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

Parent Company Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

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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 Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc., which comprise the parent company statements of financial position as at December 31, 2013 and 2012, and the parent company statements of comprehensive income, statements of changes in fund balances and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of parent company 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 parent company financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company 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 parent company 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such 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.

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April 7, 2014

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

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012 (As restated; Note 2)	January 1, 2012 (As restated; Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4)	**₱41,119,231**	₱15,276,043	₱52,286,114
Receivables (Note 5)	**106,089,888**	69,586,887	59,691,564
Available-for-sale financial assets (Note 6)	**1,952,802,423**	2,059,343,328	1,871,025,409
Other current assets (Note 7)	**25,445,105**	21,504,919	405,192
Total Current Assets	**2,125,456,647**	2,165,711,177	1,983,408,279
Noncurrent Assets			
Receivables - net of current portion (Note 5)	**32,729,392**	46,750,655	41,444,654
Property and equipment (Note 8)	**31,545,597**	32,829,060	33,519,554
Investment properties (Note 9)	**4,911,814**	4,911,814	8,057,603
Investment in Peace and Equity Holdings Inc. (Note 10)	**31,250,000**	–	–
Other noncurrent assets (Note 18)	**607,538**	601,033	366,329
Total Noncurrent Assets	**101,044,341**	85,092,562	83,388,140
TOTAL ASSETS	**₱2,226,500,988**	₱2,250,803,739	₱2,066,796,419
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Account payable and accrued expenses (Note 11)	**₱16,830,415**	₱11,708,980	₱4,265,589
Grants payable (Note 12)	**8,821,429**	10,919,218	10,286,810
Funds held in trust (Note 13)	**153,322,410**	171,865,103	149,708,932
Total Current Liabilities	**178,974,254**	194,493,301	164,261,331
Fund Balances (Note 22)			
Restricted	**1,879,682,796**	1,824,934,753	1,771,781,314
Unrestricted	**167,843,938**	231,375,685	130,753,774
Total Fund Balances	**2,047,526,734**	2,056,310,438	1,902,535,088
TOTAL LIABILITIES AND FUND BALANCES	**₱2,226,500,988**	₱2,250,803,739	₱2,066,796,419

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2013	2012 (As restated; Note 2)
REVENUES		
Investment income (Note 6)	**₱155,694,957**	₱123,223,384
Interest income (Notes 4, 5 and 7)	**4,141,242**	3,088,915
Others (Note 17)	**2,607,917**	1,936,770
	162,444,116	128,249,069
EXPENSES		
Grant expenses (Note 12)	**25,571,285**	36,835,685
Project expenses (Note 14)	**22,265,420**	21,087,672
General and administrative (Note 15)	**14,576,237**	11,893,820
Provision for impairment losses on receivables - net (Note 5)	**13,336,954**	73,190
Depreciation and amortization (Note 8)	**2,839,411**	2,518,788
Foreign currency losses (gains) - net	**(36,568)**	885,028
	78,552,739	73,294,183
INCOME BEFORE INCOME TAX	**83,891,377**	54,954,886
PROVISION FOR INCOME TAX (Note 19)	**8,661,226**	11,892,893
NET INCOME	**75,230,151**	43,061,993
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income to be subsequently reclassified to profit or loss		
Net unrealized valuation gain (loss) on available-for-sale financial assets (Note 6)	**(84,003,288)**	110,501,054
Other comprehensive income not to be subsequently reclassified to profit or loss		
Remeasurement gain (loss) on defined benefit plan	**(10,567)**	212,303
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(84,013,855)**	110,713,357
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱8,783,704)**	₱153,775,350

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CHANGES IN FUND BALANCES

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

	Unrestricted Funds					Restricted Funds			
	Members' Contribution	Cumulative Excess of Revenues over Expenses	Revaluation Reserves on AFS (Note 6)	Remeasurement gain (loss) on defined benefit plan (Note 2)	Total Unrestricted	Endowment Fund (Note 1)	Provision for Inflation (Note 22)	Total Restricted	Grand Total
Balances at January 1, 2012, as previously reported	₱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
Effect of adoption of revised PAS 19 (Note 2)	–	(46,075)	–	–	(46,075)	–	–	–	(46,075)
Balances as at January 1, 2012, as restated	100,000	78,051,257	52,602,517	–	130,753,774	1,318,371,694	453,409,620	1,771,781,314	1,902,535,088
Net income, as restated	–	43,061,993	–	–	43,061,993	–	–	–	43,061,993
Other comprehensive income, as restated (Note 2)	–	–	110,501,054	212,303	110,713,357	–	–	–	110,713,357
Provision for cost of inflation	–	(53,153,439)	–	–	(53,153,439)	–	53,153,439	53,153,439	–
Balances as at December 31, 2012, as restated	100,000	67,959,811	163,103,571	212,303	231,375,685	1,318,371,694	506,563,059	1,824,934,753	2,056,310,438
Net income	–	75,230,151	–	–	75,230,151	–	–	–	75,230,151
Other comprehensive loss	–	–	(84,003,288)	(10,567)	(84,013,855)	–	–	–	(84,013,855)
Provision for cost of inflation	–	(54,748,043)	–		(54,748,043)	–	54,748,043	54,748,043	–
Balances at December 31, 2013	₱100,000	₱88,441,919	₱79,100,283	₱201,736	₱167,843,938	₱1,318,371,694	₱561,311,102	₱1,879,682,796	₱2,047,526,734

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012 (As restated; Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱83,891,377**	₱54,954,886
Adjustments for:		
Provision for impairment losses (Note 5)	**13,336,954**	73,190
Depreciation and amortization (Note 8)	**2,839,411**	2,518,788
Unrealized foreign exchange loss (gain)	**(36,568)**	885,028
Interest income (Notes 4, 5 and 7)	**(4,141,242)**	(3,088,915)
Investment income (Note 6)	**(155,694,957)**	(123,223,384)
Gain on disposal of investment properties (Notes 9 and 17)	**–**	(754,211)
Gain on disposal of property and equipment (Notes 8 and 17)	**–**	(7,547)
Operating loss before working capital changes	**(59,805,025)**	(68,642,165)
Decrease (increase) in:		
Receivables	**(34,855,362)**	(14,307,524)
Available-for-sale financial assets	**22,537,617**	(77,816,865)
Other current assets	**(3,940,186)**	(21,099,727)
Other noncurrent assets	**(17,072)**	(22,401)
Increase (decrease) in:		
Accounts payable and accrued expenses	**5,121,435**	7,443,391
Grants payable	**(2,097,789)**	632,408
Funds held in trust	**(18,502,470)**	22,189,791
Net cash used in operations	**(91,558,852)**	(151,623,092)
Investment income received	**155,694,957**	123,223,384
Income taxes paid (Notes 6 and 19)	**(8,661,226)**	(11,892,893)
Interest income received	**3,177,912**	2,121,925
Net cash flows generated from (used in) operating activities	**58,652,791**	(38,170,676)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Peace and Equity Holdings Inc. (Note 10)	**(31,250,000)**	–
Additions to property and equipment (Note 8)	**(1,596,171)**	(1,866,129)
Proceeds from sale of investment property (Note 9)	**–**	3,900,000
Proceeds from sale of property and equipment (Note 8)	**–**	11,762
Net cash flows generated from (used in) investing activities	**(32,846,171)**	2,045,633
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**36,568**	(885,028)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**25,843,188**	(37,010,071)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**15,276,043**	52,286,114
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱41,119,231**	₱15,276,043

See accompanying Notes to parent company Financial Statements.

PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION INC.
NOTES TO PARENT COMPANY 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 ₱75.2 million and ₱43.1 million for the years ended December 31, 2013 and 2012, 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 parent company financial statements of the Foundation as at and for the years ended December 31, 2013 and 2012 were approved and authorized for issue by the BOT on April 7, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

The parent company 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 parent company 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.

The parent company financial statements provide comparative information in respect of the previous period. In addition, the Foundation presents an additional parent company statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in parent company financial statements. An additional parent company statement of financial position as at January 1, 2012 is presented in these parent company financial statements due to retrospective application of the Revised Philippine Accounting Standards (PAS) 19, *Employee Benefits* (see Note 18).

The Foundation also prepares and issues consolidated financial statements for the same period as the separate parent company financial statements presented in accordance with Philippine Financial Reporting Standards (PFRS). These may be obtained at No. 69 Esteban Abada Street, Loyola Heights, Quezon City.

Statement of Compliance
The parent company financial statements have been prepared in accordance with PFRS.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new, amended and revised standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC). Except for the adoption of PAS 19 (Revised), *Employee Benefits*, the following new, amended and revised standards and interpretations did not have any significant impact on the parent company financial statements:

Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
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, *Financial Instruments: Presentation*. 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.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model

that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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.

PFRS 11, *Joint Arrangements*
PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed 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.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance of PFRS 13, the Foundation re-assessed its policies for measuring fair values for disclosure purposes. The Foundation has assessed that the application of PFRS 13 has not materially impacted its fair value measurements.

Amendments to PAS 1*, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or (OCI)*
The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will 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 amendments affect presentation only and have no impact on the parent company financial position or performance.

PAS 19, *Employee Benefits* (Revised)
For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Foundation recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Foundation changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the parent company financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption of the Revised PAS 19 on the parent company financial statements are as follows:

	December 31, 2012	January 1, 2012
Increase (decrease) in:		
Parent Company Statements of Financial Position		
Other noncurrent assets	₱219,873	(₱46,075)
Unrestricted fund	173,798	(46,075)

	For the Year Ended December 31, 2012
Increase in:	
Parent Company Statement of Comprehensive Income	
Retirement benefit income	₱7,570
Other comprehensive income	212,303
Total comprehensive income	₱219,873

Retirement benefit income is recognized as part of "Other income" in the parent company statement of comprehensive income.

The adoption did not have impact on the parent company statements of cash flow.

PAS 27 (Revised), *Separate Financial Statements*
As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

PAS 28 (Revised), *Investments in Associates and Joint Ventures*
As a consequence of the issuance of the new PFRS 11 and PFRS 12, 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.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

Improvements to PFRS
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.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

<u>Fair Value Measurement</u>
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Foundation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Foundation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Foundation's financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Foundation's financial statements on a recurring basis, the Foundation determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Foundation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Foundation measures AFS financial assets at its fair value at each reporting date.

Financial Instruments

Financial instruments are recognized in the parent company statement of financial position when the Foundation becomes a party to the contractual provisions of the instrument. The Foundation determines the classification of its financial instruments on initial recognition and, where allowed and appropriate, re-evaluate this designation at each reporting date.

All regular way purchases and sales of financial instruments are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of instruments within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets. Also under PAS 39, financial liabilities are classified as financial liabilities at FVPL or other financial liabilities.

Financial Assets

As of December 31, 2013 and 2012, the Foundation does not have any financial assets at FVPL and HTM investments. The Foundation's financial assets are of the nature of loans and receivable and AFS financial assets.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated at FVPL. This accounting policy relates to the Foundation's "Cash and cash equivalents", "Receivables", escrow deposit under "Other current assets" and refundable deposit under "Other noncurrent assets".

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 method, 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 as "Interest income" in the parent company statement of comprehensive income. The losses arising from impairment of receivables are recognized in the parent company statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on Impairment of Assets).

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

AFS Financial Assets
AFS investments are nonderivative financial assets that are designated as AFS or are not classified in any other categories. These include 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 "Revaluation reserves on AFS" account in the parent company statement of changes in fund balances. When the investment is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is recognized in 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 parent company statement of comprehensive income.

When the investment is disposed of, the cumulative gain or loss previously recognized in "Revaluation reserves on AFS" is recognized as gain or loss in the parent company 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 parent company 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.

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

Financial Liabilities
As of December 31, 2013 and 2012, the Foundation does not have any financial liabilities at FVPL. The Foundation's financial liabilities consist of other financial liabilities.

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Foundation having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Foundation's "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 parent company statement of financial position.

Other financial liabilities are presented as current when it is expected to be settled within twelve months from the reporting date or the Foundation does not have an unconditional right to defer settlement for at least twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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.

Derecognition of Financial Assets and Liabilities
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 where:

1. the rights to receive cash flows from the asset have expired;
2. 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
3. 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.

Where the Foundation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 amount 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 the parent company statement of comprehensive income.

Investment in Peace and Equity Holdings Inc.
Peace and Equity Holdings Inc. (PEHI) is a wholly owned subsidiary of the Foundation as of December 31, 2013.

A subsidiary is an entity controlled by the Foundation. The Foundation controls the subsidiary since it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to effect the returns through its power over the investee.

Investment in PEHI is accounted for under cost method less any impairment in value. Under the cost method of accounting, the Foundation recognizes income when its right to receive the dividends is established.

Escrow Deposit
Escrow deposit relates to fund set aside by the Foundation as guarantor for various community organizations who joined the "Community Mortgage Program (CMP)" project.

Escrow deposit are classified as current assets under "Other current assets" when these are expected to be realized within 12 months after the reporting period or within the normal operating cycle, whichever is longer. Otherwise, escrow deposit is classified as noncurrent assets under the "Other noncurrent assets" account.

Input Value-added Taxes (VAT)
Input VAT, presented as part of "Other current assets" in the parent company 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.

Property and Equipment
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, nonrefundable 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 and amortization 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 useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization 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 amortization 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 Assets

Financial Assets Carried at Amortized Cost

The Foundation assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. For financial assets carried at amortized cost, whenever it is probable that the Foundation will not collect all amounts due according to the contractual terms of receivables, 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 the parent company statement of comprehensive income. 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 discounted at the financial asset's original effective interest rate. If a variable interest rate was used, the discounted rate for measuring the impairment loss is the current effective interest rate. Impairment loss is recorded in the parent company statement of comprehensive income.

The Foundation assesses whether objective evidences of impairment exists individually for financial assets that are significant. Those objective evidences are relevant to the estimation of future cash flows of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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 by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company statement of comprehensive income, to the extent that the carrying value of the asset at the reversal date does not exceed its amortized cost that would have been determined had no impairment loss been recognized in the prior years. If a write-off is later recovered, the recovery is recognized in the parent company statement of comprehensive income.

AFS Financial Assets
For AFS financial assets, the Foundation assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. 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 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized on that investment is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in the fair value after impairment are recognized directly in other comprehensive income.

Investment in PEHI
The Foundation performs impairment review on its investment in PEHI whenever impairment indicator exists. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Foundation to make an estimate of the future cash flows of the investment and to use a suitable discount rate to calculate the present value of those future cash flows.

Property and Equipment and Other Nonfinancial Assets
The Foundation assesses at each reporting date whether there is an indication that property and equipment and other nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Foundation estimates the recoverable amount of its property and equipment and other nonfinancial assets. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses from continuing operations are recognized in the parent company statement of comprehensive income.

An assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Foundation makes an estimate of recoverable amount. Any previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income.

<u>Fund Balances</u>
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 excess of revenues over expenses includes all current and prior period results as disclosed in the parent company statement of comprehensive income.

Revaluation reserves on AFS comprise unrealized fair value gains and losses due to the revaluation of AFS financial assets.

Remeasurement gain (loss) on defined benefit plan comprises actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are included in the fund balances every reporting period.

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.

<u>Revenue</u>
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, among others.

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
Foreign currency transactions are recorded in Philippine peso based on the closing exchange rate prevailing at the date of transaction. Foreign currency-denominated monetary assets and liabilities are translated using the prevailing closing exchange rate at reporting date. Foreign exchange gains or losses arising from foreign currency transactions and the translation of foreign currency monetary assets and liabilities are credited to or charged against current operations.

Operating Leases
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessor. Lease payments under operating leases are credited to or charged against current operations on a straight-line basis over the term of the lease.

Retirement Benefit Costs
The Foundation has a funded, noncontributory, defined benefit retirement plan.

The defined benefit obligation is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. The cost of providing benefits under the defined benefit plan is actuarially determined by an independent qualified actuary using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Interest expense on the defined benefit obligation
- Remeasurements of defined benefit obligation

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company statement of comprehensive income. Past service costs are recognized when plan amendment occurs.

Interest expense on the defined benefit obligation is the change during the period in the defined benefit obligation that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit obligation. Interest expense on the defined benefit obligation is recognized as expense in the parent company statement of comprehensive income.

Remeasurements comprising actuarial gains and losses (excluding interest expense on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Income Taxes

Current Income Tax

Current income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred Income Tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carry forward of unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused NOLCO can be utilized.

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

Deferred income 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 rate that have been enacted or substantively enacted at the reporting date.

Provisions

Provisions 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 an interest expense.

Where the Foundation expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of comprehensive income, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the parent company 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 parent company financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the parent company financial position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed in the notes to parent company financial statements when material.

New and Amended Standards and Interpretation Effective Subsequent to December 31, 2013

The Foundation will adopt the standards and interpretation enumerated below when these become effective. The Foundation does not expect the adoption of these new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS to have significant impact on its financial statements.

Effective in 2014

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- Philippine Interpretation IFRIC 21, *Levies*

Effective in 2015

- Amendment to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*

Improvements to PFRSs

The Annual Improvements to PFRSs contain non-urgent but necessary amendments to PFRSs. These improvements will be adopted by the Foundation starting January 1, 2015.

2010-2012 Cycle

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments - Aggregation of Operating Segments* and *Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

- PAS 24, *Related Party Disclosures - Key Management Personnel*
- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

2011-2013 Cycle

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*
- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement - Portfolio Exception*
- PAS 40, *Investment Property*

No Mandatory Effective Date
- PFRS 9, *Financial Instruments*

Deferred Effectivity
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

3. Significant Accounting Judgments and Estimates

The parent company financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the parent company financial statements and related notes. The judgments and estimates used in the parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the parent company financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>
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.

<u>Estimates</u>
Determining Fair Values of Financial Instruments
The Foundation carries certain financial assets 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 parent company financial statements.

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.

Provision for and reversal of impairment losses recognized in the parent company statements of comprehensive income amounted to ₱14,453,910 and ₱1,116,956, respectively, in 2013 and ₱2,420,268 and ₱2,347,078, respectively, in 2012. The aggregate allowance for impairment losses on advances to proponents and accrued interest receivable from proponents amounted to ₱57,053,953 and ₱36,202,530 as of December 31, 2013 and 2012, respectively (see Note 5).

Estimating Impairment of AFS Financial Assets
The Foundation treats AFS 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 when is 'prolonged' requires judgment.

The Foundation treats 'significant' generally as 20% or more of the cost of AFS and 'prolonged' if the decline in fair value has been continuing for more than 6 months. In addition, the Foundation evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows. No impairment loss on AFS equity financial assets was recognized in 2013 and 2012.

Estimating Useful Lives of Property and Equipment
The Foundation estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives 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 estimation of the useful lives is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the useful lives of the assets in 2013 and 2012. The carrying values of property and equipment amounted to ₱31,545,597 and ₱32,829,060 as of December 31, 2013 and 2012, respectively (see Note 8).

Estimating Impairment of Nonfinancial Assets
The Foundation assesses impairment of other current assets, property and equipment, investment properties and other noncurrent assets 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.

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 parent company financial statements. The Foundation has no provision for impairment loss in 2013 and 2012. The carrying values of other current assets, property and equipment, investment properties and other noncurrent assets aggregated to ₱37,972,188 and ₱38,660,787 (see Notes 7, 8 and 9).

Estimating Impairment of Investment in PEHI
The Foundation performs an impairment review on its investment in PEHI whenever an impairment indicator exists. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Foundation to make an estimate of the expected future cash flows of the investment and to make use of a suitable discount rate to calculate the present value of those future cash flows.

Management has determined that there are no events or circumstances that may indicate that the carrying amount of the investment is not recoverable, thus, no impairment review was performed for the year ended December 31, 2013. The carrying amount of the investment in a subsidiary amounted to ₱31,250,000 as of December 31, 2013.

Determining Retirement Benefits Obligation
The costs of defined benefit plans as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates.

Further details about the assumptions used are provided in Note 18.

Net retirement benefit income amounted to ₱17,073 and ₱7,570 in 2013 and 2012, respectively (see Note 18). The net retirement benefit asset amounted to ₱561,938 and ₱555,432 as of December 31, 2013 and 2012, respectively.

Estimating Realizability of Deferred Income 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 income tax assets to be utilized. Management assessed that deferred income tax assets pertaining to allowance for impairment losses on receivables, net unrealized foreign exchange losses and NOLCO 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 Foundation currently is involved in a certain legal proceedings and claims. The Foundation's estimate of the probable costs for the legal proceedings and claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of this case and is based upon the analysis of potential results. The Foundation currently does not believe these legal proceedings and claims will have a material effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provision for contingencies was recognized in 2013 and 2012.

4. Cash and Cash Equivalents

	2013	2012
Cash on hand	**₱35,000**	₱35,000
Cash in banks	**12,284,231**	13,241,043
Short-term investments	**28,800,000**	2,000,000
	₱41,119,231	₱15,276,043

Cash in banks includes donor restricted funds amounting to ₱8,994,293 and ₱9,985,794 as of December 31, 2013 and 2012, respectively. The Foundation is restricted to investing in short-term placements which is usually up to 90 days only.

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 0.75% to 2.00% in 2013 and 2.00% to 2.88% in 2012. Interest income from savings deposit and short-term placements amounted to ₱21,082 and ₱72,519 in 2013 and 2012, respectively.

5. Receivables

	2013	2012
Current		
Advances to project proponents	**₱118,940,173**	₱88,306,023
Accrued interest	**6,698,325**	4,912,012
Receivable from donor-funded projects	**1,956,449**	3,135,273
Others	**13,121,259**	6,270,506
	140,716,206	102,623,814
Less allowance for impairment losses	**34,626,318**	33,036,927
	106,089,888	69,586,887
Noncurrent advances to project proponents	**55,157,027**	49,916,258
Less allowance for impairment losses	**22,427,635**	3,165,603
	32,729,392	46,750,655
	₱138,819,280	₱116,337,542

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 6.00% to 12.00% to cover administrative costs of servicing the projects except for soft loans, which earn 3.00% interest annually. Rebate rates of 2.00% to 4.00% are given as incentive for prompt payments. Rebates to proponents are presented as part of "Project expenses" in the parent company 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 ₱3,830,828 and ₱2,939,501 in 2013 and 2012, 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, 2013 and 2012 are as follows:

2013

		Past due but not impaired					
	Neither past due nor impaired	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Impaired**	**Total**
Advances to project proponents							
National	**₱63,935,473**	**₱–**	**₱–**	**₱–**	**₱–**	**₱17,975,621**	**₱81,911,094**
Luzon	**23,647,618**	–	–	–	–	**14,572,214**	**38,219,832**
Visayas	**20,440,597**	–	–	–	–	**12,595,974**	**33,036,571**
Mindanao	**12,949,759**	–	–	–	–	**7,979,944**	**20,929,703**
Receivable from donor-funded projects	**1,956,449**	–	–	–	–	–	**1,956,449**
Accrued interest	**2,768,125**	–	–	–	–	**3,930,200**	**6,698,325**
Others	**13,121,259**	–	–	–	–	–	**13,121,259**
Total	**₱138,819,280**	**₱–**	**₱–**	**₱–**	**₱–**	**₱57,053,953**	**₱195,873,233**

2012

		Past due but not impaired					
	Neither past due nor impaired	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Advances to project proponents							
National	₱70,892,796	₱–	₱–	₱–	₱–	₱6,951,443	₱77,844,239
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
Receivable from donor-funded projects	3,135,273	–	–	–	–	–	3,135,273
Accrued interest	3,057,155					1,854,857	4,912,012
Others	6,270,506	–	–	–	–	–	6,270,506
Total	₱116,337,542	₱–	₱–	₱–	₱–	₱36,202,530	₱152,540,072

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

	2013	2012
Balances at beginning of year	**₱36,202,530**	₱30,256,296
Provisions	**21,990,793**	8,354,306
Reversals	**(1,139,370)**	(2,408,072)
Balances at end of year	**₱57,053,953**	₱36,202,530

The 2013 and 2012 total impairment losses and reversals included portion closed to funds held in trust as follows:

	2013			
	CBRED*	**MP3****	**REHAB*****	**Total**
Impairment losses during the year	**₱344,229**	**₱5,501,885**	**₱1,690,769**	**₱7,536,883**
Reversals	**–**	**(6,607)**	**(15,807)**	**(22,414)**
	₱344,229	**₱5,495,278**	**₱1,674,962**	**₱7,514,469**

	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

**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 parent company statements of comprehensive income is determined as follows:

	2013	2012
Impairment losses	**₱21,990,793**	₱8,354,306
Less amounts closed to:		
MP3	**5,501,885**	2,040,402
REHAB	**1,690,769**	2,917,586
CBRED	**344,229**	976,050
	14,453,910	2,420,268
Reversals	**1,139,370**	2,408,072
Less amounts closed to:		
REHAB	**15,807**	57,422
MP3	**6,607**	3,572
	1,116,956	2,347,078
	₱13,336,954	₱73,190

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 parent company statements of comprehensive income since these are presented net of funds held in trust account in the parent company statements of financial position.

6. AFS Financial Assets

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

	2013	2012
Asia United Bank (AUB)		
Republic of the Philippines (ROP) bonds and treasury notes	**₱210,988,112**	₱183,756,993
Equity securities	**148,971,208**	129,181,379
Unit investment trust fund (UITF)	**17,526,494**	25,872,732
Special savings account	**13,287,200**	64,110,775
Corporate bonds	**10,075,214**	10,000,000
	400,848,228	412,921,879
BDO Private Bank		
Equity securities	**182,903,567**	183,578,157
Special savings account	**57,382,838**	59,718,361
ROP bonds and treasury notes	**35,736,750**	74,403,550
Corporate bonds	**15,000,000**	35,000,000
	291,023,155	352,700,068
BDO Unibank		
Equity securities	**160,452,396**	134,268,933
Corporate bonds	**60,464,541**	–
Special savings account	**41,183,276**	16,669,701
ROP bonds and treasury notes	**22,235,367**	142,583,324
	284,335,580	293,521,958
Bank of the Philippine Islands (BPI)		
Equity securities	**71,477,418**	73,900,341
UITF	**59,570,479**	93,585,749
Corporate bonds	**44,469,438**	35,432,416
ROP bonds and treasury notes	**44,346,785**	57,491,017
Special savings account	**24,352,198**	23,185,157
	244,216,318	283,594,680
Philam Asset Management Inc. (PAMI)*		
Equity securities	**181,462,518**	56,740,220
Special savings account	**2,966,352**	154,278,737
	184,428,870	211,018,957
RCBC Trust*		
ROP bonds and treasury notes	**57,237,914**	42,684,460
Equity securities	**37,695,731**	2,654,870
Corporate bonds	**10,473,778**	3,424,517
Special savings account	**1,585,988**	51,893,708
	106,993,411	100,657,555
Security Bank*		
ROP bonds and treasury notes	**48,931,587**	60,067,065
Equity securities	**45,041,834**	26,391,184
Corporate bonds	**9,086,358**	–
Special savings account	**2,129,357**	15,083,176
	105,189,136	101,541,425

(Forward)

	2013	2012
Short-Term Investments		
RCBC Time Deposit*	**₱24,000,000**	₱74,000,000
CARD Bank Inc.	**2,528,707**	2,412,890
Siargao Bank Inc.	**2,000,000**	–
	28,528,707	76,412,890
Investment in Equity		
NCMFP**	**40,944,995**	44,962,495
Metrosouth***	**20,000,000**	20,000,000
MASS-SPECC****	**5,000,000**	5,000,000
HSSI*****	**5,000,000**	–
CISP******	**3,411,763**	6,823,526
CARD NGO*******	**3,000,000**	3,000,000
BALMUCO*********	**135,000**	–
	77,491,758	79,786,021
Others		
Equity securities	**229,656,200**	141,052,500
Special savings account	**91,060**	6,135,395
	229,747,260	147,187,895
	₱1,952,802,423	₱2,059,343,328

**The trust fund account was opened in November 2012.*
***National Cooperative Mutual Fund of the Philippines, Inc. (NCMFP)*
****Metro South Cooperative Bank*
***** MASS-SPECC Cooperative Development Center*
****** Hybrid Social Solutions, Inc. (HSSI)*
******* Cooperative Insurance System of the Philippines (CISP)*
******** Center for Agriculture and Rural Development, Inc. (CARD NGO)*
*********Barangay Alapang Multi-purpose Cooperative (BALMUCO)*

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:

	2013	2012
AUB		
Balances at beginning of year	**₱412,921,879**	₱382,552,839
Realized investments gains - net	**42,515,325**	19,092,840
Contributions/deposits	**2,500,000**	–
Unrealized fair value gain (loss) - net	**(13,045,953)**	30,074,905
Disposals/withdrawals	**(44,043,023)**	(18,798,705)
	400,848,228	412,921,879
BDO Private Bank		
Balances at beginning of year	**352,700,068**	326,830,442
Realized investment gains - net	**24,945,750**	16,974,293
Unrealized fair value gain (loss) - net	**(12,622,663)**	23,395,333
Disposals/withdrawals	**(74,000,000)**	(14,500,000)
	291,023,155	352,700,068

(Forward)

	2013	2012
BDO Unibank		
Balances at beginning of year	**₱293,521,958**	₱248,442,263
Realized investments gains - net	**41,545,656**	24,027,671
Disposals/withdrawals	**(24,400,000)**	(7,000,000)
Unrealized fair value gain (loss) - net	**(26,332,034)**	22,652,024
Contributions/deposits	**–**	5,400,000
	284,335,580	293,521,958
BPI		
Balances at beginning of year	**283,594,680**	823,301,749
Realized investments gains - net	**22,923,109**	44,704,405
Foreign currency gain (loss)	**1,610,564**	(1,175,016)
Unrealized fair value gain (loss) - net	**(10,411,535)**	263,542
Disposals/withdrawals	**(53,500,500)**	(583,500,000)
	244,216,318	283,594,680
(Forward)		
PAMI		
Contributions/deposits	**211,018,957**	200,000,000
Realized investment gain (loss) - net	**(3,148,744)**	1,941,400
Unrealized fair value gain (loss) - net	**(23,441,343)**	9,077,557
	184,428,870	211,018,957
RCBC Trust		
Contributions/deposits	**100,657,555**	100,000,000
Realized investment gains - net	**5,561,652**	333,130
Unrealized fair value gains - net	**774,204**	324,425
	106,993,411	100,657,555
Security Bank		
Contributions	**101,541,425**	100,000,000
Realized investment gains - net	**8,368,815**	226,827
Unrealized fair value gain (loss) - net	**(4,721,104)**	1,314,598
	105,189,136	101,541,425
Short-Term Investments		
Balances at the beginning of year	**76,412,890**	18,802,338
Contributions/deposits	**26,000,000**	73,986,960
Realized investment gains - net	**115,817**	123,592
Disposals/withdrawals	**(74,000,000)**	(16,500,000)
	28,528,707	76,412,890
Investment in Equity		
Balances at the beginning of year	**79,786,021**	71,095,778
Contributions/deposits	**5,135,000**	–
Disposals/withdrawals	**(1,195,730)**	(1,134,447)
Realized investment gain (loss) - net	**(2,216,043)**	1,679,691
Unrealized fair value gain (loss) - net	**(4,017,490)**	8,144,999
	77,491,758	79,786,021

(Forward)

	2013	2012
Others		
Balances at the beginning of year	**₱147,187,895**	₱–
Contributions/deposits	**113,500,000**	140,000,000
Unrealized fair value gains - net	**8,305,712**	17,798,249
Realized investment gains - net	**6,393,792**	2,203,332
Disposals/withdrawals	**(45,640,139)**	(12,813,686)
	229,747,260	147,187,895
	₱1,952,802,423	₱2,059,343,328

The balance of investment income recognized in 2013 and 2012 as presented in the parent company statements of comprehensive income is determined as follows:

	2013	2012
Total realized investment gains - net	**₱149,105,355**	₱109,503,898
Final tax expense	**8,661,226**	11,886,071
Income from short-term investments	**115,817**	123,592
Closed to funds held in trust (ING CBRED)*	**28,602**	30,132
Income (loss) from investment in equity	**(2,216,043)**	1,679,691
	₱155,694,957	₱123,223,384

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

The net unrealized valuation value gain (loss) recognized in other comprehensive income in the parent company statements of comprehensive income in 2013 and 2012 are as follows.

	2013	2012
Total unrealized fair value gain (loss) - net	**(₱85,512,206)**	₱113,015,632
Less unrealized fair value gain closed to funds held in trust (ING CBRED)	**(1,508,918)**	2,514,578
	(₱84,003,288)	₱110,501,054

Special savings accounts have annual interest rates ranging from 0.68% to 3.66% in 2013 and 2.25% to 4.69% in 2012. Equity securities mainly consist of investment in companies listed in the Philippine Stock Exchange.

Corporate bonds include those issued by holding companies, property, utilities and telecommunication companies. These bonds earn annual interest rates ranging from 3.87% to 8.64% in 2013 and 4.50% to 8.46% in 2012.

ROPs and treasury notes (Fixed Rate Treasury Notes) earn annual interest rates ranging from 3.47% to 14.38% in 2013 and 3.80% to 9.25% in 2012. UITFs include placements in AUB and BPI's own funds.

Net realized investment gains (losses), gross of tax, are detailed as follows:

	2013	2012
AUB		
Trading gain	**₱28,326,730**	₱5,349,018
Interest	**11,313,410**	14,749,296
Dividends	**6,269,522**	2,856,663
Less expenses	**(1,130,554)**	(1,150,947)
	44,779,108	21,804,030
BDO Private Bank		
Trading gain	**12,900,095**	5,376,737
Dividends	**8,233,346**	2,104,415
Interest	**5,717,060**	15,129,638
Less expenses	**(760,782)**	(2,855,393)
	26,089,719	19,755,397
BDO Unibank		
Trading gain	**30,621,111**	10,367,985
Interest	**11,986,296**	15,829,422
Dividends	**2,793,484**	1,907,698
Less expenses	**(1,456,808)**	(1,167,697)
	43,944,083	26,937,408
BPI		
Trading gain	**17,423,447**	5,153,488
Interest	**5,584,157**	14,228,688
Dividends	**1,589,640**	28,141,828
Less expenses	**(556,760)**	(204,106)
	24,040,484	47,319,898
PAMI		
Dividends	**2,533,979**	154,358
Interest	**2,304,129**	3,131,306
Less expenses	**(892,943)**	(852,926)
Trading gain (loss)	**(6,632,859)**	84,253
	(2,687,694)	2,516,991
RCBC Trust		
Interest	**3,346,665**	559,629
Trading gain	**2,606,458**	–
Dividend	**570,832**	–
Less expenses	**(292,644)**	(123,629)
	6,231,311	436,000
Security Bank		
Trading gain	**6,036,170**	–
Interest	**2,646,475**	414,795
Dividends	**495,184**	–
Less expenses	**(279,463)**	(111,721)
	8,898,366	303,074
Short Term Investments		
Interest	**300,501**	151,427
Investment in Equity		
Dividends	**(2,371,755)**	1,679,691

(Forward)

	2013	2012
Others		
Dividends	**₱6,200,640**	₱1,822,080
Interest	**242,068**	467,876
Less expenses	**(476)**	(620)
	6,442,232	2,289,336
Add amount closed to funds held in trust (ING CBRED)	**28,602**	30,132
	₱155,694,957	₱123,223,384

7. Other Current Assets

	2013	2012
Escrow deposit (see Notes 13 and 20)	**₱23,975,928**	₱20,630,607
Input VAT	**1,079,307**	588,592
Prepaid expenses	**367,368**	263,219
Others	**22,502**	22,501
	₱25,445,105	₱21,504,919

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 amounted to ₱289,332 and ₱76,895 in 2013 and 2012, respectively.

8. Property and Equipment

2013

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱22,124,434	₱19,225,345	₱1,223,041	₱11,004,906	₱53,577,726
Additions	–	–	1,020,179	575,992	1,596,171
Disposals	–	–	–	(3,104,491)	(3,104,491)
Balances at end of year	22,124,434	19,225,345	2,243,220	8,476,407	52,069,406
Accumulated depreciation and amortization:					
Balances at beginning of year	–	10,893,994	692,959	9,161,713	20,748,666
Depreciation and amortization	–	1,674,324	429,308	776,002	2,879,634
Disposals	–	–	–	(3,104,491)	(3,104,491)
Balances at end of year	–	12,568,318	1,122,267	6,833,224	20,523,809
Net book values	₱22,124,434	₱6,657,027	₱1,120,953	₱1,643,183	₱31,545,597

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 and amortization:					
Balances at beginning of year	–	8,974,598	448,351	8,845,994	18,268,943
Depreciation and amortization	–	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

Total depreciation and amortization expense above includes depreciation and amortization charges of property and equipment acquired through funds held in trust amounting to ₱40,223 and ₱33,620 in 2013 and 2012, respectively. Such amounts were excluded from the determination of depreciation expense in the parent company statements of comprehensive income since these are presented net of funds held in trust account in the parent company statements of financial position.

9. 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.

The movements in investment properties are presented as follows:

	2013	2012
Balances at beginning of year	**₱4,911,814**	₱8,057,603
Disposal	–	(3,145,789)
Balances at end of year	**₱4,911,814**	₱4,911,814

Investment properties are stated at cost less any impairment in value. The fair value of the investment properties as of December 31, 2013 and 2012 amounted to ₱4,916,855 based on the appraisal made in November 2011. Management believes that the fair value did not significantly change as of December 31, 2013.

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).

10. Investment in PEHI

PEHI is a wholly owned subsidiary of the Foundation. PEHI was registered with the Philippine Securities and Exchange Commission (SEC) on September 23, 2013 primarily to invest, purchase, own, hold in financially viable, primarily development-oriented social enterprises that have proven and/or offer innovative and high impact solutions to problems of poverty reduction such as enterprises on climate smart and sustainable agriculture, sustainable forestry, coastal resource management, eco-tourism, small and medium industries, alternative and renewable energy, information and communication technology and basic services and other similar endeavors, without engaging in business as an investment Company, Financing Company or Lending Investor, broker and dealer of securities.

The carrying amount of the investment in PEHI amounted to ₱31,250,000 as of December 31, 2013.

11. Accounts Payable and Accrued Expenses

	2013	2012
Accounts payable	**₱11,158,509**	₱7,002,340
Accrued expenses	**5,671,906**	4,706,640
	₱16,830,415	₱11,708,980

Accounts payable are noninterest-bearing and are generally on 30 to 90 days' term. 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 ₱8,821,429 and ₱10,919,218 as of December 31, 2013 and 2012, respectively. Grant expenses amounted to ₱25,571,285 and ₱36,835,685 in 2013 and 2012, respectively.

13. Funds Held in Trust

This account includes the following:

	2013	2012
CORDAID* - MP3		
Balances at beginning of year	**₱92,435,785**	₱92,241,928
Net profit	**(4,480,128)**	193,857
Return of funds	**(12,423,518)**	–
	75,532,139	92,435,785
CORDAID - Ondoy-Pepeng Rehabilitation Project		
Balances at beginning of year	**52,521,221**	29,946,969
Amount received	–	25,511,058
Return of funds	–	(543,603)
Net profit (loss)	**(815,399)**	(2,393,203)
	51,705,822	52,521,221
CORDAID - Disaster Risk Reduction (DRR) Project		
Balances at beginning of year	–	216,264
Expenses	–	(216,264)

(Forward)

	2013	2012
CORDAID - Climate Change Project		
Balances at beginning of year	**₱890,058**	₱1,615,948
Amount received	**–**	1,134,000
Expenses	**(610,905)**	(1,859,890)
	279,153	890,058
CORDAID - Emergency Response - Typhoon Sendong		
Balances at beginning of year	**233,964**	2,324,512
Expenses	**–**	(2,090,548)
	233,964	233,964
CORDAID - Emergency Response - Typhoon Pablo		
Amount received	**1,138,000**	–
Expenses	**(2,310,203)**	–
	(1,172,203)	–
CORDAID - Knowledge Management Project		
Amount received	**805,608**	–
Department of Energy (DOE)/United Nation Development Program (UNDP) CBRED		
Balances at beginning of year	**25,739,585**	25,643,333
Net profit (loss)	**(274,840)**	96,252
	25,464,745	25,739,585
The Coca-Cola Foundation (Coca-Cola)		
Balances at beginning and end of year	**44,490**	44,490
Bank of the Philippine Islands Foundation		
Amount received	**800,000**	–
Expenses	**(371,308)**	–
	428,692	–
	₱153,322,410	₱171,865,103

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

The details of the 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 8-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 6). 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. As of December 31, 2013 and 2012, CORDAID has released to the Foundation the entire amount of loan.

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.

In 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. As of April 7, 2014, the realignment is not yet finalized.

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 7).

CORDAID - Emergency Response for Typhoon Pablo
In 2013, the Foundation received a grant from CORDAID amounting to EUR 46,188 for relief and rehabilitation support for communities in Compostela Province, Mindanao who are affected by typhoon Pablo. Relief and rehabilitation support include provision of food, school supplies, solar lights, and housing materials. As of December 31, 2013, the Foundation already notified CORDAID on the excess expenses incurred over the amount received and these were duly acknowledged by the latter.

CORDAID - Knowledge Management Project
In August 2013, the Foundation received a grant from CORDAID amounting to EUR 14,231 for knowledge management project in support of the Climate Change Fund program. Major activities include industry studies to be able to identify different technologies being used in the production of goods and services and how these affect the business, the beneficiaries and environment; technology assessments to determine the CO2 impact of technologies being used by selected social enterprises and provide interventions for reducing their carbon footprints; and partners mentoring program on climate change mitigation and adaptation.

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.

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, 2013, the Foundation is waiting for the advice to return remaining fund amounting to ₱44,490.

BPI Foundation
In February 2013, the Foundation was awarded a grant amounting to ₱1,000,000 by the Bank of the Philippine Islands Foundation, Inc. Out of the total grant awarded, the actual amount received by the Foundation as of December 31, 2013 amounted to ₱800,000. Such grant shall be used to develop partnerships among indigenous communities via a social enterprise approach. Releases of the funds are in tranches subject to the submission of accomplishment reports.

14. **Project Expenses**

	2013	2012
Project development, monitoring and evaluation (PDME)	**₱14,486,788**	₱10,851,500
Institutional support	**2,809,826**	1,198,143
Knowledge management	**2,751,812**	4,929,497
Project support	**1,076,672**	1,345,903
Advocacy and communications	**588,971**	1,080,789
CORDAID related expenses	**535,484**	1,017,697
Rebates to proponents (see Note 5)	–	547,991
CBRED related expenses	**15,867**	116,152
	₱22,265,420	₱21,087,672

PDME, CORDAID and CBRED related expenses are summarized below:

	2013	2012
Salaries and benefits (see Note 16)	**₱8,262,445**	₱6,591,375
Project monitoring	**2,720,448**	2,111,476
Project audit	**1,479,732**	1,667,386
Project appraisals	**1,206,234**	564,081
Pre and post project meetings and workshops	**785,655**	495,261
Supplies, services and other operating costs	**315,878**	213,201
Project evaluation and documentation	**123,155**	130,798
Outside services	**63,902**	118,491
Others	**80,690**	93,280
	₱15,038,139	₱11,985,349

Institutional support includes staff learning and development and organizational development costs amounting to ₱581,937 and ₱1,546,094 in 2013 and ₱377,709 and ₱255,802 in 2012, respectively. Knowledge management includes ACERD baseline survey amounting to ₱346,072 and ₱3,194,769 in 2013 and 2012, respectively. Project support expenses include expenses for projects Capabuild and social enterprise conference amounting to ₱163,072 and ₱364,155 in 2013 and ₱527,227 and ₱585,953 in 2012, respectively. Advocacy and communications include media coverage, press briefing and publicity promotions.

15. General and Administrative Expenses

	2013	2012
Salaries and benefits (see Note 16)	**₱8,798,166**	₱6,585,889
Meetings	**1,609,871**	1,548,483
Outside services	**1,176,144**	1,124,797
Utilities	**542,489**	550,993
Legal fee	**519,798**	505,159
Communications	**444,131**	300,992
Transportation and travel	**364,812**	246,516
Office supplies	**329,775**	283,394
Repair and maintenance	**293,712**	261,916
Recruitment and advertising	**181,627**	202,767
Association dues and membership	**102,980**	55,468
Taxes and licenses	**60,951**	59,132
Representation	**30,215**	57,604
Others	**121,566**	110,710
	₱14,576,237	₱11,893,820

16. Personnel Expenses

	2013	2012
Salaries and wages	**₱11,165,999**	₱10,445,845
Completion pay	**1,879,400**	–
Bonuses	**1,850,454**	773,922
Social security costs	**978,825**	866,722
De minimis benefits	**860,417**	706,725
Compensated absences	**325,516**	384,050
	₱17,060,611	₱13,177,264

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

	2013	2012
Salaries and wages	**₱6,410,000**	₱6,574,500
Employee benefits	**1,203,949**	1,147,982
	₱7,613,949	₱7,722,482

17. **Other Income**

	2013	2012 (As restated; Note 2)
Share of project income from MP3	**₱1,831,945**	₱–
Income from guarantee (see Note 20)	**547,891**	573,179
Management fee	**107,142**	155,357
Retirement benefit income (see Note 18)	**17,073**	7,570
Gain on sale of investment property (see Note 9)	–	754,211
Gain on sale of property and equipment (see Note 8)	–	7,547
Others	**103,866**	438,906
	₱2,607,917	₱1,936,770

18. **Retirement Benefit Costs**

The Foundation has a funded, noncontributory defined benefit retirement plan (the 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 funds are administered by a Retirement Plan Trustee. The Retirement Plan Trustee is responsible for the investing decisions of the Plan and defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants.

Under the existing regulatory framework, RA No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of net retirement benefit income recognized in the parent company statements of comprehensive income and the funded status and amounts recognized in the parent company statements of financial position for the Plan.

Net retirement benefit income

	2013	2012 (As restated)
Retirement benefit income to be recognized in profit or loss:		
Current service cost	**₱17,197**	₱16,086
Net interest income	**(104,247)**	(116,497)
Changes in the effect of asset ceiling loss	**69,977**	92,841
	(₱17,073)	(₱7,570)

	2013	2012 (As restated)
Remeasurement effects to be recognized in other comprehensive income:		
Actuarial loss (gain) on defined benefit obligation	**(₱5,383)**	₱917
Return on assets excluding amount included in net interest cost	**(9,698)**	62,365
Changes in the effect of asset ceiling loss (gain)	**25,648**	(275,585)
	₱10,567	(₱212,303)

Retirement benefit asset

	2013	2012 (As restated)
Present value of obligation	**₱140,499**	₱121,207
Fair value of plan assets	**(1,932,205)**	(1,810,782)
Amount not recognized as asset due to limit	**1,229,768**	1,134,143
	(₱561,938)	(₱555,432)

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

	2013	2012 (As restated)
At January 1	**₱121,207**	₱97,341
Net benefit costs in the statement of income:		
Current service cost	**17,197**	16,086
Interest cost	**7,478**	6,863
	24,675	22,949
Remeasurements in other comprehensive income:		
Actuarial gain due to experience adjustments	**(3,697)**	(86,949)
Actuarial loss (gain) due to changes in financial assumptions	**(1,686)**	87,866
	(5,383)	917
At December 31	**₱140,499**	₱121,207

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

	2013	2012 (As restated)
At January 1	**₱1,810,782**	₱1,749,787
Interest income included in net interest cost	**111,725**	123,360
Actual return excluding amount included in net interest cost	**9,698**	(62,365)
At December 31	**₱1,932,205**	₱1,810,782

The fair value of plan assets by each class at the end of the reporting period are as follows:

	2013	2012
Cash and cash equivalents	**₱2,450**	₱1,560
Equity instruments - financial institution	**1,929,755**	1,809,222
Fair value of plan assets	**₱1,932,205**	₱1,810,782

All equity instruments held have quoted prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2013 and 2012 in determining pension benefits for the Foundation's Plan is shown below:

	2013	2012
Discount rate	**6.21%**	6.17%
Salary increase rate	**7.00%**	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2013, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱35,932)
	(100)	49,343
Future salary increases	100	46,862
	(100)	(35,148)

The Foundation's defined benefit pension plan is funded by the Foundation.

The Foundation is not required to pre-fund the future defined benefits payable under the Plan before they become due. For this reason, the amount and timing of contributions to the Plan are at the Foundation's discretion. However, in the event a benefit claim arises and the Plan is insufficient to pay the claim, the shortfall will then be due and payable from the Foundation to the Plan.

The duration of the defined benefit obligation as of December 31, 2013 is 34 years.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2013:

	Expected benefit payments
Less than 1 year	₱18,135
More than 1 year but less than 5 years	111,590
More than 5 years but less than 10 years	268,101
More than 10 year to 15 years	487,615
More than 15 year to 20 years	795,495
More than 20 years	2,488,791

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. On May 31, 2013, the PCNC issued to the Foundation a five-year certification for donee institution status. As of April 7, 2014, the Foundation is waiting for the confirmation of certification from the BIR.

Furthermore, pursuant to Revenue Memorandum Order No. 20-2013 dated July 22, 2013, which prescribes the policies and guidelines in the issuance of tax exemption rulings to qualified nonstock, nonprofit corporations and associations under Section 30 of the National Internal Revenue Code of 1997, as amended, the Foundation is currently in the process of revalidating its tax exemption certification with the BIR.

The tax expense shown in the parent company 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 2013 and 2012 due to the Foundation's net taxable loss positions. Deferred income tax assets are not recognized for allowance for impairment losses on receivables, net unrealized foreign exchange loss and carryforward of unused NOLCO since management believes that there will be no sufficient taxable profit available to allow all or part of such deferred income tax assets to be utilized. As of December 31, 2013, the Foundation's unused NOLCO that can be claimed as deduction from future taxable income is as follows:

Year incurred	Available up to	Amount
2013	2016	₱28,464,518
2012	2015	25,834,820
2011	2014	12,299,783
		₱66,599,121

The movements in NOLCO are as follows:

	2013	2012
Balances at beginning of year	**₱59,468,668**	₱46,281,843
Additions	**28,464,518**	25,834,820
Expirations	**(21,334,065)**	(12,647,995)
Balances at end of year	**₱66,599,121**	₱59,468,668

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

	2013	2012
Provision for income tax at statutory rate	**₱25,167,413**	₱16,486,466
Additions to reductions resulting from:		
Movement of unrecognized deferred tax assets	**12,529,471**	8,087,780
Nondeductible expenses	**9,109,849**	12,715,996
Nontaxable income	**(5,122)**	(278,403)
Interest income on investment subject to final tax	**(93,124)**	(5,946,446)
Interest income subject to final tax - others	**(4,330,613)**	(44,824)
Nontaxable dividend income and fair value gains	**(33,716,648)**	(19,127,676)
	₱8,661,226	₱11,892,893

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. (HOAI), Medella Milgrosa HOAI Phase 1 and Phase 2 , Villeview Lumbia HOAI, Bermundo HOAI, Mergeville HOAI, Greenfield HOAI, Virgen Del Rosarion HOAI, Grandville HOAI, Monsanto Village HOAI and Blessed Ville HOAI, 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 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 up to ₱100,000,000. The Foundation guarantees, without the benefit of excussion, the payment of up to 80% of the outstanding loans availed by Pinoy ME Foundation, Inc.

On March 4, 2013, the Foundation entered into a surety agreement where the Foundation is the surety for the account of Pinoy ME Foundation, Inc., the borrower, with Land Bank of the Philippines (LBP) as the lender up to ₱40,000,000. The Foundation guarantees, without the benefit of excussion, the payment of the principal amount availed by Pinoy ME Foundation, Inc., amounting to ₱40,000,000.

The outstanding payable of Pinoy ME Foundation, Inc. to DBP and LBP amounted to ₱ 69,246,962 and ₱51,140,674 as of December 31, 2013 and 2012, 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 computed quarterly and on a pro-rata basis. The Foundation earned income from guarantee fee, net of output VAT, amounting to ₱547,891 and ₱573,179 in 2013 and 2012, respectively, presented as part of "Other income" in the parent company 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 parent company financial statements. Management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the parent company financial statements.

21. Financial Risk Management Objectives and Policies

In October 2012, the Foundation implemented an enterprise-wide Risk Management (EWRM) that manages the risks across the organization in a structured and an integrated way.

The main purpose of the Foundation's financial instruments is to fund the Foundation's operations. The main risks arising from the use of financial instruments are liquidity risk, foreign currency risk, interest rate risk, equity price risk, investment evaluation 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.

2013

	On demand	**< 1 year**	**> 1 year**	**Total**
Cash and cash equivalents	**₱12,319,231**	**₱28,800,000**	**₱–**	**₱41,119,231**
Receivables	**–**	**106,089,888**	**32,729,392**	**138,819,280**
AFS financial assets	**1,952,802,423**	**–**	**–**	**1,952,802,423**
Refundable deposit	**–**	**–**	**45,601**	**45,601**
Financial assets	**1,965,121,654**	**134,889,888**	**32,774,993**	**2,132,786,535**
Accounts payable and accrued expenses*	**–**	**16,316,102**	**–**	**16,316,102**
Grants payable	**–**	**8,821,429**	**–**	**8,821,429**
Funds held in trust	**–**	**153,322,410**	**–**	**153,322,410**
Financial liabilities	**–**	**178,459,941**	**–**	**178,459,941**
	₱1,965,121,654	**(₱43,570,053)**	**₱32,774,993**	**₱1,954,326,594**

**Excluding government related payables.*

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
Refundable deposit	–	–	45,601	45,601
Financial assets	2,072,619,371	71,586,887	46,796,256	2,191,002,514
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
	₱2,072,619,371	(₱122,466,421)	₱46,796,256	₱1,996,949,206

**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, 2013 and 2012 translated in PHP are as follows:

	2013		2012	
	Original	**Translated**	Original	Translated
In US Dollar:				
Cash in bank	**$2,923**	**₱129,749**	$5,549	₱227,786
AFS financial assets	**447,164**	**19,851,840**	481,822	19,778,805
In Euro:				
Cash in bank	**€5,500**	**336,765**	€4,978	270,267
		₱20,318,354		₱20,276,858

The exchange rates used are as follows:

	1 USD: Peso	1 EUR: Peso
December 31, 2013	**44.395**	**61.234**
December 31, 2012	41.050	54.292

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

<u>2013</u>

	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	**(₱999,079)**	**₱999,079**
Change in PHP/EUR exchange rate	**(16,838)**	**16,838**

<u>2012</u>

	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	(₱1,000,330)	₱1,000,330
Change in PHP/EUR exchange rate	(13,513)	13,513

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

<u>Interest Rate Risk</u>

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.

	2013		2012	
Effects on:	**+100 basis points**	**-100 basis points**	+100 basis points	-100 basis points
Excess of revenues over expenses for the year	**₱2,200,752**	**(₱2,200,752)**	₱5,105,335	(₱5,105,335)
Fund balances at end of year	**5,079,298**	**(5,079,298)**	6,095,494	(6,095,494)

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 2013 and 2012, with all other variables held constant, of the Foundation's fund balances.

	2013	2012
Investment in AFS equity securities		
Change in market share prices (%)		
+10%	**₱105,766,087**	₱74,776,758
−10%	**(105,766,087)**	(74,776,758)

Investment evaluation risk

Investment evaluation risk is defined as the lack of relevant and or reliable information supporting investment decisions and linking the risks undertaken to the capital at risk may result in poor investment decisions.

The Foundation put in place the policy on trust investments to ensure that the Foundation is not exposed to unnecessary risk. The policy includes portfolio mix, currency mix, monitoring and reporting, criteria in selecting fund managers and social responsible investing policy.

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 recorded under "Other noncurrent assets", 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 parent company 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, 2013 and 2012:

2013

	High Grade	**Standard Grade**	**Total**
Cash and cash equivalents			
Cash in banks	**₱12,319,232**	**₱–**	**₱12,319,232**
Short-term investments	**28,800,000**	**–**	**28,800,000**
Receivables	**–**	**138,819,280**	**138,819,280**
AFS financial assets	**1,952,802,421**	**–**	**1,952,802,421**
Escrow deposit	**23,975,928**	**–**	**23,975,928**
Refundable deposit	**–**	**45,601**	**45,601**
Total	**₱2,017,897,581**	**₱138,864,881**	**₱2,156,762,462**

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

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, 2013 and 2012 are as follows:

2013

		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	**₱41,084,231**	**₱–**	**₱–**	**₱–**	**₱41,084,231**
Receivables	**138,819,280**	**–**	**–**	**57,053,953**	**195,873,233**
Escrow deposit	**23,975,928**	**–**	**–**	**–**	**23,975,928**
Refundable deposit	**45,601**	**–**	**–**	**–**	**45,601**
AFS financial assets	**1,952,802,421**	**–**	**–**	**–**	**1,952,802,421**
	₱2,156,727,461	**₱–**	**₱–**	**₱57,053,953**	**₱2,213,781,414**

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

Fair Value 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, 2013 and 2012.

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 1.18% to 4.00% in 2013 and 3.66% to 3.91% in 2012. 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 parent company 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
As of December 31, 2013 and 2012, the AFS financial assets are the only assets measured at fair value as follows (in thousands):

	Level 1	**Level 2**	**Level 3**	**Total**
2013	**₱1,626,707**	**₱220,075**	**₱–**	**₱1,846,782**
2012	1,392,611	510,533	–	1,903,144

As of December 31, 2013 and 2012, 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 2013 and 2012 amounted to ₱54.7 million and ₱53.2 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:

	2013	2012 (As restated; Note 2)
Total liabilities	**₱178,974,254**	₱194,493,301
Fund balance	**2,047,526,734**	2,056,310,438
Liability to fund balance ratio	**8.74%**	9.46%

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 2013 and 2012.

23. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year 2013.

a. Net sales/receipts and output VAT declared in the Foundation's VAT returns filed for the year ended December 31, 2013:

	Net Sales/ Receipts	Output VAT
Interest and other income	₱8,469,881	₱1,016,386

b. The following are the movements of input VAT for the year ended December 31, 2013:

Balance at beginning of year	₱588,592
Current year's domestic purchases/payments for:	
Services lodged under other accounts	1,098,357
Goods other than for resale or manufacture	221,739
Capital goods not subject to amortization	187,005
Input VAT applied against output VAT during the year	(1,016,386)
Balance at end of year	₱1,079,307

c. The Foundation's taxes and licenses in 2013 are as follows:

Property tax	₱41,793
Business tax	10,761
Residence tax	788
Annual registration fee	500
Miscellaneous	7,109
	₱60,951

d. The amount of withholding taxes paid in 2013 are as follows:

Withholding tax on compensation	₱3,276,100
Expanded withholding tax	892,081
Final tax	2,118,315
	₱6,286,496

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 2013.