contributions paid	**(263,295)**	(538,305)
Balance at end of year	**(P 307,594)**	(P 353,070)

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and excess or deficit in the plan, as well as experienced adjustments arising on plan assets and liabilities.

	2010	2009	2008	2007	2006
Present value of obligation	**P 75,162**	P2,159,039	P1,696,589	P1,629,837	P1,143,560
Fair value of plan assets	**1,603,650**	2,688,132	2,028,139	1,455,297	1,244,854
Deficiency (excess) in the plan	**(P1,528,488)**	(P 529,093)	(P 331,550)	P 174,540	(P 101,294)
Experience adjustments arising on plan liabilities*	**P 249,036**	P -	P 142,475	P -	P -
Experience adjustments arising on plan assets*	**P 16**	P -	P 7	P -	P -

* *Information for 2009, 2007 and 2006 are not available.*

For determination of the retirement benefit obligation, the following actuarial assumptions were used:

	2010	2009
Discount rates	**7.93%**	11.00%
Expected rate of return on plan assets	**6.00%**	6.00%
Expected rate of salary increases	**3.50%**	3.50%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy is at the age of 65.

The overall expected long-term rate of return on assets is 6%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

15. TAXES

The Foundation is a non-stock, nonprofit private foundation, organized and operated exclusively for providing financial, managerial, technical assistance to proponents of poverty alleviation and development projects. It is exempt from income tax pursuant to Section 30 of the Tax Reform Act of 1997 (R.A. 8424). However, income derived from its properties, real or personal, or from any of its activities conducted for profit regardless of the disposition made of such income, is subject to tax.

On December 23, 2004, the Bureau of Internal Revenue (BIR) issued to the Foundation a five-year certification of registration in accordance with Revenue Regulations No. 13-98. This certification allows the Foundation certain incentives such as: (a) full or limited deduction by the donors of their donation, grants, and contributions pursuant to Section 34(H) of the Tax Code; and (b) exemption from donor's tax pursuant to Section 101 of R.A. 8424. The certification issued by the BIR is subject to the representation and commitments set forth in the accreditation issued to the Foundation by the Philippine Council for NGO Certification (PCNC) on October 27, 2004.

On January 22, 2008, BIR issued Revenue Memorandum Circular (RMC) No. 14-2008 which states that the above-mentioned Certificate of Accreditation issued by PCNC prior to November 15, 2007 will be valid only until March 31, 2008. Accordingly, holders of the said certificates are directed to renew their accreditation with the proper accrediting government entity on or before the said date. This circular was issued pursuant to Executive Order (EO) No. 671, as circularized under RMC No. 88-2007 which lists in detail the government agencies designated as accrediting entities that will certify and accredit charitable organizations as donee-institutions relative to the deductibility and exemption from donor's tax of contributions or gifts received by them pursuant to the Sections 34 and 101, respectively, of the Tax Code, as amended.

This order was repealed by Executive Order No. 720, where PCNC has the function of accrediting donee institutions. Further, no corporations, associations, or non-governmental organization (NGO) shall be processed by the PCNC unless it has secured a valid registration with the government agency that exercises regulatory functions over such corporation, association or NGO. As of report date, the Foundation's application for renewal of accreditation with PCNC is in progress.

As required by the standards, the Foundation is supposed to recognize deferred tax assets or liabilities for the tax effects of temporary differences arising from net operating loss carry over and the unrealized foreign exchange gain and/or losses on the Foundation's incidental taxable activities. However, since the Foundation does not expect to be in a taxable position in the future relative to its incidental taxable activities, recognition of the deferred tax assets in the books has not been made in the accounts for the years ended December 31, 2010 and 2009.

16. RELATED PARTY TRANSACTIONS

The compensation of key management personnel is broken down as follows:

		2010		2009
Salaries and wages	P	3,499,525	P	4,656,793
Employee benefits		1,462,241		1,085,758
	P	4,961,766	P	5,742,551

17. COMMITMENT AND CONTINGENCIES

17.1 Leases

The Foundation has renewed its lease contracts under non-cancelable operating leases covering its office spaces in Cebu City and Zamboanga City effective January 1, 2009. The leases have terms ranging from four to six months, with renewal options. The future minimum rentals payable within one year under these non-cancelable operating leases amounted to P50,000 as of December 31, 2009 (nil in 2010).

Rent expenses on the lease agreements amounted to P50,000 and P121,600 in 2010 and 2009, respectively, and is included as part of Project Expenses in the statements of comprehensive income.

17.2 Guarantee Agreement

On October 21, 2008, the Foundation entered into a guarantee agreement where the Foundation is the guarantor for the account of Pinoy ME Foundation, Inc., the borrower, with Development Bank of the Philippines as the lender.

The Foundation guarantees, without the benefit of excussion, the payment of up to eighty percent of the outstanding loans availed by Pinoy ME Foundation, Inc. The outstanding payable of Pinoy ME Foundation Inc. is P52,228,188 and P51,928,877 in 2010 and 2009, respectively.

Pinoy ME Foundation, Inc. pays the Foundation a guarantee fee of one and a half percent (1.5%) per annum, based on the outstanding balance of the loan guaranteed. The Foundation earns income from guarantee fee, net of output value-added tax (VAT), amounting to P697,743 and P276,487 in 2010 and 2009, respectively, presented as part of Other Income in the statements of comprehensive income.

17.3 Others

There are commitments and contingencies that arise in the normal course of the Foundation's operations which are not reflected in the accompanying financial statements. As of December 31, 2010, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Foundation's financial statements.

18. FOREIGN CURRENCY DENOMINATED MONETARY ASSETS

The Foundation's foreign currency denominated assets and liabilities as at December 31 follows:

	2010	2009
In U.S. Dollars:		
Cash and cash equivalents	$ 1,663	$ 4,304
Available-for-sale financial assets	3,956,129	7,552,447
	$ 3,957,792	$ 7,556,751
Peso equivalent	P 173,509,569	P 349,121,886

	2010	2009
In Euro:		
Cash and cash equivalents	€ 2,271	€ 1,416
Peso equivalent	P 131,894	P 94,299

19. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

19.1 Foreign Exchange Risk

Most of the Foundation's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Foundation's investments and cash deposits in foreign currency. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Foundation's functional currency. The Foundation has certain investments in foreign currency which are exposed to foreign currency translation risk.

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

Foreign currency denominated financial assets, translated into Philippine pesos at the closing rates is as follows:

	2010		
	U.S. Dollars	Euro	Total
Cash	P 72,888	P 131,894	P 204,782
Available-for-sale financial assets	173,436,681	-	173,436,681
Short-term exposure	**P 173,509,569**	**P 131,894**	**P173,641,463**

	2009		
	U.S. Dollars	Euro	Total
Cash	P 198,857	P 94,299	P 293,156
Available-for-sale financial assets	348,923,029	-	348,923,029
Short-term exposure	P 349,121,886	P 94,299	P349,216,185

The following table illustrates the sensitivity of the Foundation's income before final tax with respect to changes in Philippine peso against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2010			2009		
	Reasonably possible change in rate	**Effect in income before tax**	**Effect in equity before tax**	Reasonably possible change in rate	Effect in income before tax	Effect in equity before tax
PhP - USD	**16.57%**	**P 28,751,204**	**P 20,125,843**	20.95%	P 73,141,035	P 51,198,725
PhP - EURO	**28.91%**	**38,131**	**26,692**	33.27%	31,373	21,961
Total		**P 28,789,335**	**P 20,152,535**		P 73,172,408	P 51,220,686

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Foundation's exposure to currency risk.

19.2 Liquidity Risk

The Foundation is exposed to liquidity risk. It aims to maintain flexibility in funding its operations by realizing income from its investments, collecting efficiently from its project proponents and maintaining sufficient and available cash.

As at December 31, the Foundation's financial liabilities with current contractual maturities are presented below.

	Notes	2010	2009
Accounts payable and accrued expenses	9	**P 1,876,778**	P 3,800,993
Grants payable	10	**12,083,051**	11,795,813
Funds held in trust	11	**125,302,140**	88,952,632
		P 139,261,969	P 104,549,438

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting period dates.

19.3 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position.

The Foundation's loans and receivables are actively monitored to avoid significant concentrations of credit risk.

The Foundation's exposure to credit risk is limited to the carrying amount of the financial assets recognized at the end of the reporting date, as summarized below:

	Notes	2010	2009
Cash and cash equivalents	4	**P 32,401,796**	P 28,280,057
Loans and receivables – gross	5	**141,388,753**	135,776,053
Available-for-sale financial assets	6	**1,363,777,120**	1,148,544,893
		P1,537,567,669	P1,312,601,003

Maximum credit risk exposure of financial assets does not include the carrying amount of investment in shares classified as available-for-sale financial assets (see Note 6). The investment was not included since it does not create the sort of obligation intended to be captured within the requirements for credit risk disclosure.

The age of financial assets that are past due but not impaired follows:

	2010	2009
Not more than 3 months	**P 11,907,574**	P 3,380,316
More than 3 months but not more than one year	**5,888,289**	9,762,153
More than one year	**7,545,925**	9,345,192
	P 25,341,788	P 22,487,661

The Foundation continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls.

The Foundation's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

19.4 Interest Rate Risk

The Foundation monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. On December 31, 2010, the Foundation is exposed to changes in market interest rates of its bank placements, which are subject to variable interest rates. All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1.03% and +/- 1.49% in 2010 and 2009, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	2010		2009	
Effects on	**+103 basis points**	**-103 basis points**	+149 basis points	-149 basis points
Net income for the year	**P 491,480**	**(P 491,480)**	P 245,141	(P 245,141)
Equity at end of year	**1,849,839**	**(1,849,839)**	1,688,094	(1,688,094)

19.5 Other Market Price Risk

The Foundation's market price risk arises from its investments carried at fair value and are classified as available-for-sale financial assets. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the Foundation's investments held at fair value and their impact on the Foundation's revenue over expenses and fund balances as of December 31, 2010 and 2009 are summarized below:

	2010			
	Observed Volatility Rates		**Impact on Equity**	
	Increase	**Decrease**	**Increase**	**Decrease**
Equity securities listed in the Philippines	+16.51%	-16.51%	P 54,982,556	(P 54,982,556)
Corporate bonds	+01.82%	-01.82%	3,585,156	(3,585,156)
Government bonds	+08.33%	-08.33%	9,238,747	(9,238,747)
Unit investment trust fund	+28.37%	-28.37%	52,650,149	(52,650,149)
Treasury notes	+04.57%	-04.57%	5,909,977	(5,909,977)
			P 126,366,585	**(P 126,366,585)**

	2009					
	Observed Volatility Rates		Impact on Equity			
	Increase	Decrease		Increase		Decrease
Equity securities listed in the Philippines	+22.46%	-22.46%	P	65,168,656	(P	65,168,656)
Corporate bonds	+02.23%	-02.23%		4,121,611	(	4,121,611)
Government bonds	+13.88%	-13.88%		12,166,032	(	12,166,032)
Unit investment trust fund	+32.29%	-32.29%		57,444,721	(	57,444,721)
Treasury notes	+04.65%	-04.65%		6,686,007	(	6,686,007)
Loans	+08.06%	-08.06%		978,734	(	978,734)
			P	146,565,761	(P	146,565,761)

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Foundation's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Foundation's favor.

20. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

20.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of assets and liabilities presented in the statements of financial position are shown below.

	Notes	2010		2009	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial assets					
Cash and cash equivalents	4	**P 32,441,906**	**P 32,441,906**	P 28,395,057	P 28,395,057
Loans and receivables	5	**116,617,804**	**116,617,804**	103,448,526	103,448,526
Available-for-sale financial assets	6	**1,736,396,381**	**1,736,396,381**	1,517,265,276	1,517,265,276
		P1,885,456,091	**P1,885,456,091**	P 1,649,108,859	P1,649,108,859
Financial liabilities					
Accounts payable and accrued expenses	9	**P 1,876,778**	**P 1,876,778**	P 3,800,993	P 3,800,993
Grants payable	10	**12,083,051**	**12,083,051**	11,795,813	11,795,813
		P 13,959,829	**P 13,959,829**	P 15,596,806	P 15,596,806

See Notes 2.3 and 2.6 for a description of the accounting policies for each category of financial instrument. A description of the Foundation's risk management objectives and policies for financial instruments is provided in Note 19.

20.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Foundation as of December 31(amounts in thousands):

	Level 1	Level 2	Level 3	Total
December 31, 2010				
Available-for-sale financial assets	**P 1,337,568**	**P 329,276**	**P 69,552**	**P 1,736,396**
December 31, 2009				
Available-for-sale financial assets	P 1,161,359	P 277,311	P 59,143	P 1,497,813

The different levels have been defined as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

21. FUND MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Foundation's fund management objective is to maintain the real value of the endowment fund and to work towards its growth.

The Foundation manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to preserve the value of the fund, the Foundation allocates a certain percentage of its net earnings to cover for the cost of inflation (see Note 2.13).

The Foundation's total provision for inflation for 2010 and 2009 amounted to P175.5 million and P226.3 million, respectively.

The Foundation's goal in fund management is to ensure the long-term continuity of the fund and its services through the following undertakings:

- Investing the principal of the endowment fund;
- Limiting disbursements for Foundation operations and assistance to partners to the amount of the investment and interest income earned by the endowment fund; and,
- Limiting operating costs to 15% of total income earned on an annual basis.

Fund balances for the reporting periods under review are summarized as follows:

	2010	2009
Total liabilities	**P 139,261,969**	P 104,549,438
Fund balance	**P1,788,418,778**	P1,568,613,602
Liability to fund balance ratio	**0.08:1**	0.07:1

The Foundation sets the amount of Fund in proportion to its overall financing structure. The Foundation manages the fund structure and makes adjustments to it in light of the changes in economic conditions and the risk characteristics of the underlying assets.

22. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 15-2010, which required certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements. This supplemental information, which is an addition to the disclosures mandated under PFRS, is presented as follows:

22.1 Output VAT

In 2010, the Foundation declared output VAT as follows:

	Tax Base	Output VAT
Interest Income	P 11,594,235	P 1,391,308

Out of the total tax base that was subjected to output VAT, P5,084,858 was closed to funds held in trust (see Note 11).

The outstanding output VAT payable amounting to P128,647 as of December 31, was set off against input VAT of P236,511 (see Note 22.2).

22.2 Input VAT

The movements in Input VAT as of December 31, 2010 are summarized below.

Balance at beginning of year	P 101,888
Goods other than for resale or manufacture	3,134
Capital goods not subject to amortization	13,295
Services lodged under other accounts	1,240,383
Input VAT applied against output VAT during the year	(1,122,189)
Balance at end of year	**P 236,511**

The balance of input VAT as of December 31, 2010 is presented, net of output VAT of P128,647 (see Note 22.1), as part of Prepayments and Other Current Assets under the Loans and Receivables account in the statements of financial position (see Note 5).

22.3 Taxes on Importation

The Foundation does not have any importation in 2010.

22.4 Excise Tax

The Foundation does not have excise tax in 2010 since it does not have any transactions subject to excise tax.

22.5 Documentary Stamp Tax

As of December 31, 2010, documentary stamp tax (DST) on loan instruments paid and accrued amounts to P277,084. The P264,584 DST was shouldered by the proponents and P12,500 was accrued by the Foundation due to BIR Tax Exemption status of the proponent. The amount accrued was already closed to funds held in trust.

22.6 Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2010 is broken down as follows:

Real estate taxes	P	40,457
Municipal license and permits		17,341
Business tax		1,551
Residence tax		250
Occupation tax		200
Miscellaneous		2,100
	P	**61,899**

The amounts of taxes and licenses are presented as part of General and Administrative Expenses in the statements of comprehensive income.

22.7 Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2010 are shown below.

Compensation and benefits	P	1,796,077
Creditable		620,207
	P	**2,416,284**

The Foundation has no income payments subject to final withholding taxes.

22.8 Deficiency Tax Assessment and Tax Cases

The Foundation does not have any deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.