ASA Philippines Foundation Inc.
Unit 509, Prestige Tower, F. Ortigas Jr. Rd., Ortigas Center, Pasig City-1605, Philippines, Phone: (+632) 914 7063; Telefax: (+632) 687 7558

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **ASA Philippines Foundation, Inc.** is responsible for all information and representations contained in the financial statements for the year ended December 31, 2007. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

The President and the Treasurer reviews the financial statements before such statements are approved and submitted to the Board of Trustees.

**Punongbayan & Araullo**, a member firm of Grant Thornton International, the independent auditors and appointed by the Board of Trustees, have examined the financial statements of the company in accordance with generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to Board of Trustees.

**KAMRUL H. TARAFDER**
President

Victoria A. Dee
**VICTORIA A. DEE**
Treasurer

**EDWARD S. GO**
Chairman

SUBSCRIBED AND SWORN to before me this ____ day of APR 11 2008 2008 in Pasig City affiant exhibited to me their Community Tax Certificate No. 23722729 issued at Pasig City on February 8, 2008, CTC No. 16304007 issued at Quezon City on January 12, 2008, and CTC No. 14897688 issued at Taguig City on February 1, 2008.

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Book No. IV
Series of 2008

ALFRED JOSEPH T. JAMORA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2008
PTR NO. [illegible]
ISSUED ON. 04-JAN-2007 / PASIG

Punongbayan & Araullo

# Report of Independent Auditors

**The Board of Directors**
**ASA Philippines Foundation Inc.**
***(A Nonstock, Nonprofit Organization)***
Unit 509 Prestige Tower
F. Ortigas Jr. Street, Ortigas Center
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We have audited the accompanying financial statements of ASA Philippines Foundation Inc., which comprise the statement of assets, liabilities and fund balance as at December 31, 2007, and the statement of revenues and expenses, statement of changes in fund balance and cash flow statement for the year then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes. The 2006 financial statements of ASA Philippines Foundation Inc. were audited by other auditors whose report, dated March 6, 2007, expressed an unqualified opinion on these statements prior to restatement.

*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 2007 financial statements based on our audit. We conducted our audit 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.

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

*Emphasis of a Matter*

We also reviewed the adjustments described in Note 16 that were applied to update the 2006 financial statements. In our opinion, such adjustments are appropriate and have been applied properly to the 2006 financial statements.

**PUNONGBAYAN & ARAULLO**

**By:** **Ramilito L. Nañola**
Partner
CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 0986666, January 4, 2008, Makati City
SEC Accreditation No. 0395-A
BIR AN 08-002511-19-2006 (Sept. 8, 2006 to 2009)

March 27, 2008

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**ASA PHILIPPINES FOUNDATION, INC.**
*(A Nonstock, Nonprofit Organization)*
**STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE**
**DECEMBER 31, 2007**
*(With Comparative Figures for 2006)*
*(Amounts in Philippine Pesos)*

| | Notes | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| **A S S E T S** | | | |
| **CASH AND CASH EQUIVALENTS** | 5 | P 40,262,841 | P 12,028,114 |
| **LOANS AND OTHER RECEIVABLES** - Net | 6 | 267,482,212 | 99,367,933 |
| **FURNITURE, FIXTURES AND EQUIPMENT** - Net | 7 | 2,764,270 | 1,924,427 |
| **OTHER ASSETS** | | 996,848 | 538,300 |
| **TOTAL ASSETS** | | P 311,506,171 | P 113,858,774 |
| **LIABILITIES AND FUND BALANCE** | | | |
| **CAPITAL BUILD-UP AND LOCKED IN CAPITAL BUILD-UP** | 8 | P 152,785,310 | P 55,948,016 |
| **LOANS PAYABLE** | 9 | 66,257,633 | 14,719,684 |
| **OTHER LIABILITIES** | 10 | 26,668,319 | 8,413,902 |
| Total liabilities | | 245,711,262 | 79,081,602 |
| **FUND BALANCE** | | 65,794,909 | 34,777,172 |
| **TOTAL LIABILITIES AND FUND BALANCE** | | P 311,506,171 | P 113,858,774 |

*See Notes to Financial Statements.*

**ASA PHILIPPINES FOUNDATION, INC.**
***(A Nonstock, Nonprofit Organization)***
**STATEMENT OF REVENUES AND EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2007**
***(With Comparative Figures for 2006)***
***(Amounts in Philippine Pesos)***

| | Notes | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| **REVENUES** | | | |
| Service fees | 6 | P 100,045,211 | P 37,033,786 |
| Admission fees | | 7,230,800 | 3,986,200 |
| Grants | 12 | 6,608,800 | 13,326,200 |
| Others | 13 | 3,496,970 | 1,155,866 |
| | | 117,381,781 | 55,502,052 |
| **OPERATING EXPENSES** | | | |
| Project cost | 14 | 75,635,681 | 34,372,867 |
| General and administrative expenses | 15 | 10,728,363 | 4,393,207 |
| | | 86,364,044 | 38,766,074 |
| **EXCESS OF REVENUES OVER EXPENSES** | | P 31,017,737 | P 16,735,978 |

***See Notes to Financial Statements.***

**ASA PHILIPPINES FOUNDATION, INC.**
***(A Nonstock, Nonprofit Organization)***
**STATEMENT OF CHANGES IN FUND BALANCE**
**FOR THE YEAR ENDED DECEMBER 31, 2007**
***(With Comparative Figures for 2006)***
***(Amounts in Philippine Pesos)***

| | Notes | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| **GRANTS AND CONTRIBUTIONS** | | | |
| Balance at beginning of year | | **P 34,751,200** | P 21,425,000 |
| Grants and contributions during the year | 12 | **6,608,800** | 13,326,200 |
| Balance at end of year | | **41,360,000** | 34,751,200 |
| **RESULTS OF OPERATIONS** | | | |
| Balance at beginning of year | | | |
| As previously reported | | **( 3,363,959 )** | ( 3,383,806 ) |
| Effects of prior period adjustments | 16 | **3,389,931** | - |
| As restated | | **25,972** | ( 3,383,806 ) |
| Excess of revenues over expenses during the year | | **31,017,737** | 16,735,978 |
| Amount transferred to grants and contributions | | **( 6,608,800 )** | ( 13,326,200 ) |
| Balance at end of year | | **24,434,909** | 25,972 |
| **TOTAL FUND BALANCE** | | **P 65,794,909** | P 34,777,172 |

***See Notes to Financial Statements.***

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**ASA PHILIPPINES FOUNDATION, INC.**
***(A Nonstock, Nonprofit Organization)***
**CASH FLOW STATEMENT**
**FOR THE YEAR ENDED DECEMBER 31, 2007**
***(With Comparative Figures for 2006)***
***(Amounts in Philippine Pesos)***

| | Notes | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Excess of revenues over expenses | | P 31,017,737 | P 16,735,978 |
| Adjustments for: | | | |
| Grants received | 12 | ( 6,608,800 ) | ( 13,326,200 ) |
| Interest on borrowed funds | 14 | 4,079,915 | 1,011,777 |
| Impairment losses | 6 | 11,296,040 | 4,691,310 |
| Depreciation | 7 | 2,549,793 | 960,100 |
| Fair value gains on discounting | 13 | ( 1,274,160 ) | ( 828,291 ) |
| Interest income | 5 | ( 151,086 ) | ( 133,113 ) |
| Provision for staff benevolent fund | 11 | 5,248,300 | 1,095,300 |
| Operating excess of revenues over expenses before working capital changes | | 46,157,739 | 10,206,861 |
| Increase in loans and other receivables | | ( 179,410,319 ) | ( 77,761,434 ) |
| Increase in other assets | | ( 458,548 ) | ( 293,160 ) |
| Increase in capital build-up and locked in capital build-up | | 96,837,294 | 41,612,900 |
| Increase in other liabilities | | 13,187,216 | 5,449,107 |
| Cash used in operations | | ( 23,686,618 ) | ( 20,785,726 ) |
| Cash paid for income taxes | | ( 30,217 ) | ( 26,623 ) |
| Net Cash Used in Operating Activities | | ( 23,716,835 ) | ( 20,812,349 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of furniture, fixtures and equipment | 7 | ( 3,510,301 ) | ( 1,448,279 ) |
| Interest received | | 120,869 | 106,490 |
| Net Cash Used in Investing Activities | | ( 3,389,432 ) | ( 1,341,789 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from loans availments | | 56,000,000 | 12,500,000 |
| Grants received | 12 | 6,608,800 | 13,326,200 |
| Payment of loans | | ( 3,905,443 ) | ( 1,850,465 ) |
| Interest paid | | ( 3,362,363 ) | ( 748,070 ) |
| Net Cash From Financing Activities | | 55,340,994 | 23,227,665 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 28,234,727 | 1,073,527 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 12,028,114 | 10,954,587 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | P 40,262,841 | P 12,028,114 |

***See Notes to Financial Statements.***

ASA PHILIPPINES FOUNDATION INC.
*(A Nonstock, Nonprofit Organization)*
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007
*(With Comparative Figures for 2006)*
*(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, 2007 (including the comparatives for the year ended December 31, 2006) were authorized for issue by the Foundation's Board of Trustees on March 27, 2008.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Foundation have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board. PFRSs include Philippine Accounting Standards (PASs) and interpretations to existing standards issued by the International Financial Reporting Interpretations Committee (IFRIC).

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 Standards, and Amendments and Interpretations to existing Standards*

*(a) Effective in 2007 that are relevant to the Foundation*

In 2007, the Foundation adopted for the first time the following new and amended PFRS which are mandatory for accounting periods on or after January 1, 2007.

| | | |
|---|---|---|
| PAS 1 (Amendment) | : | Presentation of Financial Statements |
| PFRS 7 | : | Financial Instruments: Disclosures |

Discussed below are the impact on the financial statements of each of these amendments and interpretations.

(i) PAS 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Foundation's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that became necessary due to this change in PAS 1 can be found on Note 20.

(ii) PFRS 7, *Financial Instruments: Disclosures.* PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risk arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Foundation's market risk exposure with regard to its financial instruments; and

- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* and disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation.* All disclosures relating to financial instruments include all comparative information have been updated to reflect the new requirements. The new disclosures that became necessary due to the adoption of PFRS 7 are shown in Note 4.

The first time application of these standard and amendment has not resulted in any prior period adjustments of cash flows, excess of revenues over expenses or assets, liabilities and fund balance line items.

*(b) Effective in 2007 but not relevant to the Foundation*

| | | |
|---|---|---|
| PFRS 4 (Amendment) | : | Insurance Contracts |
| Philippine Interpretation IFRIC 7 | : | Applying the Restatement Apporach under PAS 29, *Financial Reporting in Hyper Inflationary Economies* |
| Philippine Interpretation IFRIC 8 | : | Scope of PFRS 2 |
| Philippine Interpretation IFRIC 9 | : | Re-assessment of Embedded Derivatives |
| Philippine Interpretation IFRIC 10 | : | Interim Financial Reporting and Impairment |

*(c) Effective Subsequent to 2007*

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2007. However, these are not relevant to the Foundation except for PAS 23 (Revised 2007), *Borrowing Costs,* which is effective from January 1, 2009. Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Foundation has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2009 as well as for prior and future periods.

### *2.3 Financial Assets*

Financial assets include cash and cash equivalent and loans and other receivables. 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. All financial assets are initially recognized at fair value, plus transaction costs.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 losses are presented as part of Project Costs 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 and locked in capital build-up, 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)* *Grants* – Revenue is recognized on the date the grant is received.

*(b)* *Service fees* – Revenue is recognized as service fees accrue.

*(c)* *Admission fees* – Revenue is recognized when admission fees are received.

*(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.

### *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 three 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 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)* *Functional Currency*

The Foundation has determined that its functional currency is the Philippine peso which is the currency of the primary environment in which the Foundation operates.

*(b)* *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.

Rental expense charged to operations amounted to P4,308,294 in 2007 and P2,452,777 in 2006 (see Note 19).

*(c)* *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 19.

### *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. In addition, estimation of the useful lives of furniture, fixtures and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of furniture, fixtures and equipment would increase recorded expenses and decrease non-current assets.

Furniture, fixtures and equipment net of accumulated depreciation amounted to P2,764,270 and P1,924,427 as of December 31, 2007 and 2006, respectively (see Note 7).

*(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 client's, the client' current credit status based on credit reports, average age of accounts, collection experience and historical loss experience.

Impairment losses on loans and other receivables amounted to P11,296,040 and P4,691,310 in 2007 and 2006, 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 2007 and 2006.

## 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 actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Foundation is exposed to are described below.

### *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 statement of assets, liabilities and fund balance (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

| | Notes | 2007 | 2006 |
|---|---|---|---|
| Cash and cash equivalents | 5 | P 40,173,052 | P 11,994,320 |
| Loans and other receivables | 6 | 267,482,212 | 99,367,933 |
| | | P 307,655,264 | P 111,362,253 |

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 the capital build-up (CBU) and locked in capital build-up (LCBU) of borrowers. Deposits in bank are secured up to P250,000 for each bank account.

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 or 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, 2007, the Foundation's financial liabilities have contractual maturities which are presented below:

| | Notes | Current | Non-current |
|---|---|---|---|
| Capital build-up and locked in capital build-up | 8 | P 152,785,310 | P - |
| Loans payable | 9 | 14,180,193 | 52,898,632 |
| Other liabilities | 10 | 26,668,319 | - |
| | | P 193,633,822 | P 52,898,632 |

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

| | Notes | Current | Non-current |
|---|---|---|---|
| Capital build-up and locked in capital build-up | 8 | P 55,948,016 | P - |
| Loans payable | 9 | 12,378,825 | 2,905,443 |
| Other liabilities | 10 | 8,413,901 | - |
| | | P 76,740,742 | P 2,905,443 |

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 cash and cash equivalents. At December 31, 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). There were no short-term placements in 2006.

Short-term placements in 2007 represent short-term time deposits made at or near year-end. As such, management believes that its exposure to interest rate risk is minimal.

## 5. CASH AND CASH EQUIVALENTS

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

| | 2007 | 2006 |
|---|---|---|
| Cash on hand | P 89,789 | P 33,794 |
| Cash in banks | 27,173,052 | 11,994,320 |
| Short-term placements | 13,000,000 | - |
| | P 40,262,841 | P 12,028,114 |

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 5.0% to 6.5% and 1% in 2007 and 2006, respectively. Interest earned from cash and cash equivalents amounted to P151,086 and P133,113 in 2007 and 2006, respectively.

## 6. LOANS AND OTHER RECEIVABLES

Trade and other receivables at December 31 consist of:

| | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|
| Loan receivables | P 314,847,650 | P 116,554,450 |
| Other receivables | 6,511,951 | 2,773,121 |
| | 321,359,601 | 119,327,571 |
| Unearned service charges | ( 38,135,009) | ( 14,131,918) |
| Allowance for impairment | ( 15,742,380) | ( 5,827,720) |
| | P 267,482,212 | P 99,367,933 |

Loan receivables represent microfinance loans to members. These loans have terms of six months and are partially secured by the CBU and LCBU of the members. Effective interest on loans in 2007 and 2006 was 15% for six months. Service fees from loans net of rebates amounted to P100,045,211 and P37,033,786 in 2007 and 2006, 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 2007 and 2006 is shown below.

| | Note | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| Balance at beginning of year | | P 5,827,720 | P 1,672,490 |
| Write off during the year | | ( 1,381,380) | ( 536,080) |
| Impairment loss during the year | 14 | 11,296,040 | 4,691,310 |
| Balance at end of year | | P 15,742,380 | P 5,827,720 |

Past due loans amounted to P2,619,000 and P723,150 in 2007 and 2006, respectively.

Other receivables consist of various receivables from employees which earned interest of 10% both in 2007 and 2006, respectively.

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 and impairment at the beginning and end of 2007 and 2006 are shown below.

| | Furniture and Fixtures | Equipment and Vehicles | Total |
|---|---|---|---|
| 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** | **P 2,320,690** | **P 443,580** | **P 2,764,270** |
| December 31, 2006 | | | |
| 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 | P 1,261,871 | P 662,556 | P 1,924,427 |
| January 1, 2006 | | | |
| Cost | P 923,224 | P 960,324 | P 1,883548 |
| Accumulated depreciation | ( 266,383) | ( 180,917) | ( 447,300) |
| Net carrying amount | P 656,841 | P 779,407 | P 1,436,248 |

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of furniture, fixtures and equipment is shown below:

| | Furniture and Fixtures | Equipment and Vehicles | Total |
|---|---|---|---|
| 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** | **P 2,320,690** | **P 443,580** | **P 2,764,270** |
| Balance at January 1, 2006, net of accumulated depreciation | P 656,841 | P 779,407 | P 1,436,248 |
| Additions | 1,358,530 | 89,749 | 1,448,279 |
| Depreciation charges for the year | ( 753,500) | ( 206,600) | ( 960,100) |
| Balance at December 31, 2006, net of accumulated depreciation | P 1,261,871 | P 662,556 | P 1,924,427 |

The amount of depreciation is allocated as follows:

| | Notes | 2007 | 2006 |
|---|---|---|---|
| Project cost | 14 | **P 2,043,645** | P 625,700 |
| General and administrative | 15 | 506,148 | 334,400 |
| | | **P 2,549,793** | P 960,100 |

8. **CAPITAL BUILD-UP AND LOCKED IN CAPITAL BUILD-UP**

This account includes the following:

| | 2007 | 2006 |
|---|---|---|
| CBU | P 129,158,836 | P [illegible]9,152 |
| LCBU | 21,245,480 | [illegible]8,49[illegible]40 |
| Staff capital build-up | 2,380,994 | [illegible]04[illegible]824 |
| | **P 152,785,310** | P 55,948,016 |

CBU represents deposits made by members/borrowers. In cases of default in loan payments by borrowers, the Foundation can offset the amount of CBU balance against the outstanding loan balance. Members earn rebates on their CBU at 7% per annum. These rebates can be deducted from future loan payments. Rebates from CBU amounted to P3,585,455 and P1,117,685 in 2007 and 2006, respectively.

LCBU are non-interest earning compulsory deposits made by members. In case of death, the accumulated LCBU amount will be given to the nominated beneficiary together with other benefits.

## 9. LOANS PAYABLE

This account includes the following:

| | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|
| *Interest-bearing loans:* | | |
| Oikocredit, Ecumenical Development Cooperative Society (EDCS), U.A. | **P 30,000,000** | P - |
| National Livelihood Support Fund (NLSF) | **10,000,000** | - |
| Bank of the Philippine Islands | **5,000,000** | - |
| Peoples Credit and Finance Corporation (PCFC) | **4,878,825** | 7,784,268 |
| | **49,878,825** | 7,784,268 |
| *Non-interest bearing loans* | | |
| Assisi Development Foundation | **7,000,000** | 4,000,000 |
| Benigno S. Aquino, Jr. Foundation, Inc. | **5,000,000** | 1,000,000 |
| Serviam Foundation, Inc. | **2,500,000** | 2,500,000 |
| Pro-life Philippines Foundation, Inc. | **1,500,000** | - |
| Pamulaan Lumad Learning Center | **1,000,000** | - |
| Team Ateneo, Inc. | **500,000** | - |
| | **17,500,000** | 7,500,000 |
| Unamortized discount | **( 1,121,192)** | ( 564,584) |
| | **16,378,808** | 6,935,416 |
| | **P 66,257,633** | P 14,719,684 |

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 disbursal and has an interest rate of 10.84% on the first quarter, with such interest adjusted quarterly based on the spot rate paid by 91-day Philippine Treasury Bills plus 5% 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.

On October 5, 2007, the Foundation secured a loan from NLSF. The loan is for P10.0 million, payable in two years from the date of disbursal at semi-annual amortizations and has an interest rate of 9%.

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

Interest expense on interest-bearing loans amounted to P3,362,363 and P748,070 in 2007 and 2006, respectively.

Loans from Assisi Development Foundation have maturities of three years. Of the total amount of P7.0 million, P3.0 million was acquired in 2007, while P4.0 million was availed in 2006. These loans are to be used to implement microfinance programs in different locations throughout the country.

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. This loan is to be repaid in three years and is to be used exclusively for implementing the microfinance program of the Foundation.

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 is to be repaid in two and a half years from the start of the microfinance operation of the branches in Bataan.

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 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 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.

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 P1,274,160 and P828,291 in 2007 and 2006, respectively, and is presented as part of Other Income in the Statement of Revenues and Expenses (see Note 13). Interest expense on interest-free loans amounted to P717,552 and P263,707 in 2007 and 2006, respectively, and is presented as part of Project Costs in the Statement of Revenues and Expenses.

The maturity profile of these loans is presented below:

| | **2007** | 2006 |
|---|---|---|
| Less than one year | **P 14,480,193** | P 2,905,443 |
| One year to two years | **44,551,672** | - |
| Over two years | **8,346,960** | 12,378,825 |
| | **P 67,378,825** | P 15,284,268 |

## 10. OTHER LIABILITIES

This account includes the following:

| | **2007** | 2006 |
|---|---|---|
| Loan redemption fund (LRF) | **P 14,500,030** | P 3,791,920 |
| Staff benevolent fund | **5,770,800** | 571,100 |
| Staff cash bond | **5,824,850** | 3,424,604 |
| Accounts payable | **572,639** | 626,278 |
| | **P 26,668,319** | P 8,413,902 |

LRF 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 cash bond represents refundable interest-bearing deposits made by employees. This protects the Foundation from losses arising from employee violations of rules and regulations. Interest rate on staff cash bonds was 7% both in 2007 and 2006.

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

## 11. EMPLOYEE BENEFITS

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

| | 2007 | 2006 |
|---|---|---|
| Salaries and wages | P 36,650,751 | P 19,861,547 |
| Staff benevolent fund | 5,248,300 | 1,095,300 |
| Employee benefits | 2,783,910 | 1,288,677 |
| | P 44,682,961 | P 22,245,524 |

The amounts of salaries and wages are allocated as follows:

| | Notes | 2007 | 2006 |
|---|---|---|---|
| Project costs | 14 | P 31,740,403 | P 17,836,018 |
| General and administrative | 15 | 4,910,348 | 2,025,529 |
| | | P 36,650,751 | P 19,861,547 |

## 12. 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 statement of revenues and expenses. Grants of P6,608,800 and P13,326,200 in 2007 and 2006, respectively, were 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 PLDT-Smart Foundation, Inc. (PSF). Under this agreement, PSF provided grants amounting to P5 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.

## 13. OTHER INCOME

This account includes the following:

| | Note | 2007 | 2006 |
|---|---|---|---|
| Fair value gains on interest-free loans | 9 | P 1,274,160 | P 828,291 |
| Miscellaneous income | | 2,222,810 | 327,575 |
| | | P 3,496,970 | P 1,155,866 |

## 14. PROJECT COST

This account includes the following:

| | Note | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| Employee benefits | 11 | **P 31,740,403** | P 17,836,018 |
| Impairment losses | 6 | **11,296,040** | 4,691,310 |
| Staff benevolent fund | | **4,731,200** | - |
| Interest on borrowed funds | 9 | **4,079,915** | 1,011,777 |
| Office rental | | **3,969,150** | 2,125,100 |
| Travel and transportation | | **3,934,859** | 2,039,220 |
| LCBU benefit | | **3,189,000** | 92,000 |
| Employer's contribution | | **2,529,272** | 1,184,934 |
| Office supplies and reproduction | | **2,070,703** | 789,969 |
| Depreciation | 7 | **2,043,645** | 625,700 |
| Security and janitorial | | **1,528,410** | 754,395 |
| Repairs and maintenance | | **1,364,236** | 279,400 |
| Miscellaneous | | **3,158,848** | 2,943,044 |
| | | **P 75,635,681** | P 34,372,867 |

## 15. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are shown below:

| | Note | 2007 | 2006 (As Restated - see Note 16) |
|---|---|---|---|
| Employee benefits | 11 | **P 4,910,348** | P 2,025,529 |
| License, insurance and professional fees | | **1,329,879** | 220,644 |
| Grants and donations | | **791,200** | 282,000 |
| Travel and transportation | | **655,679** | 263,242 |
| Staff benevolent funds | | **517,100** | - |
| Depreciation | 7 | **506,148** | 334,400 |
| Office rentals | | **339,144** | 327,677 |
| Entertainment, amusement and recreation | | **304,573** | 250,340 |
| Employer's contribution | | **254,638** | 103,743 |
| Miscellaneous | | **1,119,654** | 585,632 |
| | | **P 10,728,363** | P 4,393,207 |

## 16. PRIOR PERIOD ADJUSTMENT

### *16.1 Impairment losses on loans and other receivables*

The balance of the results of operations of the Foundation as of January 1, 2007 was restated from the amount previously reported to reverse impairment losses to comply with relevant provisions of PAS 39, *Financial Instruments: Recognition and Instruments.* Impairment losses reversed, which are presented as part of Project Cost in the statement of revenues and expenses, amounted to P1,754,510 in 2007. This adjustments resulted in an increase of P1,754,510 in the opening results of operations of 2007.

### *16.2 Remeasurement of interest-free loans at effective interest method*

The balance of the results of operations of the Foundation as of January 1, 2007 was restated from the amount previously reported to recognize fair value gains on interest-free loans and amortize any discount resulting from the remeasurement at effective interest method in order to comply with relevant provisions of PAS 39. Fair value gains in interest-free loans amounted to P828,291 in 2006. Interest expense on interest-free loans amounted to P263,707 in 2006. This resulted in a net increase of P564,584 in the 2007 opening results of operations.

### *16.3 Accrual of Service Charges on Loans*

The balance of the results of operations of the Foundation as of January 1, 2007 was restated from the amount previously reported to recognize accrued service charges on loans in 2006 amounting to P1,070,837. This resulted in an increase of P1,070,837 in the 2007 opening results of operations and a decrease of the same amount in service charges on loans in 2007.

## 17. RELATED PARTY TRANSACTIONS

Compensation of key management personnel amounted to P10,442,954 and P5,237,124 in 2007 and 2006, respectively.

## 18. INCOME TAX AND TAX EXEMPTION

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 corporation shall be transferred to a similar institution or to the government. Due to these, the Foundation is exempt from income taxes.

## 19. COMMITMENT AND CONTINGENCIES

### *19.1 Leases*

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

Rent expense amounted to P4,308,294 and P2,452,777 in 2007 and 2006, respectively.

### *19.2 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, 2007, 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.

## 20. 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 statement 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.

| | 2007 | 2006 |
|---|---|---|
| Total loans from third parties | P 67,378,825 | P 15,284,268 |
| Total fund | 65,794,909 | 34,777,172 |
| Debt-to-fund ratio | 1 : 0.98 | 1 : 2.28 |

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