PEACE EQUITY ACCESS FOR COMMUNITY EMPOWERMENT (PEACE) FOUNDATION, INC.
(A Non-stock, Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(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 (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 P1.318 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 deficiency of revenues over expenses for the year ended December 31, 2008 of P103.8 million and the excess of revenue over expenses for the year ended December 31, 2007 of P38.8 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, 2008 (including the comparatives for the year ended December 31, 2007) were authorized for issue by the Foundation's Board of Trustees on March 26, 2009.

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 (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of 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 Amendments and Interpretations to Existing Standards

(a) Effective in 2008 that are Relevant to the Foundation

In 2008, the Foundation adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14	:	Philippine Accounting Standards (PAS) 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
PAS 39 and PFRS 7 (Amendments)	:	PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial Instruments: Disclosures

Discussed below are the effects on the financial statements of the new accounting interpretation and amended 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 guidance on assessing the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Foundation's adoption of this interpretation does not have any impact on the Foundation's financial statements, as it has a retirement benefit obligation and is not subject to any minimum funding requirements.

(ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* and PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:

- Reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and

- Transfer from the available for sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification was made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. As the Foundation did not exercise the option to reclassify its financial assets; hence, it determined that the adoption of these amendments has no impact on the 2008 financial statements.

The first time application of these interpretation and amendments has not resulted in any prior period adjustments of balance sheet, net income or cash flows line items.

(b) Effective in 2008 that are not Relevant to the Foundation

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Foundation's operations:

Philippine Interpretation IFRIC 11	:	Group and Treasury Share Transactions
Philippine Interpretation IFRIC 12	:	Service Concession Arrangements

(c) Effective Subsequent to 2008

There are new and amended standards that are effective for periods subsequent to 2008. The following new standards, effective for annual periods beginning on or after January 1, 2009, are relevant to the Foundation which the Foundation will apply in accordance with its transitional provisions:

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

Below are the discussions of the possible impact of these amended accounting standards.

(i) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009) 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 income 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 balance sheet) 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.

(ii) 2008 Annual Improvements to PFRS. The FRSC has adopted the Improvements to International Financial Reporting Standards 2008. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Foundation expects the amendment to PAS 19 (Amendment), *Employee Benefits*, to be relevant to the Foundation's accounting policies. The amendment includes the following:

- Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.

- Change in the definition of return of plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

The Foundation's management assessed that this amendment to PAS 19 will have no impact on its 2009 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 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, except for changes in fair values of reclassified financial assets under PAS 39 and PFRS 7 (Amendments). Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate. 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 current assets 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 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 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 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 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* – 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 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) Retirement Benefit Obligations

Pension 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 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 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 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 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 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.

(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.

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.

(c) *Operating and Finance Leases*

The Foundation has entered into various lease agreements as either a lessor or 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.

(d) *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 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 amounted to P3.0 million and P3.7 million in 2008 and 2007, respectively, while provision for impairment losses amounted to P5.2 million and P2.4 million in 2008 and 2007, respectively. Also, during the year, the Foundation has written-off P1.8 million long outstanding advances to proponents including impaired interest receivables (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 and loss and equity.

(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.

(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 asset and net unrecognized actuarial gains amounted to P155,527 and P176,023, respectively, in 2008 whereas the retirement benefit obligation and net unrecognized actuarial losses amounted to P99,341 and P75,199, respectively, in 2007 (see Note 14).

4. CASH AND CASH EQUIVALENTS

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

	Note	2008	2007
Cash on hand and in banks		**P 33,430,996**	P 5,319,448
Short-term placements	11.2	**27,000,000**	15,446,544
		P 60,430,996	P 20,765,992

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 19 to 77 days and earn effective interest ranging from 2.5% to 6.0%.

5. LOANS AND RECEIVABLES

Loans and receivables at December 31 consist of:

	Note	2008	2007
Current:			
Advances to project proponents (Schedule 1)		**P 77,856,088**	P 43,762,226
Accrued interest		**3,763,455**	3,920,950
Prepayments and other current assets		**3,482,213**	21,422,408
Receivable from donor-funded projects		**1,094,375**	3,521,090
Others		**4,933,723**	2,850,627
		91,129,854	75,477,301
Allowance for impairment		**(14,454,180)**	(2,440,610)
		76,675,674	73,036,691
Non-current:			
Advances to project proponents (Schedule 1)		**78,243,637**	137,614,119
Retirement benefits	14	**155,527**	-
Refundable deposits		**71,570**	58,270
		78,470,734	137,672,389
Allowance for impairment		**(2,721,876)**	(14,307,087)
		75,748,858	123,365,302
		P 152,424,532	P 196,401,993

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 2008 and 2007 is shown below.

	Note	2008	2007
Balance at beginning of year		**P 16,747,697**	P 18,081,119
Impairment loss during the year	3.2	**5,223,173**	2,352,105
Reversals		**(3,001,461)**	(3,685,527)
Write-off		**(1,793,353)**	-
Balance at end of year		**P 17,176,056**	P 16,747,697

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% to 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:

	Note	**2008**	2007
ING Bank, N.Y. (ING)			
PEACE:			
Equity securities		**P 225,713,289**	P 287,640,002
Corporate bonds		**234,065,178**	165,369,825
Republic of the Philippines (ROP) sovereign bonds		**119,273,188**	187,369,576
Unitized investment trust fund		**69,831,126**	174,626,157
Special savings account		**49,217,002**	55,364,828
Treasury notes		**16,310,853**	157,444,763
Loans		**10,989,596**	17,529,885
		725,400,232	1,045,345,036
Unused project funds:	11.1		
Unitized investment trust fund		**13,238,338**	22,590,578
Special savings account		**185,411**	-
		13,423,749	22,590,578
Balance brought forward		**P 738,823,981**	P1,067,935,614

	2008	2007
Balance carried forward	**P 738,823,981**	P1,067,935,614
Deutsche Bank, AG (DB)		
Equity securities	**6,767,190**	83,661,852
Special savings account	**2,199,996**	9,619,906
Corporate bonds	**1,000,000**	-
	9,967,186	93,281,758
Asia United Bank (AUB)		
Special savings account	**158,898,337**	173,571,058
Treasury notes	**94,861,613**	100,868,162
Equity securities	**36,212,481**	64,606,308
Unitized investment trust fund	**13,709,091**	34,485,493
	303,681,522	373,531,021
Investment in Equity Projects	**55,052,290**	10,000,000
	P1,107,524,979	P1,544,748,393

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, 2008, 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 P20.0 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, 2008 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.

	2008	2007
Balance at beginning of year	**P1,067,935,614**	P 1,112,266,106
Realized investment gains (losses)	**(61,870,821)**	113,993,955
Disposals/withdrawals	**(26,635,801)**	(31,670,205)
Fair value losses - net	**(290,191,523)**	(44,760,891)
Foreign currency gains (losses)	**49,586,512**	(81,893,351)
Balance at end of year	**P 738,823,981**	P 1,067,935,614

B. Deutsche Bank, AG

	2008	2007
Balance at beginning of year	**P 93,281,758**	P 224,686,519
Realized investment gains (losses)	**(15,609,121)**	16,675,717
Disposals/withdrawals	**(55,900,000)**	(135,550,000)
Fair value losses - net	**(12,121,619)**	(1,043,084)
Foreign currency gains (losses)	**316,168**	(11,487,394)
Balance at end of year	**P 9,967,186**	P 93,281,758

C. Asia United Bank

	2008	2007
Balance at beginning of year	**P 373,531,021**	P 303,961,577
Realized investment gains	**8,340,267**	78,996,933
Disposals/withdrawals	**(50,000,000)**	(1,088,280)
Fair value losses – net	**(28,189,766)**	(8,339,209)
Balance at end of year	**P 303,681,522**	P 373,531,021

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 at the beginning and end of 2008 and 2007 are shown below:

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
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	**P 22,115,809**	**P 10,765,218**	**P 1,945,234**	**P 2,404,752**	**P 37,231,013**
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	P 22,115,809	P 11,770,757	P 1,170,999	P 2,678,981	P 37,736,546
January 1, 2007					
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	P 22,115,809	P 6,250,475	P 1,856,601	P 2,034,089	P 32,256,974

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007, of property and equipment is shown below.

	Land	Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
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 charge for the year	-	(1,441,724)	(507,577)	(1,466,235)	(3,415,536)
Balance at December 31, 2008, net of accumulated depreciation	**P 22,115,809**	**P 10,765,218**	**P 1,945,234**	**P 2,404,752**	**P 37,231,013**
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	-	6,184,450	175,633	2,294,393	8,654,476
Disposals	-	-	-	(160,054)	(160,054)
Depreciation charge for the year	-	(664,168)	(861,235)	(1,489,447)	(3,014,850)
Balance at December 31, 2007, net of accumulated depreciation	P 22,115,809	P 11,770,757	P 1,170,999	P 2,678,981	P 37,736,546

Proceeds and gain on disposal of certain transportation and office equipment amounted to P604,189 and P345,125, respectively, in 2008 and P177,225 and P17,171, respectively, in 2007.

Total depreciation expense above includes depreciation charges of property and equipment acquired through funds held-in-trust which amounted to P79,828 and P45,518 in 2008 and 2007, respectively. Such amounts were excluded from the determination of depreciation expense in the statement of revenues and expenses since these are presented net of funds held-in-trust account in the Statements of Assets, Liabilities and Fund Balances.

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. During the year, the Foundation foreclosed additional parcels of land which were recognized at their fair value on date of acquisition amounting to P1.7 million. 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 2008 and 2007.

The fair values of the investment properties amounted to P4.8 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	2008	2007
Accounts payable		**P 3,753,367**	P 4,201,207
Accrued expenses		**2,323,219**	3,300,426
Trustee fee payable		**156,299**	156,299
Retirement benefit obligation	14	**-**	99,341
		P 6,232,885	P 7,757,273

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 of accounts payable, accrued expenses, and other liabilities recognized in the statement of assets, liabilities and fund balances 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

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, 2008 and 2007 amounted to P21,929,721 and P22,988,901, 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 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 in the statements of assets, liabilities and fund balances (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.

During the year, the Foundation received additional fund from CORDAID amounting to €323,566 (P21,573,373). The fund balances as of December 31, 2008 and 2007 amounted to P63,814,179 and P41,727,196, respectively.

11.3 The Coca-Cola Foundation

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. As of December 31, 2008, the Foundation has not utilized the said fund.

12. PROJECT EXPENSES

The breakdown of this account is as follows:

	Notes	2008	2007
Project development, monitoring and evaluation (PDME)	14	**P 19,364,454**	P 20,347,257
Project support		**5,468,600**	7,452,387
Rebates to proponents		**2,535,526**	1,006,915
Research and management information system		**1,772,189**	3,755,895
Institutional support		**1,705,549**	1,469,158
Knowledge management		**841,811**	1,397,092
CBRED related expenses	11, 14	**621,463**	575,731
		P 32,309,592	P 36,004,435

13. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are shown below:

	Note	2008	2007
Employee benefits	14	**P 5,218,542**	P 4,905,391
Supplies and services		**4,222,891**	4,449,725
Outside services		**792,779**	996,691
Transportation and travel		**288,175**	366,068
		P 10,522,387	P 10,717,875

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Notes	2008	2007
Salaries and wages	12, 13	**P 10,368,775**	P 9,326,848
Bonuses		**1,048,083**	1,798,289
Social security costs		**1,040,526**	737,098
De minimis benefits		**717,814**	634,519
Compensated absences		**389,328**	350,437
Retirement – defined benefit plan		**325,522**	390,050
		P 13,890,048	P 13,237,241

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	2008	2007
PDME	12	**P 8,050,043**	P 7,756,120
CBRED	12	**621,463**	575,730
		P 8,671,506	P 8,331,850

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 and accrued retirement benefits recognized in the statements of assets, liabilities and fund balances which is reported as part of Loans and Receivables and Accounts Payable, Accrued Expenses and Other Liabilities accounts in 2008 and 2007, respectively, are determined as follows:

	2008	2007
Present value of the obligation	**P 1,696,589**	P 1,629,837
Fair value of plan assets	**(2,028,139)**	(1,455,297)
Deficiency (excess) of plan assets	**(331,550)**	174,540
Unrecognized actuarial gains (losses)	**176,023**	(75,199)
	(P 155,527)	P 99,341

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

	2008	2007
Balance at beginning of year	**P 1,629,837**	P 1,143,560
Current service cost and interest cost	**460,449**	486,277
Actuarial gain	**(393,697)**	-
Balance at end of year	**P 1,696,589**	P 1,629,837

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

	2008	2007
Balance at beginning of year	**P 1,455,297**	P 1,244,854
Expected return on plan assets	**134,927**	96,227
Contributions paid into the plan	**580,390**	114,216
Actuarial loss	**(142,475)**	-
Balance at end of year	**P 2,028,139**	P 1,455,297

The plan assets consist of the following:

	2008	2007
Investment in Equitable PCI Bank (PCIB) Merit – UITF	**P 2,025,302**	P 1,452,762
Savings deposit	**2,837**	2,535
	P 2,028,139	P 1,455,297

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

	2008	2007
Current service costs	**P 266,498**	P 350,193
Interest costs	**193,951**	136,084
Expected return on plan assets	**(134,927)**	(96,227)
Retirement benefits	**P 325,522**	P 390,050

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

	2008	2007
Balance at beginning of year	**P 99,341**	(P P176,493)
Expense recognized	**325,522**	390,050
Contributions paid	**(580,390)**	(114,216)
Balance at end of year	**(P 155,527)**	P 99,341

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.

	2008	2007	2006	2005
Present value of obligation	P 1,696,589	P 1,629,837	P 1,143,560	P 808,672
Expense recognized	2,028,139	1,455,297	1,244,854	859,977
Deficiency (excess) in the plan	(P 331,550)	P 174,540	(P 101,294)	(P 51,305)

For determination of the retirement benefit obligation, the following actuarial assumptions were used in 2008 and 2007:

	2008	2007
Discount rates	**11.00%**	11.90%
Expected rate of return on plan assets	**6.00%**	7.73%
Expected rate of salary increases	**3.50%**	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 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, 2008 and 2007.

16. RELATED PARTY TRANSACTIONS

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

	2008	2007
Salaries and wages	**P 5,249,208**	P 4,834,125
Employee benefits	**912,568**	965,769
	P 6,161,776	P 5,799,894

17. COMMITMENT AND CONTINGENCIES

17.1 Leases

The Foundation has renewed its lease contracts under non-cancelable operating leases covering its office spaces in Cebu City and Zamboanga City effective January 1, 2009. The leases have terms ranging from four to six months, with renewal options. The future minimum rentals payable within one year under these non-cancelable operating leases amounted to P93,700 and P165,000 as of December 31, 2008 and 2007, respectively.

Rent expenses on the lease agreements amounted to P229,800 and P165,500 in 2008 and 2007, respectively, 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, 2008, 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. PRIOR PERIOD ADJUSTMENT

The balances of cumulative deficiency of revenues over expenses as of January 1, 2008 has been restated from the amount previously reported to reverse the inadvertent recognition of revenues and expenses of funds held-in-trust as part of the Foundation's revenues and expenses.

The restatement resulted to a reduction of cumulative deficiency of revenues over expenses by P3,605,671 as of January 1, 2008 and an increase of excess of revenue over expenses by the same amount for the year 2007.

19. FOREIGN CURRENCY DENOMINATED MONETARY ASSETS

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

	2008	2007
In US Dollars:		
Assets		
Cash and cash equivalents	**$ 68,956**	$ 3,862
Available-for-sale financial assets	**6,046,741**	9,138,910
	$ 6,115,697	$ 9,142,772
Peso equivalent	**P 290,618,798**	P 378,519,904
In Euro:		
Cash and cash equivalents	**€ 24,973**	€ 1,204
Peso equivalent	**P 1,654,388**	P 72,824

20. 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.

20.1 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:

	2008		
	U.S. Dollars	Euro	Total
Financial assets			
Cash	P 3,276,799	P 1,654,388	P 4,931,187
Available-for-sale financial assets	287,341,999	-	287,341,999
Short-term exposure	**P 290,618,798**	**P 1,654,388**	**P292,273,186**

	2007		
	U.S. Dollars	Euro	Total
Financial assets			
Cash	P 159,891	P 72,824	P 232,715
Available-for-sale financial assets	378,360,013	-	378,360,013
Short-term exposure	P 378,519,904	P 72,824	P378,592,728

The following table illustrates the sensitivity of the Foundation's income before 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.

	2008						**2007**				
	Reasonably possible change in rate	**Effect in income before tax**		**Effect in equity before tax**		Reasonably possible change rate	Effect in income before tax		Effect in equity before tax		
PhP - USD	**26.19%**	**P**	**858,194**	**P**	**107,667,047**	34.0%	P	35,232	P	128,264,044	
PhP - EURO	**37.47%**		**43,328**		**-**	13.0%		6,223		-	
Total		**P**	**901,522**	**P**	**107,667,047**		P	41,455	(P	128,264,044	)

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.

20.2 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:

	Notes	**2008**	2007
Accounts payable, accrued expenses and other liabilities	9	**P 6,232,885**	P 7,757,273
Grants payable	10	**18,085,829**	48,934,613
Funds held in trust	11	**88,792,390**	64,716,097
		P 113,111,104	P 121,407,983

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

20.3 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:

	Notes	2008	2007
Cash and cash equivalents	4	**P 60,430,996**	P 20,765,992
Loans and receivables	5	**169,600,588**	213,149,690
Available-for-sale financial assets	6	**783,779,729**	1,098,840,231
		P 1,013,811,313	P1,332,755,913

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:

	2008	2007
Not more than 3 months	**P 1,134,449**	P 851,977
More than 3 months but not more than 6 months	**239,925**	1,056,662
More than 6 months but not more than one year	**1,182,016**	1,861,214
More than one year	**8,666,507**	9,193,477
	P 11,222,897	P 12,963,330

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.

20.4 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, 2008, 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 +/- 1.55% and 1.52% in 2008 and 2007, 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.

	2008		2007	
Effects on	**+155 basis points**	**-155 basis points**	+152 basis points	-152 basis points
Net income for the year	**P 418,500**	**(P 418,500)**	P 370,544	(P 370,544)
Equity at end of year	**1,230,783**	**(1,230,783)**	1,183,117	(1,183,117)

20.5 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, 2008 and 2007 are summarized below:

	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)**

	2007			
	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
Equity securities listed in the Philippines	+27.39%	-27.39%	P 112,623,975	(P 112,623,975)
Corporate bonds	+4.25%	-4.25%	7,128,907	(7,128,907)
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)
Loans	+1.38%	-1.38%	527,049	(527,049)
			P 185,419,077	(P 185,419,077)

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.

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. Provision for inflation amounted to P575,059 as of December 31, 2007.

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 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:

	2008	2007
Total liabilities	**P 113,111,104**	P 121,407,983
Fund balance	**1,249,346,205**	1,681,390,730
Liability to fund balance ratio	**1: 1.09**	1: 1.07

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.

22. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Notes	**2008**		2007	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Cash and cash equivalents	4	**P 60,430,996**	**P 60,430,996**	P 20,765,992	P 20,765,992
Loans and receivables	5	**152,424,532**	**152,424,532**	196,401,993	196,401,993
Available-for-sale financial assets	6	**1,107,524,979**	**1,107,524,979**	1,544,748,393	1,544,748,393
		P1,320,380,507	**P1,320,380,507**	P 1,761,916,378	P1,761,916,378
Financial liabilities					
Trade and other payables	9	**P 6,232,885**	**P 6,232,885**	P 7,757,273	P 7,757,273
Grants Payable	10	**18,085,829**	**18,085,829**	48,934,613	48,934,613
		P 24,318,714	**P 24,318,714**	P 56,691,886	P 56,691,886

See Notes 2.3 and 2.6 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 21.