

# ***HEAD ON***



INSTITUTE FOR  
SOLIDARITY  
IN ASIA

**OUR 2014 REPORT**

## VISION

To become the leading public governance reform institute in East Asia by 2020

## MISSION

Making governance a shared responsibility

## CORE VALUES

### SERVICE

to the common good

### PATRIOTISM

### SUBSIDIARITY

## THEME

# HEAD ON

This is how we approached each opportunity and initiative of 2014.

Working closely with different organizations in the public and private sector, we defined the process of certification for the pilot run of the Islands of Good Governance (IGG) initiative in line with the Philippines' hosting of APEC in 2015. At the same time, we continued to guide our partner government institutions toward achieving multiple breakthrough goals resulting in three national government agencies' institutionalization of our governance reform program, with several local government units well on their way to achieving the same.

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# NATIONAL SOLIDARITY COVENANT

Philippine society is in transition from its traditional political culture to a genuine democratic culture.

We seek to hasten that transition.

Philippine society labors under the weight of illegal, unethical, and immoral practices of both rich and poor in government, business, and civil society.

We seek to end these practices.

More than one out of three Filipinos are mired in poverty.

We seek to eliminate poverty through honest and competent work.

We are unfazed by the bleak picture many paint of the present.

We trust in the creative energies of the human person.

We trust in the common sense of the Filipino.

We trust in the inherent power of goodness.

We are ready to lead change, beginning with ourselves.

We are ready to help others to change, one by one.

And we pledge to keep these commitments while urging people to change – however long it may take here in the Philippines.

# OUR ADVOCACY



The Institute for Solidarity in Asia (ISA) is a non-partisan, non-profit governance reform institute that advocates for transformative and sustainable governance in the Philippine public sector. It works with partner communities and institutions in delivering breakthrough results for inclusive socio-economic growth and long-term development.

ISA believes that real progress can only be achieved through collaboration. That is why for over a decade it has been involving as many Filipinos as it can, and bringing together leaders and citizens from the public and private sector who share its mission of “making governance a shared responsibility”.

ISA approaches governance reform through the Performance Governance System (PGS), a balanced and collaborative platform for executing transformation plans.

This flagship method, which draws from global best practices such as the Harvard Business School’s Balanced Scorecard, is now being used in over 30 national government agencies and local government units all over the Philippines.

Now in its 15th year of service, ISA has launched the Islands of Good Governance (IGG), an initiative to showcase the achievements of public sector partners in their road to controlling corruption, promoting good governance practices, and building stronger institutions. This latest effort is in line with ISA’s goal of raising the standards of public governance in the country.

ISA was founded by former Finance and Economic Planning Minister Jess Estanislao in the wake of the Second People Power Revolution.

# MILESTONES IN OUR HISTORY

2000

The Foundation for Community Building in the Asia Pacific establishes the Institute for Solidarity in Asia to improve governance standards in the public sector.

2004

ISA introduces the PGS to 8 local government units, known as “Dream Cities”, in the Philippines with a grant from the Center for International Private Enterprise (CIPE).

2008

The Palladium Group formalizes the PGS Governance Pathway as an official feeder program into the Balanced Scorecard Hall of Fame for Executing Strategy™.

2009

ISA begins working with six national government agencies as part of Philippine efforts to qualify for funding from the US Millennium Challenge Corporation (MCC).

2010

The cities of San Fernando Pampanga and Iloilo are the first Philippine government organizations to be accepted into the Palladium Balanced Scorecard Hall of Fame for Executing Strategy™.

2011

ISA partners with the National Competitiveness Council (NCC) to ensure the continued progress of national government agencies undertaking PGS.

2013

ISA Founder, Jess Estanislao, is recognized by CIPE for his work in national reform through the Hernando de Soto Award for Democracy.

2014

The Philippine Navy, Civil Service Commission, and Philippine Army are conferred Institutionalized status, with high distinctions for their commitment to transformation.

*Heads of the 3 PGS Institutionalized agencies in 2014 presenting in the Public Governance Forum.*



# CHAIRMAN'S MESSAGE

**“We have always known  
that there is a place  
for Filipino achievements  
on a global level.  
Now, we seek to place  
governance among  
those achievements.”**

There are many lessons we have learned since the Philippines began its reform journey under a new democracy nearly thirty years ago. In this continuing transition, we seek to apply what we have learned about empowering both citizens and government as we work to assist multiple long-term reform efforts at the local and national level.

With the national elections fast approaching, we find another opportunity to involve citizens in determining how the Philippines will move forward as a country. At the Institute for Solidarity in Asia (ISA) we believe that the best way to do this is to convince them that governance is a key area, and to help inform their choice of leadership by recognizing those who have made reform a priority.

At the same time, we work with these leaders in championing the transformation and strengthening of Philippine institutions. Several national government agencies and local government units continue to use our governance reform program, the Performance Governance System (PGS), as a change platform. This program has certainly helped to sharpen priorities and raise standards in the delivery of public services; and as we improve our own practices every year through international benchmarking, we challenge our partner

institutions to set their sights on doing more for the long-term development of our nation.

We have always known that there is a place for Filipino achievements on a global level. Now, we seek to place governance among those achievements as we lead a regional effort called the Islands of Good Governance (IGG). This initiative aims to recognize public sector organizations that have achieved breakthrough results at the grassroots through the consistent use of governance mechanisms. We envision IGG to be the gold standard of transformative and sustainable governance by 2020—the first recognition of its kind in the Philippines.

2015 marks our first year of recognizing several of our institutions as “islands of good governance”. For this pilot run, we have invited prospective candidates from among those national agencies and local governments that have advanced to higher levels in the PGS pathway. Third-party assessors will be using regional benchmarks to look at how well these institutions have been able to apply the concepts of shared vision, shared responsibility, and shared value, such that impact is felt on the ground. After all, road maps are only as good as their execution; scorecards can only be of use if there are real results to be measured.



In making these concepts come alive we would like to involve as many Filipinos as possible. We believe that every government leader has a responsibility to ensure sustainability, no matter who succeeds him; that every government employee has a responsibility to contribute to the transformation of whatever institution he works for; and that every Filipino has a responsibility to participate in governance. Each person has a part to play.

Today, just as in 1986, there are many voices coming from the people. The difference is that because of our work in governance reform, it is now possible to single out the voice of a street sweeper thanking a city mayor for making him part of the process of planning for the future.

Time and again, we have insisted that living within a democracy does not only come with privileges but also with responsibilities.

While it is vital for citizens' groups like ISA to be vocal about demanding change, Filipinos themselves must take up the cudgels and, in solidarity, form a responsible citizenry.

As we move forward with high hopes, in search of ever-higher standards for national development, we thank you for your collaboration and support. It has been a privilege to work alongside fellow governance advocates and practitioners in the service of our beloved country.



JESUS P. ESTANISLAO, PH.D.





## PRESIDENT'S REPORT

As we focused on building the capacities of our public sector partners in preparing to pilot the Islands of Good Governance (IGG) initiative, we worked with a roster of committed public sector institutions that are raring to deliver breakthrough results in 2015.

This past year, we assisted 9 local government units (LGUs) in translating their vision for economic transformation into action. We also began work with the city of Bislig and Dinalupihan, our first partner at the municipal level; and revisited our partnerships with the cities of San Fernando Pampanga and Bayawan.

At the national level, we began work with 6 new national government agencies (NGAs). 13 current partners moved up to higher levels of the governance pathway, with 3 of them—the Civil Service Commission, Philippine Army, and Philippine Navy—successfully institutionalizing PGS and receiving high distinctions for their commitment to transformation.

Our priority at ISA has always been to contribute to the development of our partners as governance practitioners. Alongside introducing more capacity-building interventions, we organized our regular training programs and public conferences.

The Public Governance Forum continues to be an effective instrument for broadcasting success stories and critical issues. It is through this event that we are able to draw more institutions into the transformation movement.



**“Our priority at ISA has always been to contribute to the development of our partners as governance practitioners.”**

In 2014, we convened two (2) public governance fora and were able to spread the advocacy to over 800 delegates from the public and private sector.

Meanwhile, the PGS Boot Camp is a venue for capacity-building, best-practice sharing, and networking among governance practitioners. This year, we were able to train almost 200 governance practitioners and to give them the skills necessary to becoming agents of change within their organizations.

In December 2014, we organized the first national conference for vision-aligned circles (VACS) with 9 participating LGUs. We also held a write shop for creating operations manuals, synchronizing systems, and improving visual communication in LGUs.

The majority of our efforts were centred on preparing our partners for IGG. This initiative seeks to highlight transformative and sustainable breakthrough results, with investment-readiness and institutional credibility among desired outcomes. More than simply showcasing our partners, we hope to contribute to lasting change and long-term development in the Philippines. We now have close to 20 public sector organizations interested in applying for IGG recognition in 2015.

Our communication campaigns focused on building a positive environment for change amidst prevailing negativity and sensationalism. We launched our #WithHope campaign on social media, inviting citizens to share their greatest aspirations for the country. We likewise featured transformation stories on the best practices of 3 of our IGG candidates—the Philippine Army, Philippine National Police, and Talisay City.

The years ahead will be filled with a number of transitions. With national elections coming up, we will continue to help prepare our public sector partners in meeting leadership and policy changes head on. We certainly look forward to naming our first “islands of good governance” and to being able to reach out to more institutions in trying to live up to higher standards of transformation and sustainability.

We thank all of our partners in the public sector for their commitment to governance reform. We look forward to another year of solidarity, and of working with the country’s growing community of governance practitioners and advocates.

  
**FRANCISCO C. EIZMENDI, JR.**

# PERFORMANCE GOVERNANCE SYSTEM

Four years into the governance advocacy, ISA introduced Kaplan and Norton's Balanced Scorecard to the Philippine public sector as the Performance Governance System (PGS) with the idea of contributing to national progress by teaching government institutions how to create, execute, and sustain effective development plans. Since then, PGS has grown into more than just a strategy management concept. For many public sector institutions, it has become a pathway into a progressive and sustainable future.

As ISA's core approach to good governance and responsible citizenship, PGS enables national government agencies, local government units, professional associations, and academic institutions to work together with their communities in articulating long-term development goals, assigning organization- and community- wide accountabilities, and improving transparency by creating sustainable governance mechanisms

Today, ISA continues to develop PGS as a framework for genuine transformation, learning and applying best practices that can help public sector partners leverage on economic opportunities, respond to shifting realities, increase stakeholder participation, and deliver breakthrough results.

These outcomes can be achieved across four stages: Initiation, Compliance, Proficiency, and Institutionalization; and measured against

## INITIATION

To complete this level, institutions must lay the foundations of governance, creating and committing to a transformation roadmap, governance scorecard, and portfolio of strategic initiatives. They must present these together with their core values, mission, and vision.

## COMPLIANCE

To complete this level, institutions must bring the strategy down to lower-level units and allocate financial resources to strategic initiatives. They must create an Office for Strategy Management (OSM), Multi-Sector Governance Council (MSGC), and Communication Plan for the transformation program.

## PROFICIENCY

To complete this level, institutions must be able to show that previously installed governance mechanisms are able to function toward producing emerging breakthrough results. It is critical for the OSM to drive the transformation program at this point and to provide the leadership team with guidance in decision-making.

## INSTITUTIONALIZATION

To complete the final level of the pathway, institutions must be able to align every effort toward transformation and better delivery of public service. They must be guided by a strong culture of governance, supported by sustainable mechanisms that can enable continuous breakthroughs and outreach to other institutions that are in need of transformation.

ASSOCIATION OF NURSING SERVICE  
ADMINISTRATORS OF THE PHILIPPINES

BOARD OF INVESTMENTS

DEPARTMENT OF NATIONAL DEFENSE

NATIONAL POLICE COMMISSION

PHILIPPINE AIR FORCE

PHILIPPINE INTERNATIONAL TRADING  
CORPORATION

PHILIPPINE VETERANS AFFAIRS OFFICE

UNIVERSITY OF SAN AGUSTIN

PAREF SPRINGDALE SCHOOL

CITY OF BUTUAN

CITY OF DIPOLOG

CITY OF LEGAZPI

CITY OF MANDAUE

CITY OF TALISAY

PROVINCE OF BATAAN

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ARMED FORCES OF THE PHILIPPINES

BUREAU OF INTERNAL REVENUE

DEVELOPMENT BANK OF THE PHILIPPINES

GOVERNANCE COMMISSION ON GOCCs

NATIONAL DEVELOPMENT COMPANY

PHILIPPINE HEART CENTER

DEPARTMENT OF HEALTH

DEPARTMENT OF PUBLIC  
WORKS AND HIGHWAYS

DEPARTMENT OF SOCIAL  
WELFARE AND DEVELOPMENT

CITY OF BALANGA

CITY OF MASBATE

CITY OF SAN FERNANDO LA UNION

ACCOUNTANCY PROFESSION

DEPARTMENT OF TRADE AND INDUSTRY

PHILIPPINE MILITARY ACADEMY

PHILIPPINE NATIONAL POLICE

CITY OF ILOILO

CITY OF SAN FERNANDO PAMPANGA

CIVIL SERVICE COMMISSION

NATIONAL ELECTRIFICATION  
ADMINISTRATION

PHILIPPINE ARMY

PHILIPPINE NAVY

## NGA FEATURE BREAKTHROUGHS & TRANSFORMATIONS

What does it mean when a public sector organization is “institutionalized” into the governance pathway? Two words: *transformation* and *sustainability*. Both are critical to the success of any reform program and to a continuing governance culture.

To ensure readiness in partner organizations that seek “institutionalized” status, ISA involves third-party auditors in assessing whether they have been able to achieve breakthrough results at the enterprise level, and integration of governance mechanisms into existing systems.

Breakthrough results mean that impact can be felt at ground-level. These results are measured using the organization’s governance scorecard.

Governance mechanisms include the Office of Strategy Management (OSM) that will oversee the continuing implementation of reforms; and the Multi-Sector Governance Council (MSGC) that will safeguard the strategy in behalf of the organization’s stakeholders.

Together, these elements suggest shared responsibility and a thriving governance culture within the organization. Part of this culture includes a plan to reach out to other organizations that are undertaking their own reform efforts.

In 2014, three (3) national government agencies were conferred “institutionalized” status based on findings by third-party auditors and the endorsement of ISA’s board of trustees, as well as public vetting by a panel of governance practitioners, industry experts, and stakeholders.

These are their breakthroughs and transformations.



THE PHILIPPINE NAVY follows a transformation roadmap called “Sail Plan 2020”. Since creating this plan in 2006, the Navy has been able to speed up the modernization of the Philippine fleet to defend the archipelago from external aggressors. This modernization was not limited to acquiring new assets, despite this being a huge accomplishment thanks to an improving economy and support from the national leadership.

# 82% 100%

*operational readiness,  
from 68% before PGS  
implementation*

*implementation  
of projects under the  
Capability Development  
Plan, driven by  
PGS implementation*

In tandem with the acquisition plan, troops were also retooled both in the technical and individual aspects of their work. The Center for Naval Leadership and Excellence (CNLE) and Board of Advisers (BOA)—both created and required by PGS—have been able to provide continuity to Sail Plan 2020, which has now been implemented under seven (7) Flag-Officers-in-Command.

THE CIVIL SERVICE COMMISSION (CSC) Roadmap leads toward a shift in the government's approach to human resource management from transactional to strategic. For a long time, CSC was focused on administrative work for government such as administering eligibility exams, processing appointments, and adjudicating cases. The arrival of PGS marked an upgrade in the bureaucracy's human resource system and an improvement in organizational performance.

Two projects made this shift possible: subjecting frontline government agencies to the Anti- Red Tape Act (ARTA) rating, published in national newspapers; and requiring every government agency to draw up a Strategic Performance Management System (PGS).



99% 72%

*of most-complained agencies passing ARTA assessment with implementation pushed forward by PGS implementation*

*of government agencies with approved SPMS of which 89% are functional, from 16% before PGS implementation*

THE PHILIPPINE ARMY Transformation Roadmap 2028 (ATR 2028) changed public perception of Army soldiers from villains to heroes. With its record of corruption and human rights abuses being a stumbling block to getting communities to cooperate in the fight against insurgency, the Philippine Army focused on professionalizing troops, upgrading capability, and engaging civilians in conflict zones through development projects.

Five years since its implementation, troop readiness has gone up, public perception has shifted, and internal threats have been brought down. Instead of being distracted by internal conflict, the Philippine Army can now focus on defending Philippine territory from external threats.



+75 +70

*net trust rating, from +10 before PGS implementation*

*net satisfaction rating, from +10 before PGS implementation*



## LGU FEATURE

# VISION-ALIGNED CIRCLES

In working to make each LGU more sustainable and investment-ready through governance, ISA requires the identification of a comparative advantage, articulation of a compelling vision, and mapping out of objectives with corresponding metrics. All of these activities are part of what is known as “strategy formulation”.

The next phase, strategy execution, involves a rapid but meticulous cascading of the strategy. Applied to LGUs, this technology is what sets PGS apart from other strategy management systems as the process involves breaking down a dozen objectives or so into initiatives and tasks that can be executed at the level of even the lowest-ranking employee. These initiatives are assigned to small project teams called vision-

aligned circles (VACS), composed of five to 10 city hall employees (either from the same or different departments) working within a six-month timeline.

After the first year of implementation in nine participating LGUs, feedback has been largely encouraging, with VACS being identified as critical to introducing authentic and deep-seated behavioural transformation in city hall. While PGS is able to show that local government can take the lead in an economic agenda that benefits the common good, VAC technology demonstrates the power of involving every person in city hall in executing that agenda successfully.

This ensures solidarity and empowerment across departments and community members, while at the same time offering a level of diversity that goes into executing key initiatives.



*Delegates and speakers of the first ever National Conference for VACs*

## #VACCON2014

In December 2014, ISA organized the 1st National Conference of Vision-Aligned Circles (tagged on social media as #VACCON2014), gathering about 60 city hall employees to discuss effective ways to contribute to long-term development efforts at the local level.

The cities of Balanga, Butuan, Dipolog, Legazpi, Mandaue, Masbate, San Fernando La Union,

Talisay Negros Occidental, and the province of Bataan participated in the conference.

Discussions were guided by the theme “Building Blocks of Transformation”. Delegates were taught how to work effectively in teams and given ideas on how to foster a positive culture in city hall. They were also asked to share best practices and inspiring stories from ongoing transformation efforts.



## CASE EXAMPLE VILLAGE INCOME GENERATING PROJECT

The City of San Fernando La Union's five-year development plan focuses on health and wellness, but not many appreciate that this also includes the financial wellness of community members. One vision-centred initiative identified through the guidance of the Performance Governance System (PGS) is the Income Generating Program (IGP) for each of the city's 59 barangays ("villages"), which is also seen as a step toward increased revenue and financial independence.

Under the program, each village must develop and market its own local product or service, making use of natural and human resources unique to its environment. This product can then serve as a source of livelihood and income for residents.

To kick-off the program, the City of San Fernando



*San Fernando Mayor, Pablo Ortega, with IGP products*

La Union gave each village Php50,000 in seed money and linked it to a private sector partner that would help market whatever product was developed, with the expectation that each village would generate a positive net income.

Since its pilot launch in September 2014, six (6) out of the twelve (12) pilot barangays have already been able to generate a positive net income. The city government is continuing program development by providing villagers with training and marketing assistance.

## CASE EXAMPLE PPP FOR LGU ENTERPRISES

Though local government units cannot generate absolute profit from the delivery of basic services, economic enterprises inevitably emerge as a result of performing such services.

As part of its governance efforts, Mandaue has currently assigned one of its VACS to study and apply the privatization of these undertakings under a public-private partnership scheme. This will give the city government reasonable access to a vast reservoir of financial clout and the technological expertise of the private sector; and will go a long way toward virtually improving the lives of constituents.

Because of this scheme, the city government can allocate its limited funding to technical expertise and appropriate resources, resulting in faster and more efficient delivery of three (3) projects by 2016: the City Slaughterhouse, City Hospital, and City Public Market.



*The #iammandaue sign outside city hall, which encourages each resident to contribute to city progress*

Mandaue's city government has committed fully to this initiative by creating an ordinance providing for the guidelines and procedures for entering into joint venture agreements initiated through unsolicited proposals. This assures stakeholders that these public-private partnerships will conform to the fundamental principles of transparency, accountability and good governance.

# National Government Agencies



ARMED FORCES OF THE PHILIPPINES



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PHILIPPINE NAVY



PHILIPPINE HEART CENTER



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GOVERNANCE COMMISSION ON GOCCS



DEVELOPMENT BANK OF THE PHILIPPINES



PHILIPPINE NATIONAL POLICE



ISLANDS  
GOVERNANCE  
PARTICIPATING C

# Local Government Units



CITY GOVERNMENT OF TALISAY



CITY GOVERNMENT OF MASBATE



CITY OF SAN FERNANDO LA UNION



CITY GOVERNMENT OF LEGAZPI



CITY GOVERNMENT OF BUTUAN



CITY GOVERNMENT OF DIPOLOG



PROVINCIAL GOVERNMENT OF BATAAN



CITY GOVERNMENT OF MANDAUE



CITY GOVERNMENT OF BALANGA



*S of* **GOOD**  
**NANCE**  
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Institute for Solidarity in Asia

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National Competitiveness Council

**GEN LEOPOLDO L. MALIGALIG (RET)**

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Corporation

**DR. CAYETANO W. PADERANGA**

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National Economic and  
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Dean of Business Education  
Christ the King College

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Acting City Administrator  
City Government of Marikina

## COL GERRY P AMANTE (GSC) INF PA

Chief of Munitions Control Center  
Armed Forces of the Philippines

## CAPT GIOVANNI J BACORDO

West Palawan Deputy Commander  
Philippine Navy

## PSSUPT NOEL A BARACEROS

Acting Director for Center for Police  
Strategy Management  
Philippine National Police

## ENGR. FERDINAND Z. CAYLAO

Former City Administrator  
City Government of San Fernando

## MR. FRANCISCO A. CAYMO

Manager of the Strategic  
Planning Division  
National Electrification  
Administration

## MS. MARIA GRACIA A. CHUA

Former Development Project  
Management Officer  
City Government of Iloilo

## LTC ROMMEL C CORDOVA

62nd Infantry Battalion  
Commanding Officer  
Philippine Army

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President  
National Defense College  
of the Philippines

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Director and Facilitator  
True North Strategic

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EDUCHILD Foundation

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Staff for Plans  
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City Government of San Fernando  
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City Government of Tagbilaran

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City Government of San Fernando  
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Viscal Development Corporation

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National Electrification  
Administration

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## MR. CHRISTIAN P. ZAENS

Founding Associate  
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## STAFF

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MARIE GABRIELLE G. JIMENEZ  
SAMANTHA MARIE SARA L. UICHICO  
NAPOLEON CHARLES ENCARNACION

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PABLO M. TANSIKING, JR.

*Accounting Assistant*  
EMELYN C. BORROMEIO

#### NATIONAL GOVERNMENT AGENCIES TEAM

*Supervising Fellows*  
PCSUPT REX MILTON A. DOLINO (RET)  
HON. ANNELI R. LONTOC

*Program Manager*  
LOURDES P. YALUNG

*Program Officer*  
MARY ROSE JULIET G. ANATALIO

*Program Coordinators*  
MA. ANGELICA FELIZ M. CRUZ  
BERNICE ANNE S. ESGUERRA  
MARIA JOSE GUADALUPE R. LUISTRO  
BERNARD JONAS TRINIDAD

#### HR & ADMINISTRATIVE TEAM

*HR-OD Manager*  
ESPERANZA V. ALVEZ

*Administrative Officer*  
JENNIFER V. SANTOS

*Administrative Assistants*  
KRISTINE LYNDEN P. GONIO  
JULIE MEA P. PARRENO  
MARIA ESPERANZA C. SOLIVAR

#### COMMUNICATION TEAM

*Program Officer*  
GABRIELLE MARIE C. ANTONIO

*Program Coordinator*  
ISABEL MARIA R. CAMUS

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Institute for Solidarity in Asia, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2014 and 2013. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on 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 Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and Stockholders.



JESUS P. ESTANISLAO, PH.D.  
Chairman



FRANCISCO C. EIZMENDI, JR.  
President



CHRISTIAN P. ZAENS  
Executive Director

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Institute for Solidarity in Asia, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Institute for Solidarity in Asia, Inc. (a nonstock, nonprofit organization), which comprise the statements of assets, liabilities and fund balance as at December 31, 2014 and 2013, and the statements of revenues and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *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 Standard for Small and Medium-sized Entities, and for such internal control as management determines is necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and fund balance of Institute for Solidarity in Asia, Inc. as at December 31, 2014 and 2013, and its revenues and expenses and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 14 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 the management of Institute for Solidarity in Asia, Inc. 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.

SYCIP GORRES VELAYO & CO.

*Maria Veronica Andresa R. Pore*

Maria Veronica Andresa R. Pore

Partner

CPA Certificate No. 90349

SEC Accreditation No. 0662-AR-2 (Group A),

March 26, 2014, valid until March 25, 2017

Tax Identification No. 164-533-282

BIR Accreditation No. 08-001998-71-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 4751311, January 5, 2015, Makati City

April 8, 2015



**INSTITUTE FOR SOLIDARITY IN ASIA, INC.**  
**(A Nonstock, Nonprofit Organization)**

**STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE**

	December 31	
	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>₱1,476,790</b>	₱834,877
Receivables (Note 4)	<b>1,761,226</b>	3,666,570
Prepayments and other current assets (Note 5)	<b>537,344</b>	319,261
<b>Total Current Assets</b>	<b>3,775,360</b>	4,820,708
<b>Noncurrent Asset</b>		
Property and equipment - net (Note 6)	<b>20,915,607</b>	22,218,279
<b>TOTAL ASSETS</b>	<b>₱24,690,967</b>	₱27,038,987
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Current Liabilities</b>		
Accrued expenses and other payables (Note 7)	<b>₱4,018,867</b>	₱2,613,072
Payables to the Chairman (Note 8)	<b>12,517,720</b>	11,578,497
Current portion of loan payable (Note 9)	<b>1,008,005</b>	1,000,305
<b>Total Current Liabilities</b>	<b>17,544,592</b>	15,191,874
<b>Noncurrent Liabilities</b>		
Retirement benefit liability (Note 13)	<b>510,700</b>	368,649
Loan payable - net of current portion (Note 9)	<b>10,168,424</b>	11,176,429
<b>Total Noncurrent Liabilities</b>	<b>10,679,124</b>	11,545,078
<b>Fund Balance</b>	<b>(3,532,749)</b>	302,035
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>₱24,690,967</b>	₱27,038,987

*See accompanying Notes to Financial Statements.*



**INSTITUTE FOR SOLIDARITY IN ASIA, INC.****(A Nonstock, Nonprofit Organization)****STATEMENTS OF REVENUES AND EXPENSES**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Programs, donations and contributions (Note 10)	<b>₱19,289,987</b>	₱24,139,209
Grants (Note 10)	<b>6,203,424</b>	5,339,364
Interest and other income	<b>174,991</b>	869,084
	<b>25,668,402</b>	30,347,657
<b>EXPENSES</b>		
Program costs (Note 10)	<b>21,690,157</b>	19,733,212
General and administrative expenses (Note 11)	<b>6,301,759</b>	4,927,958
Interest expense (Notes 8 and 9)	<b>1,196,108</b>	3,368,176
Miscellaneous	<b>249,703</b>	797,562
	<b>29,437,727</b>	28,826,908
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE INCOME TAX</b>	<b>(3,769,325)</b>	1,520,749
<b>PROVISION FOR CURRENT INCOME TAX (Note 12)</b>	<b>65,459</b>	—
<b>NET EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>(₱3,834,784)</b>	₱1,520,749

*See accompanying Notes to Financial Statements.*



**INSTITUTE FOR SOLIDARITY IN ASIA, INC.****(A Nonstock, Nonprofit Organization)**

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**STATEMENTS OF CHANGES IN FUND BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

Balance at December 31, 2012	(₱1,218,714)
Net excess of revenues over expenses	1,520,749
Balance at December 31, 2013	302,035
Net deficiency of revenues over expenses	(3,834,784)
Balance at December 31, 2014	(₱3,532,749)

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*See accompanying Notes to Financial Statements.*

**INSTITUTE FOR SOLIDARITY IN ASIA, INC.**  
**(A Nonstock, Nonprofit Organization)**

**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenues over expenses	<b>(₱3,769,325)</b>	₱1,520,749
Adjustments for:		
Depreciation and amortization (Notes 6 and 11)	<b>1,322,573</b>	1,293,341
Interest expense (Notes 8 and 9)	<b>1,196,108</b>	3,368,176
Bad debts written off (Notes 4 and 11)	<b>325,000</b>	—
Retirement benefit expense (reversal) (Note 13)	<b>142,051</b>	(515,622)
Unrealized foreign exchange gain	<b>(23,928)</b>	(145,403)
Interest income	<b>(3,760)</b>	(3,159)
Operating income (loss) before working capital changes	<b>(811,281)</b>	5,518,082
Decrease (increase) in:		
Receivables	<b>1,580,344</b>	(1,188,864)
Prepayments and other current assets	<b>(283,542)</b>	383,168
Increase (decrease) in:		
Accrued expenses and other payables	<b>1,412,238</b>	1,133,107
Payables to the Chairman	<b>536,367</b>	(1,355,652)
Net cash generated from operations	<b>2,434,126</b>	4,489,841
Interest received	<b>3,760</b>	3,159
Interest paid	<b>(799,695)</b>	(1,325,681)
Net cash flows from operating activities	<b>1,638,191</b>	3,167,319
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment (Note 6)	<b>(19,901)</b>	(243,042)
Decrease in other noncurrent assets	<b>—</b>	2,061
Net cash flows used in investing activities	<b>(19,901)</b>	(240,981)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>		
Payment of loan	<b>(1,000,305)</b>	(2,884,099)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>23,928</b>	145,403
<b>NET INCREASE IN CASH</b>	<b>641,913</b>	187,642
<b>CASH AT BEGINNING OF YEAR</b>	<b>834,877</b>	647,235
<b>CASH AT END OF YEAR</b>	<b>₱1,476,790</b>	₱834,877

*See accompanying Notes to Financial Statements.*



**INSTITUTE FOR SOLIDARITY IN ASIA, INC.**  
**(A Nonstock, Nonprofit Organization)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Organization, Tax Exemption and Authorization for Issuance**

Organization

Institute for Solidarity in Asia, Inc. (ISA or the Organization) was registered with the Philippine Securities and Exchange Commission (SEC) as a nonstock, nonprofit organization on September 20, 1999. It is organized primarily to inculcate and nurture the spirit of community and cooperation among people in the Asia-Pacific Region and to contribute to the social, economic and financial reform and development agenda of the region.

The registered office address of the Organization is at 9th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City. Effective November 2012, the Organization transferred its principal office to 14th Floor, Trident Tower Condominium, H.V. Dela Costa Street, Salcedo Village, 1227 Makati City. The Organization updated its office address with the Bureau of Internal Revenue. As at April 8, 2015, the necessary steps have already been undertaken for the application of the change in principal office address with the Philippine SEC.

Tax Exemption

The Organization, being a nonstock, nonprofit organization, falls under Section 30 (G), of Republic Act No. 8424 entitled “An Act of Amending the National Internal Revenue Code as Amended, and For Other Purposes”. The income from activities conducted in pursuit of the objectives for which the Organization was established is exempt from income tax. However, any income on any of its properties, real or personal, or from any activity conducted for profit regardless of the disposition of such income, is subject to income tax.

Authorization for Issuance

The Organization’s financial statements as at and for the years ended December 31, 2014 and 2013 were authorized for issue by the Board of Trustees (BOT) on April 8, 2015.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements of the Organization have been prepared under the historical cost basis and presented in Philippine peso, which is the Organization’s functional currency.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

Cash

Cash includes cash in banks which are not restricted in its use.

Receivables

Receivables, which are based on normal credit terms and do not bear interest, are recognized and carried at original invoice amounts. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in the statement of revenues and expenses.



If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of revenues and expenses.

#### Performance Bond

Performance bond, included under "Prepayments and other current assets" account in the statement of assets, liabilities and fund balance, represents asset used as security for the completion of the services to be rendered by the Organization, which is expected to be collected within twelve months after the reporting date.

#### Creditable Withholding Taxes (CWTs)

CWTs, included under "Prepayments and other current assets" account in the statement of assets, liabilities and fund balance, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within 12 months are classified as current asset. CWTs are stated at net realizable value.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment loss.

The initial cost of property and equipment consists of its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to expense in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets or the term of the lease as in the case of leasehold improvements, whichever is shorter, as follows:

<u>Category</u>	<u>Number of Years</u>
Condominium unit	25
Office improvements	15
Office equipment	5
Furniture and fixtures	3-5
Leasehold improvements	3

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.



Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is included in the statement of revenues and expenses.

#### Impairment of Property and Equipment and CWTs

The carrying values of property and equipment and CWTs are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written-down to their estimated recoverable amount. The estimated recoverable amount is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the statement of revenues and expenses.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statement of revenues and expenses. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

#### Accrued Expenses and Other Payables

Accrued expenses and other payables are obligations arising directly from the Organization's main operating activities on the basis of normal credit terms and do not bear interest.

#### Provisions

Provisions are recognized when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Organization expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of revenues and expenses, net of any reimbursement.

#### Fund Balance

The amount included in fund balance includes accumulated excess of revenues over expenses from the Organization's activities. The fund balance may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.



### Revenue Recognition

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the Organization and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

#### *Grants*

Grants are recognized when the scope of work and the purpose of the grants stipulated in the agreements are performed and the donor's imposed conditions are substantially complied.

#### *Donations and Contributions*

Donations and contributions are recorded when received.

#### *Programs*

Proceeds from programs are recognized as revenue when participants enroll in the related activities.

#### *Interest and Other Income*

Interest is recognized as it accrues using the effective interest method while other income is recognized when earned.

### Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

### Retirement Benefit Obligation

Under Section 28 of PFRS for SMEs, *Employee Benefits*, the cost of defined benefit plan, including those mandated under Republic Act No. 7641, may be determined using a projected unit credit method. If the Organization is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the Organization is permitted to make simplifications. PFRS for SMEs does not require the Organization to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate the defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually.

The Organization has not undertaken actuarial valuation since management believes that using such valuation would create undue cost or effort and the effect on the financial statements of the difference between the retirement costs determined under the current method used by the Organization and an acceptable actuarial valuation method is not significant.

### Income Taxes

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at reporting date.



### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefit of unused net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) to the extent that it is probable that taxable excess of revenue over expenses will be available against which the deductible temporary differences and carryforward benefit of unused NOLCO and unused tax credits from excess MCIT can be utilized in the future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable excess of revenue over expenses will be available to allow all or part of the deferred income tax assets to be utilized in the future. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that taxable excess of revenue over expenses will be available against which the future income tax deductions can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

### Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso using the exchange rate prevailing at the date of transactions. Foreign currency-denominated monetary assets and liabilities are translated using the closing exchange rate prevailing at the reporting date. Foreign exchange difference between the rates at transaction date and settlement date or reporting date are recognize in the statement of revenues and expenses.

### 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 benefit is probable.

### Events after the Reporting Date

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

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## **3. Significant Accounting Judgments and Estimates**

The Organization's financial statements prepared in accordance with PFRS for SMEs require management to make judgements and estimates that affect the amounts reported in the financial statements and related notes. The judgments and estimates used in the financial statements are based upon the management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.





Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgments

#### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Organization, the functional currency of the Organization has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Organization operates. It is the currency that mainly influences its revenues and expenses.

### Estimates

#### *Estimating Allowance for Impairment Losses on Receivables*

The Organization reviews its receivables at each reporting date to assess whether an allowance for impairment losses should be recognized in the statement of revenues and expenses. In particular, judgment by BOT is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance.

As of December 31, 2014 and 2013, the carrying values of receivables amounted to ₱1,761,226 and ₱3,666,570, respectively (see Note 4). No provision for impairment losses on receivables was recognized in 2014 and 2013.

#### *Estimating Useful Lives of Property and Equipment*

The Organization estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives 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. It is possible, however, that future results of operations could be materially affected by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

Depreciation and amortization charged to operations amounted to ₱1,322,573 and ₱1,293,341 in 2014 and 2013, respectively (see Notes 6 and 11). As of December 31, 2014 and 2013, the carrying values of property and equipment amounted to ₱20,915,607 and ₱22,218,279, respectively (see Note 6).

#### *Estimating Impairment Losses on Property and Equipment and CWTs*

The Organization assesses impairment on property and equipment and CWTs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Organization considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.



As of December 31, 2014 and 2013, the carrying values of property and equipment and CWTs amounted to ₱21,039,060 and ₱22,218,279, respectively (see Notes 5 and 6). No provision for impairment loss was recognized in 2014 and 2013.

#### *Determining Retirement Benefit Costs*

Since the Organization is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost for retirement under defined benefit plans, the Organization is permitted to make simplifications under PFRS for SMEs. Management believes that the effect on the financial statements of the difference between the retirement benefit costs determined under the current method used by the Organization and an acceptable actuarial valuation method is not significant.

The Organization has recognized retirement benefit liability amounting to ₱510,700 and ₱368,649 as of December 31, 2014 and 2013, respectively (see Note 13).

#### *Determination of Uncertain Tax Positions*

Changes in the probability-weighted average amount of all possible outcomes must be based on new information, not a new interpretation by the Organization of previously available information. There is no probability threshold applied to the recognition of an uncertain tax position.

#### *Estimating Realizability of Deferred Income Tax Assets*

The Organization reviews the carrying amount of deferred income tax assets at each balance sheet date and reduces the amount by setting up a valuation allowance to the extent that it is no longer probable that sufficient taxable excess of revenues over expenses will be available to allow all or part of the deferred income tax assets to be utilized in the future based on the probability-weighted average amount of all possible outcomes. However, there is no assurance that the Organization will generate taxable excess of revenues over expenses to allow all or part of its deferred income tax assets to be utilized in the future.

As of December 31, 2014, the Organization has recognized valuation allowance for deferred income tax assets amounting to ₱1,400,193. The Organization has no deferred income tax assets as of December 31, 2013 (see Note 12).

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#### 4. Receivables

	2014	2013
Receivables	<b>₱1,436,903</b>	₱2,849,913
Advances to officers and employees	<b>277,090</b>	95,175
Others	<b>47,233</b>	721,482
	<b>₱1,761,226</b>	₱3,666,570

Receivables pertain to noninterest-bearing receivables from public institutions and sectoral groups who enrolled in the programs and services of the Organization. In 2014, the Organization has written off receivables amounting to ₱325,000 (see Note 11).

Advances to officers and employees represent cash advances made by officers and employees for their out-of-town assignments which remained unliquidated and outstanding as of December 31, 2014 and 2013.



Other receivables mainly pertain to advance rent and security deposit recoverable from the lessor as of December 31, 2013 which were subsequently collected as of December 31, 2014.

These receivables are assessed as collectible and in good standing.

## 5. Prepayments and Other Current Assets

	2014	2013
Performance bond	<b>₱412,070</b>	₱237,440
CWTs	<b>123,453</b>	—
Restricted cash	—	80,000
Other current assets	<b>1,821</b>	1,821
	<b>₱537,344</b>	₱319,261

Performance bond refers to the amount paid to the local government units (LGUs) and national government agencies as a security for the completion of the services to be rendered by the Organization.

Restricted cash pertains to the hold-out amount in the Organization's bank in favor of an LGU in connection with the bidding required of the latter for the professional services for Performance Governance System Initiation Stage to be rendered by the Organization.

## 6. Property and Equipment

### 2014

	Condominium Unit	Office Improvements	Furnitures and Fixtures	Office Equipment	Leasehold Improvements	Total
<b>Cost:</b>						
Beginning balances	₱18,500,000	₱3,843,954	₱1,841,438	₱1,294,906	₱3,312,620	₱28,792,918
Additions	—	—	—	19,901	—	19,901
Ending balances	18,500,000	3,843,954	1,841,438	1,314,807	3,312,620	28,812,819
<b>Accumulated depreciation and amortization:</b>						
Beginning balances	863,333	298,974	1,181,117	918,595	3,312,620	6,574,639
Depreciation and amortization (see Note 11)	740,000	256,264	170,701	155,608	—	1,322,573
Ending balances	1,603,333	555,238	1,351,818	1,074,203	3,312,620	7,897,212
<b>Net book values</b>	<b>₱16,896,667</b>	<b>₱3,288,716</b>	<b>₱489,620</b>	<b>₱240,604</b>	<b>₱—</b>	<b>₱20,915,607</b>



## 2013

	Condominium Unit	Office Improvements	Furnitures and Fixtures	Office Equipment	Leasehold Improvements	Total
Cost:						
Beginning balances	₱18,500,000	₱3,843,954	₱1,796,619	₱1,096,683	₱3,312,620	₱28,549,876
Additions	—	—	44,819	198,223	—	243,042
Ending balances	18,500,000	3,843,954	1,841,438	1,294,906	3,312,620	28,792,918
Accumulated depreciation and amortization:						
Beginning balances	123,333	42,711	1,008,294	794,340	3,312,620	5,281,298
Depreciation and amortization (see Note 11)	740,000	256,264	172,822	124,255	—	1,293,341
Ending balances	863,333	298,975	1,181,116	918,595	3,312,620	6,574,639
Net book values	₱17,636,667	₱3,544,979	₱660,322	₱376,311	₱—	₱22,218,279

The cost of fully depreciated property and equipment amounted to ₱1,629,997 as of December 31, 2014 and 2013. These are retained in the records and are still used by the Organization until they are disposed.

## 7. Accrued Expenses and Other Payables

	2014	2013
Accrued expenses:		
Professional fees	₱1,584,000	₱1,320,000
Transportation	119,603	143,058
Utilities	61,959	30,051
Interest	29,123	35,566
Others	47,412	70,472
Advances from Institute of Corporate Directors, Inc. (ICD; see Note 8)	239,722	352,735
Output VAT	189,681	—
Other payables	1,747,367	661,190
	₱4,018,867	₱2,613,072

Accrued expenses are noninterest-bearing and are generally on 30 to 90 days' term.

Other payables pertain to government payables and unearned revenue from bootcamp.

## 8. Related Party Transactions

Related party transactions are entered under the normal course of business. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.



The Organization has entered into transactions with its Chairman and an affiliate in the normal course of business.

	Transactions During the Year		Outstanding Balance		Terms and Condition
	2014	2013	2014	2013	
<i>Chairman</i>					
Advances	<b>₱36,367</b>	<b>₱—</b>	<b>₱10,081,720</b>	₱9,730,497	Interest-bearing; unsecured
Professional Fees	<b>500,000</b>	1,848,000	<b>2,436,000</b>	1,848,000	Interest-bearing; unsecured
Payable to Chairman	<b>₱536,367</b>	₱1,848,000	<b>₱12,517,720</b>	₱11,578,497	
<i>Affiliate (ICD)</i>					
Advances from ICD (see Note 7)	<b>239,722</b>	352,735	<b>239,722</b>	352,735	Noninterest-bearing; unsecured
Advances from ICD	<b>₱239,722</b>	₱352,735	<b>₱239,722</b>	₱352,735	

Payables to Chairman pertain to advances made to the Organization to support the design, organization and delivery and administration of the programs of the Organization prior to receipt of financial commitment from the funding agencies and professional fees as speaker, trainor and facilitator on various Performance Governance System (PGS) forums, bootcamps and interventions with the Organization's partners.

As of December 31, 2014 and 2013, the outstanding balance amounting to ₱12,517,720 and ₱11,578,497, respectively, includes interest at a rate of 4.0% per annum. Interest expense on payables to Chairman amounted to ₱402,856 and ₱2,006,929 in 2014 and 2013, respectively.

Advances from ICD represent expenses paid by ICD in behalf of the Organization including loan settlement (see Note 9).

All payables are due and demandable and are settled in cash.

## 9. Loan Payable

	2014	2013
Current portion	<b>₱1,008,005</b>	₱1,000,305
Noncurrent portion	<b>10,168,424</b>	11,176,429
	<b>₱11,176,429</b>	₱12,176,734

In 2012, the Organization and ICD obtained a loan from Union Bank of the Philippines (UBP) for the acquisition of a condominium unit in Trident Tower worth ₱37,000,000. The loan will be settled on a 50-50 basis between the Organization and ICD through joint efforts to undertake fund-raising activities to generate the necessary cash to complete the payment of the obligation. The 10.0% of the loan is payable over five (5) equal monthly installments and the remaining balance is payable in equal monthly installments of ₱378,487 over fifteen (15) years with an interest rate of 11.0% per annum.

On October 11, 2013, amendments to the contract were made. The outstanding balance of the loan of the Organization and ICD as of July 16, 2013 totaling ₱25,293,757 (₱12,646,879 share of the Organization) shall be paid until May 16, 2027 with an interest thereon at the new rate equivalent to the average of 10-year and 20-year Philippine Dealing System Treasury - Fixing



(PDST-F) plus 2.5% with re-pricing every six months in equal and successive monthly installments of ₱300,000 (₱150,000 share of the Organization).

Interest expense on loans amounted to ₱793,252 and ₱1,361,247 in 2014 and 2013, respectively.

###### 10. Programs, Donations and Contributions, Grants and Program Costs

The Organization received grants, donations and contributions which were used to finance project costs. These are presented as “Programs, donations and contributions” and “Grants” in the statements of revenues and expenses.

	2014	2013
Programs, donations and contributions:		
Programs, bootcamp and conference fees	<b>₱17,816,659</b>	₱21,065,370
Sponsorship and donation	<b>1,473,328</b>	3,073,839
	<b>19,289,987</b>	24,139,209
Grants:		
Center for International Private Enterprise (CIPE)	<b>4,203,424</b>	5,339,364
Union Bank of the Philippines (UBP)	<b>2,000,000</b>	—
	<b>6,203,424</b>	5,339,364
	<b>₱25,493,411</b>	₱29,478,573
Program costs:		
Seminars, conference and exhibits	<b>₱19,807,397</b>	₱18,150,900
Travel and transportation expenses	<b>1,658,555</b>	1,326,909
Printing and publication	<b>224,205</b>	255,403
	<b>₱21,690,157</b>	₱19,733,212

Below is a brief description of the programs, donations and contributions and grants received by the Organization in 2014 and 2013:

#### Programs, donations and contributions

The Organization works with institutions and individuals who believe and act upon the mission to deliver real government performance. To promote the public governance advocacy, the Organization uses the PGS, a strategic management tool that enables an entire community to channel its energies, abilities and knowledge to pursuing one path towards long-term development. Those who sign up to undergo PGS process become the Organization’s PGS partners. Each year, the Organization organizes bi-annual boot camps that provide its PGS partners with intensive values and management training. During 2014 and 2013, the Organization organized bootcamps in January and in July. The Organization also convenes a semi-annual Public Governance Forum where PGS partners deliver performance reports using their governance scorecards. The two forums organized by the Organization in 2014 and 2013 happened in February and in October, respectively. Various seminars, conferences, and exhibits are also organized by the Organization throughout the year to promote and deliver its advocacy.

In organizing the above activities, the Organization collects membership and registration fees for funding purposes. The said activities also served as an avenue for the Organization to solicit funds from various sponsors and donors. Total revenues recognized amounted to ₱19,289,987 and ₱24,139,209 in 2014 and 2013, respectively.



### Grants

#### *CIPE*

On October 19, 2012, the Organization entered into a grant agreement with CIPE to continue its advocacy with the project “Improving Public Governance in the Philippines (Phase 9)”. The grant amounted to \$123,768 (₱5,339,364), which covers a period of twelve months from October 1, 2012 to September 30, 2013. The grant agreement was extended until November 30, 2013.

On February 7, 2014, the Organization entered into a grant agreement with CIPE to continue its advocacy with the project “Improving Public Governance in the Philippines (Phase 10)”. The grant amounted to \$125,153 (₱5,486,708) which covers a period of twelve months from February 1, 2014 to January 31, 2015. The grant agreement was extended until February 28, 2015.

Total revenues recognized from grants amounted to \$99,376 (₱4,203,424) and \$123,768 (₱5,339,364) in 2014 and 2013, respectively. Total costs incurred by the Organization amounted to ₱3,525,829 and ₱4,042,178 in 2014 and 2013, respectively.

#### *UBP*

On December 20, 2013, the Organization entered into a Memorandum of Agreement (MOA) with UBP whereas the former will create the position of Human Resource Manager and Supervising Fellow for LGUs. The grant amounted to ₱2,000,000, which covers a period of twelve months from January 15, 2014 to January 15, 2015, to fund the compensation of those who will occupy the abovementioned positions.

Total revenues recognized and total costs incurred by the Organization in relation to the grant amounted to ₱2,000,000 in 2014.

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## 11. General and Administrative Expenses

	2014	2013
Salaries, allowances and employee benefits	<b>₱2,340,953</b>	₱1,424,437
Depreciation and amortization (see Note 6)	<b>1,322,573</b>	1,293,341
Association dues	<b>524,397</b>	473,782
Communication, light and water	<b>455,064</b>	807,902
Professional fees	<b>374,253</b>	488,208
Representation and entertainment	<b>370,494</b>	195,161
Bad debts written off (see Note 4)	<b>325,000</b>	—
Contract labor	<b>299,380</b>	168,087
Retirement benefit expense (see Note 13)	<b>142,051</b>	—
Rent	<b>64,752</b>	63,158
Others	<b>82,842</b>	13,882
	<b>₱6,301,759</b>	₱4,927,958





## 12. Income Taxes

The Organization's provision for current income tax in 2014 represents MCIT.

The components of the Organization's deferred income tax assets and liability as of December 31, 2014 are as follows:

Deferred income tax assets:	
NOLCO	₱1,299,297
MCIT	65,459
Retirement benefit liability	42,615
	1,407,371
Valuation allowance	(1,400,193)
	7,178
Deferred income tax liability on unrealized foreign exchange gain	7,178
	₱—

As of December 31, 2014, the Organization has unused NOLCO and unused tax credits from excess MCIT that can be claimed as deduction from taxable excess of revenues over expenses and income tax liabilities, respectively, as follows:

Year incurred	Year of expiration	NOLCO	MCIT
2014	2017	₱4,330,991	₱65,459

The reconciliation of income tax expense computed at statutory income tax rate to provision for income tax is as follows:

Statutory income tax rate	(₱1,130,798)
Additions to (reductions in) income tax rate resulting from:	
Non deductible expenses	1,658,219
Change in valuation allowance on deferred income tax assets	1,400,193
Nontaxable income	(1,861,027)
Interest income subject to final tax	(1,128)
	₱65,459

## 13. Retirement Benefit Costs

The Organization has an unfunded, noncontributory defined benefit covering all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salary.

Because of undue cost and effort in measuring pension liability under defined benefit plan using the projected unit credit method, the Organization elected to measure its defined benefit obligation with respect to current employees with the following simplifications:

- Ignored estimated future salary increases;
- Ignored future service of current employees; and
- Ignored possible in-service mortality of current employees between December 31, 2014 and the date that employees are expected to begin receiving post-employment benefits.



The balance of retirement benefit liability as of December 31 is as follows:

	2014	2013
At January 1	<b>P368,649</b>	P884,271
Additional accrual during the year (see Note 11)	<b>142,051</b>	–
Reversal of accrual	–	(515,622)
At December 31	<b>P510,700</b>	P368,649

#### 14. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Organization reported and/or paid the following type of taxes in 2014:

##### VAT

- a. The Organization is VAT-registered effective August 2014 with the following output VAT declaration for the year:

	Net Sales/Receipts	Output VAT
Taxable Sales:		
Programs, bootcamp and conference fees	<b>P6,207,550</b>	<b>P744,906</b>

The Organization's sale of services are based on actual sales collected, hence, may not be the same as amounts accrued in statement of revenues and expenses.

- b. Input VAT

The amount of input VAT claimed are broken down as follows:

Balance at January 1, 2014:

Input tax carried over from previous periods	<b>P–</b>
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Current year's domestic purchases/payments:

Services lodged under other accounts	<b>350,225</b>
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Claims for tax credit/refund and other adjustments:

Input tax on sales to government closed to expense	156,208	
VAT withheld on sales to government	147,437	
Output tax credited against input tax	(653,870)	(350,225)
Balance at December 31, 2014		<b>P–</b>

##### Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

Expanded withholding taxes	<b>P1,450,934</b>
Withholding taxes on compensation and benefits	<b>390,370</b>
Total	<b>P1,841,304</b>



Other Taxes and Licenses

The following are the details of the Organization's other taxes and licenses presented under "Miscellaneous" in the 2014 statement of revenues and expenses:

Business permit	₱7,650
Annual registration fee	500
Certification for tax clearance	200
Total	₱8,350





## **MAKING GOVERNANCE A SHARED RESPONSIBILITY**

14/F Trident Tower  
312 Sen. Gil Puyat Avenue  
Makati City 1200 Philippines  
(63 2) 886 3652



@isacenterph  
isacenter.org