Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

Financial Statements
December 31, 2012
(With Comparative Figures for 2011)

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

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 statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in fund balances and statement of cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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, 2012 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. as at and for the year ended December 31, 2011 were audited by other auditors whose report dated March 7, 2012 expressed an unqualified opinion on those statements.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 24 and 25 to the financial statements, respectively, are presented for purposes of filing with the Bureau of Internal Revenue and are not a required part of the basic financial statements. Such information is the responsibility of the management of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

John Nai Peng C. Ong

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670008, January 2, 2013, Makati City

March 14, 2013

Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

STATEMENTS OF FINANCIAL POSITION

(With Comparative Figures for 2011)

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱15,276,043**	₱52,286,114
Receivables (Note 6)	**69,586,887**	59,722,334
Available-for-sale financial assets (Note 7)	**2,059,343,328**	1,871,025,409
Other current assets (Note 8)	**21,504,919**	405,192
Total Current Assets	**2,165,711,177**	1,983,439,049
Noncurrent Assets		
Receivables - net of current portion (Note 6)	**46,750,655**	41,413,884
Property and equipment (Note 9)	**32,829,060**	33,519,554
Investment properties (Note 10)	**4,911,814**	8,057,603
Other noncurrent assets (Note 18)	**601,033**	412,404
Total Noncurrent Assets	**85,092,562**	83,403,445
TOTAL ASSETS	**₱2,250,803,739**	₱2,066,842,494
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Account payable and accrued expenses (Note 11)	**₱11,708,980**	₱4,265,589
Grants payable (Note 12)	**10,919,218**	10,286,810
Funds held in trust (Note 13)	**171,865,103**	149,708,932
Total Current Liabilities	**194,493,301**	164,261,331
Fund Balances (Note 22)		
Restricted	**1,824,934,753**	1,771,781,314
Unrestricted	**231,375,685**	130,799,849
Total Fund Balances	**2,056,310,438**	1,902,581,163
TOTAL LIABILITIES AND FUND BALANCES	**₱2,250,803,739**	₱2,066,842,494

See accompanying Notes to Financial Statements.

Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

STATEMENTS OF COMPREHENSIVE INCOME

(With Comparative Figures for 2011)

	Years Ended December 31	
	2012	2011
REVENUES		
Investment income (Note 7)	**₱123,223,384**	₱201,134,280
Interest income (Notes 5, 6 and 8)	**3,088,915**	3,474,719
Others (Note 17)	**4,450,076**	4,986,650
	130,762,375	209,595,649
EXPENSES		
Grant expenses (Note 12)	**36,835,685**	15,189,133
Project expenses (Note 14)	**21,087,672**	10,824,239
General and administrative (Note 15)	**11,893,820**	10,133,517
Depreciation (Note 9)	**2,518,788**	2,658,424
Provision for impairment losses on receivables and investment properties (Notes 6 and 10)	**2,420,268**	8,745,042
Foreign currency losses	**885,028**	447,341
	75,641,261	47,997,696
INCOME BEFORE INCOME TAX	**55,121,114**	161,597,953
PROVISION FOR INCOME TAX (Note 19)		
Final tax on investment income	**11,892,893**	12,093,548
NET INCOME	**43,228,221**	149,504,405
OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized valuation gain (loss) on available-for-sale financial assets (Note 7)	**110,501,054**	(35,342,020)
TOTAL COMPREHENSIVE INCOME	**₱153,729,275**	₱114,162,385

See accompanying Notes to Financial Statements.

Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

STATEMENTS OF CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2012

(With Comparative Figures for 2011)

	Unrestricted Funds				Restricted Funds			
	Members' Contribution	Cumulative Net Income	Net Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 7)	Total	Endowment Fund (Note 1)	Provision for Cost of Inflation (Note 22)	Total	Grand Total
Balances at January 1, 2011	₱100,000	(₱19,801,792)	₱87,944,537	₱68,242,745	₱1,318,371,694	₱401,804,339	₱1,720,176,033	₱1,788,418,778
Net income	–	149,504,405	–	149,504,405	–	–	–	149,504,405
Total comprehensive income	–	–	(35,342,020)	(35,342,020)	–	–	–	(35,342,020)
Provision for cost of inflation	–	(51,605,281)	–	(51,605,281)	–	51,605,281	51,605,281	–
Balances at December 31, 2011	100,000	78,097,332	52,602,517	130,799,849	1,318,371,694	453,409,620	1,771,781,314	1,902,581,163
Net income	–	43,228,221	–	43,228,221	–	–	–	43,228,221
Total comprehensive income	–	–	110,501,054	110,501,054	–	–	–	110,501,054
Provision for cost of inflation	–	(53,153,439)	–	(53,153,439)	–	53,153,439	53,153,439	–
Balances at December 31, 2012	₱100,000	₱68,172,114	₱163,103,571	₱231,375,685	₱1,318,371,694	₱506,563,059	₱1,824,934,753	₱2,056,310,438

See accompanying Notes to Financial Statements.

Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.

STATEMENTS OF CASH FLOWS

(With Comparative Figures for 2011)

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱55,121,114**	₱161,597,953
Adjustments for:		
Depreciation (Note 9)	**2,552,408**	2,697,902
Provision for impairment losses (Notes 6 and 10)	**2,420,268**	8,745,042
Unrealized foreign exchange loss	**885,028**	447,341
Investment income (Note 7)	**(123,223,384)**	(201,134,280)
Interest income (Notes 5, 6 and 8)	**(3,088,915)**	(3,474,719)
Gain on reversal of impairment losses (Notes 6 and 17)	**(2,347,078)**	(3,306,462)
Gain on disposal of investment properties (Notes 10 and 17)	**(754,211)**	–
Gain on disposal of property and equipment (Notes 9 and 17)	**(7,547)**	(735,996)
Operating loss before working capital changes	**(68,442,317)**	(35,163,219)
Decrease (increase) in:		
Receivables	**(14,307,524)**	10,363,205
Available-for-sale financial assets	**(77,816,865)**	(169,971,048)
Other current assets	**(21,099,727)**	(61,129)
Other noncurrent assets	**(188,629)**	(104,810)
Increase (decrease) in:		
Accounts payable and accrued expenses	**7,443,391**	2,388,811
Grants payable	**632,408**	(1,796,241)
Funds held in trust	**22,156,171**	24,406,792
Net cash used in operations	**(151,623,092)**	(169,937,639)
Investment income received	**123,223,384**	201,134,280
Income taxes paid (Notes 7 and 19)	**(11,892,893)**	(12,093,548)
Interest income received	**2,121,925**	3,051,758
Net cash flows generated from (used in) operating activities	**(38,170,676)**	22,154,851
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment property (Note 10)	**3,900,000**	–
Proceeds from sale of property and equipment (Note 9)	**11,762**	1,334,358
Additions to property and equipment (Note 9)	**(1,866,129)**	(173,702)
Acquisitions of investment properties (Note 10)	**–**	(3,023,958)
Net cash flows generated from (used in) investing activities	**2,045,633**	(1,863,302)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(885,028)**	(447,341)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(37,010,071)**	19,844,208
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**52,286,114**	32,441,906
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱15,276,043**	₱52,286,114

See accompanying Notes to Financial Statements.

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 (BOT) 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 strategic direction is to enable Civil Society Organizations and other partner-intermediaries to develop and innovate on best practices and models using a social enterprise approach. The Foundation engages 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 ₱1.3 billion. The fund represents a portion of the net proceeds earned by CODE-NGO from the sale of Poverty Eradication and Alleviation Certificates 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 and acquisition of assets necessary for the furtherance of the Foundation's objectives.

The Foundation reports the revenues and expenses pertaining to the fund as unrestricted activities. Accordingly, the net income amounting to ₱43.2 million and ₱149.5 million for the years ended December 31, 2012 and 2011, respectively, were presented as part of the unrestricted fund balance 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 as at and for the years ended December 31, 2012 and 2011 were approved and authorized for issue by the BOT on March 14, 2013.

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

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value. The financial statements are presented in Philippine peso, which is the Foundation's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The financial statements of the Foundation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS include statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretation Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRSs which were adopted as of January 1, 2012:

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments which are effective for periods beginning on or after July 1, 2011 affect disclosures only and have no impact on the Foundation's financial position or performance.

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Properties*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments which are effective for periods beginning on or after January 1, 2012 have no impact on the Foundation's financial position or performance as the Foundation's investment properties are measured at cost.

New Accounting Standards, Philippine Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2012
The Foundation will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Foundation does not expect the adoption of these new and amended PFRS and Philippine Interpretations from IFRIC to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective in 2013

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to

recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Foundation's financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 10 has no impact on the Foundation's financial statements.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 11 has no impact on the Foundation's financial statements.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 12 will affect disclosures only and has no impact on the Foundation's financial statements.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Foundation will assess the impact of this standard on its financial position and performance upon adoption of the standard.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI. The amendments affect presentation only and have no impact on the Foundation's financial position or performance.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Foundation has to apply the amendments retroactively to the earliest period presented.

The Foundation reviewed its existing employee benefits and determined that the amended standard has impact on its accounting for retirement benefits. The Foundation obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard.

	As at 31 December 2012	As at 1 January 2012
Statement of Financial Position/Statement of Comprehensive Income		
Increase in:		
Other comprehensive income	₱10,536	₱55,199

The only impact of the amendments will be on the other comprehensive income presented in the statement of financial position and statement of comprehensive income as of and for the years ended December 31, 2012 and 2011. There will be no impact on the Foundation's retirement benefit asset as the Foundation is applying the asset ceiling test on its plan assets.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The adoption of the amended PAS 27 will not have an impact on the financial statements of the Foundation.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The adoption of the amended PAS 28 will not have an impact on the Foundation's financial statements.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This interpretation becomes effective for annual periods beginning on or after January 1, 2013. The Foundation expects that this interpretation will not have any impact on its financial position or performance.

Annual Improvements to PFRSs - 2009-2011 Cycle
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

Amendment to PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Foundation as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On

the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

Amendment to PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Foundation's financial position or performance.

Amendment to PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Foundation expects that this amendment will not have any impact on its financial position or performance.

Amendment to PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

Effective in 2014

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendments affect presentation only and have no impact on the Foundation's financial position or performance.

Effective in 2015

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a

liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. PFRS 9 is effective for annual periods beginning on or after January 1, 2015. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Foundation's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

Effective Date Deferred

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed.

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3. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value. Cash is generally recognized at face value or nominal value. At the transaction date and every subsequent reporting date, cash denominated in a foreign currency is translated into the functional currency using the spot rate, and any gains and losses arising from the conversion are recognized in profit or loss.

Financial Instruments
Date of Recognition
The Foundation recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial Recognition of Financial Instruments
Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction cost.

The Foundation classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

As of December 31, 2012 and 2011, the Foundation does not have outstanding financial assets and liabilities at FVPL and HTM investments.

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.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in “Interest income” in profit or loss. The losses arising from impairment of receivable are recognized in “Provision for impairment losses” in profit or loss. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts.

Loans and receivables are classified as current when these are expected to be realized within twelve months from reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

This category includes “Cash and cash equivalents”, “Receivables”, escrow deposit under “Other current assets” and refundable deposit under “Other noncurrent assets” in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

AFS 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 financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, and are reported as part of the “Net unrealized valuation gains (loss) on AFS financial assets” account in the statement of changes in fund balances. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from fund balances to profit or loss and is presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, except 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.

When the security is disposed of, the cumulative gain or loss previously in equity is recognized as gain or loss in the statement of comprehensive income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity are recognized in the statement of comprehensive income when the right to the payment has been established. AFS financial assets are classified as current if they are expected to be realized within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets. The losses arising from impairment of AFS financial assets are recognized in the financial statements.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

This category consists of debt and equity instruments presented as "Available-for-sale financial assets" in the statement of financial position.

Determination of Fair Value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Derivative Financial Instruments
Derivative instruments (including embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of these derivatives not accounted as hedges are recognized in the statement of comprehensive income.

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument within the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Foundation assesses whether embedded derivatives are required to be separated from host contracts when the Foundation first becomes party to the contract. Reassessment only occurs if there is a change in terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Foundation has no bifurcated embedded derivatives as of December 31, 2012 and 2011.

Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations. These financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value.
This category includes “Accounts payable and accrued expenses”, “Grants payable”, “Funds held in trust” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefit obligation).

Grants payable represents unreleased and committed grants of the Foundation to project proponents. Grant expenses are recognized as expense upon approval by the BOT and upon release of the first tranche of the grant when the proponents comply with the necessary documentary requirements.

Funds received by the Foundation from donors for specific projects are initially recognized as liabilities at the time the funds are received. Revenue and expenses related to these projects are closed to “Funds held in trust”, a liability account in the statement of financial position.

Financial liabilities are included in current liabilities when expected to be settled within twelve months from the reporting date or the Foundation does not have any unconditional right to defer settlement within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Foundation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Foundation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Foundation could be required to repay.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Foundation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables
The Foundation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss continues to be recognized are not included in a collective assessment of impairment.

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

AFS 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 AFS financial asset, management concludes on impairment. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Day 1 Difference
When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based in a valuation technique whose variables include only data from observable market, the Foundation recognizes the difference between the transaction price and the fair value (a Day 1 difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Foundation determines the appropriate method of recognizing the Day 1 difference amount.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

<u>Input Value-added Taxes (VAT)</u>
Input VAT, presented as part of other current assets in the statement of financial position, represents VAT imposed on the Foundation by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable value.

<u>Property and Equipment</u>
Property and equipment, excluding land, are stated at cost less accumulated depreciation and any allowance for impairment loss.

The initial cost of property and equipment comprises its purchase price or construction cost, including import duties, non-refundable purchase taxes, estimated cost of dismantlement or restoration, capitalized interest during construction period and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to expense in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated and amortized separately.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, except for building improvements which are amortized on a straight-line basis over the term of the lease or the estimated lives of the improvements, whichever is shorter, stated as follows:

Category	Number of Years
Building and improvements	10
Transportation equipment	5
Office furniture, fixtures and equipment	3-5

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

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Investment Properties

Investment properties, accounted for under cost model, are properties 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 properties are measured initially at acquisition cost. The cost of the asset is comprised of its purchase price and directly attributable costs of making the asset ready for its intended use.

The carrying value of the investment properties is reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount and impairment losses are recognized in profit or loss.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of retirement or disposal.

Impairment of Nonfinancial Assets

Nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their estimated recoverable amount. The estimated recoverable amount is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Fund Balances

Fund balances represent contributions made by the members of the Foundation, including endowment fund, upon incorporation. The member's contribution is not available for distribution.

Cumulative net income 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 AFS financial assets.

Restricted Fund

The fund account is used only in accordance with a donor's 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.

Unrestricted Fund

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

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Foundation and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Restricted Support

Revenue from restricted support is recognized upon fulfilment 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.

Investment Income

Investment income from AFS financial assets is recognized when earned.

Interest Income

Interest income on loans and receivables and bank deposits are recognized as it accrues using the effective interest rate method.

Grants, Donations and Contributions

Grants are recognized when the scope of work and the purpose of the grants stipulated in the agreements are performed and the donor's imposed conditions are substantially complied. Donations and contributions are recognized when actually received.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in fund balances. Expenses are generally recognized when the services are used or the expenses arise.

Grant Expenses
This account pertains to the approved grants awarded to partners/proponents for institutional support, capability building, and relief assistance during natural calamities.

Project Expenses
This account consists of the following accounts: project development, monitoring and evaluation, project compliance audit, technical assistance provided by the Foundation to partners/proponents, product and market trade promotions, research and publications, and personnel and administrative cost of operations group.

General and Administrative Expenses
Expenses incurred in the direction and general administration of day-to-day operation of the Foundation and are generally recognized when the services are used or the expenses arise.

Foreign Currency Transactions
The financial statements are expressed in Philippine peso, which is the Foundation's presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the reporting date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in other comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Leases
Determination of Whether an Arrangement Contains a Lease
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Retirement Benefits Expense/Income
The Foundation has a funded, noncontributory defined benefit plan. Retirement benefit expenses are determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized in profit or loss when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Any past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The defined benefit liability/asset is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by any past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Income Taxes
Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred Tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of a goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Provisions

Provisions, if any, are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Events after the Reporting Date

Adjusting events are events after the reporting date that provide additional information about the Foundation's position at the reporting date and are reflected in the financial statements. Events after the reporting date that are not adjusting events, if any, are disclosed in the notes to financial statements when material.

4. Significant Accounting Judgments Estimates and Assumptions

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.

The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Foundation's financial statements. Actual results could differ from such estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty as of reporting date that have the most significant risk of causing a material adjustment to the carrying amounts of assets, liabilities and fund balances within the next financial year are as follows:

Judgments
Management makes judgments in the process of applying the Foundation's accounting policies. Judgments that have the most significant effect on the reported amounts in the financial statements are discussed below:

Going Concern
The Foundation's management has made an assessment of the Foundation's ability to continue as a going concern and is satisfied that the Foundation has the resource to continue in business in the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Foundation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Foundation, the functional currency of the Foundation has been determined to be the Philippine peso. Philippine peso is the currency of the primary economic environment in which the Foundation operates. It is the currency that mainly influences the revenues and the cost of its operations.

Classification of Financial Instruments
The Foundation exercises judgments in classifying a financial instrument, or its component parts, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

The Foundation determines the classification of financial instruments at initial recognition and re-evaluates this designation at every reporting date.

Estimates
The key sources of uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Determination of Fair Values of Financial Instruments
The Foundation carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Foundation utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect income or loss and fund balances.

The fair values of the Foundation's financial instruments are presented in Note 21 to the financial statements. The carrying amount of the Foundation's AFS financial assets amounted to ₱2,211,633,121 and ₱2,024,478,511 as of December 31, 2012 and 2011, respectively.

Estimating Impairment Losses on Receivables
The Foundation maintains allowance on receivables at a level considered adequate to provide for potentially uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that may affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Foundation's relationship with the proponents, the proponents' payment behavior and known market factors. The Foundation reviews the age and status of receivables, and identifies accounts that are provided with allowance on a continuous basis.

The amount and timing of recorded expenses for any period would therefore differ based on the judgment or estimate made.

The aggregate allowance for impairment losses on advances to proponents and accrued interest receivable from proponents amounted to ₱36,202,530 and ₱30,256,296 as of December 31, 2012 and 2011, respectively (see Note 6).

Estimating Impairment of AFS Equity Financial Assets
The Foundation treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The Foundation treats 'significant' generally as 20% or more and 'prolonged' as greater than six (6) months for quoted equity instruments. In addition, the Foundation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows.

No impairment loss on AFS equity financial assets was recognized in 2012 and 2011.

Estimating Useful Lives of Property and Equipment
The Foundation estimates the useful lives of property and equipment based on the period over which the property and equipment are expected to be available for use.

The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Foundation's estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation expense and decrease noncurrent assets.

There were no changes in the useful lives of the assets in 2012 and 2011.

Estimating Impairment of Nonfinancial Assets
The Foundation assesses impairment of other current assets, property and equipment, and investment properties whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Foundation considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Foundation is required to make estimates that can materially affect the financial statements.

No impairment loss on other current assets and property and equipment was recognized in 2012 and 2011. Allowance for impairment losses on investment properties as of December 31, 2012 and 2011 amounted to nil and ₱241,301, respectively (see Note 10).

Estimating Retirement Benefits
The determination of the Foundation's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary rate increase. 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 ₱121,207 and ₱97,341 as of December 31, 2012 and 2011, respectively, while fair value of plan assets as of those dates amounted to ₱1,810,782 and ₱1,749,787, respectively (see Note 18).

Estimating Realizability of Deferred Tax Assets
The Foundation reviews its unrecognized deferred tax assets at end of each reporting period and assesses for recognition to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that deferred tax assets pertaining to net operating loss carryover (NOLCO) and the unrealized foreign exchange losses on the Foundation's incidental taxable activities were not recognized since management believes that such may not be recovered or realized through future taxable income (see Note 19).

Estimating Contingencies
The estimate of the probable costs for the resolution of possible third party claims has been developed in consultation with outside consultant handling the Foundation's defense on these matters and is based upon an analysis of potential results. When management and its outside consultant or legal counsel believes that the eventual liabilities under these claims, if any, will not have material effect on the Foundation's financial statements, no provision for probable losses is recognized in the Foundation's financial statements.

No provision for contingencies was recognized in 2012 and 2011.

5. Cash and Cash Equivalents

	2012	2011
Cash in banks	₱13,241,043	₱29,946,114
Short term investments	2,000,000	22,300,000
Cash on hand	35,000	40,000
	₱15,276,043	₱52,286,114

Cash in banks includes donor restricted funds amounting to ₱9,985,794 and ₱27,123,526 as of December 31, 2012 and 2011, respectively.

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 2.0% to 2.875% in 2012 and 2.50% to 2.87% in 2011. Interest income from savings deposit amounted to ₱72,519 and ₱31,986 in 2012 and 2011, respectively.

6. Receivables

	2012	2011
Current		
Advances to project proponents	**₱88,306,023**	₱79,476,445
Accrued interest	**4,912,012**	3,865,867
Receivable from donor-funded projects	**3,135,273**	262,296
Others	**6,270,506**	2,571,561
	102,623,814	86,176,169
Less allowance for impairment losses	**33,036,927**	26,453,835
	69,586,887	59,722,334
Noncurrent advances to project proponents	**49,916,258**	45,216,345
Less allowance for impairment losses	**3,165,603**	3,802,461
	46,750,655	41,413,884
	₱116,337,542	₱101,136,218

Advances to project proponents represent releases to project proponents subject to repayment for social enterprise, micro-finance, agricultural development, housing and proactive projects. These advances earn annual interest rates ranging from 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 are presented as part of "Project expenses" in the statements of comprehensive income (see Note 14). 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. Interest income on advances to proponents amounted to ₱2,939,501 and ₱3,442,733 in 2012 and 2011, respectively.

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

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

The aging analysis of receivables as of December 31, 2012 and 2011 are as follows:

2012

	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Advances to project proponents							
National	**₱16,512,361**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱16,512,361**
Luzon	**12,623,313**	**–**	**–**	**–**	**–**	**6,803,555**	**19,426,868**
Visayas	**11,606,253**	**–**	**–**	**–**	**–**	**12,110,938**	**23,717,191**
Mindanao	**8,752,246**	**–**	**–**	**–**	**–**	**8,481,737**	**17,233,983**
Donor funded projects	**54,380,435**	**–**	**–**	**–**	**–**	**6,951,443**	**61,331,878**
Accrued interest	**3,057,155**					**1,854,857**	**4,912,012**
Others	**9,405,779**	**–**	**–**	**–**	**–**	**–**	**9,405,779**
Total	**₱116,337,542**	**₱–**	**₱–**	**₱–**	**₱–**	**₱36,202,530**	**₱152,540,072**

2011

	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Advances to project proponents							
National	₱299,584	₱–	₱–	₱–	₱–	₱–	₱299,584
Luzon	8,528,206	–	–	–	–	5,536,333	14,064,539
Visayas	13,181,427	–	–	–	–	11,970,975	25,152,402
Mindanao	11,222,428	–	–	–	–	9,097,080	20,319,508
Donor funded projects	62,817,652	–	–	–	–	2,039,105	64,856,757
Accrued interest	2,253,064	–	–	–	–	1,612,803	3,865,867
Others	2,833,857	–	–	–	–	–	2,833,857
Total	₱101,136,218	₱–	₱–	₱–	₱–	₱30,256,296	₱131,392,514

The impaired receivables are mostly due from partner organizations that experienced defaults of loan payments from their clients.

Movements in the allowance for impairment losses on receivables are as follows:

	2012	2011
Balances at beginning of year	**₱30,256,296**	₱24,770,949
Provisions	**8,354,306**	10,110,927
Reversals	**(2,408,072)**	(3,405,926)
Write-off	**–**	(1,219,654)
Balances at end of year	**₱36,202,530**	₱30,256,296

The 2012 and 2011 total impairment losses and reversals included portion closed to funds held in trust as follows:

	2012			
	CBRED*	**MP3****	**REHAB*****	**Total**
Impairment losses during the year	**₱976,050**	**₱2,040,402**	**₱2,917,586**	**₱5,934,038**
Reversals	**–**	**(3,572)**	**(57,422)**	**(60,994)**
	₱976,050	**₱2,036,830**	**₱2,860,164**	**₱5,873,044**

	2011			
	CBRED*	MP3**	REHAB***	Total
Impairment losses during the year	₱1,298,704	₱251,060	₱57,422	₱1,607,186
Reversals	–	(99,464)	–	(99,464)
	₱1,298,704	₱151,596	₱57,422	₱1,507,722

**CBRED – Capacity Building to Remove Barriers to Renewable Energy Development in the Philippines*
***MP3 – Mindanao Partnership Project for Peace*
****REHAB – Ondoy-Pepeng Rehabilitation Project*

The amount of impairment losses (reversal of impairment losses) in the statements of comprehensive income is determined as follows:

	2012	2011
Impairment losses	**₱8,354,306**	₱10,110,927
Less amounts closed to:		
REHAB	**2,917,586**	57,422
MP3	**2,040,402**	251,060
CBRED	**976,050**	1,298,704
	2,420,268	8,503,741
Reversals (see Note 17)	**2,408,072**	3,405,926
Less amounts closed to:		
REHAB	**57,422**	–
MP3	**3,572**	99,464
	2,347,078	3,306,462
	₱73,190	₱5,197,279

The reversal and impairment loss for CBRED, MP3 and REHAB were excluded from the determination of provision for and 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.

7. AFS Financial Assets

AFS financial assets held by the following financial managers consist of:

	2012	2011
Bank of the Philippine Islands (BPI)		
Unit investment trust fund (UITF)	**₱93,585,749**	₱194,070,455
Equity securities	**73,900,341**	123,740,832
Republic of the Philippines (ROP) bonds and treasury notes	**57,491,017**	126,809,735
Corporate bonds	**35,432,416**	8,059,236
Special savings account	**23,185,157**	370,621,491
	283,594,680	823,301,749
Asia United Bank (AUB)		
ROP bonds and treasury notes	**183,756,993**	70,544,710
Equity securities	**129,181,379**	51,886,127
Special savings account	**64,110,775**	230,608,932
UITF	**25,872,732**	19,513,070
Corporate bonds	**10,000,000**	10,000,000
	412,921,879	382,552,839

(Forward)

	2012	2011
BDO Unibank (BDO)		
ROP bonds and treasury notes	**₱142,583,324**	₱172,207,044
Equity securities	**134,268,933**	51,778,558
Special savings account	**16,669,701**	24,456,661
	293,521,958	248,442,263
BDO Private Bank		
Equity securities	**183,578,157**	54,627,035
ROP bonds and treasury notes	**74,403,550**	30,440,500
Special savings account	**59,718,361**	135,301,405
Corporate bonds	**35,000,000**	106,461,502
	352,700,068	326,830,442
Philam Asset Management Inc. (PAMI)*		
Special savings account	**154,278,737**	–
Equity securities	**56,740,220**	–
	211,018,957	–
** Investment management account was opened in June 2012.*		
Security Bank*		
ROP bonds and treasury notes	**60,067,065**	–
Equity securities	**26,391,184**	–
Special savings account	**15,083,176**	–
	101,541,425	–
**The trust fund account was opened in November 2012.*		
RCBC Trust*		
Special savings account	**51,893,708**	–
ROP bonds and treasury notes	**42,684,460**	–
Corporate bonds	**3,424,517**	–
Equity securities	**2,654,870**	–
	100,657,555	–
**The trust fund account was opened in November 2012.*		
Short Term Investments		
RCBC Time Deposit*	**74,000,000**	16,500,000
CARD Bank Inc.	**2,412,890**	2,302,338
	76,412,890	18,802,338
** Invested in short term time deposit with terms of 115-117 days maturing on April 15, 2013.*		
Investment in Equity		
NCMFP**	**44,962,495**	36,847,496
Metrosouth***	**20,000,000**	20,000,000
CISP****	**6,823,526**	6,248,282
MASS-SPECC*****	**5,000,000**	5,000,000
CARD NGO******	**3,000,000**	3,000,000
	79,786,021	71,095,778
Others		
Equity securities	**141,052,500**	–
Special savings account	**6,135,395**	–
	147,187,895	–
	₱2,059,343,328	₱1,871,025,409

***National Cooperative Mutual Fund of the Philippines, Inc. (NCMFP)*
****Metro South Cooperative Bank*
*****Cooperative Insurance System of the Philippines (CISP)*
******MASS-SPECC Cooperative Development Center*
*******Center for Agriculture and Rural Development, Inc. (CARD NGO)*

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

AFS financial assets under "Others" above are held by the Foundation.

The reconciliation of the carrying amounts of AFS financial assets as of December 31 are as follows:

	2012	2011
BPI		
Balances at beginning of year	**₱823,301,749**	₱938,787,269
Realized investments gains - net	**44,704,405**	138,049,057
Unrealized fair value gains (losses) - net	**263,542**	(60,238,668)
Foreign currency gains (losses)	**(1,175,016)**	111,784
Disposals/withdrawals	**(583,500,000)**	(193,407,693)
	283,594,680	823,301,749
AUB		
Balances at beginning of year	**382,552,839**	361,189,686
Unrealized fair value gains - net	**30,074,905**	9,932,190
Realized investments gains - net	**19,092,840**	17,430,963
Disposals/withdrawals	**(18,798,705)**	(6,000,000)
	412,921,879	382,552,839
BDO		
Balances at beginning of year	**248,442,263**	230,468,522
Realized investments gains - net	**24,027,671**	17,789,332
Unrealized fair value gains - net	**22,652,024**	5,466,886
Contributions/deposits	**5,400,000**	–
Disposals/withdrawals	**(7,000,000)**	(5,000,000)
Foreign currency losses	**–**	(282,477)
	293,521,958	248,442,263
BDO Private Bank		
Balances at beginning of year	**326,830,442**	115,602,539
Unrealized fair value gains - net	**23,395,333**	10,002,652
Realized investment gains - net	**16,974,293**	14,094,204
Disposals/withdrawals	**(14,500,000)**	–
Contributions/deposits	**–**	187,407,692
Foreign currency loss	**–**	(276,645)
	352,700,068	326,830,442
PAMI		
Contributions/deposits	**200,000,000**	–
Unrealized fair value gains - net	**9,077,557**	–
Realized investment gains - net	**1,941,400**	–
	211,018,957	–
Security Bank		
Contributions	**100,000,000**	–
Unrealized fair value gains - net	**1,314,598**	–
Realized investment gains - net	**226,827**	–
	101,541,425	–

(Forward)

	2012	2011
RCBC Trust		
Contributions/deposits	**₱100,000,000**	₱–
Realized investment gains - net	**333,130**	–
Unrealized fair value gain - net	**324,425**	–
	100,657,555	–
Short Term Investments		
Balances at the beginning of year	**18,802,338**	20,796,000
Contributions/deposits	**73,986,960**	16,500,000
Realized investment gains - net	**123,592**	110,338
Disposals/withdrawals	**(16,500,000)**	(18,604,000)
	76,412,890	18,802,338
Investment in Equity		
Balances at the beginning of year	**71,095,778**	69,552,365
Unrealized fair value gains - net	**8,114,999**	1,027,500
Realized investment gains - net	**1,679,691**	1,572,866
Disposals/withdrawals	**(1,134,447)**	(1,056,953)
	79,786,021	71,095,778
Others		
Contributions/deposits	**140,000,000**	–
Unrealized fair value gains - net	**17,798,249**	–
Realized investment gains - net	**2,203,332**	–
Disposals/withdrawals	**(12,813,686)**	–
	147,187,895	–
	₱2,059,343,328	₱1,871,025,409

The balance of investment income recognized in 2012 and 2011 as presented in the statements of comprehensive income is determined as follows:

	2012	2011
Total realized investment gains - net	**₱109,503,898**	₱187,363,556
Final tax expense	**11,886,071**	12,087,283
Income from investment in equity	**1,803,283**	1,683,204
Closed to funds held in trust (ING CBRED)*	**30,132**	237
	₱123,223,384	₱201,134,280

**Portion of final tax expense is included under ING CBRED.*

The net unrealized valuation value gains (losses) recognized in the statements of comprehensive income for 2012 and 2011 are as follows.

	2012	2011
Total unrealized fair value gain (loss) - net	**₱113,015,632**	(₱33,809,440)
Closed to funds held in trust (ING CBRED)	**(2,514,578)**	(1,532,580)
	₱110,501,054	(₱35,342,020)

Special savings accounts have annual interest rates ranging from 2.25% to 4.6875% in 2012 and 0.25% to 4.63% in 2011. 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 bonds earn annual interest rates ranging from 4.5% to 8.4615% in 2012 and 5.44% to 8.46% in 2011.

ROPs and treasury notes (Fixed Rate Treasury Notes) earn annual interest rates ranging from 3.8038% to 9.25% in 2012 and 4.70% to 12.75% in 2011. UITFs include placements in AUB and BPI's own funds.

Net realized investment gains (losses) are detailed as follows:

	2012	2011
BPI		
Dividends	**₱28,141,828**	₱115,597,958
Interest	**14,228,688**	19,323,233
Trading gain	**5,153,488**	9,057,717
Less expenses	**(204,106)**	(2,317,284)
	47,319,898	141,661,624
AUB		
Interest	**14,749,296**	15,339,807
Trading gain	**5,349,018**	3,106,564
Dividends	**2,856,663**	2,787,512
Less expenses	**(1,150,947)**	(935,073)
	21,804,030	20,298,810
BDO		
Interest	**15,829,422**	16,913,726
Trading gain	**10,367,985**	3,739,068
Dividends	**1,907,698**	1,051,284
Less expenses	**(1,167,697)**	(752,647)
	26,937,408	20,951,431
BDO Private Bank		
Interest	**15,129,638**	12,941,104
Trading gain	**5,376,737**	2,713,251
Dividends	**2,104,415**	1,462,685
Other income	**–**	165,000
Less expenses	**(2,855,393)**	(768,437)
	19,755,397	16,513,603
PAMI		
Interest	**3,131,306**	–
Dividends	**154,358**	–
Trading gain	**84,253**	–
Less expenses	**(852,926)**	–
	2,516,991	–
Security Bank		
Interest	**414,795**	–
Less expenses	**(111,721)**	–
	303,074	–
RCBC Trust		
Interest	**559,629**	–
Less expenses	**(123,629)**	–
	436,000	–

(Forward)

	2012	2011
Investment in Equity		
Dividends	**₱1,679,691**	₱1,572,865
Short Term Investments		
Interest	**151,427**	135,710
Others		
Dividends	**1,822,080**	–
Interest	**467,876**	–
Less expenses	**(620)**	–
	2,289,336	–
Add amount closed to funds held in trust (ING CBRED)	**30,132**	237
	₱123,223,384	₱201,134,280

8. Other Current Assets

	2012	2011
Escrow deposit	**₱20,630,607**	₱–
Input VAT	**588,592**	195,846
Prepaid expenses	**263,219**	186,845
Others	**22,501**	22,501
	₱21,504,919	₱405,192

Escrow deposit relates to fund set aside by the Foundation as guarantor for various community organizations who joined the "Community Mortgage Program (CMP)" project. The deposit is made at 25% of total loan application amount for one year upon fulfillment of conditions. Interest income from escrow deposit in 2012 amounted to ₱76,895.

Prepaid expenses as of December 31, 2012 include annual premium for PEF staff and dependents under IntelliCare amounting to ₱208,185. Other current assets include refundable deposits from Meralco and Manila Waters.

9. Property and Equipment

2012

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱22,124,434	₱19,191,396	₱1,223,041	₱9,249,626	₱51,788,497
Additions	–	33,949	–	1,832,180	1,866,129
Disposals	–	–	–	(76,900)	(76,900)
Balances at end of year	22,124,434	19,225,345	1,223,041	11,004,906	53,577,726
Accumulated depreciation:					
Balances at beginning of year	–	8,974,598	448,351	8,845,994	18,268,943
Depreciation	–	1,919,396	244,608	388,404	2,552,408
Disposals	–	–	–	(72,685)	(72,685)
Balances at end of year	–	10,893,994	692,959	9,161,713	20,748,666
Net book values	₱22,124,434	₱8,331,351	₱530,082	₱1,843,193	₱32,829,060

2011

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱22,124,434	₱19,181,544	₱4,236,952	₱9,110,090	₱54,653,020
Additions	–	9,852	–	163,850	173,702
Disposals	–	–	(3,013,911)	(24,314)	(3,038,225)
Balances at end of year	22,124,434	19,191,396	1,223,041	9,249,626	51,788,497
Accumulated depreciation:					
Balances at beginning of year	–	7,059,980	2,498,446	8,452,478	18,010,904
Depreciation	–	1,914,618	365,977	417,307	2,697,902
Disposals	–	–	(2,416,072)	(23,791)	(2,439,863)
Balances at end of year	–	8,974,598	448,351	8,845,994	18,268,943
Net book values	₱22,124,434	₱10,216,798	₱774,690	₱403,632	₱33,519,554

Proceeds and gain on disposal of certain transportation and office equipment amounted to ₱11,762 and to ₱7,547, respectively, in 2012 and ₱1,334,358 and ₱735,996 in 2011, respectively, presented as part of "Others" in the statements of comprehensive income (see Note 17).
Total depreciation expense above includes depreciation charges of property and equipment acquired through funds held in trust amounting to ₱33,620 and ₱39,478 in 2012 and 2011, 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.

10. Investment Properties

The investment properties include parcels of land foreclosed by the Foundation in the event that borrowers were unable to settle their loans to the Foundation. Real estate tax on investment properties amounted to ₱1,200 and ₱12,570 in 2012 and 2011, respectively.

The movements in investment properties are presented as follows:

	2012	2011
Cost:		
Balances at beginning of year	**₱8,057,603**	₱5,274,946
Disposal	**(3,145,789)**	–
Additions	–	3,023,958
Balances at end of year	**4,911,814**	8,298,904
Less allowance for impairment losses:		
Provision for the year	–	241,301
Net book values	**₱4,911,814**	₱8,057,603

In May 2012, the Foundation sold a property in Tacloban City resulting to a gain amounting to ₱754,211, net of capital gains tax shouldered by the buyer (see Note 17).

11. Accounts Payable and Accrued Expenses

	2012	2011
Accounts payable	**₱7,002,340**	₱2,034,753
Accrued expenses	**4,706,640**	2,230,836
	₱11,708,980	₱4,265,589

Accrued expenses include Ateneo Center for Economic Research and Development (ACERD) baseline survey fees, audit and other professional fees and service billing for old accounting system.

12. Grants Payable

Grants payable represents unreleased and committed grants to project proponents and will be released upon compliance with the conditions set forth in the project agreement. Grants payable amounted to ₱10,919,218 and ₱10,286,810 as of December 31, 2012 and 2011, respectively. Grant expenses amounted to ₱36,835,685 and ₱15,189,133 in 2012 and 2011, respectively.

13. Funds Held in Trust

This account includes the following:

	2012	2011
CORDAID* - MP3		
Balances at beginning of year	**₱92,241,928**	₱68,849,567
Net profit	**193,857**	3,576,154
Amount received	**–**	19,816,207
	92,435,785	92,241,928
CORDAID - Ondoy-Pepeng Rehabilitation Project		
Balances at beginning of year	**29,946,969**	30,235,160
Amount received	**25,511,058**	–
Return of funds	**(543,603)**	(925,995)
Net profit (loss)	**(2,393,203)**	637,804
	52,521,221	29,946,969
CORDAID - Disaster Risk Reduction (DRR) Project		
Balances at beginning of year	**216,264**	266,264
Expenses	**(216,264)**	(50,000)
	–	216,264
CORDAID - Climate Change Project		
Balances at beginning of year	**1,615,948**	–
Amount received	**1,134,000**	1,764,574
Expenses	**(1,859,890)**	(148,626)
	890,058	1,615,948
CORDAID - Emergency Response - Typhoon Sendong		
Balances at beginning of year	**2,324,512**	–
Expenses	**(2,090,548)**	–
	233,964	–

(Forward)

	2012	2011
Department of Energy (DOE)/United Nation Development Program (UNDP) CBRED		
Balances at beginning of year	**₱25,643,333**	₱25,323,305
Net profit	**96,252**	320,028
	25,739,585	25,643,333
The Coca-Cola Foundation (Coca-Cola)		
Balances at beginning and end of year	**44,490**	44,490
World Health Organization (WHO)/Department of Health		
Balances at beginning of year	–	583,354
Expenses	–	(583,354)
	–	–
	₱171,865,103	₱149,708,932

**Catholic Organization for Relief and Development Agency for International Development*

The details of the above funds are fully discussed as follows:

CORDAID - MP3
In June 2007, the Foundation availed of an 8-year ₱80.0 million loan fund from CORDAID, Netherlands and was awarded a grant amounting to EUR 70,696. Such fund shall be used for an eight-year micro-finance fund program tagged as MP3 that will focus on providing credit assistance and institutional support to eligible borrowers. The available funds have been invested as part of the short-term investments (see Note 7). The Foundation withdraws from this investment to fund the approved projects. At the end of eight years, the Foundation will return to CORDAID the nominal peso value of the entire principal that it has received less any loan write-offs. The income at the end of the program will be shared 80%-20% by CORDAID and the Foundation, respectively. In 2011, CORDAID released to the Foundation the last tranche of the loan fund amounting to EUR 356,000.

CORDAID - Ondoy-Pepeng Rehabilitation Project
In 2010, the Foundation partnered with CORDAID for a 5-year EUR 1.5 million loan fund and was awarded a grant amounting to EUR 8,007. 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.

As of December 31, 2012, the Foundation plans to have realignment of the MP3 and Ondoy-Pepeng Rehabilitation Project for the purpose of social enterprise in 2013. This will be a five (5) year program until 2018.

CORDAID - DRR Project
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. The project was completed on June 30, 2012.

CORDAID - Climate Change Project
In 2011, the Foundation received a grant amounting to EUR 30,500 for capacity building and technical assistance program to introduce "climate smart" capacities and technologies to communities facing varying degrees of climate induced risks and vulnerabilities and whose existing agri-enterprises are at various stages of growth.

CORDAID - Emergency Response for Typhoon Sendong
In 2012, the Foundation received a grant from CORDAID amounting to EUR 83,845 for relief and rehabilitation support for communities in Cagayan de Oro (CDO), Mindanao who are affected by typhoon Sendong. The program is to set up a performance guarantee for housing of more than 2,000 families in partnership with three (3) organizations based in CDO namely - Technology Outreach and Community Help (TOUCH) Foundation, Foundation for Growth, Organizational Upliftment of People (GROUP, Inc.) and the The Social Action Center of the Archdiocese of Cagayan De Oro (SAC-ACDO). Through Socialized housing Finance Corporation's (SHFC) CMP, the Foundation will provide the guarantee – serving as security for the immediate release of financing – that the housing associations will comply with all required documents. In July 2012, the BOT approved the Memorandum of Understanding (MOU) with SHFC for the performance guarantee for the immediate release of the CMP loan. Further, on October 3, 2012, the BOT approved to open the escrow account in favor of SHFC with Asia United Bank, as escrow agent, equivalent to 25% of total approved loan stipulated in guarantee agreement (see Note 8).

DOE and UNDP
In October 2006, the Foundation was awarded a grant amounting to $535,500 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 AFS financial assets account under BPI.

WHO
In August 2010, the Foundation was awarded a grant amounting to ₱1.9 million by the WHO. Out of the total grant awarded, the actual amount received by the Foundation as of December 31, 2012 and 2011 amounted to nil and 927,800, respectively. 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. The project was completed on August 31, 2011.

Coca-Cola
In December 2008, the Foundation was awarded a grant amounting to $65,278 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. The project was completed on December 12, 2010. As of December 31, 2012, the Foundation is waiting for the advice to return remaining fund amounting to ₱44,490.

14. **Project Expenses**

	2012	2011
Project development, monitoring and evaluation (PDME)	**₱10,851,500**	₱5,213,172
Knowledge management	**4,929,497**	3,497,691
Project support	**1,345,903**	31,610
Institutional support	**1,198,143**	834,642
Advocacy and communications	**1,080,789**	827,449
CORDAID related expenses	**1,017,697**	241,006
Rebates to proponents (see Note 6)	**547,991**	136,842
CBRED related expenses	**116,152**	41,827
	₱21,087,672	₱10,824,239

PDME, CORDAID and CBRED related expenses are summarized below:

	2012	2011
Salaries and benefits (see Note 16)	**₱6,591,375**	₱2,497,664
Project monitoring	**2,111,476**	853,692
Project audit	**1,667,386**	679,393
Project appraisals	**564,081**	327,843
Pre and post project meetings and workshops	**495,261**	277,608
Supplies, services and other operating costs	**213,201**	242,291
Project evaluation and documentation	**130,798**	131,497
Outside services	**118,491**	456,776
Others	**93,280**	29,241
	₱11,985,349	₱5,496,005

Knowledge management includes ACERD baseline survey amounting to ₱3,194,769 in 2012. Institutional support includes staff learning and development and organizational development amounting to ₱377,709 and ₱255,802 in 2012 and ₱63,261 and ₱199,946 in 2011, respectively. Advocacy and communications include media coverage, press briefing and publicity promotions.

Project support expenses include expenses for projects Capabuild and social enterprise conference amounting to ₱585,953 and ₱526,107, respectively in 2012.

15. **General and Administrative Expenses**

	2012	2011
Salaries and benefits (see Note 16)	**₱6,585,889**	₱4,632,487
Meetings	**1,548,483**	1,014,543
Outside services	**1,124,797**	1,291,210
Utilities	**550,993**	431,341
Legal fee	**505,159**	461,228
Communications	**300,992**	287,533
Office supplies	**283,394**	303,290
Repair and maintenance	**261,916**	312,839
Transportation and travel	**246,516**	227,246
Recruitment and advertising	**202,767**	678,884
(Forward)		

	2012	2011
Representation	**₱57,604**	₱348,433
Association dues and membership	**55,468**	22,600
Taxes and licenses	**59,132**	45,146
Others	**110,710**	76,737
	₱11,893,820	₱10,133,517

16. **Personnel Expenses**

	2012	2011
Salaries and wages	**₱10,445,845**	₱5,577,103
Social security costs	**866,722**	569,874
Bonuses	**773,922**	523,995
De minimis benefits	**706,725**	251,082
Compensated absences	**384,050**	208,097
	₱13,177,264	₱7,131,151

Compensation of identified key management personnel of the Foundation are as follows:

	2012	2011
Salaries and wages	**₱6,574,500**	₱1,520,000
Employee benefits	**1,147,982**	197,765
	₱7,722,482	₱1,717,765

17. **Other Income**

	2012	2011
Reversal of impairment loss (see Note 6)	**₱2,347,078**	₱3,306,462
Gain on sale of investment property (see Note 10)	**754,211**	–
Income from guarantee (see Note 20)	**573,179**	366,588
Retirement benefit income (see Note 18)	**173,798**	74,040
Management fee	**155,357**	456,868
Gain on sale of property and equipment (see Note 9)	**7,547**	735,996
Others	**438,906**	46,696
	₱4,450,076	₱4,986,650

18. **Retirement Benefit Costs**

The Foundation has a funded, noncontributory defined benefit retirement plan covering one of its qualified regular employees. Retirement benefits are based on employee's year of service and compensation level during their employment period. Actuarial valuations are made with sufficient regularity.

The assumptions used to determine pension benefits for the Foundation in 2012 and 2011 are as follows:

	2012	2011
Discount rate	**6.17%**	7.05%
Expected rate of return on plan assets	**6.00%**	6.00%
Salary increase rate	**7.00%**	3.50%
Retirement age (in years)	**65**	65

The amounts recognized as net retirement benefit assets presented as part of "Other noncurrent assets" in the statements of financial position as of December 31, 2012 and 2011 are as follows:

	2012	2011
Present value of retirement benefit obligation	**₱121,207**	₱97,341
Fair value of plan assets	**(1,810,782)**	(1,749,787)
Over funded obligation	**(1,689,575)**	(1,652,446)
Unrecognized actuarial gain	**55,199**	55,199
Amount not recognized as asset due to limit	**1,078,944**	1,215,613
Net retirement benefit asset	**(₱555,432)**	(₱381,634)

The components of post-employment benefits income recognized in profit or loss are as follows:

	2012	2011
Net actuarial loss recognized for the year	**₱44,663**	₱–
Current service cost	**16,332**	16,219
Interest cost	**6,863**	5,960
Changes in the effect of the asset ceiling gain	**(136,669)**	–
Expected return on plan assets	**(104,987)**	(96,219)
Post-employment benefits income (see Note 17)	**(₱173,798)**	(₱74,040)

Changes in the fair value of plan assets are as follows:

	2012	2011
Balances at beginning of year	**₱1,749,787**	₱1,603,650
Expected return on plan assets	**104,987**	96,219
Actuarial gain (loss) on plan assets	**(43,992)**	49,918
Balances at end of year	**₱1,810,782**	₱1,749,787
Actual return on plan assets	**₱60,995**	₱146,137

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
Balances at beginning of year	**₱97,341**	₱75,162
Current service cost	**16,332**	16,219
Interest cost	**6,863**	5,960
Actuarial loss	**671**	–
Balances at end of year	**₱121,207**	₱97,341

Changes in the net retirement benefit asset recognized in the statement of financial position are as follows:

	2012	2011
Balances at beginning of year	**₱381,634**	₱307,594
Pension income	**173,798**	74,040
Balances at end of year	**₱555,432**	₱381,634

The historical information of the amount for the current and previous annual periods is as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	**₱121,207**	₱97,341	₱75,162	₱2,159,039	₱1,696,837
Fair value of net plan assets	**1,810,782**	1,749,787	1,603,650	2,688,132	2,028,139
Experience adjustments on plan obligation	**671**	–	50,846	–	140,475
Experience adjustments on plan assets	**43,992**	(49.918)	249,036	–	7

19. Income 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 [Republic Act (RA) 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 certificate of registration in accordance with Revenue Regulations (RR) 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 RA 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 EO No. 720, where PCNC has the function of accrediting donee institutions. Further, no corporations, associations, or 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.

The tax expense shown in the statements of comprehensive income pertains to final taxes withheld from interest income on the Foundation's bank accounts, short-term placements and AFS debt financial assets.

There are no current provisions for regular corporate income tax in 2012 and 2011 due to the Foundation's gross taxable loss positions. The unrecognized deferred tax assets is reviewed at each reporting date and reassessed for recognition to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The reconciliation of pretax income computed at the statutory tax rate is as follows:

	2012	2011
Provision for income tax at statutory rate	**₱16,536,334**	₱48,479,386
Additions to reductions resulting from:		
Nondeductible expenses	**12,715,996**	6,608,005
Movement of unrecognized deferred tax assets	**8,037,912**	5,262,324
Nontaxable dividend income and fair value gains	**(19,127,676)**	(42,199,962)
Interest income on investment subject to final tax	**(5,946,446)**	(6,046,774)
Nontaxable income	**(278,403)**	–
Interest income subject to final tax - others	**(44,824)**	(9,431)
	₱11,892,893	₱12,093,548

As of December 31, 2012, NOLCO that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Expiry year	Balance at beginning of year	Addition	Expiration	Balance at end of year
2009	2012	₱62,413,518	₱12,647,995	(₱–)	₱75,061,513
2010	2013	75,061,513	21,334,065	(40,626,089)	55,769,489
2011	2014	55,769,489	12,299,783	(21,787,429)	46,281,843
2012	2015	46,281,843	25,834,820	(12,647,995)	59,468,668

20. Commitments and Contingencies

Guarantee Agreement

Community Mortgage Program

In September and October 2012, the Foundation entered into guarantee agreements where the Foundation is the guarantor for the account of Consolacion Homeowners Association, Inc. (CONHAI), TOUCH Foundation Inc., Medella Milgrosa Homeowners Association, Inc. Phase 1 and Phase 2 (CA) and SAC-ACDO, the borrowers with SHFC under the "CMP Express Lane for Victims of Demolition and Disasters Projects" for one year. The program is to assist the above mentioned legally organized associations of underprivileged and homeless citizens to purchase and develop a tract of land or resettlement site (see Note 13).

The borrowers need only to submit specific documentations required under CMP project to the Foundation and maintain a collection efficiency rating of 80% within one year from release of loan.

Pinoy ME Foundation, Inc.
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 (DBP) as the lender.

The Foundation guarantees, without the benefit of excussion, the payment of up to 80% of the outstanding loans availed by Pinoy ME Foundation, Inc. The outstanding payable of Pinoy ME Foundation Inc. to DBP amounted to ₱51,140,674 and ₱70,175,623 as of December 31, 2012 and 2011, 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 earned income from guarantee fee, net of output VAT, amounting to ₱573,179 and ₱366,588 in 2012 and 2011, respectively, presented as part of "Other income" in the statements of comprehensive income (see Note 17).

Others
There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Foundation's operations which are not reflected in the accompanying financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Foundation's financial statements.

21. **Financial Risk Management Objectives and Policies**

The main purpose of the Foundation's financial instruments is to fund the Foundation's operations and to acquire and improve property and equipment. The main risks arising from the use of financial instruments are liquidity risk, foreign currency risk, interest rate risk, equity price risk and credit risk. The Foundation's BOT reviews and agrees with policies for managing each of these risks. These are summarized below:

Liquidity risk
The Foundation is exposed to liquidity risk. Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. 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. The Foundation manages its liquidity profile to meet the following objectives: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities

The table below shows the maturity profile of the Foundation's financial assets used for liquidity purposes based on contractual undiscounted cash flows, and the Foundation's financial liabilities based on contractual undiscounted payments.

2012

	On demand	< 1 year	> 1 year	Total
Cash and cash equivalents	**₱13,276,043**	**₱2,000,000**	**₱–**	**₱15,276,043**
Receivables	**–**	**69,586,887**	**46,750,655**	**116,337,542**
AFS financial assets	**2,059,343,328**	**–**	**–**	**2,059,343,328**
Escrow deposit	**20,630,607**	**–**	**–**	**20,630,607**
Refundable deposit	**–**	**–**	**45,601**	**45,601**
Financial assets	**2,093,249,978**	**71,586,887**	**46,796,256**	**2,211,633,121**
Accounts payable and accrued expenses*	**–**	**11,268,987**	**–**	**11,268,987**
Grants payable	**–**	**10,919,218**	**–**	**10,919,218**
Funds held in trust	**–**	**171,865,103**	**–**	**171,865,103**
Financial liabilities	**–**	**194,053,308**	**–**	**194,053,308**
	₱2,093,249,978	**(₱122,466,421)**	**₱46,796,256**	**₱2,017,579,813**

**Excluding government related payables.*

2011

	On demand	< 1 year	> 1 year	Total
Cash and cash equivalents	₱29,986,114	₱22,300,000	₱–	₱52,286,114
Receivables	–	59,722,334	41,413,884	101,136,218
AFS financial assets	1,871,025,409	–	–	1,871,025,409
Refundable deposit	–	–	30,770	30,770
Financial assets	1,901,011,523	82,022,334	41,444,654	2,024,478,511
Accounts payable and accrued expenses*	–	3,858,230	–	3,858,230
Grants payable	–	10,286,810	–	10,286,810
Funds held in trust	–	149,708,932	–	149,708,932
Financial liabilities	–	163,853,972	–	163,853,972
	₱1,901,011,523	(₱81,831,638)	₱41,444,654	₱1,860,624,539

**Excluding government related payables.*

Foreign Currency Risk

The Foundation has transactional currency exposures. The exposure arises from cash in banks denominated in currencies other than reporting currency which is the Philippine peso.

The Foundation closely monitors the movement in the exchange rate and makes a regular assessment of future foreign exchange movements. The Foundation then manages the balance of its foreign currency-denominated assets and liabilities based on this assessment.

Foreign currency-denominated financial assets and liabilities as of December 31, 2012 and 2011 translated in PHP are as follows:

	2012		2011	
	Original	**Translated**	Original	Translated
In US Dollar:				
Cash in bank	**$5,549**	**₱227,786**	$1,416	₱62,077
AFS financial assets	**–**	**–**	128,916	5,651,677
In Euro:				
Cash in bank	**€4,978**	**270,267**	€358,305	20,299,949

The exchange rates used are as follows:

	1 USD	1 EUR
December 31, 2012	**41.0500**	**54.2923**
December 31, 2011	43.8400	56.6555

The following table presents the impact on the income before income tax due to change in the fair value of its monetary assets and liabilities, brought about by a change in the USD and EUR exchange rates (holding all other variables constant).

2012

	Increase (decrease) in income before income tax	
	₱ strengthens by 5%	**₱ weakens by 5%**
Effect in income before income tax:		
Change in PHP/USD exchange rate	**(₱11,389)**	**₱11,389**
Change in PHP/EUR exchange rate	**(13,513)**	**13,513**

2011

	Increase (decrease) in income before income tax	
	₱ strengthens by 5%	₱ weakens by 5%
Effect in income before income tax:		
Change in PHP/USD exchange rate	(₱285,688)	₱285,688
Change in PHP/EUR exchange rate	(1,014,997)	1,014,997

There is no other impact on the Foundation's fund balances other than those already affecting income before income tax.

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

Interest Rate Risk

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

The Foundation derives majority of its revenue from short term deposits and AFS financial assets. Accordingly, the Foundation is subject to financial risk arising from changes in interest rates. The Foundation manages interest rate risk by investing mainly on fixed coupon interest bonds and other investments. By doing so, the Foundation is assured of future interest revenues from such investments.

Since the Foundation invests on fixed coupon interest bonds and other investments, the Foundation is not exposed significantly to cash flow interest rate risk.

The following table demonstrates management's best estimate of the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Foundation's equity due to changes in fair values of AFS financial assets in debt instruments.

	2012		2011	
Effects on:	**+100 basis points**	**-100 basis points**	+74 basis points	-74 basis points
Excess of revenues over expenses for the year	**₱5,105,335**	**(₱5,105,335)**	₱6,018,049	(₱6,018,049)
Fund balances at end of year	**6,095,494**	**(6,095,494)**	14,078,672	14,078,672

Credit risk
Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Foundation is exposed to credit risk primarily because of its investing activities. The Foundation is exposed to credit risk arising from the counterparties (i.e., debt instruments, short-term investments, fixed income deposits and receivables) to its financial assets.

Credit Risk Management
In managing credit risk on these investments, capital preservation is paramount. The Foundation trades only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Foundation's Finance and Investments Committee.

With respect to credit risk arising from the other financial assets of the Foundation, which consist of cash and cash equivalents, receivables, escrow deposit and refundable deposit, the Foundation's Finance and Investments Committee monitors these financial assets on an ongoing basis with the result that the Foundation's exposure to impairment losses is not significant.

Credit Risk Exposures
At reporting date, the Foundation's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the statements of financial position less the amount of advances to proponents covered by collaterals.

Credit Risk Concentration Profile
The Foundation has no significant concentrations of credit risk.

Credit Quality
The table below presents information about the credit quality per class of financial assets as of December 31, 2012 and 2011:

2012

	High Grade	Standard Grade	Total
Cash and cash equivalents			
Cash in banks	**₱13,241,043**	**₱–**	**₱13,241,043**
Short-term investments	**2,000,000**	**–**	**2,000,000**
Receivables	**–**	**116,337,542**	**116,337,542**
AFS financial assets	**2,059,343,328**	**–**	**2,059,343,328**
Escrow deposit	**20,630,607**	**–**	**20,630,607**
Refundable deposit	**–**	**45,601**	**45,601**
Total	**₱2,095,214,978**	**₱116,383,143**	**₱2,211,598,121**

2011

	High Grade	Standard Grade	Total
Cash and cash equivalents			
Cash in banks	₱29,946,114	₱–	₱29,946,114
Short-term investments	22,300,000	–	22,300,000
Receivables	–	101,136,218	101,136,218
AFS financial assets	1,871,025,409	–	1,871,025,409
Refundable deposit	–	30,770	30,770
Total	₱1,923,271,523	₱101,166,988	₱2,024,438,511

Cash and cash equivalents and escrow deposit under other current assets is considered high grade since the counterparties are reputable banks with high quality external credit ratings. High grade also include AFS financial assets related to special deposit accounts, debt and equity instruments, unit investment trust funds and mutual funds entered into by the Foundation with various fund managers, most of which are top banks in their respective locations. Standard grade pertains to receivables and refundable deposits which would require some reminder follow-ups to obtain settlement from the counterparty.

Aging Analysis
Aging analysis per class of financial assets as of December 31, 2012 and 2011 are as follows:

2012

		Past due but not impaired			
	Neither Past Due nor Impaired	**<1 year**	**>1 year**	**Impaired Financial Assets**	**Total**
Loans and receivables:					
Cash and cash equivalents	**₱15,241,043**	**₱–**	**₱–**	**₱–**	**₱15,241,043**
Receivables	**116,337,542**	**–**	**–**	**36,202,530**	**152,540,072**
Escrow deposit	**20,630,607**	**–**	**–**	**–**	**20,630,607**
Refundable deposit	**45,601**	**–**	**–**	**–**	**45,601**
AFS financial assets	**2,059,343,328**	**–**	**–**	**–**	**2,059,343,328**
	₱2,211,598,121	**₱–**	**₱–**	**₱36,202,530**	**₱2,247,800,651**

2011

	Neither Past Due nor Impaired	Past due but not impaired <1 year	Past due but not impaired >1 year	Impaired Financial Assets	Total
Loans and receivables:					
Cash and cash equivalents	₱52,246,114	₱–	₱–	₱–	₱52,246,114
Receivables	101,136,218	–	–	30,256,296	131,392,514
Refundable deposit	30,770	–	–	–	30,770
AFS financial assets	1,871,025,409	–	–	–	1,871,025,409
	₱2,024,438,511	₱–	₱–	₱30,256,296	₱2,054,694,807

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Foundation's financial assets in AFS equity instruments. For investments in Philippine equities, all funds are invested in equities listed in the Philippine Stock Exchange (PSE).

The Foundation measures the sensitivity of its equity instruments by using PSE indices fluctuations and its effect to respective share prices.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2012 and 2011, with all other variables held constant, of the Foundation's fund balances.

	2012	2011
Investment in AFS equity securities		
Change in market share prices (%)		
+10%	**₱74,776,758**	₱33,665,959
–10%	**(74,776,758)**	(33,665,959)

Fair Value and Category of Financial Instruments

The table below presents a comparison by category of carrying amounts and estimated fair values of all the Foundation's financial instruments as of December 31, 2012 and 2011.

	2012		2011	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
Loans and receivables				
Cash and cash equivalents	**₱15,276,043**	**₱15,276,043**	₱52,286,114	₱52,286,114
Receivables	**116,337,542**	**116,337,542**	101,136,218	101,136,218
Escrow deposit	**20,630,607**	**20,630,607**	–	–
Refundable deposit	**45,601**	**45,601**	30,770	30,770
AFS financial assets	**2,059,343,328**	**2,059,343,328**	1,871,025,409	1,871,025,409
	₱2,211,633,121	**₱2,211,633,121**	₱2,024,478,511	₱2,024,478,511
Other financial liabilities				
Accounts payable and accrued expenses	**₱11,268,987**	**₱11,268,987**	₱3,858,230	₱3,858,230
Grants payable	**10,919,218**	**10,919,218**	10,286,810	10,286,810
Funds held in trust	**171,865,103**	**171,865,103**	149,708,932	149,708,932
	₱194,053,308	**₱194,053,308**	₱163,853,972	₱163,853,972

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Cash and Cash Equivalents
The carrying amount of cash and cash equivalents approximates the fair value of the financial instruments due to the short-term nature of these instruments.

Receivables, Accounts Payable and Accrued Expenses, Grants Payable and Funds Held In Trust
Similarly, the historical cost carrying amounts of loans and receivables, accounts payable and accrued expenses, grants payable and funds held in trust approximate their fair values due to their short-term nature.

Escrow Deposit and Refundable Deposit
The escrow deposit is subject to interest rate per annum ranging from 3.65625% to 3.90625%. Its carrying value approximates its fair value. The carrying values of refundable deposits approximate their fair values as the difference between their carrying values and their fair values is not material to the financial statements.

AFS Financial Assets
The carrying value of quoted AFS financial assets approximates the fair value because the instruments were revalued based on the quoted market prices at the close of business at reporting date.

Fair Value Hierarchy
The Foundation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2012 (in thousands)			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS financial assets	**₱1,392,611**	**₱510,533**	**₱–**	**₱1,903,144**

	2011 (in thousands)			
	Level 1	Level 2	Level 3	Total
AFS financial assets	₱1,333,683	₱466,246	₱–	₱1,799,929

As of December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements. Also, there were no transfers into and out of Level 3 fair value measurements.

22. 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.

The Foundation's total provision for inflation for 2012 and 2011 amounted to ₱53.2 million and ₱51.6 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:

	2012	2011
Total liabilities	**₱194,493,301**	₱164,261,331
Fund balance	**2,056,310,438**	1,902,581,163
Liability to fund balance ratio	**9.46%**	8.63%

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.

No changes were made in the objectives, policies or processes in 2012 and 2011.

23. Reclassification

The following accounts in the 2011 financial statements were reclassified to conform with the 2012 presentation of financial statements:

a. Receivables
b. Other current assets
c. Project expenses
d. General and administrative expenses
e. Other income

The reclassification has no impact to the Foundation's financial position, financial performance and cash flow.

24. **Supplementary Information Required Under Revenue Regulation (RR) 19-2011**

RR 19-2011 was issued to prescribe the new BIR forms that will be used for income tax filing covering and starting with December 31, 2011, and to modify Revenue Memorandum Circular No. 57-2011. The revenue regulation is effective for all taxpayers required to file their income tax returns under section 51(A)(1) of the Tax Code, and those not required to file under section 51(A)(2) but who nevertheless opted to do so, covering and starting December 31, 2011.

The taxable income of the Foundation is subjected to 30% rate on income subject to regular tax rate.

The following are the required schedules under the special rate prescribed under existing revenue issuances applicable to the Foundation as of December 31, 2012:

a. The Foundation's exempt revenues from investment income amounted to ₱123,223,384.

b. Cost of services amounted to:

	Exempt	Regular
Grant expenses	₱36,835,685	₱–
Project expenses	–	21,087,672
Total	₱36,835,685	₱21,087,672

c. Non-operating and taxable other income amounted to:

	Regular
Interest income	₱2,939,501
Income from guarantee	573,179
Management fee	155,357
Others	446,453
Total	₱4,114,490

d. Itemized deductions

	Exempt	Regular
Salaries and wages	₱2,467,318	₱2,782,294
Meetings	727,787	820,696
Employee benefits	628,050	708,228
Outside services	528,655	596,143
Utilities	258,967	292,026
Legal fee	237,425	267,734
Communications	141,466	159,526
Office supplies	133,195	150,199
Repair and maintenance	123,100	138,815
Transportation and travel	115,862	130,653
Recruitment and advertising	95,300	107,466
Representation	27,074	30,530
Association dues and membership	26,070	29,398
Depreciation	–	2,518,788
Taxes and licenses	–	59,132
Others	40,701	70,010
	₱5,550,970	₱8,861,638

25. **Supplementary Information Required Under Revenue Regulation 15-2010**

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR No. 21-2002 prescribing the matter of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns. It requires the disclosure of taxes, duties and license fees paid or accrued during the year.

a. Net sales/receipts and output VAT declared in the Foundation's VAT returns filed for the year ended December 31, 2012:

	Net Sales/ Receipts	Output VAT
Interest and other income	₱10,035,940	₱1,204,313
Property and equipment disposal	8,576	1,029
	₱10,044,516	₱1,205,342

b. The following are the movements of input VAT for the year ended December 31, 2012:

Balance at beginning of year	₱195,846
Current year's domestic purchases/payments for:	
Services lodged under other accounts	1,185,196
Goods other than for resale or manufacture	384,493
Capital goods not subject to amortization	94,872
Input VAT applied against output VAT during the year	(1,271,815)
Balance at end of year	₱588,592

c. The Foundation's taxes and licenses in 2012 are as follows:

Property tax	₱42,463
Business tax	14,473
Residence tax	744
Annual registration fee	500
Miscellaneous	952
	₱59,132

d. The amount of withholding taxes paid in 2012 are as follows:

Withholding tax on compensation	₱2,740,552
Expanded withholding tax	774,846
Final tax	111,820
	₱3,627,218

e. The Foundation has no deficiency tax assessments, protested or not and is not involved in any tax cases under preliminary investigation, litigation and prosecution in courts or outside BIR in 2012.