

KICK OFF



THE RACE TO BREAKTHROUGH RESULTS



INSTITUTE FOR  
SOLIDARITY  
IN ASIA

Annual Report 2012

# 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, 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 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.**

**MAKING GOVERNANCE  
A SHARED RESPONSIBILITY**

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## VISION, MISSION, VALUES

The **INSTITUTE FOR SOLIDARITY IN ASIA (ISA)** is a collaborative network of sectoral leaders, public officials, and ordinary citizens committed to governance in all aspects and levels of society.

By **2015**, it shall be recognized as the leading public governance reform institute in East Asia.

### ISA WORKS WITH:

01 | **SECTORAL LEADERS** in raising the standards of professional and ethical practice as well as of social responsibility in their respective sectors.

02 | **PUBLIC OFFICIALS** in institutionalizing a public governance system, in partnership with multi-sectoral coalitions, for the long-term development of their communities and institutions.

03 | **NATIONAL PUBLIC INSTITUTIONS** to develop centers for leadership dedicated to the continuing training of citizens in the exercise of their civic duties and in their participation to serve the common good of society.

### CORE VALUES

- Service to the Common Good
- Patriotism
- Subsidiarity

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## MESSAGE FROM THE CHAIRMAN

The stars have been aligning to favour us. Stability has been achieved in our economy. Real growth of GDP, on the high side, looks sustainable. Reforms that had been laid over many years seem to be yielding positive results at last.

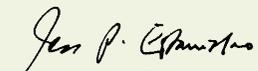
Moreover, the stars seem to be aligning to give us a taller challenge: in **2015**, we shall be chairing APEC; the ASEAN free trade area fully kicks in; and we shall be given the responsibility of hosting the World Bank-IMF annual meetings. From all appearances, in 2015 we shall be on the regional and world stage; and as the world's eyes get to be trained upon us, we shall be given the opportunity to showcase the results of our efforts at installing a regime of good governance and responsible citizenship.

The results we showcase should be those that will last for the **benefit of our people, even way beyond 2015**. After all the visitors shall have left, we should continue to enjoy—for many years into the future—the fruits of our efforts at raising the standards of actual governance practice in the Philippines.

“**Cases of Transformation**” should highlight the breakthrough results that many of our national government agencies shall have achieved by the middle of 2015, after several years of observing the discipline of good governance. It should also highlight the **successful and meaningful achievements** of many of our local government units: these achievements they shall have obtained by a Philippine version of public-private sector partnership in many of our cities. Many of these cities have been applying the performance governance system, which relies heavily on multi-sector governance coalitions, built upon active participation of responsible citizens in promoting the progress of their local communities.

March 2013 is the proper time to kick off the race towards showcasing transformation through good governance in many of our national government agencies and local government units. It is an occasion for them to commit to achieving significant, truly transformative results by the middle of 2015: they shall identify the most important goals in rendering social and economic impact they should be focusing on; they shall commit to timelines and reporting schedules on the progress they should be making in the run up to 2015; and they shall specify the strategic initiatives they are pledging to undertake to reach their stretch targets.

In other words, through **good governance practices**, they are entering a race at the end of which they shall be able to point to great successes in rendering public services to our people. By 2015, they should help make our country and our people proud, because it is not only more fun in the Philippines; it is also more as a haven of good governance and responsible citizenship that makes the Philippines an exceptional country.

  
Dr. Jesus P. Estanislao  
Chairman

WE SHOULD CONTINUE TO ENJOY—FOR MANY YEARS INTO THE FUTURE—  
THE FRUITS OF OUR EFFORTS AT RAISING THE STANDARDS  
OF ACTUAL GOVERNANCE PRACTICE IN THE PHILIPPINES



## MESSAGE FROM THE PRESIDENT

With the government putting strong emphasis on its anti-corruption campaign, and a booming economic year for the Philippines, 2012 saw an increase in the country's competitiveness globally. In many ways, we at the Institute for Solidarity in Asia (ISA) have experienced a **successful year** as well.

In 2012, ISA saw a dramatic increase in the number of Performance Governance System (PGS) partners banding together under the good governance advocacy. We have been able to work with more partners, and extend our reach through existing PGS partners like the Department of Trade and Industry and its attached agencies. This year ISA worked with a total of 14 local government units and 22 national government agencies.

We have reorganized our operations by formalizing the creation of Program Management Units (PMUs) for National Government Agencies, Local Government Units, and Communication and Development. As a result, we have filled all positions with highly qualified personnel prepared to address the needs of our growing PGS partners. We now have 12 personnel in the Program Management Units and 3 Administrative Staff.

We partnered with the National Electrification Administration and the City of Tagbilaran in training more than 150 public officials in our governance boot camps. This year, we introduced the **Master Class** for advanced governance practitioners, which has served to deepen the relationships of good governance advocates who share a common vision and are fuelled with a passion for change. We have once again surpassed our previous delegate counts, attracting the largest class for this year's training programs.

We also partnered with the UnionBank of the Philippines to integrate a values based program into the current framework of the PGS. This initiative is aimed specifically at local government units with the intention of embedding values at the grassroots level. We hope to formally launch this project in the coming year.

We have moved into a new home at the Center for Excellence in Governance (CEG) together with our sister institute, the Institute of Corporate Directors. CEG advocates good governance and responsible citizenship in the public and corporate sectors. We will soon be joined by institutes for schools and families completing the CEG family.

In this annual report, we aim to gear up for **2015, a milestone year for the Philippines**. As hosts to the Asian Pacific Economic Cooperation (APEC) Summit, we hope to be able to showcase the transformations and governance gains of our PGS Partners. More than that, we take this as an opportunity to spark change and real lasting transformation for the betterment of the Filipino nation.

We hope that these stories will inspire you to look forward to 2015, to share in the good governance advocacy, and to challenge yourselves to work towards higher goals in 2015. We invite you to join us in the race to 2015, the race to breakthrough results.

WE HOPE THAT THESE STORIES WILL INSPIRE YOU TO LOOK FORWARD  
TO 2015, TO SHARE IN THE GOOD GOVERNANCE ADVOCACY, AND  
TO CHALLENGE YOURSELVES TO WORK TOWARDS HIGHER GOALS IN 2015.

  
Francisco C. Eizmendi Jr.  
President

# OUR HISTORY

- 2000** The **Foundation for Community Building in the Asia Pacific, Inc.** puts up the Institute for Solidarity in Asia (ISA) to improve governance standards in the public sector.
- 2001** ISA Chairman **Jesus P. Estanislao** is tasked to head the Presidential Governance Advisory Council, and ISA serves as its Secretariat.
- 2003** Under the auspices of ISA, the Professional Regulation Commission (PRC) issues the **Code of Good Governance for the Professions**. All professions rate themselves based on the provisions of the code.
- 2004** With a grant from the Center for International Private Enterprise (CIPE) and The Asia Foundation, ISA introduces the **Public Governance System (PGS)** to a pilot group of cities.
- 2005** ISA convenes a Public Governance Forum where **Eight Dream Cities** present their development strategies. In the same event, ISA names its **first Fellows** consisting of local chief executives and sectoral leaders.
- 2006** ISA unveils the **four-stage PGS Governance Pathway**. Two batches of cities begin their PGS journey.  
**San Fernando Pampanga** becomes the first city to legislate its Multi-Sectoral Governance Council (MSGC).  
ISA forms the **Mahal Ko Ang Pilipinas National Coalition** consisting of cities and sectoral organizations that support the vision of Philippines 2030.
- 2007** ISA's PGS is a featured case study in a Global Public Sector Summit held in **Washington, D.C.**  
ISA formally launches its **Certification Program** for ISA Associates.  
ISA enters into partnerships with the **League of Cities of the Philippines**, the **National Competitiveness Council**, and the **Embassy of the Kingdom of the Netherlands**.
- 2008** The Palladium Group formalizes ISA's PGS Pathway as an official feeder program to the **Balanced Scorecard Hall of Fame for Executing Strategy™**.
- 2009** After completing the governance pathway, **Iloilo** becomes the first Philippine City elevated to the Balanced Scorecard Hall of Fame for Executing Strategy™, while **San Fernando** is elevated to the ISA-ICD Maharlika Hall of Fame.  
ISA renames the PGS as the **Performance Governance System** to underscore the need for governance to deliver results.  
ISA begins installing the PGS in six national government agencies as part of the National Government's efforts to qualify for funding from the Millennium Challenge Corporation (MCC).
- 2010** The MCC6 unveil their governance scorecards, and in September, the Millennium Challenge Corporation grants the Philippines "Compact" status, and awards P-434 million pesos for anti-poverty projects.  
The **National Electrification Administration** receives the distinction for becoming the first government agency to complete the Governance Pathway.
- 2011** Under ISA's guidance, the MCC6 report to the Millennium Challenge Corporation for the first time. ISA partners with the **National Competitiveness Council** to ensure their continued progress.  
ISA welcomes **three military officials** into ISA's Society of Associates.

# 2012

ISA worked with **14 LOCAL GOVERNMENT UNITS** and **22 NATIONAL GOVERNMENT AGENCIES**. **3 PGS PARTNERS** progressed on the Governance Pathway and **2 NEW PARTNERS** began their PGS Journey.

ISA conducted two Performance Governance System (PGS) Boot Camps in cooperation with our PGS Partners, the **NATIONAL ELECTRIFICATION ADMINISTRATION** and the **CITY OF TAGBILARAN**, graduating 150 public governance officials. In March and September, ISA convened the **PUBLIC GOVERNANCE FORUM** under the themes "**ONE REACH, ONE ADVOCACY**" and "**BIG IDEAS, BIG IDEALS**".

ISA published a book entitled "**DESIGNING DEVELOPMENT**" focusing on governance for individuals, families, schools, and enterprises. Together with our sister institute, the Institute of Corporate Directors, ISA moved into the **CENTER FOR EXCELLENCE IN GOVERNANCE**.



**ONE VISION**

At the Institute for Solidarity in Asia (ISA) we believe that every government institution plays an important role in national development. We help local government units and national government agencies translate development goals into strategies that produce results, in the process increasing transparency and accountability mechanisms in government. Through our programs, we create opportunities for civic participation that enable us to make governance a shared responsibility of both the governors and the governed.

**ONE STANDARD**

Many of our public sector partners are counted among the country's top-performing or most-improved organizations. From our pilot class of dream cities, the city governments of Iloilo and San Fernando Pampanga have gone on to join local and international halls-of-fame for governance and strategy execution. National institutions like the National Electrification Administration, Philippine Navy, Department of Social Welfare and Development, Department of Health, and the Philippine Army are regularly asked to share their best-practices in organizational and financial management with fellow government departments that are on the road to reform.



**ONE COMMUNITY**

Today, ISA trains over 40 public sector organizations using the Performance Governance System (PGS), a rigorous, four-stage program that combines the precepts and systems of the Harvard Business School's Balanced Scorecard with a participatory, values-centered development philosophy. As part of our core program, we facilitate the involvement of private sector leaders and community representatives in the crafting and assessment of development strategies, and encourage local and international private sector organizations to support government organizations that express a desire for cultural and operational transformation.



**GOVERNANCE PATHWAY**



**PERFORMANCE GOVERNANCE SYSTEM**

**HALL OF FAME**



**INSTITUTIONALIZATION**



**PROFICIENCY**



**COMPLIANCE**



**INITIATION**

In this stage, partners have evolved into a strategy-focused organization that has delivered breakthrough results. A third-party audit validates the results of the organization, thus lending credibility to the transformation. Partners have instilled and established a culture of transformation and good governance. Our partners also serve as models for good governance as they help build the governance advocacy through sharing of best practices.

The establishment of the Office for Strategy Management (OSM) is beneficial to the sustainability of the transformative process. The OSM tracks, reviews, and communicates performance updates to the stakeholders of the organization. This fully functional office oversees strategy implementation and ensures the proper implementation of the PGS.

Partners that are in the Compliance stage of the PGS are able to nurture and develop relationships with external stakeholders. These stakeholders contribute largely to the organization through their involvement in the transformation process as they serve as an advisory board and champion their own governance initiatives. In this stage, the strategy is cascaded to the second-level units and the budget is linked to the strategy, thus ensuring that the initiatives are properly funded.

Partners that go through the initiation stage are better able to formulate their transformation game plan. The institutional assessment allows organizations to determine their strengths and weaknesses, thus making it easier for them to pinpoint their potential areas for development and growth. For organizations, this is the starting point to facilitate real and lasting change within the organization.

**PATHWAY**

**HALLMARK**

“WHILE IT IS DIFFICULT TO INTRODUCE CHANGE,  
PEOPLE ARE SUPPORTIVE OF THE CITY’S INITIATIVES  
BECAUSE THEY ARE SUPPORTIVE OF THE VISION.”



# LANDSCAPING THE UNIVERSITY TOWN



Standing in Plaza Mayor de Balanga, one can't help but feel transported to another time and place. Reminiscent of Oxford and Cambridge, the buildings are not the typical modern structures that most new developments resort to. However, one also can't ignore the ongoing construction all around. Scaffolding covers a side of City Hall, as a blue tarpaulin enclosure hides the construction of the fountain from sight.

Though not quite there yet, the scaffolding is evidence that the City of Balanga is making progress on their journey to becoming a world-class University Town (U-Town) by 2020. In 2000, the City Government conducted a survey on the pressing concerns that constituents wanted addressed. The results showed that education was a top priority, and under the term of Mayor Jose Enrique “Joet” Garcia III, these concerns were given full attention.

Mayor Garcia explained that it was only natural that they developed the vision to become a world-class University Town. As the educational center of Bataan province, the City is home to one state university and eight colleges, and has a program in place, implemented by the Provincial Government, that subsidizes the tuition fees for scholars.

As Mayor Garcia began his term in 2007, he felt it was only right that he not only continue, but go above and beyond the education initiative. Reasoning that merely giving financial subsidies would not ensure that a student was a top-quality student, the City wanted to consider the other factors that contribute to a student's success. Mayor Garcia was immediately reminded of university towns abroad, such as Harvard, which provide for more than just the education of their students.

According to the Mayor, university towns are able to provide access to high quality education, excellent facilities and amenities, conducive learning environments, and academe-industry linkages to provide their students with job opportunities afterwards. In order to achieve this vision, the City Government had to implement several initiatives to landscape Balanga and make it an excellent learning environment for the students. Dr. Emmanuel Macaraeg, a multi-sector governance coalition member, mentioned that more than giving the city a “facelift”, the City Government is preparing Balanga for the expected influx of students as envisioned by the City. He believes that the City is operating on the tenet of “build and they will come”.

## ACCESS TO HIGH QUALITY EDUCATION

More than just the physical landscaping, the academe is also focusing on switching up their curriculum and aiming to gain accreditation for their schools both locally and internationally. The vision of the University Town is closely related to the University's own vision. According to Dr. Macaraeg, the University is in the process of restructuring and aligning their programs to support the needs of the City and the Province. They also aim for holistic formation by not focusing solely on the school and students, but also by involving parents in values formation. The University is involved in exchange programs with universities in Asia, and by providing scholarship opportunities for both students and teachers here and abroad, Balanga makes education accessible to more people.

## EXCELLENT FACILITIES AND AMENITIES

The City of Balanga has undergone a rather drastic face lift in the previous years and will continue to change as it moves towards achieving its vision of becoming a University Town. The renovation is evident, especially in the Plaza, whose surrounding buildings are inspired by famous buildings both locally and abroad. Mayor Garcia cited the University of Salamanca as one of the bigger inspirations behind the design of the plaza. However, he is quick to point out that the origins of the plaza can be traced back to Philippine history, where towns were generally built around a plaza. “We did not need to re-invent the wheel”, Mayor Garcia says. The City Government envisions the plaza as a place where students and residents of the City can hang out and enjoy themselves.

One of the bigger challenges in landscaping the City, according to Mr. Rudy de Mesa, City Administrator of Balanga, was the rehabilitation of the Public Market. The City saw the need to increase the rent and change the rules of the lease since the long term leases had made the renters complacent in following the rules and regulations. In 2009, when the leases expired, the City saw an opportunity to fix things.

The market was completely overhauled and revamped. Stalls are now arranged according to the type of product they sell, and a stall cannot sell more than one product (fish, chicken, beef, vegetables, etc.). More importantly the City has managed to sustain this initiative and has not allowed the market to fall back into its old ways. Once again, all of this was done in order to fulfil the vision. The increase in rental fees has allowed the market to be financially sustainable and viable. The funds that had previously been used to subsidize the operations of the market are now being utilized for other initiatives of the City, such as scholarships and the public library.



Mayor Garcia mentioned that, while it is difficult to introduce change, people are supportive of the City's initiatives because they are supportive of the vision. Even the idea of tax increases, which most people do not view in a positive light, were easy to introduce thanks to the support of the public for the vision. People were amenable to the increase in taxes if the funds were to be utilized for scholarships and construction projects.

### CONDUCTIVE LEARNING ENVIRONMENT

"The City needs to be viewed as an extension of the campus", says Mayor Garcia. More than providing students with high quality education and good facilities, the City believes it is important to provide them with a conducive learning environment. With their "No Smoking" and "No Beer Houses" initiatives, the City manages to transform the area into a family friendly place. Mayor Garcia explained that parents would be hesitant to send their children to schools in Balanga if they knew that there were beer joints and night clubs in the area. Relocating bars and night clubs 3 kilometers away from the University Town was challenging, but once again, the vision helped convince the owners to relocate their establishments. Explaining that the vision benefits the whole community made it more difficult for people to oppose the initiatives.

The City also boasts of a natural environment that makes it conducive for learning. Students who come to study agriculture can easily make trips to visit the farmlands located a mere 10-minutes from the City. The students who come to study fisheries are able to visit the sea in one short trip, giving students the benefit of getting firsthand experience as they go through their courses. Besides this, the City's geographical location and the fact that it is "out of the way", helps maintain peace and order in the community.

### ACADEME-INDUSTRY LINKAGES

In order to continue providing support for their students, the City Government is currently in the process of linking their graduates to potential employers. They partner with the industries within the City to provide graduates with jobs. In addition to matching graduates with potential employers, Balanga is also establishing a graduate tracking system to keep in touch with their graduates even after their formal education is over. As much as they would like for their graduates to stay and work in Balanga, they recognize that job generation

is something that they need to work on. They would like their graduates to take the best opportunity, whether within the City or elsewhere.

### THE STUDENTS

Mayor Garcia has emphasized that one of the most important components in the attainment of the vision are the students themselves. Rather than simply understanding and appreciating the vision, Mayor Garcia would like the students to be able to actively contribute to achieve the vision. Through the Association of Scholar Students of Balanga City, the scholars are encouraged to take part in programs that help their barangays. Long after Mayor Garcia's term will have ended, the University Town vision will continue to live on as long as the students ask for it. To keep students engaged, the City Government conducts regular road shows to explain the vision, and have started a new initiative called Balanga U-Town, an online video series based on the American series Glee. The series showcases the local talents of the Balangueño students. The initiative was a successful way to engage the media and also served as a fundraising activity for the City's vision. Throughout its PGS Journey, the City has undergone more than its fair share of challenges, but we see that determination in pursuing a well-crafted vision pays off. More than just a physical transformation, the City underwent an internal landscaping that changed reality. Aiming for excellence, at the March 2013 Public Governance Forum, the City of Balanga committed to enhance the quality of Balangueño students by increasing the average National Achievement Test results for elementary from 67% to 82%. Balanga City is well on its way to becoming, by 2020, a World Class University Town: Center for political, economic, social and cultural interaction in the Asia Pacific Region.



# DEPARTMENT OF TRADE AND INDUSTRY: ALIGNMENT ALL THROUGHOUT



The Department of Trade and Industry began their PGS Journey motivated by a desire to institute a results-based individual performance management system. Mandated with being the “primary coordinative, facilitative, and regulatory arm of the government for the country’s trade, industry, and investment activities”, DTI was looking for a system that was credible and proven. With a large agency such as DTI, it is easy to see how tracking individual performance in a systematic way could be a concern. In an effort to professionalize the organization, DTI sought to align individual performance goals to overall organizational goals, through a performance management system (PMS) that would recognize and fairly reward the contributions of an employee to the goal of the organization.

Going through the vision of DTI, one will notice two perspectives. In the implementation of the PGS, DTI focuses on the outward looking perspective in which the Organization contributes to the prosperity of the Country. However, the Department also places emphasis on the idea of “One DTI”, their inward looking vision. According to Director Mary Jean Pacheco of the Office for Operational Planning (OOP), “One DTI” is something that the Department has constantly been espousing. DTI would like their public to know that the Organization, though composed of many different attached agencies and bureaus, each with their own specializations, continues to operate as one.

Take for example the Center for International Trade Expositions and Missions (CITEM), an attached agency of the Department. Their sole mandate is to promote exports overseas through the conduct of trade fairs. While they do so as an independent body, they work in partnership with DTI to source the exhibitors through the regional offices. In this sense, the agencies work together as a value chain that contributes to the larger goal of the Organization.

After restructuring the Organization in late 2011, DTI was organized into five functional groups. These groups are the Trade and Investment Promotions Group (Policy Group), Industry Development and Trade Policy Group (Promo Group), Consumer Welfare and Business Regulation Group, Regional Operations and Development Group, and Management Services Group.

Though corporations, such as the Philippine International Trading Corporation, are separate bodies with their own mandates and visions and missions, President Maria Lourdes Baua mentioned that they work closely with other agencies and bureaus within their functional group to contribute to the attainment of DTI’s vision. In many ways, the unique nature of DTI contributes to the overall natural alignment of the Organization. Despite the fact that each attached agency has its own mandate, the tasks and functions they carry out translate into results that help DTI achieve their goals.

Because they work together as a value chain, it is necessary for the entire DTI family to speak the same language and to be on the same page. This prompted the OOP to aggressively cascade the strategy to all attached agencies and bureaus. Organizing 50 cascading sessions in 2012 alone, DTI has demonstrated their dedication to bring the strategy down to each individual in the organization. As an attendee of the PGS Boot Camp, Director Pacheco does her best to apply what she learned and conducts most of the cascading sessions herself. Currently, 90% of DTI has been cascaded to, with these cascading sessions bringing the units and departments together as they commit to achieving DTI’s Prosperity Plan 2016.

For the OOP it was relatively easy to endorse the PGS to attached agencies. The PGS is a sound methodology that has been tried and tested, and it is in line with what the Department would like to accomplish. In the past years, there have been several attempts to introduce a performance management system in the Department, but none have worked as well as the PGS. For President Baua, adopting the PGS in PITC was an easy decision as well. As part of the Technical Working Group of DTI, she had firsthand experience with the technology. Though President Baua says that it is easier to see the results of the PGS in large organizations such as DTI, that benefit from alignment, her own organization has experienced a change in awareness level of the strategy and direction of PITC.

When asked what one of the bigger benefits of implementing the PGS has been, Director Pacheco said that the PGS taught people how to be strategic. In her opinion, that is one benefit that, contrary to what the Balanced Scorecard espouses, cannot be quantified.



# COMPETITIVENESS THROUGH GOOD GOVERNANCE AND REFORMS



 NATIONAL  
COMPETITIVENESS  
COUNCIL | PHILIPPINES

The next three years, from 2013 to 2016, are critical years for the Philippines. They represent the last three years of the Aquino Administration – the second half of the six-year journey to completed reforms and better governance. Coming off a first half which saw the country growing from strength to strength and gaining in visibility on the global stage, the second half will bring greater attention, higher expectations, and more pressure to deliver results. Aside from delivering reforms, it will be equally important to think about institutionalizing them so they become irreversible. They must outlast the term of the present administration. That will be its greatest legacy.

We all have a role to play in creating this legacy. For its part, the work of the Institute for Solidarity in Asia has already contributed much to the legacy. From its establishment in 2000, ISA has set into motion the transformative reforms crucial to the continuous development of the Philippines. It has outlined a plan of action around its central platforms, the performance governance system (PGS) and the governance pathway.

The ISA has been working with the National Competitiveness Council in promoting good governance. As a public-private sector body that aims to improve the country's competitiveness rankings, we believe the Philippines can become more globally competitive by espousing good governance through transparency and accountability of national government agencies, local government units, and government-owned and controlled corporations. In response to this challenge, NCC and ISA have embarked on the Performance Governance System using the management tool of "balanced scorecards" as a measure for assessing and enhancing the operations of various government agencies. In 2013, we will evaluate the progress of the eight national government agencies which have adopted the system and secure new commitments through to 2015. Additionally, we will promote the establishment and more active role of Multi-Sector Governance Councils and an Office of Strategy Management in each agency to provide support in attaining and sustaining targets. By 2015, we hope to showcase significant gains achieved through the PGS in national agencies, LGUs, and GOCCs. We also hope to raise the bar for corporate governance among publicly-listed corporations.

The NCC commends the ISA for its sincere efforts to initiate change in the country one government unit at a time. It has consistently answered the call to service with professionalism and passion. While most organizations are satisfied with the delivery of results, ISA has always taken the proactive approach, expanding both the depth and coverage of the governance reform program. From its early experience, ISA can analyze breakthrough results with the initial set of participants and can tailor strategies and roadmaps to attain similar performance for new participants. By pursuing lasting reforms instead of quick fixes, we can formulate realistic solutions with a positive impact not only on competitiveness rankings but on also on the standard of living for each Filipino. In ISA, NCC has found a strong partner and a kindred spirit. Together, we look forward to a time when good governance practices are not the exception but the norm. Together, we look forward to a Philippines that can stand proudly at the world stage.

Mr. Guillermo M. Luz  
Private Sector Co-Chair  
National Competitiveness Council



# 2012 ISA ACTIVITIES



## SPREADING THE GOOD GOVERNANCE ADVOCACY

The Institute for Solidarity in Asia (ISA), together with the National Competitiveness Council, convened two public governance forums both held at the Philippine International Convention Center. The “One Reach, One Advocacy” Public Governance Forum held on March 30, 2012, featured regular reports from the six (6) Millennium Challenge Corporation agencies namely: Philippine National Police, Bureau of Internal Revenue, Department of Education, Department of Health, Department of Public Works and Highways, and Department of Transportation and Communications. The City of Mandaue also underwent a public revalida and was initiated onto the Governance Pathway after successfully presenting their strategy map and scorecard.

At the September 26, 2012 “Big Ideas, Big Ideals” Public Governance Forum, NCC presented the gains of the Philippines in the global competitiveness index. The Philippine National Police and the City of Bais successfully passed their public revalidas and were conferred Proficient and Initiated respectively. The cities of Balanga, Tagbilaran, and Dipolog, and the Philippine Military Academy also gave performance updates on their governance initiatives. The Forum also saw the launch of the Governance Trailblazer award. A “trailblazer” is defined as one that starts a path to lead others. Represented by a lantern, ISA hopes the recipients of this award will serve as beacons of light to the rest of us who still strive to make good governance a reality in our community.

Through the forums, ISA was able to extend the reach of the governance advocacy and showcase the gains of our PGS partners in implementing their strategies.

## CAPACITATING AND BUILDING THE GOOD GOVERNANCE NETWORK

ISA organizes the PGS Boot Camp twice a year, in January and July, to provide venues for capacity- and community-building for partners who are pursuing various stages of the governance program.

The January 2012 Boot Camp, organized in cooperation with the National Electrification Administration and the Center for International Private Enterprise, was held at Hotel Vida in Clark, Pampanga. Under the theme “Lighting the way to PGS success”, 51 participants from 17 organizations learned about the intricacies of implementing the PGS. The January Boot Camp featured modules on personal governance, strategy maps and governance scorecards, executing strategy, and social media opportunities for public sector institutions. The conference also featured case studies on the Center for Naval Leadership and Excellence, the City of Masbate, and the Philippine Army.

Over 22 partner organizations were represented in the July 2012 Boot Camp, which was organized in partnership with the Center for International Private Enterprise, COMFAC Global Group, National Electrification Administration, and City Government of Tagbilaran. The conference was held at Amorita Resort on Panglao Island, Bohol.

The July Boot Camp marked the pilot run of the Master Class on Personal Governance, and the sixth run of the PGS Basic Class. Representatives from the Philippine Army Multi-Sector Advisory Board and the City of San Fernando Pampanga Office of Strategy Management were likewise present to share their experiences with the boot campers.

## ADVOCATES FOR GOOD GOVERNANCE AND RESPONSIBLE CITIZENSHIP

Built on the core values of operational love of God and Country, loyalty and faithfulness, and openness and respect for freedom, the Center for Excellence in Governance aims to spread the advocacy for good governance and responsible citizenship through its two institutes.

The Institute for Solidarity in Asia (ISA) and the Institute of Corporate Directors (ICD), which advocates corporate governance in the private sector, have been brought together under one roof in CEG. Focusing on bringing good governance to the key drivers of change in society, CEG will also eventually be home to institutes for schools and families.

On November 28, 2012, CEG opened its doors to the public as we celebrated the blessing of the new home with our partners in the good governance advocacy. ISA and ICD thanked the partners who have shown continuous support for the advocacy, making CEG a reality.

# ISA INSTITUTIONAL PARTNERS



The **Center for International Private Enterprise (CIPE)** strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. Its programs are supported by the National Endowment for Democracy, the U.S. Agency for International Development, the Middle East Partnership Initiative, and the U.S. Embassy in Iraq Office for Private Sector Development.



The **National Competitiveness Council (NCC)** was formed in October 2006 as a Public-Private Task Force on Philippine Competitiveness by virtue of Presidential Executive Order No. 571 to address the improvement of the country's competitiveness from the bottom third of competitiveness rankings to the top third by 2010.



The mandate of the **Department of the Interior and Local Government (DILG)** is to promote peace and order, ensure public safety, and strengthen the capabilities of local government units through active people participation and a professionalized corps of civil servants. Its vision is to become a primary catalyst for excellence in local governance that nurtures self-reliant, progressive, orderly, safe and globally competitive communities sustained by a God-centered and empowered citizenry.



The **League of Cities of the Philippines (LCP)** is committed to bringing the local urban governance agenda to the forefront of the country's development strategies. As the mandated organization of the Philippine cities, the LCP believes effective change in the national consciousness starts with the primary visions of the local government units.



The **Institute of Internal Auditors - Philippines** is the primary association of internal auditors in the Philippines. Dedicated to develop and promote the practice of internal auditing, it serves as the principal educator of internal auditors and provides professional guidance on emerging issues and trends in the profession.



**Sycip Gorres Velayo & Co.** is the Philippines' largest professional services firm since 1964. It is a member of Ernst & Young, a world-leading provider of assurance, tax, transaction and advisory services.



The **Palladium Group** is the global leader in helping organizations execute their strategies by making better decisions. Our expertise in strategy, performance management, and business intelligence helps our clients achieve an execution premium. Palladium's Balanced Scorecard Hall of Fame for Executing Strategy® recognizes organizations that have achieved an outstanding execution premium.



The **Philippine Chamber of Commerce and Industry (PCCI)** is a non-stock, non-profit, non-government organization composed of small, medium, and large enterprises, local chambers and industry associations representing various sectors of business, all working together to foster a healthier Philippine economy and improve the viability of business in the country.



**UnionBank**, a partnership among the Aboitiz Group, Insular Life and Social Security System, is one of the country's leading universal banks. It stands out for its strategy, execution and performance. It has followed a highly focused differentiation strategy that emphasizes innovation and service, and puts technology at the heart of its business. Information and network access are a core UnionBank offer, with multiple channels for transaction and information access: 111 branches nationwide, 94 ATMs (as of June 2004), a call center and Internet bank, [www.unionbankph.com](http://www.unionbankph.com).



The **Development Bank of the Philippines** is classified as a development bank and may perform thrift bank functions. Its primary objective is to provide banking services principally to cater to the medium and long-term needs of agricultural and industrial enterprises with emphasis on small and medium-scale industries.



**Punongbayan & Araullo** is a Philippine accounting and professional services firm within Grant Thornton International, one of the world's leading organizations of independently owned and managed accounting and consulting firms.



**Bank of Commerce** is one of the Philippines' progressive commercial banks. It has been in operation since 1991. The Bank offers a wide range of banking and other financial products and services, including traditional deposit products, corporate banking, consumer banking, treasury, asset management, trust services, trade, and credit card services.



**Ortigas & Company Limited Partnership** is a real estate development company which counts in its portfolio some of the country's residential, business and commercial developments: Greenhills Shopping Center, Ortigas Center, Tienesitas, Frontera Verde, Valle Verde and Greenmeadows.



The **Comfac Global Group**, ISA's technology partner, is one of the Philippines' leading systems integrator and total fit-out contractors for workspace facilities. Its vision is to provide total customer satisfaction from a single source, through global solutions that are truly world-class in terms of products and technologies vis-a-vis functionality and reliability.

# PARTNERS IN THE PATHWAY

Local Government Units	Initiation	Compliant	Proficient	Institutionalized	HOF
1 Iloilo City	Aug 05	Aug 06	Mar 08	Sep 09	Oct 09
2 San Fernando, Pampanga	Feb 06	Aug 06	Aug 07	Sep 09	Sep 10
3 Marikina, Metro Manila	Aug 05	Aug 06	Aug 07		
4 Tagbilaran City, Bohol	Aug 05	Aug 06	Aug 07		
5 Calbayog, Western Samar	Aug 05	Aug 06	Sep 09		
6 San Fernando, La Union	Aug 05	Aug 06			
7 Naga, Camarines Sur	Aug 05	Aug 06			
8 Sorsogon Province	Feb 06	Aug 06			
9 Iriga, Camarines Sur	Aug 06	Mar 08			
10 Tagaytay, Cavite	Feb 06	Mar 08			
11 Bani Municipality, Pangasinan	Mar 09	Sep 09			
12 Bayawan City, Negros Oriental	Aug 08	Sep 09			
13 Balanga City, Bataan	Aug 08	Sep 09			
14 Dipolog City, Zamboanga del Norte	Mar 10	Mar 11			
15 Masbate City, Masbate	Mar 08	Oct 11			
16 Talisay City, Negros Occidental	Mar 10	Oct 11			
17 Island Garden City of Samal, Davao	Aug 05				
18 Tuguegarao City, Cagayan	Feb 06				
19 Dagupan, Pangasinan	Aug 06				
20 Ligao, Albay	Aug 06				
21 Sorsogon City, Sorsogon	Mar 07				
22 Sagay, Negros Occidental	Aug 08				
23 Legazpi City, Albay	Mar 09				
24 Isabela Province	Mar 09				
25 Tobacco City, Albay	Mar 09				
26 Municipality of Santa Fe, Nueva Vizcaya	Mar 10				
27 Calapan City, Oriental Mindoro	Oct 11				
28 Mandaue City, Cebu	Mar 12 *				
29 Bais City, Negros Oriental	Sep 12 *				
30 League of Cities of the Philippines	Oct 11				

National Government Agencies	Initiation	Compliant	Proficient	Institutionalized	HOF
1 National Electrification Administration	Aug 07	Aug 08	Sep 09	Sep 10	
2 Philippine Military Academy	Feb 06	Aug 06	Aug 07		
3 Philippine Navy	Mar 07	Mar 10	Sep 10		
4 Philippine National Police	Sep 09	Oct 11	Sep 12 *		
6 Bureau of Internal Revenue	Sep 09	Mar 10			
7 Department of Health	Sep 09	Sep 10			
8 Department of Social Welfare and Development	Sep 10	Mar 11			
9 Department of Public Works and Highways	Sep 09	Oct 11			
10 Philippine Army	Sep 10	Oct 11			
11 Civil Service Commission	Mar 11	Oct 11			
12 Philippine National Police Academy	Aug 07	Aug 07			
13 Department of Education	Sep 09				
14 Department of Transportation and Communication	Sep 09				
15 Maritime Industry Authority	Oct 11				

Sectoral Institutions	Initiation	Compliant	Proficient	Institutionalized	HOF
1 Accounting Profession	Aug 06	Mar 08	Sep 09		
2 Nursing Profession	Aug 06	Aug 07	Mar 10		

\* Newly conferred institution



02



03

**01** Round table discussion at the March 2012 Public Governance Forum at PICC

**02** Boot Camp delegates at the July 2012 PGS Boot Camp at Panglao, Bohol

**03** Mrs. Maria Goolsby of UnionBank and Atty. Fe Barin of the Institute of Corporate Directors cut the ribbon at the inauguration of the Center for Excellence in Governance

**04** The Philippine National Police is conferred proficient at the September 2012 Public Governance Forum at PICC



04



# BOARD OF DIRECTORS



**Dr. Jesus P. Estanislao**  
Chairman  
Institute for Solidarity In Asia



**Mr. Francisco C. Eizmendi Jr.**  
President  
Institute for Solidarity In Asia



**Amb. Cesar B. Bautista**  
Institute for Solidarity In Asia



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**Dr. Aniceto B. Fontanilla**  
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House of Representatives



**Ms. Evelyn R. Singson**  
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**Cong. Jerry P. Treñas**  
House of Representatives

# ISA FELLOWS

<p><b>LT GEN. CRISTOLITO P. BALAOING (RETIRED)</b> Armed Forces of the Philippines</p>	<p><b>AMB. CESAR B. BAUTISTA</b> Trustee, Institute for Solidarity in Asia</p>	<p><b>ERIC S. CANOY</b> President, Radio Mindanao Network</p>
<p><b>PERICLES P. DAKAY</b> President, Dakay Construction and Development Corp.</p>	<p><b>REX C. DRILON II</b> Trustee, Institute for Solidarity in Asia; President, Institute of Corporate Directors</p>	<p><b>PAUL A. DUMOL</b> Trustee, Institute for Solidarity in Asia; Associate Professor, University of Asia and the Pacific</p>
<p><b>FRANCISCO C. EIZMENDI, JR.</b> President, Institute for Solidarity in Asia</p>	<p><b>BALTAZAR N. ENDRIGA</b> Managing Partner, Endrida Managu &amp; Associates</p>	<p><b>DR. JESUS P. ESTANISLAO</b> Chairman, Institute for Solidarity in Asia</p>
<p><b>FRANCIS G. ESTRADA</b> Chairman, De La Salle University Board of Trustees</p>	<p><b>HON. MARIA LOURDES C. FERNANDO</b> Trustee, Institute for Solidarity in Asia</p>	<p><b>ATTY. RICHARD N. FERRER</b> Executive Vice President, Institute of Corporate Directors</p>
<p><b>DR. ANICETO B. FONTANILLA</b> Trustee, Institute for Solidarity in Asia; President and CEO, ACRE, Inc.</p>	<p><b>ANTONIETA FORTUNA-IBE</b> Trustee, Institute for Solidarity in Asia</p>	<p><b>GEN LEOPOLDO L. MALIGALIG (RETIRED)</b> Consultant, First Philippine Holdings Corp.</p>
<p><b>GREGORIO S. NAVARRO</b> Managing Partner and CEO, Deloitte Philippines</p>	<p><b>HON. MARY JANE C. ORTEGA</b> Former Mayor, City of San Fernando La Union</p>	<p><b>DR. CAYETANO W. PADERANGA</b> Director General, National Economic and Development Authority</p>
<p><b>HON. OSCAR S. RODRIGUEZ</b> City Mayor, City of San Fernando Pampanga; President, League of Cities of the Philippines</p>	<p><b>CESAR G. SALDAÑA</b> Principal, PSR Consulting, Inc.</p>	<p><b>EVELYN R. SINGSON</b> President, Gilt-Edge Properties, Inc. Resolution Center, Inc.</p>
<p><b>HON. JERRY P. TREÑAS</b> Trustee, Institute for Solidarity in Asia; Congressman, Iloilo City</p>	<p><b>ATTY. ADELITA A. VERGEL DE DIOS</b> Trustee, Institute of Corporate Directors</p>	

# ISA ASSOCIATES

<p><b>CHRISTIAN P. ZAENS</b> Executive Director, Institute for Solidarity in Asia</p>	<p><b>TOMAS C. AGUILAR</b> City Planning and Development Officer, Marikina City</p>	<p><b>ENGR. FERDINAND Z. CAYLAO</b> City Administrator, City of San Fernando Pampanga</p>
<p><b>FRANCISCO A. CAYMO</b> Division Manager, Strategic Planning Division, National Electrification Administration</p>	<p><b>MARIA GRACIA A. CHUA</b> Former Development Project Management Officer IV, Iloilo City</p>	<p><b>LT EDWIN GERMAN A. CORDOVA</b> Acting Assistant Director, Center for Naval Leadership and Excellence, Philippine Navy</p>
<p><b>BGEN FERMIN R. DE LEON (RETIRED)</b> President, National Defense College of the Philippines</p>	<p><b>FERDINAND JOSEPH T. ESCOBAL</b> Director and Facilitator, True North Strategic</p>	<p><b>MA. SOCORRO L. ESCUETA</b> Executive Director, EDUCHILD</p>
<p><b>BENITO T. JIMENA</b> City Tourism Officer, Iloilo City</p>	<p><b>LUCILLE Y. LAGUNAY</b> City Councilor, Tagbilaran City</p>	<p><b>ENGR. FERNANDO A. LIMBITCO</b> City Planning and Development Officer, City of San Fernando Pampanga</p>
<p><b>BETTY F. MERRITT</b> Member, Board of Nursing</p>	<p><b>JONATHAN JUAN DC. MORENO</b> Practice Leader for Corporate Governance &amp; Managing Consultant for Philippines, Palladium Group</p>	<p><b>RODERICK N. PADUA</b> Director, Corporate Planning Office, National Electrification Administration</p>
<p><b>MERLA A. ROSALADO</b> Executive Secretary, Accreditation Office, Christ the King College</p>	<p><b>SONIA P. SOTO</b> VP-General Manager, CLTV36, City of San Fernando Pampanga</p>	

**ISA FELLOWS** are committed to governance reforms through citizen participation. They are advocates and propagators of good governance and responsible citizenship in various sectors of society and at various levels of government. They make the Institute a more effective reform instrument.

**ISA ASSOCIATES** are professionals who provide technical and other support to the local chief executive or head of an institution and are fully aligned with and totally committed to the ISA process of installing the Performance Governance System.

The Associate level was created to encourage the technical officers of our PGS partners to aim for such a recognition and designation. ISA confers the designation after a candidate fulfills all the requirements of the ISA Associates Certification Program.

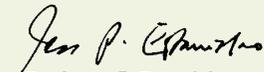
# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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, 2012 and 2011. 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.

Mr. John Nai Peng C. Ong, a partner and auditor at Sycip Gorres Velayo & Co. (SGV & Co.), has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed his opinion on the fairness of presentation upon completion of such examination in his report to the Board of Directors and Stockholders.

  
**Dr. Jesus P. Estanislao**  
Chairman

  
**Francisco C. Eizmendi Jr.**  
President

  
**Christian P. Zaens**  
Executive Director

# INDEPENDENT AUDITOR'S 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, 2012 and 2011, and the statements of comprehensive income, 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities.

SYCIP GORRES VELAYO & CO.



**John Nai Peng C. Ong**  
Partner  
CPA Certificate No. 85588  
SEC Accreditation No. 0012-FR-3 (Group A), November 15, 2012, valid until November 16, 2015  
Tax Identification No. 103-093-301  
BIR Accreditation No. 08-001998-57-2012, April 11, 2012, valid until April 10, 2015  
PTR No. 3669660, January 2, 2013, Makati City

April 12, 2013

# STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

December 31

	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	₱647,235	₱239,091
Receivables (Note 5)	1,798,574	2,002,945
Prepayments and other current assets (Note 6)	1,381,561	–
<b>Total Current Assets</b>	<b>3,827,370</b>	<b>2,242,036</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 7)	23,268,578	357,432
Other noncurrent assets	2,061	739,132
<b>Total Noncurrent Assets</b>	<b>23,270,639</b>	<b>1,096,564</b>
<b>TOTAL ASSETS</b>	<b>₱27,098,009</b>	<b>₱3,338,600</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Current Liabilities</b>		
Accrued expenses and other payables (Note 8)	₱2,829,965	₱1,991,262
Payables to the Chairman and others (Note 9)	8,215,973	8,305,248
Current portion of loan payable (Note 11)	492,756	–
<b>Total Current Liabilities</b>	<b>11,538,694</b>	<b>10,296,510</b>
<b>Noncurrent Liabilities</b>		
Retirement benefit liability (Note 14)	884,271	–
Loan payable - net of current portion (Note 11)	15,893,758	–
<b>Total Noncurrent Liabilities</b>	<b>16,778,029</b>	<b>–</b>
General fund	(1,218,714)	(6,957,910)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>₱27,098,009</b>	<b>₱3,338,600</b>

See accompanying Notes to Financial Statements.

# STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31

	2012	2011
<b>REVENUES</b>		
Programs, donations, and contributions (Note 10)	₱24,017,042	₱11,675,037
Grants (Note 10)	4,071,334	4,621,753
Interest and other income	267,426	67,526
	<b>28,355,802</b>	<b>16,364,316</b>
<b>EXPENSES</b>		
Program costs (Note 10)	7,276,816	7,725,191
General and administrative expenses (Note 12)	13,623,598	11,186,485
Interest expense (Note 11)	1,061,217	–
Unrealized foreign exchange loss	32,300	40,769
Miscellaneous	622,675	316,033
	<b>22,616,606</b>	<b>19,268,478</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE OTHER COMPREHENSIVE INCOME</b>	<b>5,739,196</b>	<b>(2,904,162)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>–</b>	<b>–</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>₱5,739,196</b>	<b>(₱2,904,162)</b>

See accompanying Notes to Financial Statements.

# STATEMENTS OF CHANGES IN FUND BALANCE

Balance at December 31, 2010	(₱4,053,748)
Deficiency of revenues over expenses	(2,904,162)
Balance at December 31, 2011	(₱6,957,910)
Excess of revenues over expenses	5,739,196
Balance at December 31, 2012	(₱1,218,714)

See accompanying Notes to Financial Statements.

# STATEMENT OF CASH FLOWS

# NOTES TO FINANCIAL STATEMENTS

Years Ended December 31

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenues over expenses	<b>₱5,739,196</b>	(₱2,904,162)
Adjustments for:		
Interest expense (Note 11)	<b>1,061,217</b>	–
Retirement benefit expense (Note 14)	<b>884,271</b>	–
Depreciation (Note 7)	<b>418,608</b>	1,317,428
Unrealized foreign exchange loss	<b>32,300</b>	40,769
Interest income (Note 4)	<b>(2,797)</b>	(1,952)
Operating income before working capital changes	<b>8,132,795</b>	(1,547,917)
Decrease (increase) in:		
Receivables	<b>204,371</b>	(1,899,535)
Prepayments and other current assets	<b>(1,381,561)</b>	–
Increase (decrease) in:		
Accrued expenses and other payables	<b>838,703</b>	1,879,302
Payables to the Chairman and others	<b>(7,107,932)</b>	(599,822)
Net cash generated from (used in) operations	<b>686,376</b>	(2,167,972)
Interest received	<b>2,797</b>	1,952
Net cash flows from (used in) operating activities	<b>689,173</b>	(2,166,020)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment (Note 7)	<b>(985,800)</b>	(142,283)
Increase in other noncurrent assets (Note 8)	<b>737,071</b>	(45,768)
Net cash flows used in investing activities	<b>(248,729)</b>	(188,051)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(32,300)</b>	(40,769)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>408,144</b>	(2,394,840)
<b>CASH AT BEGINNING OF YEAR</b>	<b>239,091</b>	2,633,931
<b>CASH AT END OF YEAR</b>	<b>₱647,235</b>	₱239,091

See accompanying Notes to Financial Statements.

## 1. Organization, Tax Exemption, Status of Operations and Authorization for Issuance

### Organization

The 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 9th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City.

### Tax Exemption

The Organization, being a nonstock, nonprofit organization, falls under Section 30 (E), 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. On November 16, 2009, the Bureau of Internal Revenue (BIR) issued a ruling in favor of the Organization to be exempted from payment of taxes.

### Status of Operations

In 2012 and 2011, the Organization incurred an excess of revenues over expenses of ₱5,739,196 and deficiency of revenues over expenses of ₱2,904,162, respectively and had a negative fund balance of ₱1,218,714 and ₱6,957,910 as of December 31, 2012 and 2011, respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Organization’s ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty because the Organization confirmed that it intends to accomplish the following plans:

- 1) *Recruitment of and increase interventions for Performance Governance System (PGS) partners through open platform* - To address and attract an increasing number of partner organizations and allow ISA greater flexibility, an Open Platform model was proposed, designed and approved by the Board of Trustees. With Open Platform, ISA can at once involve itself with the partner’s technical working group (TWG) or “Mars Team” who will carry out the task of propagating PGS. Likewise, ISA can develop new interventions that anticipate the emerging needs of the PGS partners. Under the open platform, programs and their corresponding fees are now unbundled so partners can select ISA engagements as needed. Overall, the open platform scenario will result to: a) more involvement from Fellows and Associates, b) well-selected, intensively-trained technical working groups, c) better pacing for PGS partners, d) higher volume of PGS partners, and e) per-intervention funding arrangement.
- 2) *Development of the Master Class Boot Camp* - With the partners ISA making their way to the upper stage of the PGS, there is a need to better capacitate the OSMs and TWGs of the PGS partners. ISA has then added the Master Class Boot Camp as part of the continuing education and development of the partners. The Master Class of the PGS Boot Camp is composed of participants from previous boot camps who are ready to learn more about the intricacies of the PGS.
- 3) *Creation of Cost Center* - This approach will help ISA monitor its finances closely. By using the enrollment fee to cover the costs of all interventions for partners thereafter, ISA will be able to track its expenses better, and assess whether or not partners are charged justly.
- 4) *Additional grants and donors* – ISA is exerting more effort in looking for ways to fund the good governance advocacy. The Organization seeks to continuously increase the number of donors and grantors by networking with individuals and organization who can alert it to new by looking for interested development.

ISA is taking a more pro-active approach to fund generation by looking for interest development partners as well as interested public sector organizations whose transformation is of great interest to the private sector.

#### Authorization for Issuance

The Organization's financial statements as at and for the years ended December 31, 2012 and 2011 were authorized for issue by the Board of Trustees (BOT) on April 12, 2013.

## **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

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

#### 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

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

#### 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.

#### Cash

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

#### Financial Instruments

##### Classification

The following are basic financial instruments:

- Cash
- A debt instrument that satisfies specific criteria
- A commitment to receive a loan that
  - Cannot be settled net in cash, and
  - When the commitment is executed, is expected to meet the conditions of a debt instrument above
- An investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.

Other financial instruments would include instruments that are not within the scope of basic financial instruments.

##### Recognition

Basic and other financial instruments are recognized in the statement of assets, liabilities and fund balances when the entity becomes a party to the contracts.

##### Initial Measurement of Financial Instruments

Basic financial instruments are measured at their transaction price including transactions costs. If the contract constitutes a financing arrangement it is measured at the present value of future payments discounted at a market rate of interest for a similar instrument (this is not applicable to assets and liabilities classified as current, unless they incorporate a finance arrangement). If interest is not at a market rate, the fair value would be future payments discounted at a market rate of interest. Other financial instruments are initially measured at fair value, which is usually their transaction price. This will exclude transaction costs.

##### Subsequent Measurement

Investments in non-convertible preference shares and non-puttable ordinary, and preference shares that are publically traded or their fair value can otherwise be reliably measured, are measured at fair value through profit or loss if a public market exists, otherwise at cost less impairment.

Debt instruments are measured at amortized cost using the effective interest rate.

Commitments to receive a loan are measured at cost less impairment.

All other financial instruments are measured at fair value at reporting date. The only exception are equity instruments (and related contracts that would result in delivery of such instruments) that are not publicly traded and whose fair value cannot be reliably determined are measured at cost less impairment.

##### Impairment of Financial Instruments

At each reporting date, an assessment is made by the Organization whether there is objective evidence of a possible impairment. The impairment loss of financial instruments at amortized cost is the difference between carrying value and the revised cash flows discounted at the original effective interest rate.

The impairment of financial instruments at cost less impairment is the difference between the carrying value and best estimate of the amount that would be received if the asset was sold at the reporting date.

##### Fair Value

The standard makes use of a fair value hierarchy. This is quoted prices in an active market, prices in recent transactions for the identical assets (adjusted if necessary), and use of a valuation technique (that reflects how the market would expect to price the asset and the inputs reasonably represent market expectations). Fair value, where there is no active market, is only considered reliable if the variability in the range of fair values is not significant and the probabilities of various estimates can be reasonably assessed.

##### Derecognition

The Organization derecognizes a financial asset when:

- The contractual rights to the cash flows from the financial asset expire or are settled;
- The Organization transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- The Organization, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party.

The Organization derecognizes a financial liability when extinguished.

##### Offsetting

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

##### Receivables

Receivables are stated at face value less allowance for impairment losses, if any. An estimate for doubtful accounts is made after a study of the estimated collectibility of receivable balances.

##### 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, 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 against income 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:

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

The useful lives and depreciation and amortization methods 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.

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 credited to or charged against current operations.

#### Impairment of Property and Equipment and Other Noncurrent Assets

The carrying values of property and equipment and other noncurrent assets 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 profit or loss.

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 profit or loss. 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) had no impairment loss been recognized for that asset in prior years.

#### Operating Leases

Operating leases represent leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessor. Operating lease payments are recognized as an expense in the statements of comprehensive income on a straight-line basis over the lease term.

#### *As a Lessee*

The Organization entered into a lease agreement as a lessee. The lease agreement is accounted for as an operating lease because the lessor retains all significant risk and rewards of ownership of the property (see Note 13).

#### Retirement Benefit Costs

Under Section 28 of PFRS for SMEs, *Employee Benefits*, the cost of defined benefit plan, including those mandated under RA 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.

#### Fund Balance

The amount included in fund balance includes accumulated excess (deficiency) of revenues over expenses from the Organization's activities. This account relates to operating fund account in the statement of assets, liabilities and fund balances. The fund balance may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Related Parties

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. Parties are also considered to be related if they are subject to common control or common significant influence.

#### 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 discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

#### Foreign Currency Transactions

Transactions in foreign currencies are recorded in Philippine peso using the exchange rates at prevailing transaction dates. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate prevailing at the reporting date. Foreign exchange gains and losses resulting from foreign currency transactions and translations are charged against current operations.

#### Contingencies

Contingent liabilities are not recognized in the financial statements. They 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 are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

#### Events Subsequent to 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.

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

The preparation of the Organization's financial statements requires management to make judgements and estimates that affect the amounts reported in the financial statements and related notes. However, uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### Judgments

Management makes judgments in the process of applying the Organization's accounting policies. Judgments that have the most significant effect on the reported amounts in the financial statements are discussed below.

#### Determining Functional Currency

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 the costs and expenses.

#### *Classification of Financial Instruments*

The Organization exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of assets, liabilities and fund balances.

In addition, the Organization classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### *Determination Whether an Arrangement Contains a Lease*

The Organization uses its judgements in determining whether an arrangement is, or contains a lease, based on the substance of the arrangement and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the Organization.

#### *Operating Leases - The Organization as Lessee*

The Organization has entered into lease agreements as a lessee. The Organization has determined that all significant risks and rewards incident to ownership of the leased property are retained by the lessor due to the following:

1. the ownership of the asset does not transfer at the end of the lease term;
2. the Organization has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
3. the lease term is not for the major part of the economic life of the asset even if title is not transferred; and
4. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

#### Estimates

The key estimates concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

The Organization reviews its receivables at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. 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.

Allowance for impairment losses on receivables is maintained at a level considered adequate to provide for potentially uncollectible receivables. A provision for impairment of receivables is established when there is objective evidence that the Organization will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is recognized in profit or loss.

As of December 31, 2012 and 2011, the carrying values of receivables amounted to P1,798,574 and P2,002,945, respectively (see Note 5). No provision for impairment losses on receivables was recognized in 2012 and 2011.

#### *Estimating Fair Value of Financial Instruments*

The Organization carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, (i.e. foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Organization utilized different valuation methodologies

and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit or loss and equity.

Where the fair value of certain financial assets and financial liabilities recorded in the statement of assets, liabilities and fund balances cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The carrying values of financial instruments which approximate fair values as of December 31, 2012 and 2011 are disclosed in Notes 4, 5, 8 and 9 to the financial statements.

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

The Organization estimates the useful lives of property and equipment based on the period over which the property and equipment are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation expenses and decrease noncurrent assets.

Depreciation and amortization charged to operations amounted to P418,608 and P1,317,428 in 2012 and 2011, respectively (see Notes 7 and 12). As of December 31, 2012 and 2011, the net book values of property and equipment amounted to P23,268,578 and P357,432, respectively (see Note 7).

#### *Estimating Impairment Losses on Property and Equipment and Other Noncurrent Assets*

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

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Organization is required to make estimates that can materially affect the financial statements.

As of December 31, 2012 and 2011, the carrying values of property and equipment and other noncurrent assets are disclosed in Notes 7 to the financial statements. No provision for impairment losses was recognized in 2012 and 2011.

#### *Determining Retirement Benefits 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 and other post-employment benefits 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 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 of P884,271 as of December 31, 2012 (see Note 14).

#### 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.

#### 4. Cash

	2012	2011
Cash in banks	P637,235	P229,091
Cash on hand	10,000	10,000
	<b>P647,235</b>	<b>P239,091</b>

Cash in banks earn interests at the respective bank deposit rates. Interest income earned on cash in banks amounted to P2,797 and P1,952 in 2012 and 2011, respectively.

#### 5. Receivables

	2012	2011
Receivables	P700,000	P1,851,540
Advances to officers and employees	167,989	81,405
Advances to Institute of Corporate Directors, Inc. (ICD) (see Note 9)	930,585	-
Advances to suppliers	-	70,000
	<b>P1,798,574</b>	<b>P2,002,945</b>

Receivables pertain to noninterest-bearing receivables from public institutions and sectoral groups who enrolled in the programs and services of the Organization.

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, 2012.

Advances to suppliers pertain to advanced payments to vendors for future purchases of services.

#### 6. Prepayments and Other Current Assets

	2012	2011
Prepayments	P606,679	P-
Security deposit (see Note 13)	396,000	P396,000
Advanced rent (see Note 13)	283,132	283,132
Performance bond	95,750	60,000
	<b>P1,381,561</b>	<b>P739,132</b>

Prepayments represent advance payments made by the Organization for "ISA January 2013 Boot Camp" in Cebu.

Security deposit and advanced rent represent amounts given at the inception of the contract with a third party. Since the term was pre-terminated, the advanced rent and security deposits arising from the lease will be applied as payments for the expenses incurred for renovation (see Note 13). The advanced rent and security deposit were presented as other noncurrent assets in 2011.

Performance bond refers to the amount paid to the City of Bais and Clark Development Corporation as a security for the completion of the services to be rendered by the Organization amounting to P95,750 and P60,000 as of December 31, 2012 and 2011, respectively.

#### 7. Property and Equipment

As of December 31, 2012

	Condominium Unit	Office Improvements	Leasehold Improvements	Office Equipment	Furnitures and Fixtures	Transportation Equipment	Total
Cost:							
Beginning balances	P-	P-	P3,312,620	P919,565	P987,937	P1,149,625	P6,369,747
Additions	18,500,000	3,843,954	-	177,118	808,682	-	23,329,754
Ending balances	18,500,000	3,843,954	3,312,620	1,096,683	1,796,619	1,149,625	29,699,501
Accumulated depreciation and amortization:							
Beginning balances	-	-	3,160,194	729,491	973,005	1,149,625	6,012,315
Depreciation and amortization (see Note 12)	123,333	42,711	152,426	64,849	35,289	-	418,608
Ending balances	123,333	42,711	3,312,620	794,340	1,008,294	1,149,625	6,430,923
Net book values	P18,376,667	P3,801,243	P-	P302,343	P788,325	P-	P23,268,578

As of December 31, 2011

	Leasehold Improvements	Office Equipment	Furnitures and Fixtures	Transportation Equipment	Total
Cost:					
Beginning balances	P3,312,620	P777,282	P987,937	P1,149,625	P6,227,464
Additions	-	142,283	-	-	142,283
Ending balances	3,312,620	919,565	987,937	1,149,625	6,369,747
Accumulated depreciation and amortization:					
Beginning balances	P2,255,354	P532,363	P757,545	P1,149,625	P4,694,888
Depreciation and amortization (see Note 12)	904,840	197,128	215,460	-	1,317,428
Ending balances	3,160,194	729,491	973,005	1,149,625	6,012,316
Net book values	P152,426	P190,074	P14,932	P-	P357,432

There were assets that were idle as of December 31, 2012 and were temporarily transferred in their Sayoc warehouse but ready for disposal in 2013.

There were also noncash additions of P23,152,635 when the Organization transferred to their new office in Trident building in 2012.

#### 8. Accrued Expenses and Other Payables

	2012	2011
Accrued expenses	<b>P2,394,515</b>	P1,768,710
Other payables	<b>435,450</b>	222,552
	<b>P2,829,965</b>	P1,991,262

Accrued expenses include accruals for communication services and transportation expenses. Other payables pertain to government payables and professional fees.

#### 9. 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 affiliate in the normal course of business.

	Amount		Outstanding Balance		Terms and Condition
	2012	2011	2012	2011	
Chairman					
Advances	P-	P-	<b>P8,215,973</b>	P8,215,973	Non-interest bearing; unsecured

	Amount		Outstanding Balance		Terms and Condition
	2012	2011	2012	2011	
ICD					
Advances to ICD	<b>P5,800,000</b>	P-	<b>P5,800,000</b>	P-	Non-interest bearing; unsecured
Advances from ICD	<b>4,869,415</b>	89,275	<b>4,869,415</b>	89,275	Non-interest bearing; unsecured
Advances to (from) ICD			<b>P930,585</b>	(P89,275)	

Payables to the 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.

Advances to ICD in 2012 pertain to the grants received by the Organization from the Union Bank of the Philippines (see Note 10).

Advances from ICD represent expenses paid by ICD in behalf of the Organization.

All payables are due and demandable.

#### 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 statement of comprehensive income.

	2012	2011
Programs, donations and contributions:		
Programs, bootcamp and conference fees	<b>P12,772,940</b>	P10,615,119
Sponsorship and donation	<b>11,244,102</b>	1,059,918
	<b>24,017,042</b>	11,675,037
Grants:		
The Center for International Private Enterprise	<b>4,071,334</b>	4,751,753
Embassy of the Kingdom of the Netherlands	-	(130,000)
	<b>4,071,334</b>	4,621,753
	<b>P28,088,376</b>	P16,296,790
Program costs:		
Seminars, conference and exhibits	<b>P5,174,623</b>	P5,853,435
Travel and transportation expenses	<b>1,722,572</b>	1,327,390
Printing and publication	<b>379,621</b>	544,366
	<b>P7,276,816</b>	P7,725,191

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

##### Programs, donations and contributions

ISA works with institutions and individuals who believe and act upon the mission to deliver real government performance. To promote the public governance advocacy, ISA 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 ISA's PGS partners. Each year, the Organization organizes bi-annual boot camps that provide its PGS partners with intensive values and management training. During the year, ISA 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 during the year happened in March and in October. Various seminars, conferences, and exhibits are also organized by ISA throughout the year to promote and deliver its advocacy.

In organizing the above activities, ISA 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 P24,017,042 and P11,675,037 in 2012 and 2011, respectively.

##### Grants

##### *The Center for International Private Enterprise*

On June 22, 2010, the Organization (the "Grantee") entered into a grant agreement (the Agreement) with

The Center for International Private Enterprise (CIPE) (the "Grantor"). The Agreement was for a period of twelve (12) months from August 1, 2010 through July 31, 2011 wherein the Grantor was obligated to provide financial support to the Grantee amounting to \$117,274 or approximately ₱5,141,292 using the exchange rate of ₱43.84 to \$1 as of December 31, 2011. In return, the Grantee shall carry out the development and implementation of its proposed project "Expanding the Performance Governance System in Select East Asia Economies (Phase 7)". Furthermore, the Grantee is required to submit financial and programmatic progress of the project on a regular basis and failure to do so will result in withholding Grant payments. The Grantee further agrees to provide from its own or other resources all funds in addition to the grant which are required to carry out the project in a timely manner.

On September 20, 2011, the Organization entered into a new grant agreement with CIPE to continue its advocacy with the new proposed project "Propagating Good Governance in the Philippines and East Asia (Phase 8)". This shall be for a period of twelve months from October 1, 2011 through September 30, 2012 with a grant amounting to \$125,153 or approximately ₱5,486,708 using the exchange rate of ₱43.84 to \$1 as of December 31, 2011.

On October 19, 2012, the Organization entered into another new grant agreement with CIPE to continue its advocacy with the new proposed project "Improving Public Governance in the Philippines (Phase 9)". This shall be for a period of twelve months from October 1, 2012 to September 30, 2013 with a grant amounting to \$123,768 or approximately ₱5,080,676 using the exchange rate of ₱41.05 to \$1 as of December 31, 2012.

Total revenues recognized from grants amounted to \$95,847 (₱4,071,334) and \$110,446 (₱4,751,753) in 2012 and 2011, respectively. Total costs incurred by the Organization amounted to ₱12,858,658 and ₱6,566,083 in 2012 and 2011, respectively. The exchange rates used were the actual rates used in every transaction in 2012 and 2011, respectively.

#### *The Union Bank of the Philippines*

The Organization received a grant from Union Bank of the Philippines (UBP) to establish the "UnionBank Excellence in Governance Program for LGUs" which is defined to be a "sustainable partnership between UBP and ISA, jointly established by the parties under a Center for Excellence in Governance (CEG), to fully institutionalize a program of improved governance practices of LGUs. Based on the Memorandum of Agreement (MOA) signed in 2012, the estimated funding required for the program shall be ₱54,000,000 to be provided by UBP for over a period of nine (9) years at ₱6,000,000 each year. The first tranche of ₱6,000,000 was provided by UBP to the Organization upon signing. MOA also stated that the grants including its interests and earnings shall not be used for any other program of the Organization.

#### 11. Loan Payable

In 2012, the Organization and ICD obtained loan from the UBP for the acquisition of condominium unit 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% of the loan payable 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% per annum.

As of December 31, 2012, the Organization's balance of the loan payable amounted to ₱16,386,514, interest expense amounted to ₱1,061,217 for the year ended December 31, 2012.

#### 12. General and Administrative Expenses

	2012	2011
Professional fees	₱5,614,934	₱4,876,239
Salaries, allowances and employee benefits	3,402,404	1,702,005
Rent (see Note 13)	1,742,053	2,405,540
Retirement benefit expense (see Note 14)	884,271	-
Association dues	809,330	403,779
Communication, light and water	516,248	436,133
Depreciation and amortization (see Note 7)	418,608	1,317,428
Representation and entertainment	155,784	40,395
Contract labor	79,966	4,966
	<b>₱13,623,598</b>	<b>₱11,186,485</b>

Professional fees include compensation services to the officers of the Organization such as President and Chairman. The Organization currently has 15 employees.

Salaries, allowances and employee benefits include payroll of the Organization's employees.

#### 13. Lease Commitment

The Organization (the "Lessee") entered into a lease agreement with Philam Properties Corporation (the "Lessor") which was represented by Philamlife Tower Management Corporation as its leasing agent. The lease agreement is for a period of five (5) years from August 1, 2008 to July 31, 2013. The agreement provides the Lessee the right to lease the condominium units and parking spaces of the Lessor in exchange for monthly lease payments which is subject to 7% annual escalation. Furthermore, the leasing agreement stipulates that the Lessee will deposit with the Lessor, a security deposit of three (3) months rent amounting to ₱396,000 and advance rent amounting to ₱283,132. The advance rent will be applied on the last three months of the lease term while the security deposit will be refunded to the Organization at the end of the lease term (see Note 6). Rent expense amounted to ₱1,742,053 and ₱2,405,540 in 2012 and 2011, respectively (see Note 12). Lease was preterminated on October 31, 2012 since ISA transferred to a new office in Trident building in November 2012.

#### 14. Retirement Benefit Costs

The Organization has an unfunded, non-contributory 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:

- a) Ignored estimated future salary increases
- b) Ignored future service of current employees
- c) Ignored possible in – service mortality of current employees between December 31, 2010 and the date employees are expected to begin receiving post-employment benefits.

Retirement benefit expense amounted to ₱884,271 in 2012. The Organization recognized retirement benefit liability of ₱884,271 as of December 31, 2012.

## 15. Supplementary Tax Information Under Revenue Regulations 19-2011 and 15-2010

On November 25, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Moreover, on December 9, 2011, RR No. 19-2011 became effective where it prescribes the new income tax forms to be used effective December 31, 2011. The Organization is now required to include as part of the notes to the financial statements the schedules and information on taxable income and deductions. Below is the additional information required by Revenue Regulations 19-2011 and 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

### *RR No. 19-2011*

#### Exempt Revenues

The Organization's exempt revenues in 2012 consist of programs and grants amounted to ₱24,017,042 and 4,071,334.

#### Exempt Non-Operating and Other Income

The Organization's exempt income consists of income from sale of books and other income aggregating to ₱264,629 in 2012.

#### Exempt Itemized Deductions

Details of the Organization's exempt itemized deductions for the year:

Professional fees	₱5,614,934
Salaries, allowances and employee benefits	4,286,675
Bootcamp expenses	2,981,934
Rent	1,742,053
Travel and transportation	1,722,752
Interest expense	1,060,063
Forum expenses	1,484,650
Association dues	809,330
Seminars, conference and exhibits	607,690
Communication, light and water	516,248
Depreciation	418,608
Printing and publication	379,621
Open platform expenses	100,349
Representation and entertainment	155,784
Contract labor	79,966
Miscellaneous	622,675
<u>Total exempt deductible expenses</u>	<u>₱22,583,332</u>

### *RR No. 15-2010*

#### Withholding Taxes

The Organization's withholding taxes on compensation and benefits and expanded withholding taxes amounted to ₱256,814 and ₱856,475, respectively in 2012.

#### Other Taxes and Licenses

The Organization paid license and permit fees amounted to ₱21,930 in 2012.

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