

AYALA FOUNDATION, INCORPORATED
(A Nonstock, Not-for-Profit Organization)
NOTES TO FINANCIAL STATEMENTS

1. Organization and Tax Exemption

Ayala Foundation, Incorporated (the Foundation) was registered with the Securities and Exchange Commission (SEC) 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.

The Foundation's registered office address is at 10th Floor, BPI Main Building, Ayala Avenue corner Paseo de Roxas, Legaspi Village, Makati City.

The financial statements of the Foundation for the years ended December 31, 2008 and 2007 were approved and authorized for issue by the Foundation's President and Chief Financial Officer on February 20, 2009.



2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Foundation have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value. The Foundation's presentation and functional currency is the Philippine Peso (₱).

Consistent with the requirement of Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Foundation applied Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. This Statement establishes standards for general-purpose external financial statements provided by a not-for-profit organization. It specifies that those statements include a statement of financial position, a statement of activities and a statement of cash flows.

Statement of Compliance

The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 2008.

- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, *Employee Benefits*. Adoption of this Interpretation did not have a significant impact on the Foundation's financial statements.
- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosure*, are effective beginning July 1, 2008. The amendments to PAS 39 introduce the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivable category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity (HTM) if there is intent and ability to hold the securities until maturity. The amendments to PFRS 7 introduce the disclosures relating to these reclassifications. Adoption of these amendments did not have any impact on the Foundation's financial statements since the Foundation did not avail of the reclassification allowed under these amendments.

Future Changes in Accounting Policies

The Foundation will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Foundation does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- *Amendment to PAS 1, Presentation of Financial Statements*
This Amendment will become effective January 1, 2009. It introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income' (OCI). Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the consolidated balance sheets and equity as well as additional disclosures to be included in the financial statements. Adoption of this Amendment will not have significant impact on the Foundation except for the presentation of a statement of comprehensive income and additional disclosures to be included in the financial statements.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. These are the separate transitional provisions for each standard, which become effective January 1, 2009:

- *PAS 16, Property, Plant and Equipment*
This amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Asset*.

Items of property and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents, and subsequent sales are all shown as cash flows from operating activities.

- *PAS 19, Employee Benefits*
This revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that results in a reduction in benefits related to future services are accounted for as a curtailment.

It revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

It also revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.



- **PAS 36, *Impairment of Assets***
When discounted cash flows are used to estimate 'fair value less costs to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- **PAS 38, *Intangible Assets***
Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

It deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for intangible assets with finite lives that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- **PAS 39, *Financial Instruments: Recognition and Measurement***
Changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition, are not reclassifications.

When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

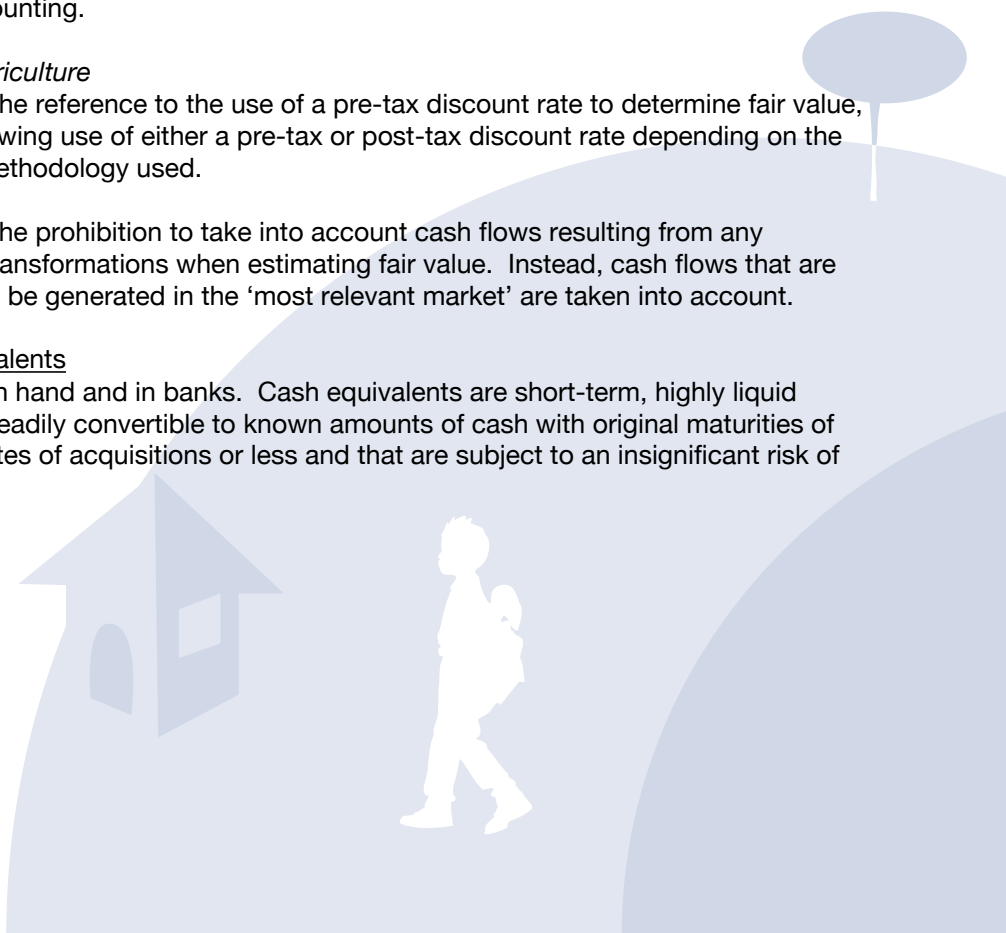
Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- **PAS 41, *Agriculture***
It removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.

It removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

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 changes in value.



Financial Instruments

Date of recognition

The Foundation recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for securities at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transaction costs. The Foundation classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

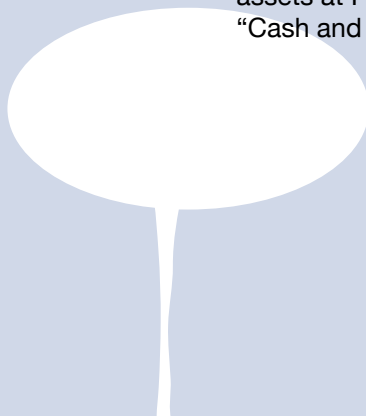
For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Foundation recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of activities under the "Investment income" account. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of activities when the inputs become observable or when the instrument is derecognized. For each transaction, the Foundation determines the appropriate method of recognizing the 'Day 1' profit amount.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents" and "Receivables".



After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the "Interest income" account in the statement of activities. The losses arising from impairment of such loans and receivables are recognized in the statement of activities.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as securities at FVPL, HTM investments, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include equity investments.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gains (losses) on available-for-sale financial assets" in the statement of activities.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the reported income. Where the Foundation holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of activities when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of activities.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Foundation has no financial assets designated as at FVPL and HTM investments as of December 31, 2008 and 2007.

Other financial liabilities

Other financial liabilities pertain to issued financial instruments that are not classified or designated at FVPL and contain contractual obligations to deliver cash or other financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Foundation's accounts and other payables and other obligations that meet the above definition.

Impairment of Financial Assets

The Foundation assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Foundation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Foundation determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of activities. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in statement of activities, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Foundation to reduce any differences between loss estimates and actual loss experience.



AFS financial assets

For AFS financial assets, the Foundation assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of activities - is removed from the “Unrealized gain (loss) and available-for-sale financial assets” account and recognized in the statement of activities. Impairment losses on equity investments are not reversed through income. Increases in fair value after impairment are recognized directly under “Unrealized gain (loss) on available-for-sale financial assets” account in the statement of activities.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- a. the rights to receive cash flows from the asset have expired;
- b. the Foundation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- c. the Foundation has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Foundation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Foundation could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of activities.



Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

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 estimated selling price in the ordinary course of business less marketing costs.

Property and Equipment

Property and equipment except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price 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 expense 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 of property and equipment commences once the property and equipment are available for use and is computed using the straight-line method over the following estimated useful lives of the property and equipment:

Leasehold improvements	5-25 years
Office furniture and equipment	3-5 years
Transportation equipment	5 years

Leasehold improvements are amortized over the estimated useful life 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.

When property and equipment 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 current operations.



Impairment of Non-financial Assets

The Foundation assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Foundation makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of activities in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of activities unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

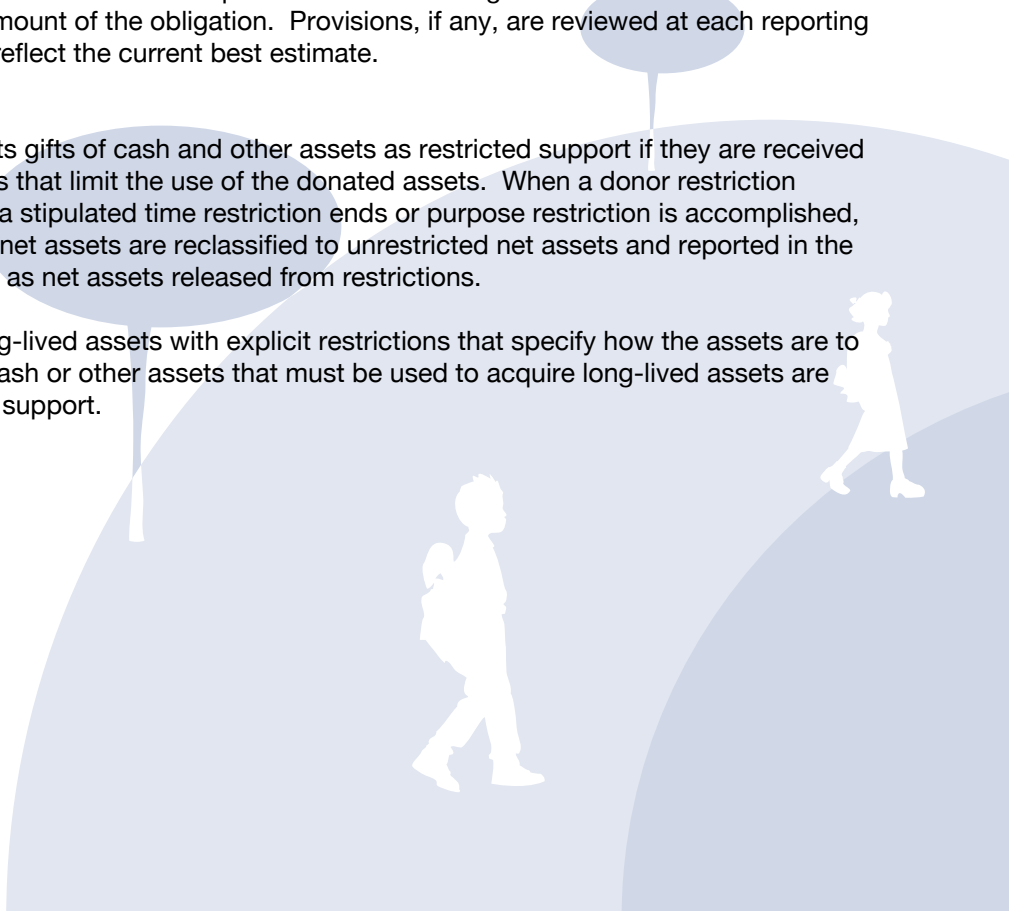
Provisions

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 reporting date and adjusted to reflect the current best estimate.

Restricted Net Assets

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts consisting of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.



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 AFS financial assets. Income is recognized on a time proportion basis computed on the outstanding principal using the applicable rate.

Project

Project revenue account represents income generated from the sale of books and catalogues, paper products, and other shop items such as home decors and giftwares, and desk accessories. The account consists of revenues arising from space rentals from various events held at the Ayala Museum and Filipinas Heritage Library.

Museum Collections

Artworks, ethnographic, archeological and rare book collections purchased for 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 or donated is reported as a project expense.

Pension Cost

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at reporting date. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.



Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of activities on a straight-line basis.

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transactions. Outstanding foreign currency-denominated monetary assets and liabilities at year-end are translated to Philippine peso at prevailing Philippine Dealing System rate at reporting dates. Exchange gains or losses arising from foreign currency transactions are credited to or charged against changes in net assets.

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 (see Note 14).

Subsequent Events

Post year-end events that provide additional information about the Foundation's position at the statement of financial position 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.

3. Management's Accounting Judgments and Use of Estimates

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported 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. Actual results could differ from such estimates.

Judgments

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

Operating lease commitments - Foundation as Lessee

The Foundation has entered into commercial property leases. All significant risks and rewards of ownership of the leased property remain to the lessor since the leased property, together with the buildings thereon and all permanent fixtures, will be returned to the lessor upon termination of the lease.

Impairment of AFS financial assets

The Foundation treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Foundation treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Foundation evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant impact to the carrying amounts of assets and liabilities are discussed below.

Estimating allowance for impairment losses

The Foundation maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Foundation is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Foundation to group its receivables based on the credit risk characteristics (industry, customer type, customer location, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying values of receivables amounted to P33.1 million and P73.5million as of December 31, 2008 and 2007, respectively (see Note 5).

Estimating useful lives of property and equipment

The Foundation estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. As of December 31, 2008 and 2007, the carrying values of property and equipment amounted to P183.5 million and P172.8 million, respectively (see Note 7).

Evaluation of asset impairment

The Foundation reviews property and equipment and other noncurrent assets for impairment. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Foundation estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Foundation is required to make estimates and assumptions that may affect property and equipment and other noncurrent assets. The Foundation believes that the carrying amounts of its assets approximate the recoverable amounts and, as such, no impairment loss was recognized for the years ended December 31, 2008 and 2007.



Estimating pension obligation and other retirement benefits

The determination of the 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 10 and include, among others, discount rates and salary increase rates. Actual results that differ from assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Foundation believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. Net pension liability as of December 31, 2008 and 2007 are ₱2.5 million and ₱1.9 million, respectively (see Note 10).

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. See Note 12 for the related balances.

4. **Cash and Cash Equivalents**

This account consists of:

	2008	2007
Cash on hand and in banks	₱23,247,591	₱23,594,846
Cash equivalents	33,700,786	9,200,000
	₱56,948,377	₱32,794,846

Cash in banks earn interests at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Foundation and earn interests at the respective short-term investment rates.



5. Receivables

This account consists of the following:

	2008	2007
Trade		
Services	₱8,487,763	₱12,439,008
Products	2,379,356	2,255,058
Advances	4,434,860	6,376,926
Advances to officers and employees	1,897,576	2,172,867
Others	21,608,261	56,819,482
	38,807,816	80,063,341
Less allowance for impairment losses	5,661,601	6,595,866
	₱33,146,215	₱73,467,475

Trade receivables are collectibles from various entities arising from their availment of program services provided by the Foundation and are collectible within one year.

Movements in the allowance for impairment losses are as follows:

	2008	2007
Balance at January 1	₱6,595,866	₱6,709,127
Provisions during the period (Note 11)	226,008	–
Reversals	(1,160,273)	(113,261)
Balance at December 31	₱5,661,601	₱6,595,866

6. Other Current Assets

This account consists of:

	2008	2007
Input tax	₱2,206,452	₱3,331,960
Deposits to suppliers	1,863,257	2,517,572
Prepaid expenses	285,507	344,467
	₱4,355,216	₱6,193,999



7. Property and Equipment

The rollforward analysis of this account follows:

	2008				
	Land	Leasehold Improvements	Office Furniture and Equipment	Transportation Equipment	Total
Cost					
At January 1	P93,858,560	P89,972,594	P29,695,118	P2,626,873	P216,153,145
Additions	-	14,493,919	8,292,756	-	22,786,675
Transfers	-	(34,544,176)	34,544,176	-	-
Disposals	(141,360)	-	-	-	(141,360)
At December 31	93,717,200	69,922,337	72,532,050	2,626,873	238,798,460
Accumulated Depreciation and Amortization					
At January 1	-	18,356,407	22,893,704	2,057,124	43,307,235
Depreciation and amortization	-	2,742,268	9,071,789	158,999	11,973,056
At December 31	-	21,098,675	31,965,493	2,216,123	55,280,291
Net Book Value at December 31	P93,717,200	P48,823,662	P40,566,557	P410,750	P183,518,169

	2007				
	Land	Leasehold Improvements	Office Furniture and Equipment	Transportation Equipment	Total
Cost					
At January 1	P93,858,560	35,780,526	P28,447,454	P2,966,873	P161,053,413
Additions	-	56,140,717	4,063,627	-	60,204,344
Disposals	-	(1,948,649)	(2,815,963)	(340,000)	(5,104,612)
At December 31	93,858,560	89,972,594	29,695,118	2,626,873	216,153,145
Accumulated Depreciation and Amortization					
At January 1	-	15,893,830	21,066,686	2,153,644	39,114,160
Depreciation and amortization	-	2,462,577	4,446,739	243,480	7,152,796
Disposals	-	-	(2,619,721)	(340,000)	(2,959,721)
December 31	-	18,356,407	22,893,704	2,057,124	43,307,235
Net Book Value at December 31	P93,858,560	P71,616,187	P6,801,414	P569,749	P172,845,910

Depreciation and amortization charged against unrestricted net assets amounted to P12.0 million and P7.2 million in 2008 and 2007, respectively.

8. Available-for-Sale Financial Assets

This account consists of investments in:

	2008	2007
Common trust fund	P500,535,329	P537,172,377
Shares of stock		
Quoted securities	105,360,814	215,004,008
Unquoted securities	2,347,416	2,809,334
	P608,243,559	P754,985,719

AFS financial assets consist of shares in various listed and unlisted companies held under a trust fund are carried at market value and cost, respectively.

The rollforward of unrealized gains (losses) on AFS financial assets are as follows:

	2008	2007
Balance at beginning of year	P41,858,651	P23,097,678
Unrealized gains (losses) recognized directly in net assets	(136,288,704)	18,760,973
Balance at end of year	(P94,430,053)	P41,858,651

9. Accounts and Other Payables

This account consists of:

	2008	2007
Trade	P32,439,158	P34,497,716
Accrued expenses	26,001,954	27,918,052
Advances	4,357,205	2,814,392
Others	941,356	839,087
	P63,739,673	P66,069,247

Accounts payable and accrued expenses include payables to consignors and suppliers that are noninterest-bearing and are normally settled on 30 to 60 day terms.

10. Retirement Plan

The Foundation has funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are generally based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service.

The Foundation's annual contributions to the plan consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The components of pension expense included in employee benefits and welfare under "General and administrative expenses" in the statements of activities are as follows:

	2008	2007
Current service cost	P3,553,764	P2,631,015
Interest cost on benefit obligation	1,514,271	1,232,842
Expected return on plan assets	(1,252,545)	(1,450,971)
Net actuarial gain	-	(46,548)
Total pension expense	P3,815,490	P2,366,338

The funded status and amounts recognized under pension liability in the statements of financial position for the pension plan as of December 31, 2008 and 2007 are as follows:

	2008	2007
Benefit obligations	(P20,877,668)	(P21,632,439)
Plan assets	16,867,990	17,893,499
	4,009,678	3,738,940
Unrecognized actuarial losses	(1,538,347)	(1,810,782)
Liability recognized in the statements of financial position	P2,471,331	P1,928,158

Changes in the present value of the defined benefit obligation are as follows:

	2008	2007
Balance at January 1	P21,632,439	P17,612,029
Current service cost	3,553,764	2,631,015
Interest cost on benefit obligation	1,514,271	1,232,842
Benefits paid	(3,272,317)	-
Actuarial loss (gain)	(2,550,489)	156,553
Balance at December 31	P20,877,668	P21,632,439

Changes in the fair value of plan assets are as follows:

	2008	2007
Balance at January 1	P17,893,499	P20,728,153
Expected return on plan assets	1,252,545	1,450,971
Contributions	3,272,317	-
Benefits paid	(3,272,317)	-
Actuarial loss	(2,278,054)	(4,285,625)
Balance at December 31	P16,867,990	P17,893,499

The components of the Foundation's plan assets consist mainly of investments in government securities.

The assumptions used to determine pension benefits for the Foundation for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Discount rate	8.0%	7.0%
Salary increase rate	7.0%	7.0%
Expected rate of return on plan assets	7.0%	7.0%

Experience adjustments on plan assets amounted to P2.3 million loss in 2008 and P4.3 million loss in 2007.

11. Net Assets

Permanently restricted net assets are those assets that the donor stipulates must be maintained by the Foundation in perpetuity. Permanently restricted net assets increase when Foundation receives contributions for which donor-imposed restrictions limiting the Foundation's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the Foundation's meeting certain requirements. Permanently restricted net assets generally come from: (1) contributions, with donor-imposed permanent restrictions; (2) increase or decrease in existing assets that are subject to permanent restrictions by donor or by law (such as unrealized gains, interest income); and (3) reclassification from another net asset class as a result of donor stipulation or by law.

Temporarily restricted net assets refer to those net assets whose use by the Foundation is limited by donors to later periods of time or after specified dates or specified purposes.

Unrestricted net assets are those net assets that are neither temporarily restricted nor permanently restricted. It includes all net assets with uses not restricted by donors, by Board of Trustees or by law.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Details of the Foundation's expenses as of December 31, 2008 and 2007 follow:

Project expenses

	2008	2007
Project implementation		
Special projects	P95,418,584	P35,725,209
Education	75,578,778	76,041,224
Entrepreneurship	11,023,687	4,334,961
Environment	828,586	1,396,175
Project Management		
Salaries and wages	30,370,583	28,380,716
Employee benefits and welfare	9,342,446	7,015,179
Monitoring and administrative	32,084,751	25,301,213
Building overhead	26,181,336	23,146,719
	P280,828,751	P201,341,396



General and administrative expenses

	2008	2007
Salaries and wages	₱10,376,609	₱9,618,180
Premises, utilities and other equipment-related cost	5,626,828	6,152,703
Employee benefits and welfare (see Note 10)	3,818,168	2,592,440
Professional and service fees	1,173,725	1,173,181
Advocacy and public information services	1,091,263	1,024,718
Communication and postage	722,464	776,980
Office supplies	707,482	862,918
Meetings and conferences	255,066	280,415
Transportation and travel	243,169	305,220
Membership dues and fees	156,923	177,803
Taxes and licenses	155,980	206,941
Provisions for impairment losses	226,008	–
Others	768,101	2,843,840
	₱25,321,786	₱26,015,339

Capital management

The primary objectives of the Foundation's capital management policies are to devote its funds to charitable projects, scholarship grants and cultural activities, to afford the financial flexibility to support its operations and to maximize the funds available.

The Foundation's source of capital is its total net assets, which is composed of unrestricted, temporarily restricted and permanently restricted net assets, less net unrealized gains (losses) on AFS financial assets.

	2008	2007
Net Assets		
Unrestricted	₱135,368,659	₱151,468,342
Temporarily restricted	265,911,817	269,331,043
Permanently restricted	525,997,763	522,150,995
Net unrealized gains (losses) on available-for-sale financial assets (Note 8)	(94,430,053)	41,858,651
Total Net Assets	₱832,848,186	₱984,809,031

12. Financial Instruments

Fair value information

The table below set forth the carrying values and estimated fair values of the Foundation's financial assets and liabilities as of December 31, 2008 and 2007:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash and cash equivalents (see Note 4)	P56,948,377	P56,948,377	P32,794,846	P32,794,846
Receivables (see Note 5)				
Trade	10,867,119	10,867,119	14,694,066	14,694,066
Advances	4,434,860	4,434,860	6,376,926	6,376,926
Advances to officers and employees	1,897,576	1,897,576	2,172,867	2,172,867
Others	21,608,261	21,608,261	56,819,482	56,819,482
Total loans and receivables	95,756,193	95,756,193	112,858,187	112,858,187
AFS financial assets (Note 8)				
Common trust fund	500,535,329	500,535,329	537,172,377	537,172,377
Shares of stock				
Quoted securities	105,360,814	105,360,814	215,004,008	215,004,008
Unquoted securities	2,347,416	2,347,416	2,809,334	2,809,334
Total AFS financial assets	608,243,559	608,243,559	754,985,719	754,985,719
Total financial assets	P703,999,752	P703,999,752	P867,843,906	P867,843,906
Other financial liabilities				
Accounts and other payables (see Note 9)				
Trade	P32,439,158	P32,439,158	P34,497,716	P34,497,716
Accrued expenses	26,001,954	26,001,954	27,918,052	27,918,052
Advances	4,357,205	4,357,205	2,814,392	2,814,392
Others	941,356	941,356	839,087	839,087
Total other financial liabilities	P63,739,673	P63,739,673	P66,069,247	P66,069,247

The methods and assumptions used by the Foundation in estimating the fair value of each class of financial instruments are as follows:

Loans and receivables and other financial liabilities - Carrying amounts approximate fair values due to the relative short-term maturities of these investments and liabilities.

AFS quoted financial assets - Fair values are based on quoted prices published in markets.

AFS unquoted financial assets - Carrying amounts (cost less allowance for impairment losses) approximate fair value due to the unpredictable nature or future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Financial Risk Management Objectives and Policies

The Foundation has various financial instruments such as cash and cash equivalents, receivables, AFS financial assets, accounts and other payables which arise directly from its operations.

The main purpose of the Foundation's financial instruments is to fund its operational and capital expenditures. The main risks arising from the use of financial instruments are liquidity risk, credit risk and foreign exchange risk.

The Foundation's risk management policies are summarized below:

Liquidity risk

The Foundation maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Foundation regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include investments in quoted and unquoted securities.

As of December 31, 2008 and 2007 the carrying amounts of accounts and other payables will be settled within one year.

Credit risk

The Foundation's holding of cash and cash equivalents exposes the Foundation to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. Given the Foundation's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position.

	2008	2007
Cash and cash equivalents (see Note 4)	₱56,948,377	₱32,794,846
Receivables (see Note 5)		
Trade	10,867,119	14,694,066
Advances	4,434,860	6,376,926
Advances to officers and employees	1,897,576	2,172,867
Others	21,608,261	56,819,482
AFS financial assets		
Common trust fund	500,535,329	537,172,377
Shares of stock		
Quoted securities	105,360,814	215,004,008
Unquoted securities	2,347,416	2,809,334
	₱703,999,752	₱867,843,906

As of December 31, 2008 and 2007, the aging analysis of past due but not impaired trade receivables presented per class, are as follows:

2008

	Neither Past Due nor Impaired	Past Due but not Impaired				Total	Individually Impaired	Total	
		<30 days	30-60 days	61-90 Days	91-120 days				>120 Days
Trade									
Products	P231,665	P337,110	P75,764	P212,007	P186,660	P238,059	P1,049,600	P1,098,091	P2,379,356
Services	2,504,688	544,042	743,508	308,186	478,039	1,523,763	3,597,538	2,385,537	8,487,763
Advances	4,434,860	-	-	-	-	-	-	-	4,434,860
Advances to officers and employees	1,711,030	95,808	22,073	5,125	14,554	48,986	186,546	-	1,897,576
Others	18,426,441	23,500	72,296	51,626	156,815	699,610	1,003,847	2,177,973	21,608,261
	P27,308,684	P1,000,460	P913,641	P576,944	P836,068	P2,510,418	P5,837,531	P5,661,601	P38,807,816

2007

	Neither Past Due nor Impaired	Past Due but not Impaired				Total	Individually Impaired	Total	
		<30 days	30-60 days	61-90 Days	91-120 days				>120 days
Trade									
Products	P677,061	P37,502	P191,436	P11,135	P-	P92,562	P332,635	P1,245,362	P2,255,058
Services	3,525,577	2,386,551	770,260	92,723	-	2,632,978	5,882,512	3,030,919	12,439,008
Advances	56,674	-	-	-	208,731	6,111,521	6,320,252	-	6,376,926
Advances to officers and employees	1,559,483	-	30,000	10,200	-	573,184	613,384	-	2,172,867
Others	52,211,585	178,056	4,562	-	-	2,105,694	2,288,312	2,319,585	56,819,482
	P58,030,380	P2,602,109	P996,258	P114,058	P208,731	P11,515,939	P15,437,095	P6,595,866	P80,063,341

The table below shows the credit quality of the Foundation's financial assets as of December 31, 2008 and 2007.

2008

	Neither Past Due nor Impaired				Past due but not impaired	Individually impaired	Total
	High Grade	Medium Grade	Low Grade	Total			
Cash and cash equivalents	P56,948,377	P-	P-	P56,948,377	P-	P-	P56,948,377
Trade	618,026	1,250,964	867,363	2,736,353	4,647,138	3,483,628	10,867,119
Advances	4,434,860	-	-	4,434,860	-	-	4,434,860
Advances to officers and employees:	1,348,538	78,127	284,365	1,711,030	186,546	-	1,897,576
Others	16,842,251	672,202	911,988	18,426,441	1,003,847	2,177,973	21,608,261
AFS financial assets							
Common trust fund	-	500,535,329	-	500,535,329	-	-	500,535,329
Shares of stock							
Quoted securities	-	105,360,814	-	105,360,814	-	-	105,360,814
Unquoted securities	-	2,347,416	-	2,347,416	-	-	2,347,416
	P80,192,052	P610,244,852	P2,063,716	P692,500,620	P5,837,531	P5,661,601	P703,999,752

2007

	Neither Past Due nor Impaired				Past due but not impaired	Individually impaired	Total
	High Grade	Medium Grade	Low Grade	Total			
Cash and cash equivalents	P32,794,846	P-	P-	P32,794,846	P-	P-	P32,794,846
Trade	1,110,893	3,091,745	-	4,202,638	6,215,147	4,276,281	14,694,066
Advances	56,674	-	-	56,674	6,320,252	-	6,376,926
Advances to officers and employees:	1,559,483	-	-	1,559,483	613,384	-	2,172,867
Others	51,376,408	39,593	795,584	52,211,585	2,288,312	2,319,585	56,819,482
AFS financial assets							
Common trust fund	-	537,172,377	-	537,172,377	-	-	537,172,377
Shares of stock							
Quoted securities	-	215,004,008	-	215,004,008	-	-	215,004,008
Unquoted securities	-	2,809,334	-	2,809,334	-	-	2,809,334
	P86,898,304	P758,117,057	P795,584	P845,810,945	P15,437,095	P6,595,866	P867,843,906

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents - based on the nature of the counterparty and the Foundation's internal rating system.

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment.

AFS financial assets - the quoted and unquoted financial assets are unrated.

Foreign exchange risk

The Foundation's foreign exchange risk results primarily from movements of the Philippine Peso against the United States Dollar.

The Foundation's foreign currency-denominated financial instruments are included in cash and cash equivalents amounting to US\$0.23 million in 2008 and US\$0.19 million in 2007. The Philippine peso values of these instruments amounted to P9.6 million and P8.9 million in 2008 and 2007, respectively.

In translating the foreign currency-denominated monetary assets into peso amounts, the exchange rate used was P47.52:\$1 and P41.28:\$1, based on the Philippine Peso - U.S. dollar exchange rate as of December 31, 2008 and 2007, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variables held constant, of the Foundation's net assets (due to changes in the fair value of monetary assets) as of December 31, 2008 and 2007.

2008

US\$ depreciates (appreciates)	Effect on Net assets
P1.0	P187,245
(P1.0)	(P187,245)

2007

US\$ depreciates (appreciates)	Effect on Net assets
P1.0	P231,527
(P1.0)	(P231,527)



13. Other Activities

Statements of revenue and expenses on the Foundation's museum and library operations for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Revenue	P25,649,383	P23,937,669
Expenses	30,636,125	24,950,855
Net loss	P4,986,742	P1,013,186

14. Contingencies

The Foundation has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Company's financial position and results of operations. No provisions were made during the year. The information usually required by PAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.