

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

(A Non-stock, Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc. (the Foundation or PEF) was formed by the Caucus of Development NGO Networks (CODE-NGO) and incorporated on November 27, 2001.

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. It is governed by a Board of Trustees whose members do not receive any compensation.

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

The Foundation reports the income earned and expenses incurred pertaining to the fund under unrestricted activities. Accordingly, the excess of revenues over expenses for the year ended December 31, 2009 of P62.7 million and the deficiency of revenues over expenses for the year ended December 31, 2008 of P103.8 million were transferred to the unrestricted fund in accordance with the agreement with CODE-NGO.

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

The financial statements of the Foundation for the year ended December 31, 2009 (including the comparatives for the year ended December 31, 2008) were authorized for issue by the Foundation's Board of Trustees on March 25, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2009 that are Relevant to the Foundation

In 2009, the Foundation adopted the following new revisions and amendments to PFRS that are relevant to the Foundation and effective for financial statements for the annual period beginning on or after January 1, 2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
Various Standards	:	2008 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of the new and amended standards.

- (i) PAS 1 (Revised 2007), *Presentation of Financial Statements*, requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. Income and expense recognized in profit or loss is presented in the statement of income in the same way as the previous version of PAS 1. The statement of comprehensive income includes the profit or loss for the period and each component of income and expense recognized outside of profit or loss or the “non-owner changes in equity,” which are no longer allowed to be presented in the statements of changes in equity, classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity’s financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its financial statements.

The Foundation’s adoption of PAS 1 (Revised 2007) did not result in any material adjustments in its financial statements as the change in accounting policy only affects presentation aspects. The Foundation has elected to present a single statement of comprehensive income.

- (ii) PFRS 7 (Amended), *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statements of financial position. These fair value measurements are categorized into a three-level fair value hierarchy (see Note 20.2), which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The Foundation has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements. Moreover, as the change in accounting policy only results in additional disclosures, there is no significant impact on the Foundation’s financial statements.
- (iii) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2008* which became effective in the Philippines in annual periods beginning on or after January 1, 2009.

Among those improvements, the following are the amendments relevant to the Foundation:

- PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment has no significant effect on the 2009 financial statements as there were no impairment losses on assets recognized using discounted cash flows approach.
- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right access to goods or receipt of services. The Company determined that adoption of this amendment had no material effect on its 2009 financial statements.
- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The adoption had no material effect on its 2009 financial statements as the Foundation has no property under construction or development for future use as investment property.

(b) *Effective in 2009 but not Relevant to the Foundation*

The following amendments, interpretations and improvements to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Foundation's operations:

PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First Time Adoption of PFRS and PAS 27 – Consolidated and Separate Financial Statements
PFRS 2 (Amendment)	:	Share-based Payment
PFRS 8	:	Operating Segments
Philippine Interpretations		
IFRIC 13	:	Customer Loyalty Programmes
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation

(c) *Effective Subsequent to 2009*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those, management has initially determined the following, which the Foundation will apply in accordance with its transitional provisions, to be relevant to its financial statements:

- (i) PFRS 9, *Financial Instruments*. The FRSC is yet to adopt International Financial Reporting Standard (IFRS) 9, *Financial Instruments* as of the financial report date. With IFRS 9, which will become effective for annual periods beginning January 1, 2013, the IASB aims to replace IAS 39 (PAS 39 in the Philippines), *Financial Instruments: Recognition and Measurement*, in its entirety by the end of 2010. IFRS 9 is the first part of Phase 1 of this project. The main phases are (with a separate project dealing with derecognition):

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

IFRS 9 introduces major simplifications of the classification and measurement provisions under IAS 9. These include reduction from four measurement categories into two categories, i.e. fair value and amortized cost, and from several impairment methods into one method.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Foundation. However, they do not expect to implement the amendments until all chapters of PAS 39 replacement have been published and they can comprehensively assess the impact of all changes.

- (ii) 2009 Annual Improvements to PFRS. The FRSC has adopted the Improvements to International Financial Reporting Standards 2009. Most of the amendments will become effective in the Philippines in annual periods beginning on or after January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Foundation's financial statements.

- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Company will apply the amendment in its 2010 financial statements but expects to have no material impact in the Company's financial statements.
- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Foundation as cash flow from investing activities.

- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact on the financial statements since the Foundation does not enter into a lease agreement that includes both land and building.
- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 financial statements.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Foundation's financial statements.

2.3 Financial Assets

Financial assets, which are recognized when the Foundation becomes a party to the contractual terms of the financial instrument, include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

The foregoing categories of financial instruments are more fully described below.

(a) Loans and Receivables

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

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

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

(b) Available-for-sale Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Financial Assets account in the statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

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

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

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

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

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

2.4 Property and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed using the straight-line method over the following useful lives:

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

An asset's carrying amount is written down immediately to its recoverable amount if its amount is greater than its estimated recoverable amount (see Note 2.11).

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

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

2.5 Investment Properties

Investment properties are measured initially at cost.

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 an investment property is recognized in the statement of comprehensive income in the year of retirement or disposal.

2.6 Financial Liabilities

Financial liabilities include accounts payable, accrued expenses and other liabilities, grants payable and funds held in trust.

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

Grants payable represents unreleased and committed grants to project proponents.

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

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

2.7 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.8 Revenue and Expense Recognition

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:

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

- (b) *Interest income on loans and receivables* – Revenue is recognized in the statement of comprehensive income for all financial assets at amortized cost using the effective interest method.
- (c) *Interest income on bank deposits* – Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.
- (d) *Revenue from restricted support* – Revenue from restricted support, including government grants, is recognized upon fulfillment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred. At project completion date, any excess funds are returned to the donors unless otherwise agreed by both parties that the excess be retained by the Foundation and therefore credited to unrestricted support.

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

2.9 Leases

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

The Foundation determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.10 Foreign Currency Transactions

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

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

2.11 Impairment of Non-financial Assets

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

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

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

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

2.12 Employee Benefits

(a) Post-employment Benefits

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

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

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

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

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

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period at the undiscounted amount that the Foundation expects to pay as a result of the unused entitlement.

2.13 Fund Balances

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

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

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

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

Restricted fund is used only in accordance with a donor or grantor's specifications.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

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

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Foundation evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

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

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

(c) Operating and Finance Leases

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

(d) Provisions and Contingencies

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

3.2 Key Sources of Estimation Uncertainty

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

(a) Useful Lives of Property and Equipment

The Foundation estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment are analyzed in Note 7. Actual results, however may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in estimated useful lives of property and equipment during the year.

(b) Allowance for Impairment of Loans and Receivables

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

Reversal of impairment losses was nil and P3.0 million in 2009 and 2008, respectively, while provision for impairment losses amounted to P15.9 million and P5.2 million in 2009 and 2008, respectively. The Foundation has written-off P0.7 million and P1.8 million long outstanding advances to proponents including impaired interest receivables in 2009 and 2008, respectively (see Note 5).

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

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

Fair value gain (loss) on available-for-sale financial assets of P256.6 million and (P328.2) million in 2009 and 2008, respectively, was reported in the statement of comprehensive income. The carrying values of the assets are disclosed in Notes 6 and 20, respectively.

(d) *Impairment of Non-financial Assets*

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

There were no impairment losses recognized by the Foundation on its non-financial assets in 2009 and 2008.

(e) *Retirement and Other Benefits*

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

The retirement benefit assets amounted to P353,070 and P155,527 in 2009 and 2008, respectively, and net unrecognized actuarial gains amounted to P176,023 for both years (see Note 14).

4. CASH AND CASH EQUIVALENTS

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

	Note	<u>2009</u>	<u>2008</u>
Cash on hand and in banks		P 12,095,057	P 33,430,996
Short-term placements	11.1	<u>16,300,000</u>	<u>27,000,000</u>
		<u>P 28,395,057</u>	<u>P 60,430,996</u>

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 ranging from 1% to 5%.

5. **LOANS AND RECEIVABLES**

Loans and receivables at December 31 consist of:

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Current:			
Advances to project proponents (Schedule 1)		P 78,932,186	P 77,856,088
Accrued interest		3,267,955	3,763,455
Receivable from donor-funded projects		1,594,563	1,094,375
Prepayments and other current assets		1,430,856	3,482,213
Others		<u>1,338,814</u>	<u>4,933,723</u>
		86,564,374	91,129,854
Allowance for impairment		<u>(28,801,241)</u>	<u>(14,454,180)</u>
		<u>57,763,133</u>	<u>76,675,674</u>
Non-current:			
Advances to project proponents (Schedule 1)		49,170,909	78,243,637
Retirement benefits	14	353,070	155,527
Others		<u>40,771</u>	<u>71,570</u>
		49,564,750	78,470,734
Allowance for impairment		<u>(3,526,287)</u>	<u>(2,721,876)</u>
		<u>46,038,463</u>	<u>75,748,858</u>
		P 103,801,596	P 152,424,532

All of the Foundation's loans and receivables have been reviewed for indicators of impairment. Certain loans and receivables were found to be impaired and provisions have been recorded accordingly. The impaired loans are mostly due from the small business customers.

A reconciliation of the allowance for impairment at the beginning and end of 2009 and 2008 is shown below.

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year		P 17,176,056	P 16,747,697
Impairment loss during the year	3.2	15,891,652	5,223,173
Reversals		-	(3,001,461)
Write-off	3.2	<u>(740,180)</u>	<u>(1,793,353)</u>
Balance at end of year		<u>P 32,327,528</u>	<u>P 17,176,056</u>

Advances to project proponents represent releases to project proponents subject to repayment for micro-finance, micro-enterprise, agricultural development, housing and proactive projects. These advances earn annual interest of 6% to 12% to cover administrative costs of servicing the projects. Rebate rates of 1% to 6% are given as incentive for prompt payments. Financial advances extended to micro-enterprise, housing and other projects involving acquisition of assets are secured with real and chattel mortgages and/or joint security.

The carrying amounts of loans and receivables approximate their fair values at each reporting date.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2009</u>	<u>2008</u>
ING Bank, N.Y. (ING)		
<u>PEACE:</u>		
Corporate bonds	P 313,998,880	P 234,065,178
Equity securities	248,270,402	225,713,289
Unitized investment trust fund (UITF)	134,829,344	69,831,126
Special savings account	114,735,463	49,217,002
Republic of the Philippines (ROP)		
sovereign bonds	28,236,103	119,273,188
Loans	12,149,995	10,989,596
Treasury notes	-	16,310,853
	<u>852,220,187</u>	<u>725,400,232</u>
	Note	
<u>Unused project funds:</u>	11.2	
UITF	P 15,687,110	P 13,238,338
Special savings account	5,753	185,411
	<u>15,692,863</u>	<u>13,423,749</u>
	<u>867,913,050</u>	<u>738,823,981</u>
Banco De Oro (BDO)		
Special savings account	P 62,339,132	P -
Treasury notes	98,197,536	-
ROP bonds	50,005,995	-
	<u>210,542,663</u>	<u>-</u>

	<u>2009</u>	<u>2008</u>
Deutsche Bank, AG (DB)		
Equity securities	P -	P 6,767,190
Special savings account	-	2,199,996
Corporate bonds	<u>-</u>	<u>1,000,000</u>
	<u>-</u>	<u>9,967,186</u>
Asia United Bank (AUB)		
Special savings account	P 220,562,103	P 158,898,337
Treasury notes	54,670,993	94,861,613
Equity securities	41,854,313	36,212,481
UITF	17,530,486	13,709,091
Corporate bonds	<u>10,000,000</u>	<u>-</u>
	<u>344,617,895</u>	<u>303,681,522</u>
Others		
Investment in Equity Projects	P 59,143,469	P 55,052,290
Special savings account	<u>15,596,000</u>	<u>-</u>
	<u>74,739,469</u>	<u>55,052,290</u>
	<u>P1,497,813,077</u>	<u>P1,107,524,979</u>

The Foundation pays ING, BDO, DB, and AUB every quarter one-fourth of the annual service fees of 0.25% based on the average market value of the fund. Additional trustee fees are paid when the fund managers perform above the Foundation's benchmark or hurdle rate.

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

A. ING

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P 738,823,981	P 1,067,935,614
Realized investment gains	105,376,067	(61,870,821)
Disposals/withdrawals	(203,634,104)	(26,635,801)
Fair value gains (losses) - net	230,868,370	(290,191,523)
Foreign currency gains (losses)	<u>(3,521,264)</u>	<u>49,586,512</u>
Balance at end of year	<u>P 867,913,050</u>	<u>P 738,823,981</u>

B. BDO*

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P -	P -
Contributions/deposits	203,251,643	-
Realized investment gains	12,984,729	-
Fair value gains - net	305,550	-
Foreign currency losses	(5,999,259)	-
Balance at end of year	<u>P 210,542,663</u>	<u>P -</u>

*The trust fund accounts in peso and US dollar were opened on July 15, 2009.

C. DB

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P 9,967,186	P 93,281,758
Realized investment losses	(4,674,923)	(15,609,121)
Disposals/withdrawals	(10,233,183)	(55,900,000)
Fair value gains (losses) - net	4,948,774	(12,121,619)
Foreign currency gains (losses)	(7,854)	316,168
Balance at end of year	<u>P -</u>	<u>P 9,967,186</u>

D. AUB

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P 303,681,522	P 373,531,021
Realized investment gains	47,291,886	8,340,267
Disposals/withdrawals	(6,355,513)	(50,000,000)
Fair value losses – net	-	(28,189,766)
Balance at end of year	<u>P 344,617,895</u>	<u>P 303,681,522</u>

Special savings accounts have interest rates ranging from 0.25% to 4.5%. Equity securities mainly consist of investment in companies listed in the Philippine Stock Exchange.

Corporate bonds include those issued by universal banks, oil and utility companies. These earn interest ranging from 3.3% to 9.625% per annum.

ROPs and treasury notes (Fixed Rate Treasury Notes) earn annual interest ranging from 5.25% to 17%.

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

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

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation of property and equipment at the beginning and end of 2009 and 2008 are shown below:

	<u>Land</u>	<u>Building and Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
December 31, 2009					
Cost	P 22,115,809	P 18,811,818	P 3,019,532	P 9,995,905	P 53,943,064
Accumulated depreciation	-	(5,159,057)	(1,845,300)	(8,631,186)	(15,635,543)
Net carrying amount	<u>P 22,115,809</u>	<u>P 13,652,761</u>	<u>P 1,174,232</u>	<u>P 1,364,719</u>	<u>P 38,307,521</u>
December 31, 2008					
Cost	P 22,115,809	P 14,466,404	P 4,087,167	P 9,763,531	P 50,432,911
Accumulated depreciation	-	(3,701,186)	(2,141,933)	(7,358,779)	(13,201,898)
Net carrying amount	<u>P 22,115,809</u>	<u>P 10,765,218</u>	<u>P 1,945,234</u>	<u>P 2,404,752</u>	<u>P 37,231,013</u>
January 1, 2008					
Cost	P 22,115,809	P 14,030,218	P 4,145,459	P 8,679,703	P 48,971,189
Accumulated depreciation	-	(2,259,461)	(2,974,460)	(6,000,722)	(11,234,643)
Net carrying amount	<u>P 22,115,809</u>	<u>P 11,770,757</u>	<u>P 1,170,999</u>	<u>P 2,678,981</u>	<u>P 37,736,546</u>

A reconciliation of the carrying amounts at the beginning and end of 2009 and 2008, of property and equipment is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
Balance at January 1, 2009, net of accumulated depreciation	P 22,115,809	P 10,765,218	P 1,945,234	P 2,404,752	P 37,231,013
Additions	-	4,345,414	40,266	247,725	4,633,405
Disposals	-	-	(79,578)	(5,500)	(85,078)
Depreciation charges for the year	-	(1,457,871)	(731,690)	(1,282,258)	(3,471,819)
Balance at December 31, 2009, net of accumulated depreciation	<u>P 22,115,809</u>	<u>P 13,652,761</u>	<u>P 1,174,232</u>	<u>P 1,364,719</u>	<u>P 38,307,521</u>
Balance at January 1, 2008, net of accumulated depreciation	P 22,115,809	P 11,770,757	P 1,170,999	P 2,678,981	P 37,736,546
Additions	-	436,185	1,532,347	1,200,535	3,169,067
Disposals	-	-	(250,535)	(8,529)	(259,064)
Depreciation charges for the year	-	(1,441,724)	(507,577)	(1,466,235)	(3,415,536)
Balance at December 31, 2008, net of accumulated depreciation	<u>P 22,115,809</u>	<u>P 10,765,218</u>	<u>P 1,945,234</u>	<u>P 2,404,752</u>	<u>P 37,231,013</u>

Proceeds and gain on disposal of certain transportation and office equipment amounted to P289,243 and P204,165, respectively, in 2009 and P604,189 and P345,125, respectively, in 2008.

Total depreciation expense above includes depreciation charges of property and equipment acquired through funds held-in-trust which amounted to P90,801 and P79,828 in 2009 and 2008, respectively.

Such amounts were excluded from the determination of depreciation expense in the statement of comprehensive income since these are presented net of funds held in trust account in the statements of financial position.

8. INVESTMENT PROPERTIES

The Foundation's investment properties include parcels of lands foreclosed by the Foundation when the borrowers were unable to settle their loans. In 2008, the Foundation foreclosed additional parcels of land which were recognized at their fair value on date of acquisition amounting to P1.7 million. Real estate tax amounting to P11,962 and P12,000 was recognized as a related expense in 2009 and 2008, respectively.

The fair values of the investment properties amounted to P4.8 million in 2009 and 2008, which was based on a valuation performed by an independent appraiser.

9. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

This account includes the following:

	<u>2009</u>	<u>2008</u>
Accrued expenses	P 2,674,757	P 2,323,219
Accounts payable	1,126,236	3,753,367
Trustee fee payable	<u>-</u>	<u>156,299</u>
	<u>P 3,800,993</u>	<u>P 6,232,885</u>

Trustee fee payable represents additional trustee fee of ING, AUB, BDO and DB in managing the Foundation's investment based on a tiered-trust fee arrangement.

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

10. GRANTS PAYABLE

The account represents unreleased and committed grants to project proponents (see Schedule 2).

11. FUNDS HELD IN TRUST

This account includes the following:

	<u>2009</u>	<u>2008</u>
Catholic Organization for Relief and Development Agency for International Development (CORDAID)	P 64,937,267	P 63,814,179
Capacity Building to Remove Barriers to Renewable Energy Development in the Philippines (CBRED)	24,015,365	21,929,721
The Coca-Cola Foundation (Coca-Cola)	<u>-</u>	<u>3,048,490</u>
	<u>P 88,952,632</u>	<u>P 88,792,390</u>

Details of the above funds are fully discussed as follows:

11.1 CORDAID

In June 2007, the Foundation was awarded a grant amounting to €649,564 (P40,216,061) by CORDAID, Netherlands. Such fund shall be used for a five-year micro-finance fund program tagged as “Mindanao Partnership Project for Peace” (MP3) that will focus in providing credit assistance and institutional support to eligible borrowers. The available funds have been invested as part of the short-term placements (see Note 4). The Foundation withdraws from this investment to fund the approved projects. At the end of five years, PEF will return to CORDAID the nominal peso value of the entire principal that it has received less any loan write-offs if any. The net income at the end of the program will be shared 80%-20% by CORDAID and PEF, respectively, at the end of the program.

11.2 CBRED

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

11.3 Coca-Cola

In December 2008, the Foundation was awarded a grant amounting to \$65,278 (P3,048,490) by The Coca-Cola Foundation, Atlanta Georgia, USA. Such fund shall be used to provide potable water to the residents of San Jose Municipality in the province of Romblon through the installation of rain water harvester and biosand filters which will help develop the watershed in the said municipality. In 2009, the Foundation received additional funds amounting to P1.4 million to implement the project, “Construction of Rainwater Harvesting Cisterns for the Municipality of Carlos P. Garcia, Bohol Province”. The funds were already paid to the Foundation’s partners namely Bol-anon United Sector Working for the Advancement of Community Concerns and Alliance of Romblon Poverty Alleviation Developmentalists, Inc.

As of December 31, 2009, the said project is still in progress.

12. PROJECT EXPENSES

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Project development, monitoring and evaluation (PDME)	14	P 13,409,687	P 19,364,454
Rebates to proponents		4,059,051	2,535,526
Strategic evaluation		2,518,953	-
Project support		1,739,328	5,468,600
Institutional support		884,750	1,705,549
Knowledge management		405,125	841,811
Research and management information system		266,084	1,772,189
CBRED related expenses	11, 14	246,372	621,463
CORDAID related expenses		164,293	-
		<u>P 23,693,643</u>	<u>P 32,309,592</u>

13. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are shown below:

	<u>Note</u>	<u>2009</u>	<u>2008</u>
Employee benefits	14	P 4,985,076	P 5,218,542
Supplies and services		3,138,722	4,222,891
Outside services		869,185	792,779
Transportation and travel		103,704	288,175
		<u>P 9,096,687</u>	<u>P 10,522,387</u>

14. **EMPLOYEE BENEFITS**

14.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Notes	<u>2009</u>	<u>2008</u>
Salaries and wages	12, 13	P 9,616,527	P 10,368,775
Social security costs		1,009,512	1,040,526
Bonuses		974,180	1,048,083
De minimis benefits		954,750	717,814
Compensated absences		391,207	389,328
Retirement – defined benefit plan		<u>340,762</u>	<u>325,522</u>
		<u>P 13,286,938</u>	<u>P 13,890,048</u>

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

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

	Note	<u>2009</u>	<u>2008</u>
PDME	12	P 8,077,897	P 8,050,043
CBRED	12	<u>237,972</u>	<u>621,463</u>
		<u>P 8,315,869</u>	<u>P 8,671,506</u>

14.2 Employee Retirement Benefit

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

The amounts of prepaid retirement benefits are recognized in the statement of financial position which is reported as part of Loans and Receivables in 2009 and 2008, respectively, are determined as follows:

	<u>2009</u>	<u>2008</u>
Fair value of plan assets	P 2,688,132	P 2,028,139
Present value of the obligation	<u>2,159,039</u>	<u>1,696,589</u>
Excess of plan assets	529,093	331,550
Unrecognized actuarial gains	<u>176,023</u>	<u>176,023</u>
	<u>P 353,070</u>	<u>P 155,527</u>

The movements in present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P 1,696,589	P 1,629,837
Current service cost and interest cost	462,450	460,449
Actuarial gain	<u>-</u>	<u>(393,697)</u>
Balance at end of year	<u>P 2,159,039</u>	<u>P 1,696,589</u>

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

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P 2,028,139	P 1,455,297
Expected return on plan assets	121,688	134,927
Contributions paid into the plan	538,305	580,390
Actuarial loss	<u>-</u>	<u>(142,475)</u>
Balance at end of year	<u>P 2,688,132</u>	<u>P 2,028,139</u>

The plan assets consist of the following:

	<u>2009</u>	<u>2008</u>
Investment in Equitable PCI Bank (PCIB) Merit – UITF	P 2,313,803	P 2,025,302
Savings deposit	<u>374,329</u>	<u>2,837</u>
	<u>P 2,688,132</u>	<u>P 2,028,139</u>

The amounts of retirement benefits recognized in the statements of comprehensive income are as follows:

	<u>2009</u>	<u>2008</u>
Current service costs	P 275,825	P 266,498
Interest costs	186,625	193,951
Expected return on plan assets	<u>(121,688)</u>	<u>(134,927)</u>
Retirement benefits	<u>P 340,762</u>	<u>P 325,522</u>

The movements in the prepaid retirement benefits recognized in the books are as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	P 155,527	(P 99,341)
Expense recognized	340,762	325,522
Contributions paid	<u>(538,305)</u>	<u>(580,390)</u>
Balance at end of year	<u>(P 353,070)</u>	<u>(P 155,527)</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Present value of obligation	P 2,159,039	P 1,696,589	P 1,629,837	P 1,143,560
Fair value of plan assets	<u>2,688,132</u>	<u>2,028,139</u>	<u>1,455,297</u>	<u>1,244,854</u>
Deficiency (excess) in the plan	(P 529,093)	(P 331,550)	P 174,540	(P 101,294)

For determination of the retirement benefit obligation, the following actuarial assumptions were used in 2009 and 2008:

Discount rates	11.00%
Expected rate of return on plan assets	6.00%
Expected rate of salary increases	3.50%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the age of 60 is 7 for males and 16 for females.

The overall expected long-term rate of return on assets is 10%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

15. TAXES

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

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

On January 22, 2008, BIR issued Revenue Memorandum Circular (RMC) No. 14-2008 which states that the above-mentioned Certificate of Accreditation issued by PCNC prior to November 15, 2007 will be valid only until March 31, 2008. Accordingly, holders of the said certificates are directed to renew their accreditation with the proper accrediting government entity on or before the said date. This circular was issued pursuant to Executive Order (EO) No. 671, as circularized under RMC No. 88-2007 which lists in detail the government agencies designated as accrediting entities that will certify and accredit charitable organizations as donee-institutions relative to the deductibility and exemption from donor's tax of contributions or gifts received by them pursuant to the Sections 34 and 101, respectively, of the Tax Code, as amended. This order was repealed by Executive Order No. 720, where PCNC has the function of accrediting donee institutions. Further, no corporations, associations, or non-governmental organization (NGO) shall be processed by the PCNC unless it has secured a valid registration with the government agency that exercises regulatory functions over such corporation, association or NGO. As of report date, the Foundation's application for renewal of accreditation with PCNC is in progress.

As required by the standards, the Foundation is supposed to recognize deferred tax assets or liabilities for the tax effects of temporary differences arising from net operating loss carry over and the unrealized foreign exchange gain and/or losses on the Foundation's incidental taxable activities. However, since the Foundation does not expect to be in a taxable position in the future relative to its incidental taxable activities, recognition of the deferred tax assets in the books has not been made in the accounts for the years ended December 31, 2009 and 2008.

16. RELATED PARTY TRANSACTIONS

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

	<u>2009</u>	<u>2008</u>
Salaries and wages	P 4,656,793	P 5,249,208
Employee benefits	<u>1,085,758</u>	<u>912,568</u>
	<u>P 5,742,551</u>	<u>P 6,161,776</u>

17. COMMITMENT AND CONTINGENCIES

17.1 Leases

The Foundation has renewed its lease contracts under non-cancelable operating leases covering its office spaces in Cebu City and Zamboanga City effective January 1, 2009. The leases have terms ranging from four to six months, with renewal options. The future minimum rentals payable within one year under these non-cancelable operating leases was nil in 2009 and P93,700 as of December 31, 2009 and 2008, respectively.

Rent expenses on the lease agreements amounted to P121,600 and P229,800 in 2009 and 2008, respectively, and is included as part of project expenses in the statement of comprehensive income.

17.2 Others

There are commitments and contingencies that arise in the normal course of the Foundation's operations which are not reflected in the accompanying financial statements. As of December 31, 2009, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Foundation's financial statements.

18. FOREIGN CURRENCY DENOMINATED MONETARY ASSETS

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

	<u>2009</u>	<u>2008</u>
<u>In U.S. Dollars:</u>		
Cash and cash equivalents	\$ 4,304	\$ 68,956
Available-for-sale financial assets	<u>7,552,447</u>	<u>6,046,741</u>
	<u>\$ 7,556,751</u>	<u>\$ 6,115,697</u>
Peso equivalent	<u>P 349,121,896</u>	<u>P 290,618,798</u>
	<u>2009</u>	<u>2008</u>
<u>In Euro:</u>		
Cash and cash equivalents	€ <u>1,416</u>	€ <u>24,973</u>
Peso equivalent	<u>P 94,299</u>	<u>P 1,654,388</u>

19. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

19.1 Foreign Exchange Risk

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

The Foundation has certain investments in foreign currency which are exposed to foreign currency translation risk.

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

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

	2009		
	U.S. Dollars	Euro	Total
Cash	P 198,857	P 94,299	P 293,156
Available-for-sale financial assets	<u>348,923,029</u>	-	<u>348,923,029</u>
Short-term exposure	<u>P 349,121,886</u>	<u>P 94,299</u>	<u>P 349,216,185</u>
	2008		
	U.S. Dollars	Euro	Total
Cash	P 3,276,799	P 1,654,388	P 4,931,187
Available-for-sale financial assets	<u>287,341,999</u>	-	<u>287,341,999</u>
Short-term exposure	<u>P 290,618,798</u>	<u>P 1,654,388</u>	<u>P 292,273,186</u>

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

	2009			2008		
	Reasonably possible change in rate	Effect in income before tax	Effect in equity before tax	Reasonably possible change in rate	Effect in income before tax	Effect in equity before tax
PhP - USD	20.95%	P 41,661	P 73,099,375	26.19%	P 858,194	P 107,667,047
PhP - EURO	33.27%	<u>31,372</u>	-	37.47%	<u>43,328</u>	-
Total		<u>P 73,033</u>	<u>P 73,099,375</u>		<u>P 901,522</u>	<u>P 107,667,047</u>

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

19.2 Liquidity Risk

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

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

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Accounts payable, accrued expenses and other liabilities	9	P 3,800,993	P 6,232,885
Grants payable	10	11,795,813	18,085,829
Funds held in trust	11	<u>88,952,632</u>	<u>88,792,390</u>
		<u>P 104,549,438</u>	<u>P 113,111,104</u>

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

19.3 Credit Risk

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

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

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

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	4	P 28,280,057	P 60,430,996
Loans and receivables	5	136,129,124	169,600,588
Available-for-sale financial assets	6	<u>1,148,544,893</u>	<u>783,779,729</u>
		<u>P1,312,954,074</u>	<u>P1,013,811,313</u>

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

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

	<u>2009</u>		<u>2008</u>
Not more than 3 months	P 3,380,316	P	1,134,449
More than 3 months but not not more than one year	9,762,153		1,421,941
More than one year	<u>9,345,192</u>		<u>8,666,507</u>
	<u>P 22,487,661</u>	P	<u>11,222,897</u>

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

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

19.4 Interest Rate Risk

The Foundation monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At December 31, 2009, the Foundation is exposed to changes in market interest rates of its bank placements, which are subject to variable interest rates. All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1.49% and +/- 1.55% in 2009 and 2008, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each balance sheet date that are sensitive to changes in interest rates. All other variables are held constant.

<u>Effects on</u>	<u>2009</u>		<u>2008</u>	
	<u>+149 basis points</u>	<u>-149 basis points</u>	<u>+155 basis points</u>	<u>-155 basis points</u>
Net income for the year	P 245,141	(P 245,141)	P 418,500	(P 418,500)
Equity at end of year	1,688,094	(1,688,094)	1,230,783	(1,230,783)

19.5 Other Market Price Risk

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

The observed volatility rates of the fair values of the Foundation's investments held at fair value and their impact on the Foundation's net income and equity as of December 31, 2009 and 2008 are summarized below:

	2009			
	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
Equity securities listed in the Philippines	+22.46%	-22.46%	P 65,168,656	(P 65,168,656)
Corporate bonds	+02.23%	-02.23%	4,121,611	(4,121,611)
Government bonds	+13.88%	-13.88%	12,166,032	(12,166,032)
Unitized investment trust fund	+32.29%	-32.29%	57,444,721	(57,444,721)
Treasury notes	+04.65%	-04.65%	6,686,007	(6,686,007)
Loans	+08.06%	-08.06%	978,734	(978,734)
			P 146,565,761	(P 146,565,761)
	2008			
	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
Equity securities listed in the Philippines	+44.17%	-44.17%	P 77,136,041	(P 77,136,041)
Corporate bonds	+24.51%	-24.51%	20,341,258	(20,341,258)
Government bonds	+16.92%	-16.92%	13,121,529	(13,121,529)
Unitized investment trust fund	+26.81%	-26.81%	16,866,221	(16,866,221)
Treasury notes	+39.86%	-39.86%	17,877,221	(17,877,221)
Loans	+10.94%	-10.94%	781,376	(781,376)
			P 146,123,646	(P 146,123,646)

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

20. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

20.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of assets and liabilities presented in the balance sheets are shown below.

Notes	2009		2008		
	Carrying Values	Fair Values	Carrying Values	Fair Values	
Financial assets					
Cash and cash equivalents	4	P 28,395,057	P 28,395,057	P 60,430,996	P 60,430,996
Loans and receivables	5	103,801,596	103,801,596	152,424,532	152,424,532
Available-for-sale financial assets	6	1,497,813,077	1,497,813,077	1,107,524,979	1,107,524,979
		P1,630,009,730	P1,630,009,730	P 1,320,380,507	P1,320,380,507
Financial liabilities					
Trade and other payables	9	P 3,800,993	P 3,800,993	P 6,232,885	P 6,232,885
Grants Payable	10	11,795,813	11,795,813	18,085,829	18,085,829
		P 15,596,806	P 15,596,806	P 24,318,714	P 24,318,714

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

20.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Foundation as of December 31:

(In thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Available-for-sale financial Assets	<u>P 1,161,359</u>	<u>P 277,311</u>	<u>P 59,143</u>	<u>P 1,497,813</u>

The different levels have been defined as follows:

1. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
2. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (i.e. derived from prices); and
3. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

21. FUND MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

However, in 2008, the Foundation did not recognize any provision for inflation and reversed the accumulated provisions in the prior-years amounting to P349,812,197 through the approval of majority of the members of the Board of Directors in February 2009. Such reversal was due to the present financial position of the Foundation considering the significant valuation losses incurred on available-for-sale investments. The Foundation's Finance Committee assessed that such unusual event makes it incapable of carrying in its books the provision.

The Foundation's total provision for inflation for 2009 amounted to P226,310,869.

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

- 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:

	<u>2009</u>	<u>2008</u>
Total liabilities	P 104,549,438	P 113,111,104
Fund balance	<u>1,568,613,602</u>	<u>1,249,346,205</u>
Liability to fund balance ratio	<u>0.07:1</u>	<u>0.09:1</u>

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 the light of changes in economic conditions and the risk characteristics of the underlying assets.