

**PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT
(PEACE) FOUNDATION, INC.**
(A Non-stock, Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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 for the purpose of providing financial, managerial, technical and policy assistance to non-governmental organizations, 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 P1.318 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 years ended December 31, 2007 and 2006 of P38.8 million and P1.9 million, respectively, were transferred to the unrestricted fund in accordance with the agreement with CODE-NGO. The Foundation also allocates a certain percentage for the earnings of the fund to cover for the cost of inflation (see Note 20).

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, 2007 (including the comparatives for the year ended December 31, 2006) were authorized for issue by the Foundation's Finance and Investment Committee on February 7, 2008.

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 (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board. PFRSs include Philippine Accounting Standards (PASs) and interpretations to existing standards issued by the International Financial Reporting Committee (IFRIC).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These 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) 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 (see also Note 2.10).

2.2 Impact of New Standards, and Amendments and Interpretations to Existing Standards

(a) Effective in 2007 that are relevant to the Foundation

In 2007, the Foundation adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures

Discussed below is the impact on the financial statements of these new accounting standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Foundation's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 20.
- (ii) PFRS 7, *Financial Instruments: Disclosures*. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:
 - a sensitivity analysis, to explain the Foundation's market risk exposure in regards to its financial instruments; and,
 - a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The new disclosures that become necessary due to the Foundation's adoption of PFRS 7 are presented in Note 19.

The first time application of these standards, amendments and interpretations has not resulted in any prior period adjustments of cash flows, revenues and expenses or assets, liabilities, and fund balances line items.

(b) *Effective in 2007 but not relevant to the Foundation*

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, <i>Financial Reporting in Hyper Inflationary Economies</i>
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

(c) *Effective Subsequent to 2007*

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2007. The following new standards are relevant to the Foundation which the Foundation will apply in accordance with their transitional provisions.

2008:

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
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2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs

Below is a discussion of the possible impact of these accounting standards.

- (i) Philippine Interpretation IFRIC 14, *PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Foundation based on the set-up of the pension trust fund, the Foundation determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

- (ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment 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 income statement and a statement of comprehensive income. The revenues and expenses statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or statement of assets, liabilities and fund balances) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Foundation will apply PAS 1 (Revised 2007) in its 2009 financial statements.
- (iii) PAS 23 (Revised 2007), *Borrowing Costs* (effective from January 1, 2009). Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Foundation has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2009, as well as for prior and future periods, as the Foundation's current accounting policy is to capitalize all interest directly related to qualifying assets.

2.3 Financial Assets

Financial assets 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 date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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.

Regular purchase 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 transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the revenues and expenses statement.

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 statement of assets, liabilities and fund balances date which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. 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, 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.

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

This include 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 balance sheet unless management intends to dispose of the investment within 12 months from the statement of assets, liabilities and fund balances date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the revenues and expenses statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the revenues and expenses statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the revenues and expenses statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in revenues and expenses statement, the impairment loss is reversed through the revenues and expenses statement.

Impairment losses recognized on financial assets are presented as a separate line item in the revenues and expenses statement.

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 statement of assets, liabilities, and fund balances date. 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 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. Income relating to financial assets recognized in profit or loss is presented as a separate line item in the revenues and expenses statement.

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 each statement of asset, liabilities and fund balances date.

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 revenues and expenses statement in the year the item is derecognized.

2.5 Investment Property

Investment property is measured initially at cost.

Investment property is 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 revenues and expenses statement in the year of retirement or disposal.

2.6 Financial Liabilities

Financial liabilities include accounts payable, accrued expenses and other liabilities, grants payable and fund 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 assets, liabilities and fund balances.

Financial liabilities are derecognized from the statement of assets, liabilities and fund balances 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 assets, liabilities and fund balances 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 each statement of assets, liabilities and fund balances date 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* – 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 revenues and expenses statement 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 revenues and expenses statement at 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 revenues and expenses statement 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 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

Items included in the financial statements of the Foundation are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine pesos, which is the Foundation's functional and presentation currency.

(b) Transactions and Balances

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

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the revenues and expenses statement.

2.11 Impairment of Non-financial Assets

The Foundation's property and equipment and investment property 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) Retirement Benefit Obligations

Pension benefits are provided to employees through a defined benefit plan, as well as defined contribution plans.

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 assets, liabilities and fund balances for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the statement of assets, liabilities and fund balances position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated every two years 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 income and expense statement, 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 statement of assets, liabilities, and fund balances date at the undiscounted amount that the Foundation expects to pay as a result of the unused entitlement.

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 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) *Functional Currency*

The Foundation has determined that its functional currency is the Philippine peso which is the currency of the primary environment in which the Foundation operates.

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

The Foundation follows the guidance of PAS 39 in determining when an investment is other-than-temporarily impaired. This determination 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.

If the assumptions made regarding the duration that, and extent to which, the fair value is less than its cost, the Company would incur an additional P55.9 million losses in its 2007 financial statements, representing the transfer of the total Revaluation Reserve to the revenues and expenses statement (see Note 6).

(c) *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.

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

(d) Operating and Finance Leases

The Foundation has entered into various lease agreements as a lessee. 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.

Rent expense charged to operations amounted to P165,000 in 2007 and 2006 (see Note 17.1).

(e) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies 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 statement of assets, liabilities, and fund balances date, 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 Life 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. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. 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. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment net of accumulated depreciation and any impairment losses amounted to P37.7 million and P32.3 million as of December 31, 2007 and 2006, respectively (see Note 7).

(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 amounted to P3.7 million in 2007 while provision for impairment losses amounted to P2.4 and P6.8 million in 2007 and 2006, 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. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, 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 and loss and equity.

Net fair value gains and losses recognized on available-for-sale financial assets amounted to P55.9 million loss and P67.5 million gain as of December 31, 2007 and 2006, respectively.

(d) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Foundation's policy on estimating the impairment of non-financial assets is discussed in detail 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.

No impairment loss on non-financial assets was recognized by the Foundation in 2007 and 2006.

(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 obligation and net unrecognized actuarial gains amounted to P99 thousand and P75 thousand, respectively, in 2007 whereas the retirement benefit asset and net unrecognized actuarial gains amounted to P176 thousand asset and P75 thousand, respectively, in 2006 (see Note 14).

4. CASH AND CASH EQUIVALENTS

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

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Cash on hand and in banks	11	P 5,319,448	P 5,292,836
Short-term placements		<u>15,446,544</u>	<u>-</u>
		<u>P 20,765,992</u>	<u>P 5,292,836</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 42 to 73 days and earn effective interest ranging from 3.00% to 3.84%.

5. LOANS AND RECEIVABLES

Loans and receivables at December 31 consist of:

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Current:			
Advances to project proponents (Schedule 1)		P 43,762,226	P 67,340,607
Prepayments and other current assets		21,422,408	200,534
Accrued interest		3,920,950	2,817,497
Others		<u>6,371,717</u>	<u>3,865,313</u>
		75,477,301	74,223,951
Allowance for impairment	3	(<u>2,440,610</u>)	(<u>16,648,549</u>)
		<u>P 73,036,691</u>	<u>P 57,575,402</u>

	Notes	<u>2007</u>	<u>2006</u>
Non-current:			
Advances to project proponents (Schedule 1)		P 137,614,119	P 88,186,554
Retirement benefits	14	-	176,493
Refundable deposits		<u>58,270</u>	<u>48,961</u>
		137,672,389	88,412,008
Allowance for impairment	3.1	<u>(14,307,087)</u>	<u>(1,432,570)</u>
		<u>P 123,365,302</u>	<u>P 86,979,438</u>

All of the Foundation's loans have been reviewed for indicators of impairment. Certain loans 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 2007 and 2006 is shown below.

	Note	<u>2007</u>	<u>2006</u>
Balance at beginning of year		P 18,081,119	P 11,251,968
Impairment loss during the year	3.1	2,352,105	6,829,151
Reversals		<u>(3,685,527)</u>	<u>-</u>
Balance at end of year		<u>P 16,747,697</u>	<u>P 18,081,119</u>

In addition to impaired receivables, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	<u>2007</u>	<u>2006</u>
Not more than 3 months	P 851,977	P 2,304,201
More than 3 months but more than 6 months	1,056,662	1,889,324
More than 6 months but not more than one year	1,861,214	1,733,864
More than one year	<u>9,193,477</u>	<u>9,898,932</u>
	<u>P 12,963,330</u>	<u>P 15,826,321</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 9% or 12% to cover administrative costs of servicing the projects. A 3% rebate is 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>Note</u>	<u>2007</u>	<u>2006</u>
ING Bank, N.Y. (ING)			
<u>PEACE:</u>			
Equity securities	P	287,640,002	P 540,505,099
Republic of the Philippines (ROP)			
sovereign bonds		187,369,576	441,928,576
Unitized investment trust fund		174,626,157	59,555,753
Corporate bonds		165,369,825	2,796,140
Treasury notes		157,444,763	40,655,604
Special savings account		55,364,828	-
Loans		17,529,885	-
		<u>1,045,345,036</u>	<u>1,085,441,172</u>
<u>Unused project funds:</u>			
	11		
Unitized investment trust fund		22,590,578	26,536,264
Equity securities		-	288,670
		<u>22,590,578</u>	<u>26,824,934</u>
		<u>1,067,935,614</u>	<u>1,112,266,106</u>
Deutsche Bank, AG (DB)			
Equity securities		83,661,852	76,812,378
Special savings account		9,619,906	-
ROP sovereign bonds		-	106,440,061
Corporate bonds		-	41,434,080
		<u>93,281,758</u>	<u>224,686,519</u>

	<u>2007</u>	<u>2006</u>
Asia United Bank (AUB)		
Treasury notes	P 100,868,162	P 163,625,691
Special savings account	173,571,058	-
Equity securities	64,606,308	30,743,100
Unitized investment trust fund	34,485,493	10,777,272
ROP sovereign bonds	<u>-</u>	<u>98,815,514</u>
	<u>373,531,021</u>	<u>303,961,577</u>
Investment in Equity Projects	<u>10,000,000</u>	<u>-</u>
	<u>P1,544,748,393</u>	<u>P 1,640,914,202</u>

In PEF's meeting held on September 27, 2007, its Board of Trustees approved the Foundation's investment in the Cooperative Insurance System of the Philippines, Inc. (CISP) by way of purchase of P10.0 million worth of common shares with par value of P100 per share. This investment is subject to the following terms and conditions as laid down in the agreement between PEF and CISP:

- PEF will have an initial investment of P5.0 million representing 50,000 shares with par value of P100 each prior to the planned merger of CISP and Cooperative Life Mutual Benefits Services Association (CLIMBS), with CISP as the surviving entity; and,
- The remaining P5.0 million investment will be optional after a successful merger or be cancelled should the merger proved to be a failure.

As of December 31, 2007, the planned merger between CISP and CLIMBS has not yet taken place. The initial investment amounting to P5.0 million is presented as part of Investment in Equity Projects.

On the other hand, in November 2007, PEF entered into an agreement with MASS-SPECC Cooperative Development Center (MASS-SPECC) to be an associate of the latter in relation to the implementation of the project "Bridging the Marginalized Communities to the World: A Partnership of PEF and MASS-SPECC" which aims to put up individual Automated Teller Machines (ATMs) where participating cooperatives can accessed the financing of their loans from MASS-SPECC. Among the salient terms of the agreement is for PEF to invest in MASS-SPECC comprising of 5,000 preferred shares which bears a fixed interest of 6.5% per annum, net of tax. Relatedly, PEF extended a P20 million credit line to MASS-SPECC with a term of five years and bears an interest rate of 12% per annum computed on the diminishing balance of the loan. As of December 31, 2007 the full amount of the loan was drawn and is presented as part of Advances to Proponents under Loans and Receivables.

The Foundation pays ING, DB and AUB every quarter one-fourth of the annual service fees of 0.25% based on the average market value of the fund.

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

A. ING Bank, N.Y.

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	P 1,112,266,106	P 968,380,937
Additions	113,993,955	185,413,479
Disposals/withdrawals	(31,670,205)	(79,472,771)
Fair value gains (losses) – net	(44,760,891)	75,056,951
Foreign currency losses	(81,893,351)	(37,112,490)
Balance at end of year	<u>P1,067,935,614</u>	<u>P 1,112,266,106</u>

B. Deutsche Bank, AG

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	P 224,686,519	P 401,676,787
Additions	16,675,717	38,677,884
Disposals/withdrawals	(135,550,000)	(186,204,038)
Fair value gains (losses) – net	(1,043,084)	(10,495,904)
Foreign currency losses	(11,487,394)	(18,968,210)
Balance at end of year	<u>P 93,281,758</u>	<u>P 224,686,519</u>

C. Asia United Bank

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	P 303,961,577	P 153,370,791
Additions	78,996,933	150,185,576
Disposals/withdrawals	(1,088,280)	(2,517,341)
Fair value gains (losses) – net	(8,339,209)	<u>2,922,551</u>
Balance at end of year	<u>P 373,531,021</u>	<u>P 303,961,577</u>

D. Investment in Equity

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	P -	P -
Additions	<u>10,000,000</u>	<u>-</u>
Balance at end of year	<u>P 10,000,000</u>	<u>P -</u>

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active markets.

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation of property and equipment 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, 2007					
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>
December 31, 2006					
Cost	P 22,115,809	P 7,845,768	P 3,969,826	P 6,687,439	P 40,618,842
Accumulated depreciation	-	(1,595,293)	(2,113,225)	(4,653,350)	(8,361,868)
Net carrying amount	<u>P 22,115,809</u>	<u>P 6,250,475</u>	<u>P 1,856,601</u>	<u>P 2,034,089</u>	<u>P 32,256,974</u>
January 31, 2006					
Cost	P 12,369,972	P 4,919,942	P 4,044,393	P 5,752,712	P 27,087,019
Accumulated depreciation	-	(1,096,437)	(1,361,592)	(3,201,311)	(5,659,340)
Net carrying amount	<u>P 12,369,972</u>	<u>P 3,823,505</u>	<u>P 2,682,801</u>	<u>P 2,551,401</u>	<u>P 21,427,679</u>

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006, 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, 2007, net of accumulated depreciation					
	P 22,115,809	P 6,250,475	P 1,856,601	P 2,034,089	P 32,256,974
Additions	-	9,051,113	175,633	2,294,393	11,521,139
Disposals	-	(2,866,663)	-	(160,054)	(3,026,717)
Depreciation charged for the year	-	(664,168)	(861,235)	(1,489,447)	(3,014,850)
Balance at December 31, 2007, net of accumulated depreciation	<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>
Balance at January 1, 2006, net of accumulated depreciation					
	P 12,369,972	P 3,823,505	P 2,682,801	P 2,551,401	P 21,427,679
Additions	9,745,837	2,925,826	73,679	1,070,339	13,815,681
Disposals	-	-	(75,358)	(64,098)	(139,456)
Depreciation charged for the year	-	(498,856)	(824,521)	(1,523,553)	(2,846,930)
Balance at December 31, 2006, net of accumulated depreciation	<u>P 12,369,972</u>	<u>P 3,823,505</u>	<u>P 2,682,801</u>	<u>P 2,551,401</u>	<u>P 21,427,679</u>

8. INVESTMENT PROPERTY

The Foundation's investment property includes parcel of land foreclosed by the Foundation when the borrower was unable to settle its loan. No income or loss or direct operating expenses were recognized during the years presented. Real estate tax amounting to P12,000 for each year was recognized as a related expense in 2007 and 2006.

The fair value of the investment property amounted to P2.4 million which was based on a valuation performed by an independent appraiser. However, no impairment loss was taken up as the management believes that the impact is not material to the financial statements.

9. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

This account includes the following:

	Note	<u>2007</u>	<u>2006</u>
Accounts payable		P 4,201,207	P 1,533,904
Accrued expenses		3,300,426	4,253,620
Retirement benefit obligation	14	99,341	-
Trustee fee payable		<u>156,299</u>	<u>13,529,370</u>
		<u>P 7,757,273</u>	<u>P 19,316,894</u>

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

Management considers the carrying amounts recognized in the statement of assets, liabilities and fund balances to be a reasonable approximation of fair value of accounts payable, accrued expenses, and other liabilities.

10. GRANTS PAYABLE

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

11. FUNDS HELD IN TRUST

11.1 Capacity Building to Remove Barriers to Renewable Energy Development in the Philippines (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 statement of assets, liabilities and fund balances (see Note 6). The fund balance as of December 31, 2007 and 2006 amounted to P22,988,901 and P26,592,930, respectively.

11.2 Catholic Organization for Relief and Development Agency for International Development (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 5-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 proceeds have been invested as part of the Short term placements in the statement of assets, liabilities and fund balances (see Note 4). 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. The fund balances as of December 31, 2007 and 2006 amounted to P41,727,196 and P1,521,112, respectively.

12. PROJECT EXPENSES

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Project development, monitoring and evaluation (PDME)	14	P 21,538,046	P 15,072,199
Project support		7,897,853	15,864,532
Research and management information system		3,755,895	-
Institutional support		1,469,158	2,358,300
Knowledge management		1,397,092	-
Rebates to proponents		1,006,915	1,855,759
CBRED related expenses	11, 14	<u>575,731</u>	<u>178,725</u>
		<u>P 37,640,690</u>	<u>P 35,329,515</u>

13. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are shown below:

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Supplies and services		P 5,049,977	P 3,348,775
Employee benefits	14	4,905,391	4,391,950
Transportation and travel		693,179	632,476
Outside services		<u>69,328</u>	<u>167,015</u>
		<u>P 10,717,875</u>	<u>P 8,540,216</u>

14. **EMPLOYEE BENEFITS**

14.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Notes	<u>2007</u>	<u>2006</u>
Salaries and wages	12, 13	P 9,326,848	P 8,671,438
Bonuses		1,798,289	1,358,617
Social security costs		737,098	507,589
De minimis benefits		634,519	537,716
Retirement – defined benefit plan		390,050	268,412
Compensated absences		<u>350,437</u>	<u>351,395</u>
		<u>P 13,237,241</u>	<u>P 11,695,167</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:

	Notes	<u>2007</u>	<u>2006</u>
PDME	12	P 7,756,120	P 7,124,492
CBRED	12	<u>575,730</u>	<u>178,725</u>
		<u>P 8,331,850</u>	<u>P 7,303,217</u>

14.2 Employee Retirement Benefit Obligation

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 and accrued retirement benefits recognized in the statement of assets, liabilities and fund balances which is reported as part of Loans and Receivables and Accounts Payable, Accrued Expenses and Other Liabilities accounts, respectively, are determined as follows:

	Note	<u>2007</u>	<u>2006</u>
Present value of the obligation		P 1,629,837	P 1,143,560
Fair value of plan assets		<u>(1,455,297)</u>	<u>(1,244,854)</u>
Deficiency (excess) of plan assets		174,540	(101,294)
Unrecognized actuarial gains		<u>(75,199)</u>	<u>(75,199)</u>
	5	<u>P 99,341</u>	<u>(P 176,493)</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 1,143,560	P 808,672
Current service cost and interest cost	<u>486,277</u>	<u>334,888</u>
Balance at end of year	<u>P 1,629,837</u>	<u>P 1,143,560</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 1,244,854	P 859,977
Expected return on plan assets	<u>96,227</u>	<u>66,476</u>
Contributions paid into the plan	<u>114,216</u>	<u>318,401</u>
Balance at end of year	<u>P 1,455,297</u>	<u>P 1,244,854</u>

The plan assets consist of the following:

	<u>2007</u>	<u>2006</u>
Investment in Equitable PCI Bank (PCIB) Merit – UUTF	P 1,452,762	P 1,242,009
Savings deposit	<u>2,535</u>	<u>2,845</u>
	<u>P 1,455,297</u>	<u>P 1,244,854</u>

Actual returns on plan assets were P75.5 thousand in 2007 and P0.5 thousand in 2006.

The amounts of retirement benefits recognized in the revenues and expenses statements are as follows:

	<u>2007</u>	<u>2006</u>
Current service costs	P 350,193	P 238,656
Interest costs	<u>136,084</u>	<u>96,232</u>
Expected return on plan assets	<u>(96,227)</u>	<u>(66,476)</u>
Retirement benefits	<u>P 390,050</u>	<u>P 268,412</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 176,493	P 126,504
Expense recognized	(390,050)	(268,412)
Contributions paid	<u>114,216</u>	<u>318,401</u>
Balance at end of year	(P 99,341)	<u>P 176,493</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>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Present value of the obligation	P1,629,837	P1,143,560	P 808,672	P 482,730
Fair value of the plan assets	<u>1,455,297</u>	<u>1,244,854</u>	<u>859,977</u>	<u>699,664</u>
Deficiency (excess) in the plan	<u>P 174,540</u>	<u>(P 101,294)</u>	<u>(P 51,305)</u>	<u>(P 216,934)</u>

For determination of the retirement benefit obligation, the following actuarial assumptions were used in 2007 and 2006:

Discount rates	11.90%
Expected rate of return on plan assets	7.73%
Expected rate of salary increases	7.00%

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 6 for males and 12 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.

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, 2007 and 2006.

16. **RELATED PARTY TRANSACTIONS**

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

	<u>2007</u>	<u>2006</u>
Salaries and wages	P 4,834,125	P 4,555,190
Employee benefits	<u>965,769</u>	<u>1,029,276</u>
	<u>P 5,799,894</u>	<u>P 5,584,466</u>

17. **COMMITMENT AND CONTINGENCIES**

17.1 Leases

The Foundation is a lessee under a non-cancellable operating lease covering its office space in Cebu City for a period of two years commencing on January 1, 2006. The lease has a term of two years, with renewal options, and includes annual escalation rates of 10%. The future minimum rentals payable under these non-cancellable operating leases as of December 31 are shown below.

	<u>2007</u>	<u>2006</u>
Within one year	P 165,000	P 165,000
After one year but not more than five years	<u>-</u>	<u>165,000</u>
	<u>P 165,000</u>	<u>P 330,000</u>

Rent expense on the above lease agreement amounted to P165 thousand in 2007 and 2006 and is included as part of general and administrative expenses in the revenues and expenses statement.

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, 2007, 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 AND LIABILITIES

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

	<u>2007</u>	<u>2006</u>
<u>In US Dollars:</u>		
Assets		
Cash and cash equivalents	\$ 3,862	\$ 1,868
Available-for-sale financial assets	9,138,910	14,661,534
Liabilities		
Accounts payable, accrued expenses and other liabilities	<u>-</u>	<u>(132,309)</u>
	<u>\$ 9,142,772</u>	<u>\$ 14,531,093</u>
Peso equivalent	<u>P 378,519,904</u>	<u>P 713,941,661</u>
<u>In Euro:</u>		
Cash and cash equivalents	<u>€ 1,204</u>	<u>€ 23,555</u>
Peso equivalent	<u>P 72,824</u>	<u>P 1,521,112</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 below.

19.1 Foreign Currency Sensitivity

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:

	<u>U.S. Dollars</u>	<u>Euro</u>	<u>Total</u>
Financial assets			
Cash	P 159,891	P 72,824	P 232,715
Available-for-sale Financial assets	<u>378,360,013</u>	<u>-</u>	<u>378,360,013</u>
Short-term exposure	<u>P 378,519,904</u>	<u>P 72,824</u>	<u>P 378,592,728</u>

The following table (in thousand Philippine pesos) illustrates the sensitivity of the net result for the year and equity in regards to the Foundation's financial assets and financial liabilities and the US dollar – Philippine peso exchange rate and Euro – Philippine peso exchange rate. It assumes a +/- 34% change and +/-13% change of the Philippine peso/US dollar exchange and Euro – Philippine peso exchange rate, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Foundation's foreign currency financial instruments held as of December 31, 2007.

If the Philippine peso had strengthened against the US dollar and Euro, then net income and equity would have been higher by the following amounts:

	<u>U.S. Dollars</u>	<u>Euro</u>	<u>Total</u>
Net results for the year	P 35,232	P 6,223	P 41,455
Equity	128,264,044	-	128,264,044

On the other hand, if the Philippine peso had weakened against the US dollar and Euro by the same percentages, with all variables held constant, net income and equity would have been lower by the same amounts.

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>2007</u>	<u>2006</u>
Accounts payable, accrued expenses and other liabilities	9	P 7,757,273	P 19,316,894
Grants payable	10	48,934,613	80,205,835
Fund held in trust	11	<u>64,716,097</u>	<u>28,114,042</u>
		<u>P 121,407,983</u>	<u>P 127,636,771</u>

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

19.3 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of assets, liabilities and fund assets.

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>2007</u>	<u>2006</u>
Cash and cash equivalents	4	P 20,765,992	P 5,292,836
Loans and receivables – net	5	196,401,993	144,554,840
Available-for-sale financial assets	6	<u>1,544,748,393</u>	<u>1,640,914,202</u>
		<u>P1,761,916,378</u>	<u>P1,790,761,878</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 Sensitivity

The Foundation monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At December 31, 2007, 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 the net result for the year and equity to a reasonably possible change in interest rates of +152 and -152 basis points (bps) in 2007, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Foundation's financial instruments held at each balance sheet date. All other variables are held constant.

	<u>2007</u>	
	<u>+152bps</u>	<u>+152bps</u>
Net results for the year	P 370,544	(P 370,544)
Equity	1,183,117	(1,183,117)

19.5 Other Market Price Risks

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, 2007 are summarized on the next page:

	<u>Observed Volatility Rates</u>		<u>Impact on Equity</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Equity securities listed in the Philippines				
Ordinary shares	+27.39%	-27.39%	P112,623,975	(P112,623,975)
Preferred shares	+2.41%	-2.41%	693,604	(693,604)
Government bonds	+7.09%	-7.09%	14,203,551	(14,203,551)
Unitized investment trust fund	+17.60%	-17.60%	44,703,817	(44,703,817)
Treasury notes	+2.60%	-2.60%	6,231,778	(6,231,778)
Corporate bonds	+4.25%	-4.25%	7,128,907	(7,128,907)
Loans	+1.38%	-1.38%	527,049	(527,049)
			<u>P186,112,681</u>	<u>(P186,112,681)</u>

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. FUND MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

The Foundation manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to preserve the value of the fund, the Foundation allocates a certain percentage of its net earnings to cover for the cost of inflation (see Note 1). Provision for inflation amounted to P575 thousand and P79.0 million as of December 31, 2007 and 2006, respectively.

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 in high-yielding investments;
- 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.

	<u>2007</u>	<u>2006</u>
Grants	P 44,649,160	P 127,645,937
Project expenses	<u>37,640,690</u>	<u>35,329,515</u>
Total expenditures	<u>P 82,289,850</u>	<u>P 162,975,452</u>
Investment and interest income earned during the year (net of foreign exchange losses)	<u>P 131,535,430</u>	<u>P 182,574,967</u>
Expenditure-to-investment ratio	<u>1 : 0.626</u>	<u>1 : 0.893</u>

The Foundation has complied with its undertakings, including limiting its expenditures and operating within the income of the fund. The ratio-reduction in 2007 is the result of lesser grants approved in 2007 and the decrease in investment and interest income was due to the increased foreign exchange losses from foreign-currency denominated investments in 2007.