



Punongbayan & Araullo

Member of Grant Thornton International Ltd

Financial Statements and
Independent Auditors' Report

ASA Philippines Foundation, Inc.

December 31, 2008 and 2007



Report of Independent Auditors

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The Board of Trustees
ASA Philippines Foundation, Inc.
(A Nonstock, Nonprofit Organization)
Unit 509 Prestige Tower, F. Ortigas Jr. Street
Ortigas Center, Pasig City

We have audited the accompanying financial statements of ASA Philippines Foundation, Inc., which comprise the statements of assets, liabilities and fund balance as at December 31, 2008 and 2007, and the statements of revenues and expenses, statements of changes in fund balance and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.




An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities, and fund balance of ASA Philippines Foundation, Inc. as of December 31, 2008 and 2007, and of its revenues and expenses and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO


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March 24, 2009



ASA PHILIPPINES FOUNDATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE
DECEMBER 31, 2008 and 2007
(Amounts in Philippine Pesos)



	<u>Notes</u>	<u>2008</u>	<u>2007</u>
<u>A S S E T S</u>			
CASH AND CASH EQUIVALENTS	5	P 33,932,438	P 40,262,841
LOANS AND OTHER RECEIVABLES - Net	6	306,282,018	267,482,212
FURNITURE, FIXTURES AND EQUIPMENT - Net	7	2,580,250	2,764,270
OTHER ASSETS		<u>1,389,400</u>	<u>996,848</u>
TOTAL ASSETS		<u>P 344,184,106</u>	<u>P 311,506,171</u>
<u>LIABILITIES AND FUND BALANCE</u>			
CAPITAL BUILD-UP AND LOCKED IN CAPITAL BUILD-UP	8	P 196,155,024	P 152,785,310
LOANS PAYABLE	9	21,616,116	66,257,633
OTHER LIABILITIES	10	<u>45,118,601</u>	<u>26,668,319</u>
Total Liabilities		262,889,741	245,711,262
FUND BALANCE		<u>81,294,365</u>	<u>65,794,909</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>P 344,184,106</u>	<u>P 311,506,171</u>

See Notes to Financial Statements.



ASA PHILIPPINES FOUNDATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
REVENUES			
Service fees	6	P 147,524,450	P 100,045,211
Admission fees		6,212,650	7,230,800
Grants	11	-	6,608,800
Others	12	4,498,028	3,496,970
		<u>158,235,128</u>	<u>117,381,781</u>
OPERATING EXPENSES			
Project cost	13	128,064,626	75,635,681
General and administrative expenses	14	14,671,046	10,728,363
		<u>142,735,672</u>	<u>86,364,044</u>
EXCESS OF REVENUES OVER EXPENSES		<u>P 15,499,456</u>	<u>P 31,017,737</u>

See Notes to Financial Statements.



ASA PHILIPPINES FOUNDATION, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007
(Amounts in Philippine Pesos)

	<u>Note</u>	<u>2008</u>	<u>2007</u>
GRANTS AND CONTRIBUTIONS			
Balance at beginning of year		P 41,360,000	P 34,751,200
Grants and contributions during the year	11	<u>-</u>	<u>6,608,800</u>
Balance at end of year		<u>41,360,000</u>	<u>41,360,000</u>
RESULTS OF OPERATIONS			
Balance at beginning of year		24,434,909	25,972
Excess of revenues over expenses during the year		15,499,456	31,017,737
Amount transferred to grants and contributions	11	<u>-</u>	<u>(6,608,800)</u>
Balance at end of year		<u>39,934,365</u>	<u>24,434,909</u>
TOTAL FUND BALANCE		<u>P 81,294,365</u>	<u>P 65,794,909</u>

See Notes to Financial Statements.



ASA PHILIPPINES FOUNDATION, INC.
(A Nonstock, Nonprofit Organization)
CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007
(Amounts in Philippine Pesos)

	Notes	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses		P 15,499,456	P 31,017,737
Adjustments for:			
Impairment loss	6	25,403,900	11,296,040
Interest on borrowed funds	13	4,784,180	4,079,915
Depreciation	7	2,097,382	2,549,793
Interest income	5	(1,656,505)	(151,086)
Fair value gains on discounting	12	(927,515)	(1,274,160)
Grants received	11	-	(6,608,800)
Operating excess of revenues over expenses before working capital changes		45,200,898	40,909,439
Increase in loans and other receivables		(63,498,215)	(179,410,319)
Increase in other assets		(392,552)	(458,548)
Increase in capital build-up and locked in capital build-up		43,369,714	96,837,294
Increase in other liabilities		18,082,742	18,435,516
Cash from (used in) operations		42,762,587	(23,686,618)
Cash paid for income taxes		(331,301)	(30,217)
Net Cash From (Used in) Operating Activities		<u>42,431,286</u>	<u>(23,716,835)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of furniture, fixtures and equipment	7	(2,287,552)	(3,510,301)
Interest received		1,656,505	120,869
Net Cash Used in Investing Activities		<u>(631,047)</u>	<u>(3,389,432)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of loans		(49,882,864)	(3,905,443)
Proceeds from loan availments	9	5,000,000	56,000,000
Interest paid	9	(3,247,778)	(3,362,363)
Grants received	11	-	6,608,800
Net Cash From (Used in) Financing Activities		<u>(48,130,642)</u>	<u>55,340,994</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(6,330,403)	28,234,727
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>40,262,841</u>	<u>12,028,114</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>P 33,932,438</u>	<u>P 40,262,841</u>

See Notes to Financial Statements.



ASA PHILIPPINES FOUNDATION, INC.
(A Nonstock, Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Foundation Information

ASA Philippines Foundation, Inc. (the Foundation or ASA) was incorporated and registered in the Securities and Exchange Commission (SEC) on July 9, 2004 with Registration Certificate No. CN2004-09459, and with the objectives to (a) provide efficient and affordable financial services to the poor for their income generating activities; (b) build an effective and efficient microfinance institution for sustainable delivery of microfinance services to the entrepreneurial poor; and (c) facilitate the convergence and provision of other social services for the poor.

The ASA Program provides:

1. Loans mostly to qualified low-income women engaged in small scale enterprises. The loans are guaranteed by at least two co-makers. The ASA loan cycle is 23 weeks.
2. Financial assistance to its clients in case of death as part of the social development.
3. Business development services for the client to improve efficiency in enterprise management.

The Foundation's registered office, which is also its principal place of business, is located at Unit 509 Prestige Tower, F. Ortigas Jr. Street, Ortigas Center, Pasig City.

1.2 Authorization for the Issuance of Financial Statements

The financial statements of the Foundation for the year ended December 31, 2008 (including the comparatives for the year ended December 31, 2007) were authorized for issue by the Foundation's Board of Trustees on March 24, 2009.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Foundation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board.

These financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis. The measurement bases are more fully described in the accounting policies that follow.

(b) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Foundation's functional currency, and all values represent absolute amounts except when otherwise indicated (see Note 2.9).

2.2 Impact of New Amendments and Interpretations to Existing Standards

Effective Subsequent to 2008 that is relevant to the Foundation

There are new and amended standards that are effective for periods subsequent to 2008. Among the new and amended standards, PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective for annual periods beginning on or after January 1, 2009), is applicable to the Foundation. The amendment requires entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The statement of revenue and expense shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature. Changes in the fund balance arising from transaction with owners are excluded from the statement of comprehensive income (e.g. contributions). An entity would also be required to include in its set of financial statements a statement showing its financial position (or statement of asset, liabilities and fund balance) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Foundation will apply PAS 1 (Revised 2007) in its 2009 financial statements.



2.3 Financial Assets

Financial assets include cash and cash equivalents and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every statement of assets, liabilities and fund balance date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

All financial assets are recognized on their trade date and are initially recognized at fair value, plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Foundation's loans and receivables is presented as Loans and Other Receivables in the statement of assets, liabilities and fund balance.

Loans and other receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses except when these are due within one year, in which case, they are stated at their nominal values. Any change in their value is recognized in profit or loss.

Impairment loss is provided when objective evidence is received that the Foundation will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows. Impairment loss is presented as part of Project Cost in the statement of revenues and expenses.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.4 Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	3 years
Equipment and vehicles	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.10).

The residual values and estimated useful lives of furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at each statement of assets, liabilities and fund balance date.

An item of furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of revenues and expenses in the year the item is derecognized.

2.5 Financial Liabilities

Financial liabilities include capital build-up (CBU) and locked in capital build-up (LCBU), loans payable, and other liabilities, which are measured at amortized cost using the effective interest method.

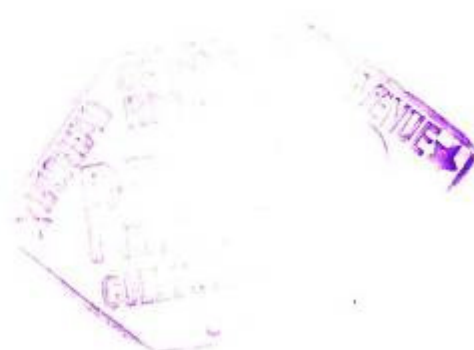
Financial liabilities are recognized when the Foundation becomes a party to the contractual agreements of the instrument.

Other liabilities are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments except when these are due within one year, in which case, they are stated at their nominal values.

Financial liabilities are derecognized from the statement of assets, liabilities and fund balance only when the obligations are extinguished either through discharge, cancellation or expiration.

2.6 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of legal or constructive commitment that has resulted from past events.



Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of assets, liabilities and fund balance date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each statement of assets, liabilities and fund balance date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.7 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Foundation and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- (a) *Service fees* – Revenue is recognized as service fees accrue.
- (b) *Admission fees* – Revenue is recognized when admission fees are received.
- (c) *Grants* – Revenue is recognized in the period of notification or actual receipt of grants, whichever is earlier, and when the amount can be measured reliably and collectibility is reasonably assured.
- (d) *Interest* – Revenue is recognized as interest accrues.

Cost and expenses are recognized in the statement of revenues and expenses at the date these are incurred.

2.8 Leases

Leases, which do not transfer to the Foundation substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as expense in the statement of revenues and expenses on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Foundation determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.9 Functional and Presentation Currency

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

2.10 Impairment of Non-financial Assets

The Foundation's furniture, fixtures and equipment are subject to impairment testing. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro-rata to the other assets in the cash-generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.11 Employee Benefits

Since the Foundation has only been operating for four years, the impact of any expense or obligation required to be accrued by PAS 19, *Employee Benefits*, is immaterial to the Foundation.

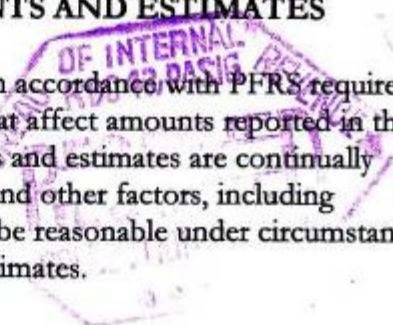
2.12 Fund Balance

Fund balance is composed of grants and contributions and results of operations.

Results of operations include all current and prior period results as disclosed in the statement of revenues and expenses.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Foundation's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.



3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Operating and Finance Leases

The Foundation has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

(b) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of assets, liabilities, and fund balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Useful Life of Furniture, Fixtures and Equipment

The Foundation estimates the useful lives of furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of furniture, fixtures and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of furniture, fixtures and equipment are analyzed in Note 7. Actual results, however may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in estimated useful lives of furniture, fixtures and equipment during the year.



(b) Allowance for Impairment of Loans and Other Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Foundation evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Foundation's relationship with the clients, the clients' current credit status based on credit reports, average age of accounts, collection experience and historical loss experience.

Impairment loss on loans and other receivables amounted to P25.4 million and P11.3 in 2008 and 2007, respectively. Receivables written off amounted to P3.4 million and P1.4 million in 2008 and 2007, respectively. Loans and other receivables, net of allowance for impairment, amounted to P306.3 million and P267.5 million as at December 31, 2008 and 2007, respectively (see Note 6).

(c) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Foundation's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.10. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

The Foundation did not recognize impairment loss on non-financial assets in 2008 and 2007.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Foundation is exposed to a variety of financial risks which results from its operating activities. The Foundation's risk management is coordinated with its Board of Trustees, and focuses on actively securing the Foundation's short- to medium-term cash flows by minimizing the exposure to financial markets.

The Foundation does not engage in the trading of financial assets for speculative purposes nor does it write options.



The most significant financial risks to which the Foundation is exposed to are described below.

4.1 Credit Risk

Generally, the maximum credit exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of assets, liabilities and fund balance (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	5	P 33,850,587	P 40,173,052
Loans and other receivables - gross	6	<u>389,656,542</u>	<u>321,359,601</u>
		<u>P 423,507,129</u>	<u>P 361,532,653</u>

The Foundation continuously monitors default of its clients and other counterparties, identified individually or by group, and incorporate the information into its credit risk controls. The Foundation's policy is to deal only with creditworthy counterparties.

Loans and other receivables are secured by CBU and LCBU of borrowers. Deposits in bank are secured up to P250,000 for each bank.

Past due loans amounting to P769,650 and P2,619,000 in 2008 and 2007, respectively, have been fully provided with an allowance.

In respect of loans and other receivables, the Foundation is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds are considered negligible, since the counterparties are reputable banks.

4.2 Liquidity Risk

The Foundation manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Foundation maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in short-term placements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.



As at December 31, 2008, the Foundation's financial liabilities have contractual maturities which are presented below:

	<u>Notes</u>	<u>Current</u>	<u>Non-current</u>
CBU and LCBU	8	P 196,155,024	P -
Loans payable	9	14,495,961	8,000,000
Other liabilities	10	<u>45,118,601</u>	<u>-</u>
		<u>P 255,769,586</u>	<u>P 8,000,000</u>

This compares to the maturity of the Foundation's financial liabilities in the previous reporting period as follows:

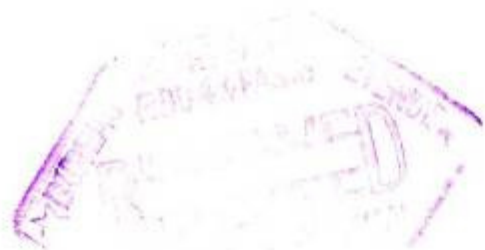
	<u>Notes</u>	<u>Current</u>	<u>Non-current</u>
CBU and LCBU	8	P 152,785,310	P -
Loans payable	9	24,426,649	41,952,176
Other liabilities	10	<u>26,668,319</u>	<u>-</u>
		<u>P 203,880,278</u>	<u>P 41,952,176</u>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the statement of assets, liabilities and fund balances dates.

4.3 Interest Rate Risk

The Foundation's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At December 31, 2008 and 2007, the Foundation is exposed to changes in market interest rates through short-term placements, presented as part of Cash and Cash Equivalents, which are subject to variable interest rates (see Note 5).

Short-term placements represent short-term time deposits. The potential effects on the net results of the interest rate sensitivity is immaterial. As such, management believes that its exposure to interest rate risk is minimal.



4.4 Categories and Fair Values of Financial Assets and Liabilities

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

	Notes	2008		2007	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Cash and cash equivalents	5	P 33,932,438	P 33,932,438	P 40,262,841	P 40,262,841
Loans and other receivables	6	<u>306,282,018</u>	<u>306,282,018</u>	<u>267,482,212</u>	<u>267,482,212</u>
		<u>P 340,214,456</u>	<u>P 340,214,456</u>	<u>P 307,745,053</u>	<u>P 307,745,053</u>
Financial Liabilities					
Financial liabilities at amortized cost:					
Current:					
CBU and LCBU	8	P 196,155,024	P 196,155,024	P 152,785,310	P 152,785,310
Loans payable	9	14,495,961	14,495,961	24,426,649	24,426,649
Other liabilities	10	45,118,601	45,118,601	26,668,319	26,668,319
Non-current:					
Loans payable	9	<u>7,120,155</u>	<u>7,120,155</u>	<u>41,830,984</u>	<u>41,830,984</u>
		<u>P 262,889,741</u>	<u>P 262,889,741</u>	<u>P 245,711,262</u>	<u>P 245,711,262</u>

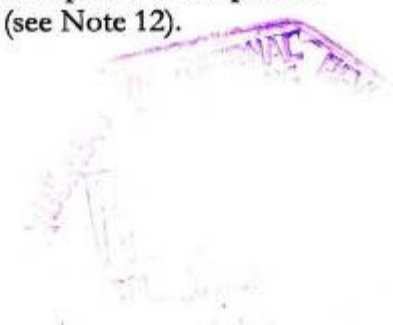
See Notes 2.3 and 2.5 for a description of the accounting policies for each category of financial instruments.

5. CASH AND CASH EQUIVALENTS

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

	2008	2007
Cash in banks	P 23,850,587	P 27,173,052
Short-term placements	10,000,000	13,000,000
Cash on hand	<u>81,851</u>	<u>89,789</u>
	<u>P 33,932,438</u>	<u>P 40,262,841</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 90 days and earn effective interest ranging from 5.2% to 6.2% and 5.0% to 6.5% in 2008 and 2007, respectively. Interest earned from cash and cash equivalents amounted to P1,656,505 and P151,086 in 2008 and 2007, respectively, and is presented as part of Other Income in the statements of revenues and expenses (see Note 12).



6. LOANS AND OTHER RECEIVABLES

Loans and other receivables at December 31 consist of:

	<u>2008</u>	<u>2007</u>
Loan receivables	P 377,152,600	P 314,847,650
Other receivables	<u>12,503,942</u>	<u>6,511,951</u>
	389,656,542	321,359,601
Unearned service charges	(45,659,264)	(38,135,009)
Allowance for impairment	<u>(37,715,260)</u>	<u>(15,742,380)</u>
	<u>P 306,282,018</u>	<u>P 267,482,212</u>

Loan receivables represent microfinance loans to borrowers. These loans have terms of six months and are partially secured by the CBU and LCBU of the borrowers. Effective interest on loans in 2008 and 2007 was 15% for six months. Service fees from loans net of rebates amounted to P147,524,450 and P100,045,211 in 2008 and 2007, respectively.

All of the Foundation's receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and provisions have been recorded accordingly.

All of the Foundation's receivables are usually due within six months. All receivables are subject to credit risk exposure. However, the Foundation does not identify specific concentrations of credit risk with regard to these receivables as the amounts recognized resemble a large number of receivables from various customers.

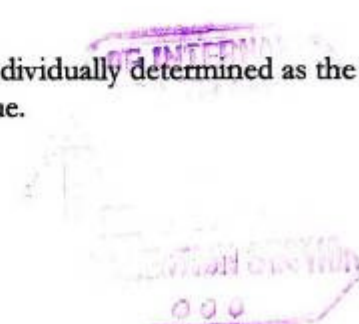
A reconciliation of the allowance for impairment at beginning and end of 2008 and 2007 is shown below.

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year		P 15,742,380	P 5,827,720
Write-off during the year		(3,431,020)	(1,381,380)
Impairment loss during the year	13	<u>25,403,900</u>	<u>11,296,040</u>
Balance at end of year		<u>P 37,715,260</u>	<u>P 15,742,380</u>

Past due loans amounted to P769,650 and P2,619,000 in 2008 and 2007, respectively.

Other receivables consist of various receivables from employees which earned interest of 10% both in 2008 and 2007.

The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.



7. FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of 2008 and 2007 are shown below.

	<u>Furniture and Fixtures</u>	<u>Equipment and Vehicles</u>	<u>Total</u>
December 31, 2008			
Cost	P 6,034,654	P 1,410,327	P 7,444,981
Accumulated depreciation	(3,863,254)	(1,001,477)	(4,864,731)
Net carrying amount	<u>P 2,171,400</u>	<u>P 408,850</u>	<u>P 2,580,250</u>
December 31, 2007			
Cost	P 4,523,875	P 1,160,844	P 5,684,719
Accumulated depreciation	(2,203,185)	(717,264)	(2,920,449)
Net carrying amount	<u>P 2,320,690</u>	<u>P 443,580</u>	<u>P 2,764,270</u>
January 1, 2007			
Cost	P 2,281,754	P 1,019,872	P 3,301,626
Accumulated depreciation	(1,019,883)	(357,316)	(1,377,199)
Net carrying amount	<u>P 1,261,871</u>	<u>P 662,556</u>	<u>P 1,924,427</u>

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of furniture, fixtures and equipment is shown below:

	<u>Furniture and Fixtures</u>	<u>Equipment and Vehicles</u>	<u>Total</u>
Balance at January 1, 2008, net of accumulated depreciation			
	P 2,320,690	P 443,580	P 2,764,270
Additions	2,038,069	249,483	2,287,552
Disposals	(374,190)	-	(374,190)
Depreciation charges for the year	(1,813,169)	(284,213)	(2,097,382)
Balance at December 31, 2008, net of accumulated depreciation	<u>P 2,171,400</u>	<u>P 408,850</u>	<u>P 2,580,250</u>
Balance at January 1, 2007, net of accumulated depreciation			
	P 1,261,871	P 662,556	P 1,924,427
Additions	3,276,230	234,071	3,510,301
Disposals	(58,115)	(62,550)	(120,665)
Depreciation charges for the year	(2,159,296)	(390,497)	(2,549,793)
Balance at December 31, 2007, net of accumulated depreciation	<u>P 2,320,690</u>	<u>P 443,580</u>	<u>P 2,764,270</u>

The amount of depreciation is allocated as follows:

	Notes	<u>2008</u>	<u>2007</u>
Project cost	13	P 1,664,347	P 2,043,645
General and administrative	14	<u>433,035</u>	<u>506,148</u>
		<u>P 2,097,382</u>	<u>P 2,549,793</u>

8. CBU AND LCBU

This account includes the following:

	<u>2008</u>	<u>2007</u>
CBU	P 165,147,290	P 129,158,836
LCBU	28,262,170	21,245,480
Staff CBU	<u>2,745,564</u>	<u>2,380,994</u>
	<u>P 196,155,024</u>	<u>P 152,785,310</u>

CBU represents contributions made by borrowers for capital build-up purposes. Also, in cases of default in loan payments by borrowers, the Foundation can offset the amount of CBU balance against the outstanding loan balance. Borrowers earn rebates equivalent to 7% per annum of their CBU. These rebates can be deducted from future loan payments. Rebates amounted to P6,167,085 and P3,585,455 in 2008 and 2007, respectively.

LCBU are non-interest earning compulsory contributions made by borrowers as safeguard to their family's risk. In case of death, the accumulated LCBU amount will be given to the nominated beneficiary together with other benefits.

Staff CBU refers to mandatory savings of the staff. Interest is at the rate of 7% per annum on these savings.



9. **LOANS PAYABLE**

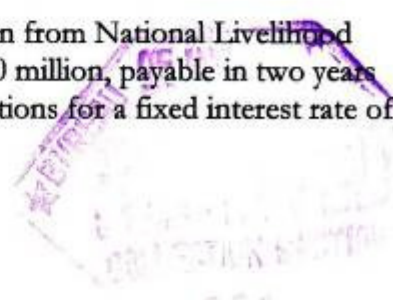
This account includes the following:

	<u>2008</u>	<u>2007</u>
<i>Interest-bearing loans:</i>		
Oikocredit, Ecumenical Development Cooperative Society (EDCS), U.A.	P 10,000,000	P 30,000,000
National Livelihood Development Corporation (NLDC)	5,219,942	10,000,000
Peoples Credit and Finance Corporation (PCFC)	276,019	4,878,825
Bank of the Philippine Islands	<u>-</u>	<u>5,000,000</u>
	<u>15,495,961</u>	<u>49,878,825</u>
<i>Non-interest bearing loans</i>		
PLDT-SMART Foundation, Inc. (PSF)	5,000,000	-
Pro-Life Philippines Foundation, Inc.	1,500,000	1,500,000
Team Ateneo, Inc.	500,000	500,000
Assisi Development Foundation	-	7,000,000
Benigno S. Aquino, Jr. Foundation, Inc.	-	5,000,000
Serviam Foundation, Inc.	-	2,500,000
Pamulaan Lumad Learning Center	<u>-</u>	<u>1,000,000</u>
	7,000,000	17,500,000
Unamortized discount	(879,845)	(1,121,192)
	<u>6,120,155</u>	<u>16,378,808</u>
	<u>P 21,616,116</u>	<u>P 66,257,633</u>

(a) *Interest-bearing loans*

On February 7, 2007, the Foundation obtained a loan from Oikocredit EDCS UA, an ecumenical development cooperative society. The loan is for P30.0 million, payable in three years from the date of disbursement and has an interest rate of 10.8% on the first quarter, with such interest adjusted quarterly based on the spot rate paid by 91-day Philippine Treasury Bills plus 5.0% but at no point be lower than 10.0%. The main condition for this loan is that the proceeds be used to make capital available to projects promoting self-reliance of the poor, especially the developing countries. In 2008, the Foundation made an advance payment amounting to P20.0 million.

On October 5, 2007, the Foundation secured a loan from National Livelihood Support Fund (now NLDC). The loan is for P10.0 million, payable in two years from the date of disbursement at semi-annual amortizations for a fixed interest rate of 9%.



Loans from PCFC represents unsecured loans with interest rates fixed at 4% on institutional loans and 13% on lending loans.

Interest expense on interest-bearing loans amounted to P3,247,778 and P3,362,363 in 2008 and 2007, respectively, and is presented as part of Interest on Borrowed Funds under Project Cost in the statements of revenues and expenses (see Note 13).

(b) Non-interest bearing loans

On September 16, 2008, the Foundation obtained a loan from PSF, a non-stock, non-profit corporation. The loan is for P5.0 million, payable in three years from the date of disbursal. The proceeds of the loan shall be used exclusively for expanding the Foundation's microfinance program.

On August 2, 2007, the Foundation availed a loan from Pro-Life Philippines Foundation, Inc. This loan is to be repaid in one year and shall be used exclusively for implementing the microfinance program of the Foundation. The loan was renewed for another year on August 2, 2008.

The loan from Team Ateneo, Inc., which was granted on May 17, 2007, is to be repaid in three years. The proceeds of the loan are to be used to establish a microfinance program for the Payatas 13 Gawad Kalinga (GK) Village and possibly for other Ateneo de Manila GK Villages in Payatas, Quezon City beginning with the Lower Molave GK Village in case funds are still available.

Loans from Assisi Development Foundation have maturities of three years. These loans were used to implement microfinance programs in different locations throughout the country. In 2008, the Foundation fully paid these loans.

Loans from the Benigno S. Aquino, Jr. Foundation, Inc. have maturities of three years. Of the total amount of P5.0 million, P4.0 million was secured in 2007, while P1.0 million was obtained in 2006. These loans were used exclusively for implementing the microfinance program of the Foundation. The Foundation paid the total amount of said loans in 2008.

Loan from Serviam Foundation, Inc. represents an interest-free financial advance to be used exclusively for extending microfinance services in two sites in Bataan where the Foundation will set-up two of its branches. The loan was fully paid in 2008.

Interest-free loans are carried at amortized cost using various effective rates ranging from 3.36% to 9.10% at the loan release dates. Fair value gain from discounting of interest-free loans amounted to P927,515 and P1,274,160 in 2008 and 2007, respectively, and is presented as part of Other Income in the statements of revenues and expenses (see Note 12). Interest expense on interest-free loans amounted to P1,536,402 and P717,552 in 2008 and 2007, respectively, and is presented as part of Interest on Borrowed Funds under Project Cost in the statements of revenues and expenses (see Note 13).

The maturity profile of these loans is presented below:

	<u>2008</u>	<u>2007</u>
Less than one year	P 14,495,961	P 24,426,649
One year to two years	2,965,954	26,941,301
Over two years	<u>4,154,201</u>	<u>14,889,683</u>
	<u>P 21,616,116</u>	<u>P 66,257,633</u>

10. OTHER LIABILITIES

This account includes the following:

	<u>2008</u>	<u>2007</u>
Beneficiary program and support trust fund (BPSTF)	P 23,937,460	P 14,500,030
Staff benevolent fund	11,805,800	5,770,800
Staff cash bond	8,904,600	5,824,850
Accounts payable	<u>470,741</u>	<u>572,639</u>
	<u>P 45,118,601</u>	<u>P 26,668,319</u>

BPSTF represents 1% of the principal amount of loans approved. This is used to cover the loan in case of the death of the borrower, provide assistance in cases of fire, and cover losses in case of robbery and hold-up.

Staff benevolent fund includes amounts set aside for employee hospitalization, employee death aid, and employee welfare and benefits.

Staff cash bond represents refundable interest-bearing security deposits made by employees. Interest rate on staff cash bonds was 7% both in 2008 and 2007.

11. GRANTS

Grants represent several project funds received from local funding agencies to carry out specific national programs based on budgets submitted and approved. All related expenses pertaining to such programs have been classified under the Project Cost account in the statements of revenues and expenses. Grants of P6,608,800 in 2007 was fully utilized as loan funds in the microfinance activities of the Foundation.

On November 9, 2007, the Foundation entered into a Membership and Contribution Agreement with the PSF. Under this agreement, PSF provided grants amounting to P5.0 million to be utilized in the microfinance operations of the Foundation in the Bicol Region. PSF was also admitted as a regular institutional member of the Foundation as of the date of effectivity of the agreement.

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12. OTHER INCOME

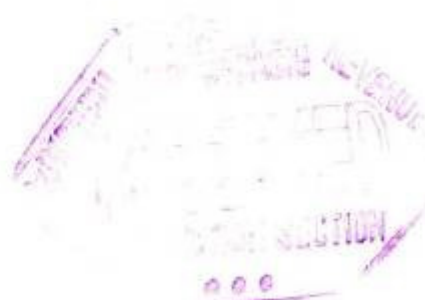
This account includes the following:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Interest income	5	P 1,656,505	P 151,086
Fair value gains on interest-free loans	9	927,515	1,274,160
Miscellaneous income		<u>1,914,008</u>	<u>2,071,724</u>
		<u>P 4,498,028</u>	<u>P 3,496,970</u>

13. PROJECT COST

This account includes the following:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Employee benefits	15	P 63,902,463	P 39,000,875
Impairment loss	6	25,403,900	11,296,040
Travel and transportation		7,842,522	3,934,859
Office rental	18	6,044,200	3,969,150
Interest on borrowed funds	9	4,784,180	4,079,915
LCBU benefit		3,602,600	3,189,000
Repairs and maintenance		3,013,100	1,364,236
Office supplies and reproduction		2,717,031	2,070,703
Security and janitorial		2,584,969	1,528,410
Depreciation	7	1,664,347	2,043,645
Miscellaneous		<u>6,505,314</u>	<u>3,158,848</u>
		<u>P 128,064,626</u>	<u>P 75,635,681</u>



14. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are shown below:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Employee benefits	15	P 7,398,302	P 5,682,086
License, insurance and professional fees		1,999,084	1,329,879
Travel and transportation		1,245,329	655,679
Grants and donations		825,300	791,200
Office rentals	18	623,274	339,144
Depreciation	7	433,035	506,148
Entertainment, amusement and recreation		370,770	304,573
Miscellaneous		<u>1,775,952</u>	<u>1,119,654</u>
		<u>P 14,671,046</u>	<u>P 10,728,363</u>

15. EMPLOYEE BENEFITS

Expenses recognized for salaries, employee benefits and retirement benefit are presented below:

	<u>2008</u>	<u>2007</u>
Salaries and wages	P 60,847,961	P 36,650,751
Staff benevolent fund	6,110,100	5,248,300
Employer's contribution	<u>4,342,704</u>	<u>2,783,910</u>
	<u>P 71,300,765</u>	<u>P 44,682,961</u>

The amounts of employee benefits are allocated as follows:

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Project cost	13	P 63,902,463	P 39,000,875
General and administrative	14	<u>7,398,302</u>	<u>5,682,086</u>
		<u>P 71,300,765</u>	<u>P 44,682,961</u>

16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel amounted to P16,291,451 and P10,442,954 in 2008 and 2007, respectively.

17. INCOME TAX

The Foundation is a non-stock, non-profit corporation, the primary purpose of which is one of those enumerated in Section 30 of the Tax Code of 1997. No part of the excess of revenues over expenses of the Foundation inures to the benefit of any of its members. The trustees do not receive any compensation. In case of dissolution, the assets of the Foundation shall be transferred to a similar institution or to the government. Hence, the Foundation is exempt from income taxes.

18. COMMITMENT AND CONTINGENCIES

18.1 Leases

The Foundation has lease agreements covering the space occupied by the Foundation and its branches for a period of six months to one year. The lease agreements require the Foundation to pay rental deposits which are included under Other Assets account in the statements of assets, liabilities and fund balance.

Rent expense amounted to P6,667,474 and P4,308,294 in 2008 and 2007, respectively (see Notes 13 and 14).

18.2 Others

There are commitments and contingencies that arise in the normal course of the Foundation's operations which are not reflected in the accompanying financial statements. As of December 31, 2008, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Foundation's financial statements.

19. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Foundation's capital management objectives are:

- To ensure the Foundation's ability to continue as a going concern; and,
- To generate enough funds to expand its microfinance operations by pricing services commensurately with the level of risk.

The Foundation monitors capital on the basis of the carrying amount of the fund balance as presented on the face of the statements of assets, liabilities, and fund balance.



The Foundation sets the amount of capital in proportion to its overall financing structure, i.e., fund balance and loans from third parties. The Foundation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

	<u>2008</u>	<u>2007</u>
Total loans from third parties	P 21,616,116	P 66,257,633
Total fund	81,294,365	65,794,909
Debt-to-fund ratio	<u>0.27 : 1</u>	<u>1.01 : 1</u>

The Foundation has complied with its covenant obligations under interest-bearing and non-interest bearing loans.



