REVIEW OF INDEPENDENT AUDITORS

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, 2004 and 2003. 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 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

SGV & Co

The Board of Trustees
Ayala Foundation, Incorporated
10th Floor, BPI Main Building
Ayala Avenue corner Paseo de Roxas
Legaspi Village, Makati City

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, 2004 and 2003, 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, 2004 and 2003, 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.

Sycip Gorres Velayo & Co

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

March 8, 2005

AYALA FOUNDATION, INCORPORATED
(A NONSTOCK, NOT-FOR-PROFIT ORGANIZATION)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

	December 31	
	2004	2003
ASSETS		
Cash and Cash Equivalents (Note 3)	**₱271,918,203**	₱86,031,791
Receivables - net (Note 4)	**50,382,780**	81,109,285
Merchandise Inventories - at net realizable value	**11,832,565**	5,039,867
Investments - net (Note 5)	**218,077,870**	376,872,996
Property and Equipment - net (Notes 6 and 11)	**126,705,454**	129,190,510
Other Assets	**573,633**	238,808
	₱679,490,505	₱678,483,257
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts and other payables (Note 7)	**₱47,594,841**	₱68,746,759
Other liabilities	**735,526**	12,104,873
	48,330,367	80,851,632
Fund Balances		
Restricted	**374,423,481**	374,068,154
Property and equipment	**126,705,454**	129,190,510
Unrestricted	**130,031,203**	94,372,961
	631,160,138	597,631,625
	₱679,490,505	₱678,483,257

See accompanying Notes to Financial Statements.

AYALA FOUNDATION, INCORPORATED
(A NONSTOCK, NOT-FOR-PROFIT ORGANIZATION)

STATEMENTS OF REVENUE AND EXPENSES

	Years Ended December 31			
	Restricted	**Unrestricted**	**Total 2004**	Total 2003
REVENUE				
Public support (Note 6)	**₱104,849,037**	**₱25,523,909**	**₱130,372,946**	₱145,273,379
Investment	**16,624,241**	**23,511,413**	**40,135,654**	31,505,682
Projects	**21,208,281**	**–**	**21,208,281**	18,437,552
Miscellaneous	**1,061,430**	**3,272,816**	**4,334,246**	2,371,380
	143,742,989	**52,308,138**	**196,051,127**	197,587,993
PROJECT EXPENSES				
Museum operations	**26,529,513**	**–**	**26,529,513**	8,887,237
Personnel cost	**20,888,056**	**–**	**20,888,056**	16,174,879
Educational information technology and youth development	**20,467,141**	**–**	**20,467,141**	18,077,410
Special projects	**17,062,676**	**–**	**17,062,676**	32,622,518
Institution building	**11,555,539**	**–**	**11,555,539**	12,171,607
Library operations	**10,170,038**	**–**	**10,170,038**	11,202,930
Employee benefits and welfare (Note 9)	**6,741,434**	**–**	**6,741,434**	4,002,022
Environment and urban services	**4,333,508**	**–**	**4,333,508**	3,808,473
Monitoring and administrative	**3,904,481**	**–**	**3,904,481**	3,866,896
Corporate citizenship and volunteerism	**591,844**	**–**	**591,844**	463,276
Miscellaneous	**605,921**	**–**	**605,921**	510,498
	122,850,151	**–**	**122,850,151**	111,787,746
GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	**–**	**29,222,463**	**29,222,463**	23,974,921
	122,850,151	**29,222,463**	**152,072,614**	135,762,667
EXCESS OF REVENUE OVER EXPENSES	**₱20,892,838**	**₱23,085,675**	**₱43,978,513**	₱61,825,326

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				
	Restricted	**Property and Equipment**	**Unrestricted**	**2004 Total**	2003 Total
FUND BALANCES					
Balance at beginning of year	**₱374,068,154**	**₱129,190,510**	**₱94,372,961**	**₱597,631,625**	₱450,883,190
Additions to property and equipment (Notes 6 and 11)	**–**	**4,975,157**	**(4,975,157)**	**–**	–
Depreciation and amortization (Note 6)	**–**	**(7,363,708)**	**7,363,708**	**–**	–
Disposals of property and equipment (Note 6)	**–**	**(96,505)**	**96,505**	**–**	–
Donation of land (Note 6)	**–**	**–**	**–**	**–**	92,645,000
Transfer of donated asset (Note 6)	**–**	**–**	**–**	**–**	(6,993,675)
Endowment fund	**1,050,000**	**–**	**–**	**1,050,000**	6,000,000
Fund disbursements	**(21,587,511)**	**–**	**10,087,511**	**(11,500,000)**	(6,728,216)
Excess of revenue over expenses	**20,892,838**	**–**	**23,085,675**	**43,978,513**	61,825,326
Balance at end of year	**₱374,423,481**	**₱126,705,454**	**₱130,031,203**	**₱631,160,138**	₱597,631,625

See accompanying Notes to Financial Statements.

AYALA FOUNDATION, INCORPORATED
(A NONSTOCK, NOT-FOR-PROFIT ORGANIZATION)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	**₱43,978,513**	₱61,825,326
Adjustments for:		
Depreciation and amortization (Note 6)	**7,363,708**	5,029,810
Provisions for:		
Inventory obsolescence	**1,096,586**	267,916
Decline in market value of investments (Note 8)	**1,026,833**	–
Doubtful accounts (Note 8)	**826,268**	–
Net unrealized foreign exchange (gain) loss	**434,881**	(6,999,674)
Loss on disposal of property and equipment	**24,872**	27,774
Recovery from decline in market value of investments	**(2,025,817)**	(253,656)
Investment income	**(40,135,654)**	(31,505,682)
Excess of revenue over expenses before changes in operating assets and liabilities	**12,590,190**	28,391,814
Decrease (increase) in:		
Receivables	**20,711,699**	28,397,346
Merchandise inventories	**(7,889,284)**	1,264,672
Other assets	**(334,825)**	(69,328)
Decrease in:		
Accounts and other payables	**(22,903,513)**	(8,827,826)
Other liabilities	**(12,082,993)**	(13,964,864)
Net cash provided by (used in) operations	**(9,908,726)**	35,191,814
Interest received	**49,395,825**	26,884,895
Net cash provided by operating activities	**39,487,099**	62,076,709
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in investments	**160,072,875**	(7,965,015)
Additions to property and equipment (Note 6)	**(3,223,562)**	(9,677,382)
Net cash provided by (used in) investing activities	**156,849,313**	(17,642,397)

(Forward)

AYALA FOUNDATION, INCORPORATED
(A NONSTOCK, NOT-FOR-PROFIT ORGANIZATION)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional fund contributions	**₱1,050,000**	₱6,000,000
Fund disbursements	**(11,500,000)**	(6,728,216)
Net cash used in financing activities	**(10,450,000)**	(728,216)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**185,886,412**	43,706,096
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**86,031,791**	42,325,695
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱271,918,203**	₱86,031,791

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 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 Foundation's registration is valid until January 19, 2005. Currently, the Foundation is under going evaluation for the renewal of its registration.

The Foundation's registered office address is at 10th Floor, BPI Main Building, Ayala Avenue corner Paseo de Roxas, Legaspi Village, Makati City. The number of employees of the Foundation as of December 31, 2004 and 2003 was 104 and 95, respectively.

The financial statements of the Foundation for the years ended December 31, 2004 and 2003 were approved and authorized for issue by the Foundation's President and Chief Financial Officer on March 8, 2005.

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 (Philippine GAAP) using the historical cost basis, except for parcels of land which are carried at market values as of date of donation.

Use of Estimates
The preparation of the financial statements in accordance with Philippine GAAP requires the Foundation to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be recognized in the financial statements as they become reasonably determinable.

Changes in Accounting Policies
The Foundation adopted the Statements of Financial Accounting Standards (SFAS) 17/ International Accounting Standards (IAS) 17, *Leases*, which became effective for financial statements covering the period beginning January 1, 2004. The standard 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. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The adoption of the standard did not have a material impact on the Foundation's financial statements. Additional disclosures required by the new standard were included in the financial statements (Note 10).

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 from dates of acquisitions or less and that 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 (NRV). Cost is determined using the first-in, first-out method. NRV is the selling price in the ordinary course of business less marketing costs.

Investments

Investments in shares of stock are carried at the lower of aggregate cost or market value determined at the assets, liabilities and fund balances date. Gains or losses on disposal and changes in market values are credited or charged to current 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 are 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 property and equipment 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
Office furniture and equipment	3-5 years
Transportation equipment	7 years

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

The useful lives 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.

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 property and equipment and other long-lived assets, 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 accumulated 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.

Provisions

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) 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. Provisions, if any, are reviewed at each assets, liabilities and fund balances date and adjusted to reflect the current best estimate.

Revenue Recognition

Revenue is recognized on the following bases:

- Public support revenue represents contributions received by the Foundation. Unconditional contributions received, including unconditional promises to give cash or other assets, are recognized as revenue in the period received at their fair value. Conditional promises to give are recognized when the conditions are met. Assets received subject to conditions 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 costs are actuarially 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, experience adjustments and effects of changes in actuarial assumptions are amortized over the expected remaining working lives of covered employees.

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 Currency Transactions
Transactions denominated in foreign currencies are recorded using the prevailing exchange rates at the time of the transaction. Outstanding foreign currency-denominated monetary assets and liabilities at year-end are translated to Philippine pesos at prevailing Philippine Dealing System rate at the assets, liabilities and fund balances dates. Foreign exchange gains or losses arising from foreign currency transactions are credited or charged to current operations.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events
Post year-end events up to the date of the auditors' report that provide additional information about the Foundation's position at the assets, liabilities and fund balances date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

New and Revised Accounting Standards to be Effective in 2005
The Accounting Standards Council (ASC) approved the issuance of new and revised accounting standards which are based on revised IAS issued by the International Accounting Standards Board (IASB). The new standards are effective for annual periods beginning on or after January 1, 2005. The ASC has re-named the standards that it issues to correspond better to the issuances of IASB. Philippine Accounting Standards (PAS) correspond to adopted IAS. Previously, standards issued by the ASC were designated as SFAS.

The Foundation will adopt the following new accounting standards that are relevant to the Foundation beginning January 1, 2005:

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits (including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits). For post-employment benefits classified as defined benefit plans, the standard requires the use of the projected unit credit method to measure a company's obligations and costs; a company to determine the present value of defined benefit obligations and the fair value if any plan assets with sufficient regularity; the recognition of a specific portion of net cumulative actuarial gains and losses when the net cumulative amount exceeds 10% of the greater of the present value of the defined benefit obligation or the fair value of the plan assets, but also permits the immediate recognition of these actuarial gains and losses. The Foundation is in process of having its actuarial valuation updated to determine the impact of adopting PAS 19. The difference between the transitional liability and the recorded liability will be adjusted against 2005 beginning unrestricted fund balances.

- PAS 21, *The Effect of Changes in Foreign Exchange Rates*, provides restrictive conditions for the capitalization of foreign exchange losses. Upon adoption of PAS 21, any undepreciated capitalized foreign exchange losses will be adjusted against beginning fund balances and prior years' financial statements presented will be restated. The adoption of PAS 21 will not have a material effect on the Foundation's financial statements.

The Foundation will also adopt the following revised accounting standards that are relevant to the Foundation in 2005:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of revenue and expenses; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies.

- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised standard does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the cost of purchase of inventories.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.

- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.

The adoption of the above revised accounting standards is not expected to have a material effect on the Foundation's financial statements. Additional disclosures required by the revised accounting standards will be included in the Foundation's financial statements.

3. Cash and Cash Equivalents

	2004	2003
Cash on hand and in banks	**₱43,704,685**	₱41,458,728
Short-term investments	**228,213,518**	44,573,063
	₱271,918,203	₱86,031,791

Cash in banks earns 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 investments rates.

4. Receivables

	2004	2003
Advances and others (Notes 6 and 10)	**₱37,040,374**	₱66,876,228
Trade	**16,835,444**	17,029,639
Officers and employees	**2,631,676**	2,501,864
	56,507,494	86,407,731
Less allowance for doubtful accounts	**6,124,714**	5,298,446
	₱50,382,780	₱81,109,285

The table below presents the breakdown of receivables by maturity as of December 31:

	2004	2003
Due within one year	**₱41,683,932**	₱53,076,653
Due over one year	**14,823,562**	33,331,078
	₱56,507,494	₱86,407,731

5. Investments

	2004	2003
Investments in:		
Fixed income securities	**₱207,517,034**	₱355,157,240
Common trust funds	**1,250,837**	13,056,411
Shares of stock	**6,170,647**	6,170,647
Loans	**4,062,500**	4,062,500
Others	**2,162,400**	2,162,400
	221,163,418	380,609,198
Less allowance for decline in market value and unearned discounts	**3,085,548**	3,736,202
	₱218,077,870	₱376,872,996

The market values of common trust funds are ₱1,351,786 and ₱13,463,777 as of December 31, 2004 and 2003, respectively.

As of December 31, 2004 and 2003, investments in fixed income securities are current and due within one year.

6. Property and Equipment

The movements of this account follow:

	Lanc	**Building and Improvements**	**Office Furniture and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**2004 Total**	2003 Total
Cost							
At January 1	**₱95,191,885**	**₱27,555,228**	**₱16,257,537**	**₱3,208,547**	**₱5,488,798**	**₱147,701,995**	₱88,686,443
Additions (Note 11)	**-**	**–**	**4,975,157**	**–**	**–**	**4,975,157**	102,322,382
Disposals	**(71,633**	**–**	**–**	**(1,036,674)**	**–**	**(1,108,307)**	(43,306,830)
At December 31	**95,120,252**	**27,555,228**	**21,232,694**	**2,171,873**	**5,488,798**	**151,568,845**	147,701,995
Accumulated Depreciation and Amortization							
At January 1	**-**	**8,351,106**	**7,219,764**	**2,371,702**	**568,913**	**18,511,485**	49,571,788
Depreciation and amortization	**-**	**1,230,873**	**4,655,911**	**379,164**	**1,097,760**	**7,363,708**	5,029,810
Disposals	**-**	**–**	**–**	**(1,011,802)**	**–**	**(1,011,802)**	(36,090,113)
At December 31	**-**	**9,581,979**	**11,875,675**	**1,739,064**	**1,666,673**	**24,863,391**	18,511,485
Net Book Value	**₱95,120,252**	**₱17,973,249**	**₱9,357,019**	**₱432,809**	**₱3,822,125**	**₱126,705,454**	₱129,190,510

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 ₱10,368,000 and ₱50,350,608 in 2004 and 2003, respectively, is shown as "Public support" in the statements of revenue and expenses. Installment receivables related to the sale of land amounting to ₱7,603,200 and ₱ 14,814,160 as of December 31, 2004 and 2003, respectively. These are included under "Advances and others" account (Note 4).

On May 30, 2003, the Foundation entered into a memorandum of understanding (MOU) with Ayala Corporation (AC), a donee, and Ayala Land, Inc. (ALI), a lessor, for the construction of a new museum. As stipulated in the MOU, the Foundation has agreed to transfer and reconvey certain parcel of land to AC in exchange for the offer of AC and ALI to jointly undertake the construction of a new museum with an area of approximately 6,020 sq. m. within the Greenbelt Commercial Center (the Area). The costs of the new museum shall be shared equally by the AC and ALI. The Foundation shall then lease the Area, including 10 parking slots, from ALI for a period of fifty years at a nominal rent of ₱1 per year, under such terms and conditions that are agreed upon with ALI. Accordingly, the cost of the donated land amounting to ₱6,993,675 was removed from the account and charged against "Property and equipment fund" account in the statements of changes in fund balances.

On July 28, 2003, the Foundation received a donation of a parcel of land with a market value of ₱92,645,000 (Note 11). The donation is reflected as part of "Property and equipment fund" account in the statements of changes in fund balances.

Depreciation and amortization charged to operations amounted to ₱3,104,104 and ₱3,123,291 in 2004 and 2003, respectively (Note 8).

7. Accounts and Other Payables

	2004	2003
Advances and others	**₱22,606,725**	₱30,636,678
Accrued expenses	**19,120,485**	8,815,434
Trade	**5,783,827**	25,970,976
Others	**83,804**	3,323,671
	₱47,594,841	₱68,746,759

The table below presents the breakdown of accounts and other payables by maturity as of December 31:

	2004	2003
Due within one year	**₱29,525,979**	₱35,111,627
Due over one year	**18,068,862**	33,635,132
	₱47,594,841	₱68,746,759

8. General and Administrative Expenses

	2004	2003
Occupancy and other equipment-related cost (Note 6)	**₱9,293,516**	₱7,915,559
Salaries and wages	**8,606,344**	8,060,600
Employee benefits and welfare (Note 9)	**2,823,850**	3,003,881
Provisions for:		
Decline in market value of investments	**1,026,833**	–
Doubtful accounts	**826,268**	–
Advocacy and public information services	**188,924**	819,297
Others	**6,456,728**	4,175,584
	₱29,222,463	₱23,974,921

9. Retirement Plan

The Foundation has funded, noncontributory defined benefit retirement plan covering all its permanent and full-time officers and employees. Retirement expense charged to operations amounted to ₱632,425 in 2004 (Note 8).

Actuarial valuation is made at least every two years. 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 ₱2,217,408. 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% and salary increase of 7%.

10. Lease Commitments

Operating lease commitments - Foundation as a lessee

The Foundation leases its office premises for a period of three years and renewable under such terms and conditions that are agreed upon with the lessor. The agreement generally requires certain amounts of security deposit and advance rentals, which are shown as part of "Advances and others" under the "Receivables" account in the statements of assets, liabilities and fund balances (Note 4). The future minimum rentals payable under the noncancelable operating lease as of December 31 follows:

	2004	2003
Within one year	**₱2,402,380**	₱2,234,772
After one year but not more than five years	**614,562**	3,016,942
	₱3,016,942	₱5,251,714

Operating lease commitment - Foundation as a lessor

The Foundation has entered into a lease agreement on its new museum (Note 6). This noncancelable lease has a term of seven years with an annual escalation of 5% and renewable under such terms and conditions that are agreed upon with the lessee. The future minimum rentals receivable under the operating lease as of December 31, 2004 follows:

Within one year	₱2,998,494
After one year but not more than five years	16,821,393
After five years	2,714,752
	₱22,534,639

11. Notes to Statements of Cash Flows

The Foundation's principal noncash investing activities follow:

a. Acquisition of office furniture and equipment amounting to ₱1,751,595 in 2004 (Note 6); and

b. Receipt of a parcel of land amounting to ₱92,645,000 in 2003 (Note 6).

12. Reclassification of Accounts

Certain accounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.