INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue
Cebu City

Opinion

We have audited the accompanying financial statements of ABOITIZ FOUNDATION, INC. (the Foundation), which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of operations, statements of other comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2019 and 2018, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, the *Code of Ethics for Professional Accountants in the Philippines*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LUIS CAÑETE & COMPANY
BOA/PRC Reg. No. 0127 (Until January 15, 2022)
SEC Accreditation No. 0379-F (Group A) (Until July 24, 2022)
BIR AN 13-004896-002-2018 (Until August 9, 2021)

For the Firm:

ANDREW JOHN S. CAÑETE
Partner
CPA Certificate No. 114711
SEC Accreditation No. 114711-SEC (Group A) (Until February 20, 2024)
BIR AN 13-009211-002-2020 (Until February 18, 2023)
TIN 240-785-319, PTR No. 1524936– January 2, 2020, Cebu City

Cebu City
___, 2020

EXHIBIT "A"

ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
BALANCE SHEETS
December 31, 2019 and 2018
(Amounts Expressed in Whole Philippine Pesos)

	Note	2019	2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	P252,472,160	P318,748,013
Accounts receivable	4	1,908,277	1,700,834
Total Current Assets		254,380,437	320,448,847
NON-CURRENT ASSETS			
Financial assets at FVTPL	5	343,770,036	336,727,142
Financial assets at FVOCI	6	160,528,823	150,013,068
Property and equipment - net	7	68,073,944	64,351,995
Trust funds	8	253,371,497	241,184,340
Other non-current assets	9	14,205,098	16,323,587
Total Non-Current Assets		839,949,398	808,600,132
TOTAL ASSETS		P1,094,329,835	P1,129,048,979

	Note	2019	2018
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	10	P46,654,705	P45,181,543
Income tax payable	15	648,674	639,104
Total Current Liabilities		47,303,379	45,820,647
NON-CURRENT LIABILITIES			
Non-current portion of lease liability	10	3,670,059	-
Deferred credits	8	253,371,497	241,184,340
Accrued retirement payable	16	5,793,767	4,732,337
Total Non-Current Liabilities		262,835,323	245,916,677
TOTAL LIABILITIES		310,138,702	291,737,324
FUND BALANCE (Exhibit "D")		784,191,133	837,311,655
TOTAL LIABILITIES AND FUND BALANCE		P1,094,329,835	P1,129,048,979

(See accompanying notes to financial statements)

EXHIBIT "B"

ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Whole Philippine Pesos)

	Note	2019	2018
SUPPORTS AND OTHER GAINS			
Donations	11	P352,397,754	P346,765,787
Interest income	3 and 6	16,378,419	15,623,250
Dividend income	5	5,709,529	5,483,331
		374,485,702	367,872,368
PROGRAM COSTS AND EXPENSES	12	(381,517,896)	(243,918,356)
OTHER INCOME (LOSSES)	13	6,656,229	(61,192,328)
ADMINISTRATIVE EXPENSES	14	(49,801,757)	(52,892,226)
EXCESS (DEFICIENCY) OF SUPPORTS AND OTHER GAINS OVER EXPENSES BEFORE INCOME TAX		(50,177,722)	9,869,458
INCOME TAX EXPENSE	15	(2,324,083)	(2,331,360)
EXCESS (DEFICIENCY) OF SUPPORTS AND OTHER GAINS OVER EXPENSES		(P52,501,805)	P7,538,098

(See accompanying notes to financial statements)

ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Whole Philippine Pesos)

	Note	2019	2018
EXCESS (DEFICIENCY) OF SUPPORTS AND OTHER GAINS OVER EXPENSES		(P52,501,805)	P7,538,098
OTHER COMPREHENSIVE INCOME (LOSS)			
Items subsequently reclassified to profit or loss			
Provision for expected credit losses from financial assets at FVOCI	6	26,766	27,486
Items not subsequently reclassified to profit or loss			
Unrealized gain (loss) on fair value changes of financial assets at FVOCI	6	10,749	(2,132)
Actuarial loss on retirement benefits	16	(656,233)	(3,953,276)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(P53,120,523)	P3,610,176

(See accompanying notes to financial statements)

EXHIBIT "D"

ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Whole Philippine Pesos)

	Revaluation reserve on fair value changes of AFS investments	Revaluation reserve on fair value changes of financial assets at FVOCI (Note 6)	Cumulative actuarial loss on retirement benefits (Note 16)	Cumulative results of supports and other gains over expenses	Total fund balance
Balance at December 31, 2017	P238,840,461	-	(P3,321,241)	P598,182,259	P833,701,479
Transfer resulting from adoption of PFRS 9	(238,840,461)	P15,200	-	238,825,261	-
Excess of supports and other gains over expenses	-	-	-	7,538,098	7,538,098
Other comprehensive income					
Changes in fair value of financial assets at FVOCI	-	(2,132)	-	-	(2,132)
Provision for expected credit losses from financial assets at FVOCI	-	27,486	-	-	27,486
Actuarial loss on retirement benefits	-	-	(3,953,276)	-	(3,953,276)
Total comprehensive income for the year 2018	-	25,354	(3,953,276)	-	(3,927,922)
Balance at December 31, 2018	-	40,554	(7,274,517)	844,545,618	837,311,655
Deficiency of supports and other gains over expenses	-	-	-	(52,501,805)	(52,501,805)
Other comprehensive income					
Changes in fair value of financial assets at FVOCI	-	10,749	-	-	10,749
Provision for expected credit losses from financial assets at FVOCI	-	26,766	-	-	26,766
Actuarial loss on retirement benefits	-	-	(656,233)	-	(656,233)
Total comprehensive income for the year 2019	-	37,515	(656,233)	-	(618,718)
Balance at December 31, 2019	-	P78,069	(P7,930,750)	P792,043,813	P784,191,133

(See accompanying notes to financial statements)

EXHIBIT "E"

ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Whole Philippine Pesos)

		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of supports and other gains over expenses before income tax		(P50,177,722)	P9,869,458
Adjustments for			
Interest income	3 and 6	(16,378,419)	(15,623,250)
Dividend income	5	(5,709,529)	(5,483,331)
Unrealized foreign exchange loss (gain)	13	356,585	(995,093)
Loss on retirement of leasehold improvement	13	3,314	-
Interest expense on lease liability	14	278,689	-
Depreciation and amortization	7 and 9	6,561,139	4,724,713
Retirement expense	16	1,829,005	1,543,756
Realized gain on sale of financial assets at FVTPL	13	-	(197,078)
Fair value changes of financial assets at FVTPL	5	(7,042,894)	62,357,012
Provision for expected credit losses	6	26,766	27,486
Operating cash flow before working capital changes		(70,253,066)	56,223,673
Decrease (increase) in:			
Accounts receivable		(207,443)	(24,236)
Trust funds		(12,187,157)	37,875,272
Other non-current assets		(4,273,606)	(7,365,600)
Increase (decrease) in:			
Accounts payable and accrued expenses		(1,219,270)	16,580,900
Deferred credits		12,187,157	(39,833,936)
Cash generated from (used for) operations		(75,953,385)	63,456,073
Interest received		16,378,419	10,895,132
Contribution to retirement fund	16	(1,423,807)	(1,741,252)
Income tax paid		(2,314,513)	(2,198,161)
Net cash provided by (used in) operating activities		(63,313,286)	70,411,792
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	7	(2,746,253)	(549,176)
Additions to financial assets at FVOCI		(5,569,258)	-
Proceeds from sale of financial assets at FVTPL		-	2,155,742
Cash dividends received	5	5,709,529	5,483,331
Net cash provided by (used in) investing activities		(2,605,982)	7,089,897
CASH FLOWS FROM FINANCING ACTIVITIES		-	-
NET INCREASE (DECREASE) IN CASH		(65,919,268)	77,501,689
EFFECT OF EXCHANGE RATE CHANGES ON CASH	13	(356,585)	995,093
CASH BALANCE AT BEGINNING OF YEAR	3	318,748,013	240,251,231
CASH BALANCE AT END OF YEAR	3	P252,472,160	P318,748,013

ABOITIZ FOUNDATION, INC.
(A Non-Stock, Non-Profit Organization)
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Amounts Expressed in Whole Philippine Pesos)

1. CORPORATE INFORMATION

The Aboitiz Foundation, Inc., (the "Foundation") is a non-stock, non-profit foundation organized under Philippine laws in 1988 with corporate name ACO Foundation, Inc. Its articles of incorporation was amended changing its name to Aboitiz Group Foundation, Inc. and on May 7, 2008 to Aboitiz Foundation, Inc. The office of the Foundation is located at the 32nd Street Bonifacio Global City, Taguig City.

The Foundation is primarily a socio-economic assistance body; as such it operates exclusively for charitable, social welfare, religious, scientific, cultural, non-formal educational, and youth and sports development purposes.

It's projects and programs include among others construction of school buildings and classrooms in calamity stricken areas, developing of special service elementary schools and technical vocational high schools, support to government agencies and LGU's and environmental projects. It also operates the "Cleanergy Center" in Makban Laguna which is an educational facility that showcase power generation, renewable energy, and different types of energy sources to increase the Filipino awareness on the importance of renewable energy and encourage Filipinos to adopt a more sustainable lifestyle. (see Notes 7 and 21)

2. BASIS OF PREPARATION, STATEMENT OF COMPLIANCE, AND SUMMARY OF SIGNIFICANT ACCOUNTING ENTRIES

Basis of Preparation.

The financial statements of the Foundation have been prepared under historical cost basis except for financial assets at FVTPL, financial assets at FVOCI and trust funds which are measured at fair value. The financial statements are presented in Philippine peso, which is the Foundation's presentation and functional currency.

Statement of Compliance.

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2019. The Foundation has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and lessors. For lessees, PFRS 16 removes the classification of leases as either operating or financing and requires that all leases be recognized in the balance sheet, with certain exemptions allowed by this standard. The accounting for lessors is unchanged. The Foundation adopted PFRS 16 on a modified retrospective basis as at January 1, 2019.

  The Foundation assesses whether a contract is, or contains, a lease at the inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For leases, where the Foundation acts as the lessee, the Foundation recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability with certain adjustments, and subsequently depreciated using the straight line method, with depreciation expense recognized in profit or loss. The lease liability is initially measured at the present value of lease payments over the term of the lease using a discount rate that is based on the prevailing borrowing rate. The discount rate is specific to each lease and is determined by various factors, such as the lease term and currency. The lease term includes the non-cancellable period and the optional period where it is reasonably certain we will exercise or not exercise an extension or termination option, considering various factors that create an economic incentive to do so. Subsequently, the lease liability is measured at amortized cost using the effective interest method, with interest charged to interest expense in profit or loss. Lease liabilities and right-of-use assets are measured upon lease modifications.

  As a result of the adoption of PFRS 16, the Foundation recognized right-of-use asset, included in property and equipment, and lease liability, included in accounts payable and accrued expenses, in the balance sheet both amounting to P6,083,802 as of January 1, 2019.

The following new and amended standards did not have a material impact on the financial statements:

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Pronouncements issued but not yet effective are listed below. The Foundation intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Foundation's financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

a. Fair value measurement

Fair value is defined as the amount for which an asset could be exchanged, a liability could be settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Foundation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Foundation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Foundation determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Foundation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

b. Cash and cash equivalents.

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

c. Financial assets and financial liabilities.

<u>Initial recognition.</u>

The Foundation recognizes a financial asset or a financial liability in the balance sheets when the Foundation becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Foundation commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Financial assets and financial liabilities are recognized initially at cost which is the fair value at inception. Transaction costs, if any, are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVTPL).

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Foundation recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of operations unless it qualifies for recognition as some other type of asset.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of operations when the inputs become observable or when the instrument is derecognized. For each transaction, the Foundation determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

<u>Contractual cash flows assessment.</u>

For each financial asset, the Foundation assesses the contractual terms to identify whether the instrument is consistent with the concept of Solely Payments of Principal and Interest (SPPI).

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Foundation applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

<u>Evaluation of business model in managing financial instruments.</u>

The Foundation determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Foundation's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Foundation's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Foundation's original expectations, the Foundation does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Categories of Financial Assets and Financial Liabilities.

Financial assets and financial liabilities are further classified into the following categories: Financial asset or financial liability at fair value through profit or loss (FVTPL), financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI), and other financial liabilities. The Foundation determines the classification at initial recognition and re-evaluates this designation at every reporting date, where appropriate.

Financial asset or financial liability at FVTPL.

Financial assets at FVTPL are all financial assets whose contractual terms are not consistent with the concept of SPPI, with the exception of equity instruments not held for trading which the Foundation opts to designate as financial assets at FVOCI without recycling. Financial liabilities at FVTPL are liabilities acquired for the purpose of selling and repurchasing in the near term or are those designated by the Foundation as such.

Financial assets and liabilities at FVTPL are recorded in the balance sheet at fair value. Subsequent changes in fair value are recognized in profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

The Foundation's financial assets at FVTPL amounted to P343,770,036 and P336,727,142 as of December 31, 2019 and 2018, respectively.

Financial assets at amortized cost.

Financial assets at amortized cost are quoted or unquoted non-derivative financial assets that have contractual terms that are consistent with the concept of SSPI and which fit the business model of held-to-collect.

After initial measurement, these financial assets are carried at amortized cost less allowance for expected credit losses and impairment. Amortized cost is determined using the effective interest method, taking into account any discount or premium on acquisition and the fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of income when the financial assets at amortized cost are derecognized or impaired, as well as through the amortization process. Financial assets at amortized cost are included in current assets if maturity is within twelve months from the reporting date. Otherwise, they are classified as non-current assets.

Included in this category are the Foundation's cash and cash equivalents, accounts receivable, trust funds, and accrued interest receivable.

Financial assets at FVOCI.

Financial assets at FVOCI includes quoted non-derivative financial assets that have contractual terms that are consistent with the concept of SSPI but do not fit the business model of held-to-collect. These are carried in the balance sheet at fair value. Interest income is recognized in profit or loss, and fair value changes are recognized in other comprehensive income. Upon disposal, fair value changes are recycled to profit or loss.

Financial assets at FVOCI also includes equity instruments not held for trading and which the Foundation opted not to designate as financial assets at FVTPL. These are carried in the balance sheet at fair value. Dividend income and fair value changes are recognized in profit or loss. Upon disposal, there is no recycling of fair value changes.

The Foundation's financial assets at FVOCI amounted to P160,528,823 and P150,013,068 as of December 31, 2019 and 2018, respectively.

Other financial liabilities.

Financial liabilities not designated as FVTPL are measured at cost or amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and the fees that are an integral part of the effective interest rate. The amortization is included in interest expense in the statement of income.

Included in this category is the Foundation's accounts payable and accrued expenses, and deferred credits.

Reclassifications of Financial Instruments.

The Foundation reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Foundation and any previously recognized gains, losses or interest shall not be restated.

The Foundation does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and,

- There is a change in measurement on credit exposures measured at fair value through profit or loss.

The Foundation does not reclassify its financial liabilities.

Impairment of financial assets at amortized cost.

PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Foundation recognizes ECL for the following financial assets that are not measured at FVTPL:

- Debt instruments that are measured at amortized cost and FVOCI;
- Loan commitments; and,
- Financial guarantee contracts

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and,
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

- Stage 1: 12-month ECL. For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

- Stage 2: Lifetime ECL - not credit-impaired. For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

- Stage 3: Lifetime ECL - credit-impaired. Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; or,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Foundation considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determination of the Stage for Impairment. At each reporting date, the Foundation assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Foundation considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Foundation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Foundation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

Where the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized through results of operations, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Classification of Financial Instruments Between Liability and Capital Funds

Financial instruments are classified as liabilities or capital funds in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as capital funds are charged directly to capital funds, net of any related income tax benefits.

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Foundation; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Foundation does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and capital funds elements are accounted for separately, with the capital funds component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

d. Prepaid expenses.

Prepaid expenses are carried at the amounts paid and are amortized as they are used in operations or as they expire with the passage of time.

e. Property and equipment.

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses.

Cost of property and equipment comprises its net purchase price and directly attributable costs of bringing the asset to working condition for its intended use.

Subsequent expenditures related to property and equipment for maintenance or repairs are expensed. Improvements are capitalized and depreciated over expected useful life.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Annual depreciation rates are as follows:

	Annual rates (%)
Building	4.00%
Computer equipment	33.33%
Transportation equipment	20.00%
Furniture and fixtures	20.00%
Leasehold improvements	10.00%
Right of use asset	20.00%

The useful lives of the assets and depreciation method used are reviewed periodically for any significant change in utility of the assets and in the expected pattern of economic benefits to ensure that current and future depreciation charges are adjusted accordingly.

Gain or loss on disposal or retirement of property and equipment are generally reflected in the statement of operations.

At each reporting date, property and equipment are assessed for any indication of impairment in value based on internal and external sources. If any indication exists, recoverable amount of the asset is estimated and impairment is recognized in the statement of operations.

f. Deferred credits.

Funds received that are restricted by the donors for specific purposes are recognized as deferred credits upon receipt. These are deemed donated and reported as revenue only upon the occurrence of the events specified by donors.

g. Fund balance.

Fund balance includes the following:

- Revaluation reserve includes the current and prior period unrealized gains and losses due to revaluation of AFS financial assets reported as other comprehensive income in the statement of other comprehensive income.

- Cumulative effect of remeasurements of defined benefit obligation, which consists of actuarial gains and losses on the defined benefit obligation arising from differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial valuations, the return on plan assets and changes in the effect of the asset ceiling.

- Cumulative excess of revenues over expenses includes the current and prior period results reported in the statement of operations.

- Prior period adjustments from restrospective application of new accounting standards when required.

h. Revenue and expense recognition.

Donations are recognized when no significant uncertainty to its collection exists.

Grants and sub-grants are recognized as revenue over periods to match them with the related costs which they are intended to compensate. Grants related to depreciable assets are recognized as revenue over the periods and in proportion in which depreciation on those assets is charged.

Interest income is recognized as it accrues using the effective interest method.

Dividends are recognized as income when the right to receive payment is established.

Other revenues are recognized when earned.

Expenses are recognized when incurred.

i. Leases.

Prior to PFRS 16 adoption.

The Foundation recognizes rent expense using the straight-line method.

After PFRS 16 adoption.

The Foundation assesses whether a contract is, or contains, a lease at the inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For leases, where the Foundation acts as the lessee, the Foundation recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability with certain adjustments, and subsequently depreciated using the straight line method, with depreciation expense recognized in profit or loss. The lease liability is initially measured at the present value of lease payments over the term of the lease using a discount rate that is based on the prevailing borrowing rate. The discount rate is specific to each lease and is determined by various factors, such as the lease term and currency. The lease term includes the non-cancellable period and the optional period where it is reasonably certain we will exercise or not exercise an extension or termination option, considering various factors that create an economic incentive to do so. Subsequently, the lease liability is measured at amortized cost using the effective interest method, with interest charged to interest expense in profit or loss. Lease liabilities and right-of-use assets are measured upon lease modifications.

Leases of low value assets or with relatively short terms are expensed when incurred.

j. Retirement benefits.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Foundation, nor can they be paid directly to the Foundation. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

k. Related party transactions and relationship.

Related party relationships exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/ or among entities which are under common control with the reporting enterprises, or between and/ or among the reporting enterprises and its key management personnel, directors or its stockholders. Transactions between related parties are accounted for based on negotiated prices and terms.

l. Provisions.

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of operations.

m. Contingencies.

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

n. Events after reporting date.

Post year end events that provided additional information about the Foundation's position at reporting date (adjusting events) are reflected in the financial statements. Post year end events that are not adjusting events are disclosed when material.

Judgments and Accounting Estimates.

In the process of applying the accounting policies of the Foundation, management has made following judgments and estimates which have the most significant effect on the amounts recognized in the financial statements:

Judgments.

Provisions and contingencies.

The Foundation applies judgment on when to recognize provisions or contingent liabilities. Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Estimates and Assumptions.

Allowance for doubtful accounts.

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Foundation in accordance with the contract and the cash flows that the Foundation expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Foundation if the commitment is drawn down and the cash flows that the Foundation expects to receive.
- *Financial guarantee contracts:* as the expected payments to reimburse the holder less any amounts that the Foundation expects to recover.

The Foundation leverages existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Foundation to identify whether the credit risk of financial assets has significantly increased.

The Foundation has not provided an allowance for doubtful accounts on its receivables. Carrying value of receivables amounted to P1,908,277 and P1,700,834 as of December 31, 2019 and 2018, respectively.

Useful lives of property and equipment.

The Foundation estimates the useful lives of depreciable assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence. It is probable that the results of future operations could be materially affected by changes in the estimates due to changes in aforementioned factors. Reduction in estimated useful lives of depreciable assets would increase depreciation expense and decrease non-current assets.

Carrying value of depreciable assets amounted to P56,556,944 and P52,834,995 as of December 31, 2019 and 2018, respectively. (see Note 7)

Impairment of non-financial assets.

The Foundation assesses the impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The impairment review requires an estimation of the present value of the expected future cash flows from continued use of the assets and selection of an appropriate discount rate that can materially affect the financial statements.

Carrying value of non-financial assets as of reporting date were as follows:

	December 31 2019	December 31 2018
Property and equipment – net	P68,073,944	P64,351,995
Other non-current assets	14,096,524	11,279,266

Retirement benefits.

The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Accrued retirement payable as of December 31, 2019 and 2018 amounted to P5,793,767 and P4,732,337, respectively. (see Note 16)

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 16.

Fair value of financial instruments.

PFRS requires that certain assets and liabilities be carried at fair value which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence, the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in fair value of these financial assets and liabilities would directly affect net profit or loss or equity. As of December 31, 2019 and 2018, fair value of financial assets amounted to P1,012,159,367 and P1,053,417,718, respectively and fair value of financial liabilities amounted to P303,696,261 and P286,365,883, respectively.

3. CASH AND CASH EQUIVALENTS

This account consists of:

	December 31 2019	December 31 2018
Petty cash	P37,132	P42,132
Cash in bank	52,435,028	18,705,881
Cash equivalents	200,000,000	300,000,000
	P252,472,160	P318,748,013

Cash in banks include foreign currency denominated deposits amounting to US $134,725 and US $235,046 as of December 31, 2019 and 2018, respectively. Cash equivalents with term of 30 to 90 days earn interest ranging from 3.25% to 6.50% in 2019 and 2.50% to 6.70% in 2018, respectively.

Interest income from cash in bank and cash equivalents amounted to P10,809,162 (P8,109,162 is subjected to final tax and P2,700,000 is subjected to normal income tax) and P10,895,132 (P8,195,132 is subjected to final tax and P2,700,000 is subjected to normal income tax) in 2019 and 2018, respectively.

4. ACCOUNTS RECEIVABLE

This consists substantially of advances to corporate social responsibility officers for the implementation of the projects of the Foundation which are subject to liquidation.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

These are investments in traded equity instruments and unit investment trust funds (UITF) as follows:

	December 31 2019	December 31 2018
Cost	P160,258,894	P160,258,894
Cumulative changes in fair value	183,511,142	176,468,248
	P343,770,036	P336,727,142

Movements in cumulative changes in fair value of financial assets at FVTPL are as follows:

	2019	2018
Balance, January 1	P176,468,248	—
Transfers from AFS investments	—	P238,825,261
Fair value change during the year (Note 13)	7,042,894	(62,357,013)
Balance, December 31	P183,511,142	P176,468,248

Income earned on financial assets at FVTPL, other than fair value changes, are as follows:

	2019	2018
Dividend income	P5,709,529	P5,483,331
Realized gain on sale of financial assets at FVTPL (Note 13)	—	197,078
	P5,709,529	P5,680,409

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

This represents portfolio investments managed by BDO trust as follows:

	December 31 2019	December 31 2018
Cost	P160,505,006	P150,000,000
Cumulative changes in fair value	23,817	13,068
Balance, December 31	P160,528,823	P150,013,068

Movements in cumulative changes in fair value of financial assets at FVOCI in fund balance are as follows:

	2019	2018
Balance, January 1	P40,554	—
Transfers from AFS investments	—	P15,200
Fair value change during the year	10,749	(2,132)
Provision for expected credit losses (Note 13)	26,766	27,486
Balance, December 31	P78,069	P40,554

Interest income earned on financial assets at FVOCI received during the year amounted to P5,569,257 and P4,728,118 in 2019 and 2018, respectively.

7. PROPERTY AND EQUIPMENT

This account consists of:

December 31, 2019

	Land	Building	Computer equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Right of use asset	Total
Cost								
Balance, beginning	P11,517,000	P58,535,112	P5,677,314	P4,516,460	P1,294,473	P6,165,263	—	P87,705,622
Adoption of PFRS 16	—	—	—	—	—	—	P6,083,802	6,083,802
Additions	—	—	208,253	1,738,000	—	800,000	—	2,746,253
Disposal	—	—	—	(1,495,000)	—	(5,098)	—	(1,500,098)
Balance, end	11,517,000	58,535,112	5,885,567	4,759,460	1,294,473	6,960,165	6,083,802	95,035,579
Accumulated depreciation								
Balance, beginning	—	11,707,022	4,914,717	3,706,493	905,599	2,119,796	—	23,353,627
Depreciation	—	2,341,404	419,649	235,767	142,782	587,725	1,377,465	5,104,792
Disposal	—	—	—	(1,495,000)	—	(1,784)	—	(1,496,784)
Balance, end	—	14,048,426	5,334,366	2,447,260	1,048,381	2,705,737	1,377,465	26,961,635
Net book value	P11,517,000	P44,486,686	P551,201	P2,312,200	P246,092	P4,254,428	P4,706,337	P68,073,944

December 31, 2018

	Land	Building	Computer equipment	Transportation equipment	Furniture and fixtures	Leasehold improvements	Total
Cost							
Balance, beginning	P11,517,000	P58,535,112	P5,128,138	P4,516,460	P1,294,473	P6,165,263	P87,156,446
Additions	—	—	549,176	—	—	—	549,176
Disposal	—	—	—	—	—	—	—
Balance, end	11,517,000	58,535,112	5,677,314	4,516,460	1,294,473	6,165,263	87,705,622
Accumulated depreciation							
Balance, beginning	—	9,365,618	4,492,635	3,329,476	762,817	1,578,695	19,529,241
Depreciation	—	2,341,404	422,082	377,017	142,782	541,101	3,824,386
Disposal	—	—	—	—	—	—	—
Balance, end	—	11,707,022	4,914,717	3,706,493	905,599	2,119,796	23,353,627
Net book value	P11,517,000	P46,828,090	P762,597	P809,967	P388,874	P4,045,467	P64,351,995

Building represents the "Cleanergy Center", an educational facility in Makban Laguna. (see Notes 1 and 21)

Depreciation charged to operations amounted to P5,104,792 in 2019 and P3,824,386 in 2018. (see Note 14)

Lease payments relating to right of use asset amounted to P1,420,048 and nil in 2019 and 2018, respectively. (see Note 21)

Loss on retirement of leasehold improvement amounted to P3,314 in 2019. (see Note 13)

The Foundation has no idle property and equipment as of reporting date.

8. TRUST FUNDS

These are funds entrusted/conditionally donated to the Foundation to ensure continuous support to certain charitable programs of the Foundation. In accordance with the terms and conditions of the trust funds, the funds are disbursed only for the intended purpose for which each trust fund was created.

Trust fund principal are credited to deferred credits upon receipt and are recognized in operations by the Foundation upon occurrence of a specified event.

The following is summary of transactions for deferred credits during the year.

	2019	2018
Deferred grant, beginning of year	P241,184,340	P281,018,276
Deferred grants received	40,517,255	26,075,315
Grants earnings		
Interest income	569,645	987,505
Dividend income	5,318,912	5,107,812
Placement principal maturity	2,008,472	—
Donations made	(31,113,822)	(37,165,856)
Change in fair values of trust fund investments	(5,113,305)	(34,838,712)
Deferred grant, end of year	P253,371,497	P241,184,340

Trust funds consisted of:

	December 31 2019	December 31 2018
Cash in banks	P13,231,313	P12,123,574
Short-term investments	97,425,349	81,232,626
Financial assets at fair value	142,714,835	147,828,140
	P253,371,497	P241,184,340

9. OTHER NON-CURRENT ASSETS

This account consists of:

	December 31 2019	December 31 2018
Computer software - net	P1,455,315	P2,911,662
Refundable deposit and others	2,130,782	2,340,383
Prepaid rent (Note 21)	469,605	469,605
Accrued interest receivable	108,574	5,044,321
Materials and supplies	10,040,822	5,557,616
	P14,205,098	P16,323,587

Computer software is amortized over a period of three years. Amortization on computer software amounted to P1,456,347 and P900,327 in 2019 and 2018, respectively. (see Note 14)

Refundable deposits are refundable to the Foundation upon termination of contract with utility companies and a lessor.

Materials and supplies are the non-cash donations received by the Foundation but not yet distributed to the beneficiaries.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	December 31 2019	December 31 2018
Accounts payable	P44,541,558	P44,096,542
Lease liability	4,942,443	—
Other payables	840,763	1,085,001
	50,324,764	45,181,543
Non-current portion of lease liability	(3,670,059)	—
	P46,654,705	P45,181,543

Accounts payable consists mainly of suppliers' credits and accruals.

Lease liability represents the present value of contractual lease payments relating to the right of use of asset. Interest expense recognized on lease liability amounted to P278,689 and nil in 2019 and 2018, respectively. (see Notes 14 and 21)

Other payables include payables to government entities for payroll related deductions.

11. DONATIONS

This account consists of donations from private companies, individuals and LGU counterparts.

12. PROGRAM COSTS AND EXPENSES

This account represents the cost of various projects as follows:

	2019	2018
Education	P252,831,411	P115,191,753
Special projects	61,835,381	47,844,117
Conservation, research and development	38,855,023	30,436,311
Enterprise and development	15,951,720	23,367,486
Health, wellness and childcare	12,044,361	27,078,689
	P381,517,896	P243,918,356

13. OTHER INCOME (LOSSES)

This consists of:

	2019	2018
Fair value changes of financial assets at FVTPL (Note 5)	P7,042,894	(P62,357,013)
Realized gain on sale of financial assets at FVTPL (Note 5)	—	197,078
Loss on retirement of leasehold improvement (Note 7)	(3,314)	—
Provision for expected credit losses (Note 6)	(26,766)	(27,486)
Unrealized foreign exchange gain (loss)	(356,585)	995,093
	P6,656,229	(P61,192,328)

14. ADMINISTRATIVE EXPENSE

This accounts consists of:

	2019	2018
Salaries and benefits	P26,742,888	P25,798,745
Contracted services	6,223,759	4,086,618
Depreciation (Note 7)	5,104,792	3,824,386
Communications, light and water	2,963,252	4,959,175
Amortization (Note 9)	1,456,347	900,327
Rent (Note 21)	1,165,251	2,566,108
Project expenses	1,055,162	1,200,572
Professional fees	1,044,774	2,215,044
Transportation and travel	842,076	1,346,904
Training and seminars	628,232	657,396
Medical and hospitalization	559,222	1,056,794
Interest expense on lease liability (Notes 10 and 21)	278,689	—
Freight and handling	243,408	161,558
Supplies and materials	177,610	182,689
Repairs and maintenance	157,940	1,470,959
Taxes and licenses	20,191	238,071
Fuel and lubricants	3,000	11,959
Miscellaneous	1,135,164	2,214,921
	P49,801,757	P52,892,226

Salaries and benefits consists of:

	2019	2018
Salaries and wages	P18,747,528	P18,150,070
Employee benefits	5,760,935	5,761,443
Retirement benefits (Note 16)	1,829,005	1,543,756
SSS, PHIC and Pag-ibig contributions	405,420	343,476
	P26,742,888	P25,798,745

15. INCOME TAX

The Foundation is a non-stock, non-profit foundation organized and operated exclusively to provide financial aid and technical aid to pre-qualified deserving service agencies or communities. It is exempt from income tax pursuant to Section 30 of the Tax Reform Act of 1997 (R.A. 8424). However, income derived from its properties, real or personal, or from any of its activities conducted for profit regardless of the disposition made of such income, is subject to tax. On December 13, 2018, the Philippine Council for NGO Certification (PCNC) issued a certificate of accreditation to the Foundation after impartial scrutiny and verification with the PCNC standards of good governance, management and accountability. The PCNC certification is valid for a period of five (5) years from the date of issuance. Furthermore, the Bureau of Internal revenue (BIR) issued on December 10, 2019, a tax exemption certificate to the Foundation valid for three (3) years from the date of issuance.

Income tax payable amounting to P648,674 and P639,104 as of December 31, 2019 and 2018, respectively, represents the current income tax due net of tax credits.

Income tax expense amounting to P2,324,083 and P2,331,360 in 2019 and 2018, respectively, represents income tax currently due on net receipts subject to normal income tax at rate of 30%.

16. RETIREMENT BENEFITS

Under the existing regulatory framework, Republic Act 7641, otherwise known as The Retirement Pay Law, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Foundation has a funded, noncontributory, defined benefit pension plan ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT is responsible for the investment of the Fund assets. Taking into account the Plans' objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the Foundation's statements of operations and the funded status and amounts recognized in the Foundation's balance sheets for the Plan.

	2019	2018
Retirement expense to be recognized in the statement of operations:		
Current service cost	P1,582,450	P1,492,877
Net interest cost	246,555	50,879
Retirement benefits (Note 14)	P1,829,005	P1,543,756

	2019	2018
Remeasurement effects to be recognized in other comprehensive income		
Actuarial gain on defined benefit obligation	(P1,408,585)	—
Actuarial loss on plan assets	752,352	(P3,953,276)
	(P656,233)	(P3,953,276)

Accrued retirement payable

	December 31 2019	December 31 2018
Present value of obligation	P36,599,702	P32,119,976
Fair value of plan assets	(30,805,935)	(27,387,639)
	P5,793,767	P4,732,337

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

	2019	2018
Balance at January 1	P32,119,976	P29,271,274
Net benefit costs in statement of operations		
Current service costs	1,582,450	1,492,877
Interest cost	1,673,452	1,525,034
	3,255,902	3,017,911
Transferred obligation	(184,761)	(169,209)
Remeasurements in other comprehensive income		
Actuarial loss due to experience adjustments	1,174,119	—
Actuarial loss due to changes in financial assumptions	234,466	—
	1,408,585	—
Balance at December 31	P36,599,702	P32,119,976

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

	2019	2018
Balance, January 1	P27,387,639	P28,294,717
Interest income included in net interest cost	1,426,898	1,474,155
Gain (loss) on return on plan assets	752,352	(3,953,276)
Actual contributions	1,423,807	1,741,252
Transferred obligation	(184,761)	(169,209)
Balance, December 31	P30,805,935	P27,387,639

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	December 31 2019	December 31 2018
Financial assets at amortized cost	P8,959,022	P7,134,965
Financial assets at FVTPL	15,826,825	14,524,875
Financial assets at FVOCI	6,024,513	5,797,826
	30,810,360	27,457,666
Less: Accounts payable and accrued expenses	(4,425)	(70,027)
Fair value of plan assets	P30,805,935	P27,387,639

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of reporting date in determining retirement benefits for the Foundation's Plan are shown below:

	2019	2018
Discount rate	4.97%	5.21%
Investment yield	6.00%	6.00%
Salary increase rate	6.00%	6.00%
Average expected future service years	11 years	9 years

The Foundation's defined benefit pension plan is funded by the Foundation.

The Foundation expects to contribute P1,598,698 to the defined benefit provident plans in 2020.

17. RELATED PARTY DISCLOSURES

The Foundation is run by its' members and trustees.

The members of the Board of Trustees do not receive compensation for services rendered to the Foundation.

18. CAPITAL MANAGEMENT

The primary objective of the Foundation in managing capital is to ensure the Foundation's ability to continue as a going concern so that it can continue to support its projects and programs and thus achieve the purpose for which it was created.

The Foundation manages its capital structure and makes adjustments to it in the light of changes in economic condition. To maintain or adjust its fund balance or reduce its debt, if any, the Foundation may assess its members or sell its assets. No changes were made in the objective, policy or processes in 2019 and 2018.

The Foundation considers its fund balance as capital. The Foundation's fund balance amounted to P784,191,133 and P837,311,655 as of December 31, 2019 and 2018, respectively.

No gearing ratios were computed as of end of 2019 and 2018 since the Foundation was in a net cash position.

19. FINANCIAL INSTRUMENTS

The financial instruments of the Foundation comprise principally of cash and cash equivalents, receivables, financial assets at FVTPL, financial assets at FVOCI, trust funds, accrued interest receivable, accounts payable and accrued expenses and deferred credits.

	December 31, 2019		December 31, 2018	
Financial assets	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortized cost				
Cash and cash equivalents	P252,472,160	P252,472,160	P318,748,013	P318,748,013
Accounts receivable	1,908,277	1,908,277	1,700,834	1,700,834
Other non-current assets	108,574	108,574	5,044,321	5,044,321
Financial assets at FVTPL	343,770,036	343,770,036	336,727,142	336,727,142
Financial assets at FVOCI	160,528,823	160,528,823	150,013,068	150,013,068
Trust funds	253,371,497	253,371,497	241,184,340	241,184,340
	P1,012,159,367	P1,012,159,367	P1,053,417,718	P1,053,417,718

	December 31, 2019		December 31, 2018	
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities				
Accounts payable and accrued expenses	P50,324,764	P50,324,764	P45,181,543	P45,181,543
Deferred credits	253,371,497	253,371,497	241,184,340	241,184,340
	P303,696,261	P303,696,261	P286,365,883	P286,365,883

The fair values of all of the Foundation's financial instruments are the same as their carrying values. The carrying amounts of the majority of these instruments approximate fair value due to their relatively short term maturity.

As of reporting date, the Foundation's financial assets at FVTPL, financial assets at FVOCI and trust funds are the only financial instruments that are periodically re-measured at fair value based on quoted market prices.

December 31, 2019

	Total	Level 1	Level 2	Level 3
Financial assets at FVTPL	P343,770,036	P343,770,036	—	—
Financial assets at FVOCI	160,528,823	160,528,823	—	—
Trust funds	142,714,835	142,714,835	—	—
	P647,013,694	P647,013,694	—	—

December 31, 2018

	Total	Level 1	Level 2	Level 3
Financial assets at FVTPL	P336,727,142	P336,727,142	—	—
Financial assets at FVOCI	150,013,068	150,013,068	—	—
Trust funds	147,828,140	147,828,140	—	—
	P634,568,350	P634,568,350	—	—

During the reporting period ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

20. FINANCIAL RISKS MANAGEMENT POLICIES AND OBJECTIVES

The main risks arising from the Foundation's financial instruments are credit risk, equity price risk and liquidity risk. The Board of Trustees has reviewed and set up policies to manage these risks. It continuously upgrades these policies and procedures to ensure that the management of risk exposures is both progressive and reflective of the Foundation's financial outlook.

Credit risk.

Credit risk is the risk that one party of a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risks arising from debtors are mitigated by subjecting debtors to credit verification and setting of credit limits. Furthermore, the Foundation monitors receivables continuously.

Credit risk from other financial assets, which comprise mainly of cash and cash equivalents, is mitigated by maintaining depository accounts and cash investments with financial institutions of high credit rating. Furthermore, the Board of Trustees sets limits on deposits that could be placed with a single institution.

The Foundation has no significant concentration risk to a counterparty or company of counterparties

As of December 31, 2019 and 2018, none of the Foundation's financial assets are past due nor impaired and the credit quality is considered to be of high grade as these are expected to be collectible without incurring any credit losses.

Equity price risk.

Equity price risk is the risk that the fair value of traded equity instruments decreases as the result of the changes in the levels of equity indices and the value of the individual stocks.

The Foundation is exposed to equity price risk on its investments carried at fair value classified under financial assets at FVTPL and financial assets at FVOCI. It manages this risk by constantly monitoring the changes of the market price of its investments.

The volatility rates of the fair value of the Foundation's investments held at fair value and their impact on the fund balance as of reporting date were as follows:

	Volatility rate		Effect on fund balance	
	Increase	Decrease	Increase	Decrease
Equity securities listed in the Philippines				
2019	10%	5%	P50,429,886	(P25,214,943)
2018	10%	5%	48,669,021	(24,334,510)

Liquidity risk.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To manage this risk, the Foundation regularly monitors its projected and actual cash flows information. Any excess cash is invested in short-term placements.

The following table presents the Foundation's assets and liabilities by contractual maturities and settlement dates as of reporting date:

As of December 31, 2019

	Contractual undiscounted collections				
Financial assets	Less than 1 year	1 to 5 years	>5 years	Total	Total carrying value
Cash and cash equivalents	P252,472,160	—	—	P252,472,160	P252,472,160
Accounts receivable	1,908,277	—	—	1,908,277	1,908,277
Financial assets at FVTPL	343,770,036	—	—	343,770,036	343,770,036
Financial assets at FVOCI	160,528,823	—	—	160,528,823	160,528,823
Trust funds	253,371,497	—	—	253,371,497	253,371,497
Other non-current assets	108,574	—	—	108,574	108,574
	P1,012,159,367	—	—	P1,012,159,367	P1,012,159,367

	Contractual undiscounted payments					
Financial liabilities	On demand	Less than 1 year	1 to 5 years	>5 years	Total	Total carrying value
Operating						
Accounts payable and accrued expenses	—	P46,654,705	P3,908,302	—	P50,563,007	P50,324,764
Deferred credits	—	253,371,497	—	—	253,371,497	253,371,497
	—	P300,026,202	P3,908,302	—	P303,934,504	P303,696,261

As of December 31, 2018

Financial assets	Contractual undiscounted collections: Less than 1 year	1 to 5 years	>5 years	Total	Total carrying value
Cash and cash equivalents	P318,748,013	—	—	P318,748,013	P318,748,013
Accounts receivable	1,700,834	—	—	1,700,834	1,700,834
Financial assets at FVTPL	336,727,142	—	—	336,727,142	336,727,142
Financial assets at FVOCI	150,013,068	—	—	150,013,068	150,013,068
Trust funds	241,184,340	—	—	241,184,340	241,184,340
Other non-current assets	5,044,321	—	—	5,044,321	5,044,321
	P1,053,417,718	—	—	P1,053,417,718	P1,053,417,718

Financial liabilities	Contractual undiscounted payments: On demand	Less than 1 year	1 to 5 years	>5 years	Total	Total carrying value
Operating						
Accounts payable and accrued expenses	—	P45,181,543	—	—	P45,181,543	P45,181,543
Deferred credits	—	241,184,340	—	—	241,184,340	241,184,340
	—	P286,365,883	—	—	P286,365,883	P286,365,883

21. AGREEMENTS AND LEASE COMMITMENTS

Memorandum of Agreement on Corporate Social Responsibility Project

On May 8, 2019, the Foundation and AIM Scientific Research Foundation, Inc. (the "Beneficiary") and Asian Institute of Management (AIM) entered into an agreement wherein the Foundation commit to donate an aggregate amount of US $10 million (the "Funds"), as one of the corporate social responsibility projects determined by the Foundation to celebrate the 100th anniversary of the Aboitiz group. The Funds shall be used exclusively for support of data science professorial chairs of AIM, student loan program for AIM site students and improvement of AIM site and facilities. The Funds shall be allocated and released as follows:

	Support for professorial chairs	Student loan program	Improvement of site and facilities	Total
May, 2019	US $1,250,000	US $1,000,000	US $250,000	US $2,500,000
April, 2020	625,000	500,000	125,000	1,250,000
April, 2021	625,000	500,000	125,000	1,250,000
April, 2022	625,000	500,000	125,000	1,250,000
April, 2023	625,000	500,000	125,000	1,250,000
April, 2024	625,000	500,000	125,000	1,250,000
April, 2025	625,000	500,000	125,000	1,250,000
	US $5,000,000	US $4,000,000	US $1,000,000	US $10,000,000

Further, the Foundation recognizes AIM's academic freedom, hence, the latter can implement alternative use of the Funds provided AIM seek for prior written consent from the Foundation.

Memorandum of Agreement on Usufruct

On February 13, 2014, The Foundation and AP Renewables Inc. (APRI) entered into an agreement wherein APRI granted by way of usufruct to the Foundation the non-exclusive right to possess and use a portion of a lot leased by APRI from PSALM for the limited purpose of establishing, operating and maintaining the Cleanergy Center, an educational facility. The maintenance of the site and any and all expenses relative to the use and possession of the site and the maintenance and operations thereof shall be for the account of the Foundation without the benefit of reimbursement and indemnification.

Lease

The Foundation entered into a contract of lease for the use of its offices. This non-cancellable lease has a term ten years and is renewable at the option of the Foundation under new terms and conditions.

For contracts not covered by PFRS 16, rent expense recognized in administrative expenses amounted to P1,165,251 and P2,566,108 in 2019 and 2018, respectively. (see Note 14)

For the contracts covered by PFRS 16, lease liability amounted to P4,942,443 and nil as of December 31, 2019 and 2018. Interest expense recognized on lease liability amounted to P278,689 and nil in 2019 and 2018, respectively. (see Notes 10 and 14)

Lease payments relating to the contract covered by PFRS 16 amounted to P1,420,048 and nil in 2019 and 2018, respectively. (see Note 7)

The Foundation has paid in advance a portion of its lease commitments amounting to P469,605 as of December 31, 2019 and 2018. (see Note 9)

Future minimum rental payable under this non-cancellable operating lease is as follows:

	December 31 2019	December 31 2018
Within one year	P1,491,050	P1,420,048
Beyond one year but not more than 5 years	3,908,302	5,399,352

22. NOTES TO CASH FLOWS

Non-cash transactions in 2019 include recognition of right of use asset and lease liability amounting to P6,083,802 as of January 1, 2019.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Foundation as of and for the year ended December 31, 2019 (including the comparatives for the year ended December 31, 2018) were authorized for issue by the Board of Trustees on__, 2020.

24. SUPPLEMENTARY TAX INFORMATION UNDER REVENUE REGULATIONS NO. 15-2010

The Foundation reported the following tax types:

Withholding taxes.

	Amount
Compensation	P5,651,341
Expanded	2,683,103
	P8,334,444

Payments of other taxes and licenses charged to operations are as follows:

	Amount
Business permits and other fees	P15,447
Vehicle registration fee	2,269
Community tax	1,000
BIR annual registration fee	500
Other taxes	975
	P20,191

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