

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Ayala Foundation, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2003 and 2002. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The President and Chief Financial Officer review the financial statements before such statements are approved and submitted.

SyCip Gorres and Velayo & Co., the independent auditors and appointed by the Board of Trustees, has examined the financial statements of the Foundation in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in the attached report.



Victoria P. Garchitorena
PRESIDENT



Wilma P. Zapata
CHIEF FINANCIAL OFFICER

Report of Independent Auditors



The Board of Trustees
Ayala Foundation, Incorporated

We have audited the accompanying statements of assets, liabilities and fund balances of Ayala Foundation, Incorporated (a nonstock, not-for-profit organization) as of December 31, 2003 and 2002, and the related statements of revenue and expenses, changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of Ayala Foundation, Incorporated as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

Ayling Gomez Velasco & Co.

PTR No. 7012968
January 5, 2004
Makati City

February 23, 2004

AYALA FOUNDATION, INCORPORATED
(A Nonstock, Not-for-Profit Organization)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

	December 31	
	2003	2002 (As restated)
ASSETS		
Cash and Cash Equivalents (Note 3)	₱86,031,791	₱42,325,695
Receivables - net (Note 4)	284,469,807	287,089,183
Merchandise Inventories - net of allowance for inventory obsolescence of ₱535,833 in 2003 and ₱267,917 in 2002	5,039,867	6,572,455
Investments - net (Note 5)	376,872,996	350,186,653
Property and Equipment - net (Note 6)	129,190,510	39,114,655
Other Assets	238,808	169,480
	₱881,843,779	₱725,458,121
LIABILITIES AND FUND BALANCES		
Accounts Payable and Accrued Expenses (Note 7)	₱272,107,281	₱259,973,192
Other Liabilities	12,104,873	14,601,739
	284,212,154	274,574,931
Fund Balances		
Restricted	374,068,154	177,001,602
Property and equipment	129,190,510	39,114,655
Unrestricted	94,372,961	234,766,933
	597,631,625	450,883,190
	₱881,843,779	₱725,458,121

See accompanying Notes to Financial Statements.

AYALA FOUNDATION, INCORPORATED
(A Nonstock, Not-for-Profit Organization)
STATEMENTS OF REVENUE AND EXPENSES

	Years Ended December 31			Total 2002
	Restricted	Unrestricted	Total 2003	(As restated)
REVENUE				
Public support (Note 6)	₱94,922,771	₱50,350,608	₱145,273,379	₱156,615,704
Investment	15,775,930	15,729,752	31,505,682	23,049,422
Projects	18,437,552	–	18,437,552	15,077,303
Miscellaneous	698,383	1,672,997	2,371,380	2,984,791
	129,834,636	67,753,357	197,587,993	197,727,220
PROJECT EXPENSES				
Special projects	22,769,404	–	22,769,404	8,298,237
Educational information technology and youth development	19,895,356	–	19,895,356	5,951,294
Personnel cost	16,312,019	–	16,312,019	13,103,461
Monitoring and administrative	14,140,551	–	14,140,551	13,917,667
Institution building	16,001,046	–	16,001,046	27,048,427
Library operations	8,838,021	–	8,838,021	7,125,271
Corporate citizenship and volunteerism	6,877,975	–	6,877,975	12,207,132
Museum operations	6,328,626	–	6,328,626	11,079,568
Employee benefits and welfare	4,332,941	–	4,332,941	3,748,375
Environment and urban services	4,440,246	–	4,440,246	2,996,306
Miscellaneous	2,103,963	–	2,103,963	1,296,081
	122,040,148	–	122,040,148	106,771,819
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 9)	–	13,722,519	13,722,519	18,057,389
	122,040,148	13,722,519	135,762,667	124,829,208
EXCESS OF REVENUE OVER EXPENSES	₱7,794,488	₱54,030,838	₱61,825,326	₱72,898,012

See accompanying Notes to Financial Statements.

AYALA FOUNDATION, INCORPORATED
(A Nonstock, Not-for-Profit Organization)

STATEMENTS OF CHANGES IN FUND BALANCES

	Years Ended December 31				Total 2002 (As restated)
	Restricted	Property and Equipment	Unrestricted	Total 2003	
FUND BALANCES AT BEGINNING OF YEAR					
As previously stated	₱123,214,424	₱39,114,655	₱192,716,926	₱355,046,005	₱302,213,327
Effect of change in accounting policy for public support (Note 10)	53,787,178	–	42,050,007	95,837,185	58,897,268
As restated	177,001,602	39,114,655	234,766,933	450,883,190	361,110,595
Donation of land (Note 6)	–	92,645,000	–	92,645,000	–
Additions to property and equipment (Note 6)	–	9,677,382	(9,677,382)	–	–
Depreciation and amortization (Note 6)	–	(5,029,810)	5,029,810	–	–
Disposal of property and equipment (Note 6)	–	(223,042)	223,042	–	–
Transfer of donated asset (Note 6)	–	(6,993,675)	–	(6,993,675)	–
Transfer to restricted fund	183,272,064	–	(183,272,064)	–	–
Endowment fund	6,000,0000	–	–	6,000,000	32,000,000
Fund disbursements	–	–	(6,728,216)	(6,728,216)	(15,125,417)
Excess of revenue over expenses	7,794,488	–	54,030,838	61,825,326	72,898,012
FUND BALANCES AT END OF YEAR	₱374,068,154	₱129,190,510	₱94,372,961	₱597,631,625	₱450,883,190

See accompanying Notes to Financial Statements.

AYALA FOUNDATION, INCORPORATED
(A Nonstock, Not-for-Profit Organization)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2003	2002 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	₱61,825,326	₱72,898,012
Adjustments for:		
Depreciation and amortization	5,029,810	6,052,393
Loss on disposal of property and equipment	27,774	-
Provisions for:		
Inventory obsolescence	267,916	66,720
Probable losses	-	703,372
Decline in market value of investments	-	380,803
Net unrealized foreign exchange (gain) loss	(8,115,117)	285,751
Recovery from decline in market value of investments	(253,656)	-
Interest income	(32,060,414)	(24,246,420)
Excess of revenue over expenses before changes in operating assets and liabilities	26,721,639	56,140,631
Decrease (increase) in:		
Receivables	(690,699)	(8,614,297)
Merchandise inventories	1,264,672	(3,342,210)
Other assets	(69,328)	2,975,654
Increase (decrease) in:		
Accounts payable and accrued expenses	12,134,089	19,813,796
Other liabilities	(13,964,864)	(15,089)
Net cash provided by operations	25,395,509	66,958,485
Interest received	36,681,200	22,662,131
Net cash provided by operating activities	62,076,709	89,620,616
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(9,677,382)	(6,008,364)
Increase in investments	(7,965,015)	(94,438,638)
Cash used in investing activities	(17,642,397)	(100,447,002)
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional fund contributions	6,000,000	32,000,000
Fund disbursements	(6,728,216)	(15,125,417)
Net cash provided by (used in) financing activities	(728,216)	16,874,583
NET INCREASE IN CASH AND CASH EQUIVALENTS	43,706,096	6,048,197
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42,325,695	36,277,498
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱86,031,791	₱42,325,695

See accompanying Notes to Financial Statements.

AYALA FOUNDATION, INCORPORATED
(A Nonstock, Not-for-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

1. General

Ayala Foundation, Incorporated (the Foundation) was registered with the Securities and Exchange Commission on December 28, 1961 as a nonstock, not-for-profit organization, primarily for the following purposes:

- a. To function and operate as a private science and research foundation;
- b. To provide financial support or scholarships;
- c. To undertake ventures together with organized rural communities for the transfer of appropriate technologies;
- d. To undertake integrated community organization and development programs;
- e. To encourage the establishment of urban and rural micro, cottage and small enterprises as a means of creating employment among the poor;
- f. To undertake social services; and,
- g. To preserve and enhance Philippine arts and culture as a means of developing national pride and patriotism.

As a nonstock, not-for-profit organization intended for scientific purposes, the Foundation's income is exempt from payment of income tax as set forth in Section 30(e) of the National Internal Revenue Code (NIRC) as amended by Executive Order (E.O.) 273. The Foundation has been certified as an entity organized for scientific advancement and that its funds are dedicated to scientific pursuits within the meaning of Section 24 of Republic Act No. 2067, as amended.

The Foundation is registered with the Bureau of Internal Revenue (BIR) as a donee institution in accordance with the provisions of BIR-National Economic and Development Authority (NEDA) Regulations No. 1-81 (as amended) and is entitled to the benefits set forth in Section 29(h) of the NIRC, as amended by E.O. 273. As a registered donee, all donations and contributions to the Foundation are exempt from donor's tax.

On January 7, 2000, the Foundation was registered with Philippine Council for NGO Certification as a donee institution in accordance with the provisions of Revenue Regulations No. 13-98. The Company's registration is valid until January 19, 2005.

The number of employees of the Foundation as of December 31, 2003 and 2002 was 95 and 89, respectively. The registered office address of the Foundation is at 10th Floor, BPI Main Building, Ayala Avenue corner Paseo de Roxas, Legaspi Village, Makati City.

The accompanying financial statements of the Foundation were authorized for issue by the Foundation's President and Chief Financial Officer on February 23, 2004.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the Philippines using the historical cost basis except for parcels of land which are carried at market values as of date of donation.

The preparation of the financial statements in accordance with the generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any changes in estimates will be recognized in the financial statements as they become reasonably determinable.

Adoption of New Statements of Financial Accounting Standards (SFAS)

The Foundation adopted the following SFAS/International Accounting Standards (IAS) which became effective on January 1, 2003:

- SFAS 10/IAS 10, *Events after Balance Sheet Date*, prescribes the accounting policies and disclosure related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard, principally the date of authorization for issue of the financial statements, has been included in Note 1.
- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosure that should be included with respect to these items. Adoption of the standard has no effect on the Foundation's financial statements.

New Accounting Standards Effective in 2004

The Accounting Standards Council has approved SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

A lessee is required to record operating lease as an expense on a straight-line basis unless another systematic basis is representative to the pattern of the user's benefit. Lease incentive is recognized as income over the term of the lease or another systematic basis.

The Foundation will adopt SFAS 17/IAS 17 in 2004 and, based on current circumstances, does not believe that the effect of the adoption will be material.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Receivables

Receivables are stated at face value less allowance for doubtful accounts. Allowance for doubtful accounts is maintained at a level adequate to provide for potential uncollectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made by the Foundation on a continuing basis.

Merchandise Inventories

Merchandise inventories consist of books and other items held for sale. Merchandise inventories are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the selling price in the ordinary course of business less marketing costs. An allowance for inventory obsolescence is made for obsolete and slow moving items.

Investments

Investments in shares of stock are carried at the lower of aggregate cost or market value determined at the statements of assets, liabilities, and fund balances date. Gains or losses on disposal and changes in market values are credited or charged to operations. The cost of shares of stock sold is based on the average cost of all the shares of each stock held at the time of sale.

Investments in common trust funds are carried at cost. The related income or loss from such investments is recognized upon withdrawal of the investments from the common trust funds.

Loans are stated at the outstanding principal balances, reduced by any allowance for probable losses and unearned discounts. Unearned discounts are recognized as income over the terms of the loans. Interest income on nondiscounted loans is accrued monthly as earned, except in the case of nonaccruing loans.

Investments in fixed income securities are carried at cost adjusted for any amortization of premiums and accretion of discounts.

Other investments are carried at cost reduced by any allowance for permanent decline in value.

Property and Equipment

Parcels of land are carried at market values as of date of donation. Other property and equipment is stated at cost less accumulated depreciation and amortization and any impairment in value.

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

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

Building and improvements	25 years
Transportation equipment	7 years
Office furniture and equipment	5 years
Leasehold improvements	5 years

Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited to or charged against income for the year.

Impairment of Assets

An assessment is made at statements of assets, liabilities and fund balances date to determine whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization), had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

Provisions

Starting in 2003, provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

In prior years, provisions for contingencies were accrued when it is probable that a liability had been incurred at statements of assets, liabilities and fund balances date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed.

Leases

Operating lease payments are recognized as an expense in the statements of revenue and expenses on a straight-line basis over the lease term.

Foreign Exchange Transactions

Foreign currency-denominated assets and liabilities are translated using the exchange rate prevailing at statements of assets, liabilities and fund balances date. Foreign exchange gains or losses arising from foreign currency transactions and revaluations are included in the statements of revenue and expenses.

Revenue

Revenue is recognized on the following bases:

- Public support revenue represents contributions received by the Foundation. Starting January 1, 2003, unconditional contributions received, including unconditional promises to give cash or other assets, are recognized as revenue in the period received at their fair value. Previously, unconditional contributions restricted by the donor or grantor for specific projects are deemed earned and reported as public support when expenditures are incurred by the Foundation in compliance with the restrictions of the grants. The effect of the change in accounting policy is discussed in Note 10. Conditional promises to give are recognized when the conditions are met. Assets received subject to condition are accounted for as refundable advances until the conditions are met.
- Investment income represents interest income earned on short-term investments. Income is recognized on a time proportion basis computed on the outstanding principal using the applicable rate.

Museum Collections

Artworks, ethnographic, archeological and rare book collections purchased by or donated to the Museum are not included in the accompanying financial statements. Gifts of cash or property used for the purchase of the museum collections are classified as public support revenue when acquisitions are made in accordance with the terms of the gifts. The cost of objects purchased is reported as a project expense.

Retirement Costs

The Foundation's retirement expense is determined using the entry age normal method. This method reflects service rendered by employees to the date of valuation and spreads the cost evenly over all other periods of service making up the working lives of participating employees. Past service costs are amortized over the expected remaining working lives of employees.

IAS 19, *Employee Benefits*, will become effective January 1, 2005. Under IAS 19, the only allowed valuation method is the projected unit credit method. The Foundation will shift to projected unit credit method in 2005. The financial impact of the shift to projected unit credit method has not yet been determined.

3. Cash and Cash Equivalents

This account consists of:

	2003	2002
Cash on hand and in banks	₱41,458,728	₱30,490,326
Short-term investments	44,573,063	11,835,369
	₱86,031,791	₱42,325,695

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Foundation, and earn interest at the respective short-term placement rates.

4. Receivables

This account consists of:

	2003	2002
Advances and others (Note 6)	₱270,236,750	₱272,643,225
Trade	17,029,639	17,536,047
Officers and employees	2,501,864	2,208,357
	289,768,253	292,387,629
Less allowance for probable losses	5,298,446	5,298,446
	₱284,469,807	₱287,089,183

The table below presents the breakdown of receivables by maturity as of December 31, 2003 and 2002:

	2003	2002
Due within one year	₱53,076,653	₱99,580,254
Due over one year	236,691,600	192,807,375
	₱289,768,253	₱292,387,629

5. Investments

This account consists of investments in:

	2003	2002
Fixed income securities	₱355,157,240	₱339,082,717
Common trust funds	13,056,411	212,628
Shares of stock	6,170,647	6,590,647
Loans	4,062,500	4,062,500
Others	2,162,400	4,416,258
	380,609,198	354,364,750
Less allowance for decline in market value of shares of stock	3,736,202	4,178,097
	₱376,872,996	₱350,186,653

The market values of common trust funds are ₱13,463,777 and ₱217,020 as of December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, investments in fixed income securities are current and due within one year.

6. Property and Equipment

This account consists of:

	2003						2002 Total
	Land	Building and Improvements	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total	
Cost							
January 1	₱9,540,560	₱30,936,663	₱44,882,173	₱3,327,047	₱-	₱88,686,443	₱99,858,070
Additions	92,645,000	-	4,188,584	-	5,488,798	102,322,382	6,008,364
Disposals	(6,993,675)	(3,381,435)	(32,813,220)	(118,500)	-	(43,306,830)	(17,179,991)
December 31	95,191,885	27,555,228	16,257,537	3,208,547	5,488,798	147,701,995	88,686,443
Accumulated Depreciation and Amortization							
January 1	-	10,113,259	37,389,700	2,068,829	-	49,571,788	58,371,054
Depreciation and amortization	-	1,425,425	2,641,873	393,599	568,913	5,029,810	6,052,393
Disposals	-	(3,187,578)	(32,811,809)	(90,726)	-	(36,090,113)	(14,851,659)
December 31	-	8,351,106	7,219,764	2,371,702	568,913	18,511,485	49,571,788
Net Book Value	₱95,191,885	₱19,204,122	₱9,037,773	₱836,845	₱4,919,885	₱129,190,510	₱39,114,655

On July 28, 2003, the Foundation received a donation of a parcel of land with a market value of ₱92,645,000. The donation is reflected as part of Property and Equipment Fund.

In 2003, the Foundation transferred and reconveyed certain parcel of land to the donee in exchange for the construction of a new museum. Accordingly, the cost of the donated land amounting to ₱6,993,675 was removed from the account and charged against Property and Equipment Fund.

In 2003 and 2002, the Foundation sold parcels of land in Davao to monetize the donations to cash to finance certain projects. The net proceeds from the sale amounting to ₱50,350,608 and ₱49,071,385 in 2003 and 2002, respectively, is shown as Public Support Revenue in the statements of revenue and expenses. Installment receivables related to the sale of land amounting to ₱14,814,160 and ₱18,703,734 as of December 31, 2003 and 2002, respectively, is included under Advances and others account (see Note 4).

7. Accounts Payable and Accrued Expenses

This account consists of:

	2003	2002
Advances and others	₱233,997,200	₱226,859,718
Trade	25,970,976	18,876,486
Accrued expenses	8,815,434	8,446,379
Others	3,323,671	5,790,609
	₱272,107,281	₱259,973,192

The table below presents the breakdown of accounts payable and accrued expenses by maturity as of December 31, 2003 and 2002:

	2003	2002
Due within one year	₱35,111,627	₱71,077,410
Due over one year	236,995,654	188,895,782
	₱272,107,281	₱259,973,192

8. General and Administrative Expenses

This account consists of:

	2003	2002
Salaries and wages (Note 9)	₱5,137,629	₱5,637,338
Occupancy and other equipment-related cost	3,200,097	4,057,872
Employee benefits and welfare (Note 9)	2,373,840	2,793,446
Advocacy and public information services	887,744	1,428,599
Provisions for:		
Inventory obsolescence	267,916	66,720
Probable losses	-	703,372
Decline in market value of investment	-	380,803
Others	1,855,293	2,989,239
	₱13,722,519	₱18,057,389

9. Retirement Plan

The Foundation has funded, noncontributory defined contribution retirement plan covering all its permanent and full-time officers and employees. Retirement expense charged to operations amounted to ₱1,898,751 in 2002.

Actuarial valuation is generally obtained for the plan every year. As of December 31, 2003, the date of the latest actuarial valuation of the plan, the actuarial present value of retirement benefits amounted to ₱2,298,726 while the fair values of plan assets amounted to ₱4,516,134. The net asset value of the plan exceeded actuarial retirement benefits by ₱2,217,409. Accordingly, no provision for retirement expense was made in 2003. The principal actuarial assumption used to determine retirement benefits includes a discount rate of 9%, an average salary increase of 7% and return on plan assets.

10. Change in Accounting Policy

Starting January 1, 2003, unconditional contributions received, including unconditional promises to give cash or other assets, are recognized as revenue in the period received at their fair value. Previously, unconditional contributions restricted by the donor or grantor for specific projects are deemed earned and reported as public support when expenditures are incurred by the Foundation in compliance with the restrictions of the grants. The change in accounting policy is accounted for retroactively and the comparative financial statements for 2002 have been restated in conformity with the benchmark treatment of a change in accounting policy. The change in accounting for public support resulted in a retroactive adjustment on the beginning fund balance by ₱95,837,185 and ₱58,897,268 in 2003 and 2002, respectively.