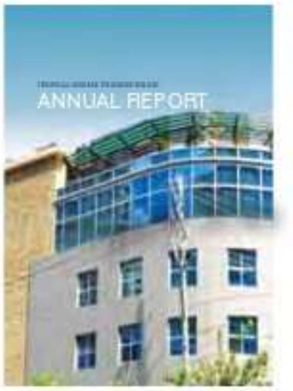
TROPICAL DISEASE FOUNDATION INC.

ANNUAL REPORT

2009-2010

3 INTRODUCTION
4 HISTORY
9 PROJECTS
15 TAs & TRAININGS
20 ORGANIZATION
22 DONORS
27 FINANCIALS



INTRODUCTION

Introduction

The Tropical Disease Foundation (TDF) is proud of our contributions in elevating the quality of solutions addressing these diseases and helping the Filipino people become a healthier and ultimately more economically productive society. As we move forward, we will continue to dedicate our work to conducting research, training talented health workers, and giving back to the community to ensure the most effective responses to diseases of public health importance.

Our work has not stopped. We continued to pursue high quality studies that produced new findings in tuberculosis and provided a service to Filipinos in need of treatment. Our involvement with Otsuka Pharmaceuticals through two projects means that we are closer to introducing a new drug in the standard TB regimen – a revolutionary development, after over 50 years. We have also continued our work with the U.S. Centers for Disease Control and Prevention in its global Preserving Effective Tuberculosis Treatment Study. We were also involved in conducting laboratory research on a new tool to shorten detection time of tuberculosis to less than two hours. TDF has remained as a global leader in health and science projects that will ultimately save the lives of many around the world.

We have also moved our main headquarters to our very own Philippine Institute of Tuberculosis, where we remain focused to our core values of serving the Filipino people. Located across from the Makati Medical Center, we are reminded of our unwavering dedication to developing a healthier society.

We look forward to more years of providing and producing knowledge and service.

Tropical Disease Foundation Inc.

HISTORY IN RESEARCH, SERVICE AND TRAINING

Looking Back

The Tropical Disease Foundation (TDF) is a private, non-stock, non-profit, non-government organization founded in 1984 by a group of physicians in the Research Institute for Tropical Medicine. The founding chairman was Dr. Jesus Azurin, then the Secretary of Health. It was then that the Tropical Disease Foundation began a legacy of quality research, service, and training in major infectious diseases.

OUR VISION:

Equitable Universal Access to Health for Economic Prosperity

The mission of the TDF is national and local community development through research, training, service, and healthcare delivery in the prevention and control of infectious diseases of public health importance.

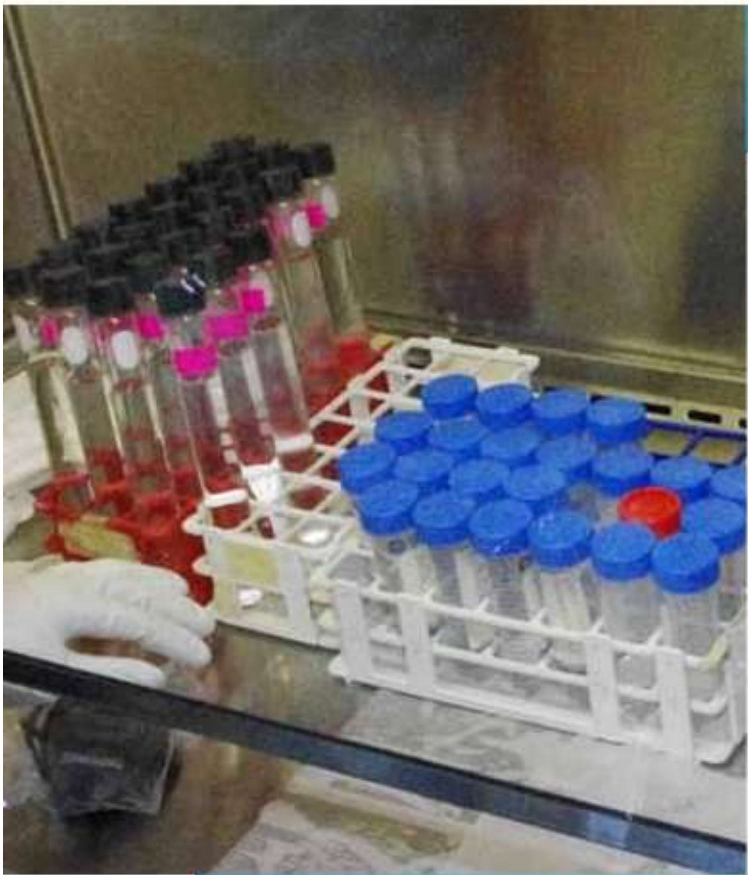
The TDF's thrusts are 1) to conduct research, training and service in infectious diseases of public health importance; 2) to enter into partnership with public and private agencies in the implementation of programs in the control of infectious diseases; 3) to enter into partnership with national and international institutions involved in research to ensure technology transfer; 4) to enter into a multi-sectoral partnership with other disciplines to ensure that cured patients are socio-economically productive; 5) to serve as a national and international training center for infectious diseases.

Linkage with the **Makati Medical Center**

Through a Memorandum of Agreement with the Makati Medical Center (MMC) in 1987, the TDF transferred to the MMC and Dr. Constantino P. Manahan was elected as the Chairman of the TDF Board of Trustees.

Through the generosity of donors and friends, the Foundation inaugurated its research laboratory on mycobacteriology, including fluorescent sputum smear microscopy, TB culture, and drug sensitivity testing, on 2 February 1988. The launch was graced by the presence of Professor Calvin M. Kunin and Dr. Constantino P. Manahan. With these laboratory facilities, the TDF was able to pursue its activities in training and research in tropical infectious diseases.

The TDF established an Institutional Review Board, serving the other clinical staff of the MMC who were involved in clinical trials. The TDF has undertaken research projects in accordance with the provisions of the Helsinki Declaration.



Accomplishments in **Research**

The TDF fulfilled several major accomplishments in its research of various diseases.

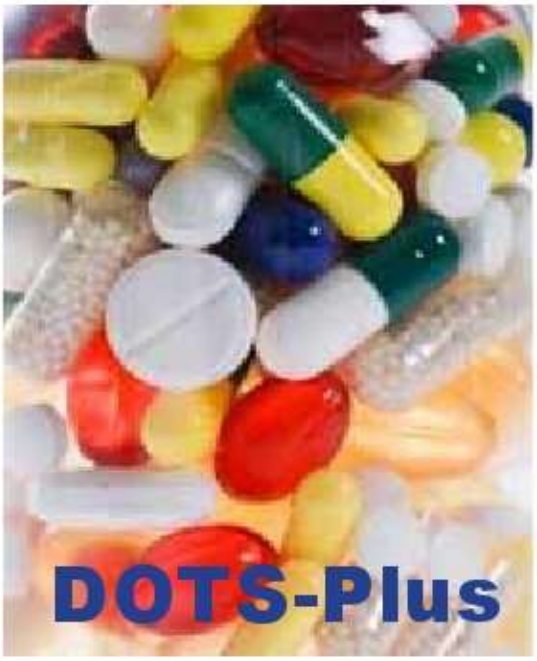
In 1988, the TDF published the first edition of the Guidelines on Anti-Microbial Therapy. One year later, Dr. Roberta Romero headed research on leprosy. Throughout the 1990s, research was conducted on hepatitis B, herpes simplex, rubeola, and multi-drug resistant typhoid fever. Additionally, TDF employees gave trainings and built capacity in these diseases.

Supporting the **Public Health Programs**

In 1997, the Tropical Disease Foundation was commissioned by the Department of Health to do the Nationwide TB Prevalence Survey. This survey found that more TB symptomatics consulted the private sector more than the public which offered free diagnostic and treatment services for TB. This proved that even if DOTS was nationwide in the National TB Program (NTP) infrastructure, there will always be missing cases since these patients go to the private sector. In response to this finding, the Tropical Disease Foundation, the research arm of the Makati Medical Center (MMC), a tertiary private hospital, set up the MMC DOTS Clinic in the spirit of private-public collaboration with the Department of Health (DOH) and its local government unit, barangay San Lorenzo.

For some time, the MMC DOTS Clinic was then the only referral center for MDR-TB providing internationally accepted standards of MDR-TB care through the guidance of the GLC. Eventually, a network consisting of a) referring DOTS facilities, b) the Treatment Center and c) a quality assured laboratory emerged as the basic unit or "Pilot Model Unit" for MDR-TB. The TDF laboratory that had been doing TB work since 1988 became quality assured for DST by the Korea Institute of TB (KIT), its SNL in 2003.

It later became the very first DOTS-Plus pilot project approved in 2000 to provide MDR-TB management by the Green Light Committee (GLC), a technical subgroup of the Working Group on Drug-Resistant TB of the Stop TB Partnership. It has established a satellite DOTS-Plus and housing facility, Kabalikat sa Kalusugan (KASAKA), in partnership with the Philippine Tuberculosis Society, Inc. at the Quezon Institute in Quezon City. In recognition of its outstanding pioneering work, this pilot project has been recommended as a center of excellence in MDR-TB management.



By word of mouth, more patients were referred for management and the clinic became overcrowded in due time. Enrolled patients came everyday for 18 months to avail of the services no matter how far they came from. Because services were completely centralized from 1999-2002, default became a problem for many patients. Hence, in the 2002 GLC monitoring visit, it strongly recommended that MDR-TB services be expanded outside the MMC since patients were coming from different parts of the country. The "Pilot Model" served as the template for this expansion.

Principal Recipient of **Global Fund**

The Foundation was awarded resources by the Global Fund to fight TB,Malaria and HIV. As its Principal recipient from 2003 to 2009, the foundation carried out programs dedicated to these diseases. Foremost in its notable efforts, the foundation pioneered the establishment of multiple centers capable of the diagnosis and treatment of Multidrug Resistant Tuberculosis. Among these are the Bahay na Kabalikat sa Kalusugan of the Philippine TB Society, the Lung Center of the Philippines, and other health centers in the country.

A total of 40 provinces were covered for malaria projects which aimed to improve diagnosis of malaria by trained barangay health workers, provide available antimalarial drugs, and distribute treated bed nets. In the HIV-AIDS program, 18 sites were established to improve the management of sexually transmitted diseases while 8 treatment hubs nationwide were setup to care for HIV patients and provide free medications.

TDF **Today**

Today, TDF remains a leader in research, particularly in tuberculosis. In 2007, TDF led the 3rd Nationwide Tuberculosis Prevalence Survey, from which data and information on the status of TB prevalence in the Philippines was derived. The findings from the NTPS have been the basis for the national TB program and subsequent studies.

Since 2008, TDF has been involved with Otsuka Pharmaceuticals in studies for a new TB treatment drug, which will be introduced in standard TB treatment. It has also been one of the organizations involved with the US CDC's Preserving Effective TB Treatment Study (PETTS). Finally, it is also involved as an evaluation site for FIND's new diagnostic method called GeneXpert.

As it moves forward, TDF continues to find new ways to exercise its core competencies in service, research, and training and to expand its horizons. By expanding its reach from international clinical studies to local community services, TDF's work is consistent in its vision for an economically productive and healthy Philippines.

TDF SERVICE

Producing Results

Preserving Effective **TB Treatment Study**

The implementation of the Preserving Effective Tuberculosis Treatment Study (PETTS) in the Philippines was through the CDC-TDF Cooperative Agreement. The study is being conducted by the US Centers for Disease Control and Prevention (CDC), in collaboration with MDR TB centers in Estonia, Latvia, Peru, Philippines, Russia, South Africa, South Korea, Taiwan, and Thailand. Tropical Disease Foundation (TDF) is the PETTS site in the Philippines.

The study aims to determine the frequency of, risk factors for, and consequences of acquired resistance to second-line TB drugs (SLD). Patients who were diagnosed to have MDR TB and started on SLD were enrolled and followed up until they have reached an outcome. The frequency and timing of acquired drug resistance will be compared between GLC and non-GLC sites.

Tropical Disease Foundation (TDF) was one of the GLC sites. At end of enrollment in June 2008, TDF was able to enroll 449 evaluable patients or 98% of the target sample size. Study follow-up ended in June 2010, and at that time there were 11 patients who were still on MDR TB treatment. The goal for completion of data entry and data cleaning are December 31, 2010 and June 30, 2011, respectively. Data analysis will be done in coordination with CDC. Dissemination of results will be done after data analysis.

Preliminary data gathered from the study were analyzed and presented in international conferences.

Collaboration with **Otsuka Pharmaceuticals**

Starting in July 2008, TDF was one of the investigation sitessite to test a new product developed by Otsuka Pharmaceuticals, which is seen as potential addition to standard TB treatment. The study has thus far begun two phases of study, one of which is still ongoing.

The objective of thefirst phase clinical trial ,titled A Multi-Center, Randomized, Double blind, Placebo-controlled, Phase II Trial to Evaluate the Safety, Efficacy and Pharmacokinetics of Multiple Doses of OPC-67683 in Patients with Pulmonary Sputum Culture-positive, Multidrug-resistant Tuberculosis,was to evaluate the safety, efficacy and pharmacokinetics of different dosages of the new product. The clinical trial started in July 2008 and achieved the final study milestone in the Philippines in June 2010. By March 2010 , the target of 150 trial patients was achieved. A total number of 39 patients screened for August2009 to March 2010 , with a cumulative 204 screened since the trial started. Of the 39 patients, 31 were enrolled and randomized to complete the target number of 150 patients. The site underwent one major clinical research audit during this time period by an independent auditor contracted by Otsuka.

The objective of the second phase of the trial, titled A Phase 2, Multi-Center, Uncontrolled, Open-label Trial to Evaluate Safety, Tolerability, and Efficacy of Orally Administered OPC-67683 as 100 mg BID with optional titration to 200 mg BID for up to Six Months Exposure in Patients with Pulmonary Multi-drug Resistant Tuberculosis, is to provide extended safety and tolerability data for MDR-TB patients from longer-term exposure with the new product fir up to 6 additional months beyond exposure in the first phase. The trial also provides additional access or first time access to the new product for patients who received a placebo drug during the first phase and who may continue to receive clinical benefit. The first patient was screened on October 2009. Out of the 55 patients who completed the first phase, 49 were enrolled in the second phase of study. The last eligible patient enrolled for the study was achieved in June 2010. As of July 2010, 25 patients have completed the study. Twenty-three out of these 25 patients have already completed their participation up to the 28th day follow-up after last intake of the investigational medicinal product while the other two patients voluntarily withdrew consent to continue.

Evaluation of **New Rapid Tuberculosis Test**

The Foundation for Innovative and New Diagnostics (FIND), a Swiss foundation located in Geneva, funded mainly by the Bill & Melinda Gates Foundation has developed a new diagnostic method for rapid molecular detection of tuberculosis and rifampicin resistance, called GeneXpert MTB/RIF™ .

The technology, which was developed by Cepheid®, provides sensitive detection of M. tuberculosis complex and rifampin resistance directly from untreated sputum in less than 2 hours. This does not need a sophisticated laboratory setting thus providing a safe and easy-to-use procedure with minimal hands-on time.

In October 2009, FIND formally introduced the new technology to the Tropical Disease Foundation (TDF) in collaboration with Lung Center of the Philippines with support from National TB Reference Laboratory (NTRL) and was chosen to be one of the product assessment and evaluation sites of the GeneXpert MTB/RIF™ along with other participating countries,including Peru, Azerbaijan, South Africa and India. The study was designed and supervised by FIND to respond to the urgent need for simple and rapid diagnostic tools at the point of treatment in high-burden countries.

To assure quality of performance of the test in the country, study investigators, headed by Dr. Pamela Nabeta of FIND and molecular biology consultant Dr. Heather Alexander, visited TDF to conduct a one-week intensive didactic and hands-on training for the laboratory and clinic staff that will perform the study. The training included patient enrolment, processing of samples, manipulation of theGeneXpert MTB/RIF™ machine, interpretation of results, the installation of machine at the point of care,and troubleshooting and data handling.

A preliminary report has been made showing the results of validation and implementation from both sites, Tropical Disease Foundation and Lung Center of the Philippines. Both sites were allowed to test the product paralleled with existing culture methods being processed in their respective labs. At TDF, there were 342 results available on both culture methods. The concordance of using Xpert MTB and the existing MGIT/LJ method (used as the gold standard) is 91.5%, the sensitivity is 91.5%, and the specificity is 91.5%, indicating a strong match. The concordance on rifampicin resistance is even higher at 96.03%, while the sensitivity is 92.9% and the specificity is 98.6%. At LCP,there were 609 results available on both culture methods. In the validation phase, the concordance of using Xpert MTB and LJ method is 85.3%, with the sensitivity at 95.0% and the specificity at 78.8%,while the concordance of the two methods in the implementation phase is 84.2%, with sensitivity at 97.4% and specificity at 76.5%. Only 151 have DST results comparable on the two methods. In the validation phase, the concordance on rifampicin resistance is 93.33%, and the sensitivity is 98.7% and the specificity of the test is 76.9%, while in the implementation phase, the concordance is 93.48%, the sensitivity is 96.9%, and the specificity is 85.7%.

"This new test represents a major milestone for global TB diagnosis and care. It also represents new hope for the millions of people who are at the highest risk of TB and drug-resistant disease." said Dr Mario Raviglione, Director of WHO's Stop TB Department. "We have the scientific evidence, we have defined the policy, and now we aim to support implementation for impact in countries."

TDF TRAININGS

Technical Assistance

Project Monitoring and Evaluation Orientation for Rolling Continuation Channel (RCC) Staff
23 September 2009
Traders' Hotel-Manila

Regional Malaria Coordinator Orientation on Logistics Management System and Integrated Modular System
22-26 September 2009
Traders Hotel, Manila

Procurement and Supply Management Training for RHU Staff
22-24 September 2009
Bayview Park Hotel, Manila

Project Monitoring & Evaluation (PME) Staff Orientation
September 2009
Traders Hotel, Manila

GF RCC Orientation for Staff
August 2009
Pearl Manila Hotel, Manila

TDF TRAININGS

Capability Building

Gene Xpert 2010
Makati, Philippines

Refresher Training on Good Clinical Practice
July 22, 2010
Makati, Philippines

International Conference on Harmonization-Good Clinical Practice Guideline Training
July 15, 2010
Makati, Philippines

Resolving Problematic Cultures of M. tuberculosis and Non-tuberculous mycobacteria (NTM) using Conventional Microbiological Applications and Molecular Techniques
May 5, 2010
Makati, Philippines

TDF TRAININGS

Capability Building

Updates and Review of Non Tuberculous Mycobacteria
May 4, 2010
Makati, Philippines

Updates and Review of Good Clinical Laboratory Practice
April 28-29, 2010
Makati, Philippines

BD Epicenter Data Management System
January 21, 2010
Makati, Philippines

Training for Handling/ Offering Transport of Dangerous Goods
January 20, 2010
Makati, Philippines

TDF TRAININGS

Capability Building

Online Infection Control and Biosafety Levels for Different Microbiological Laboratories
October 13, 2009
Makati, Philippines

Xpert Mtb/ Rif Demonstration Projects Training
October 5- 9, 2009
Makati, Philippines

BD BACTEC MGIT 960 Principles, Procedures and Guidelines
September 16, 2009
Makati, Philippines

Budget Planning and Project Management
1-13 September 2009
Bangkok, Thailand

TDF TRAININGS

Capability Building

7th International Training Course on Management of Malaria
31 August – 4 September 2009
Mahidol University, Bangkok, Thailand

Advanced TB Infection Control Course for Consultants
18-21 August 2009
New Delhi, India

and
29 August – 8 September 2009
Latvia

International Conference on AIDS in Asia & Pacific
6-14 August 2009
Bali, Indonesia

Updating the STI Information System for Social Hygiene Clinics Workshop
10-12 August 2009
Sulo Hotel, Quezon City

Synergy in TB Care: A Holistic Approach
August 2009
Ortigas, Philippines

The Training Course for Laboratory Service Tuberculosis Control including Media Preparation, Drug Susceptibility Test and Molecular Techniques such as PCR, PRA, LiPA and RFLP
July 20- August 31, 2009

Tropical Disease
Foundation Inc.

THE ORGANIZATION

Our People

Executive Officers

Officer in Charge
DR. ROBERTA C. ROMERO

Director of Research
DR. THELMA E. TUPASI

Chief Finance Officer
MS. LORNA DAVID

Chief Operations Officer
DR. MIRIAM NECESITO

Management Staff

Data Manager
MR. RUFFY GUILATCO

Assistant Chief Finance Officer
MS. YVETTE BELEN

Laboratory Manager
MS. CLAUDETTE GURAY
MR. HENRY EVASCO

Human Resources Officer
MS. MARITA NUCUM

Information and Communications Officer
MS. ERIN JAN L. SINOGBA

Procurement and Supply Officer
MS. MARILOU C. ORTIZ

Acknowledgements

We acknowledge with deep gratitude the Grantors, benefactors, patrons, sponsors, donors and friends of the Foundation.

Grantors

Philippine Charity Sweepstakes
(Second Line Drugs for MDR-TB patients)

Philippine Amusement and Gaming Corporation
(for KASAKA housing facility)

The Global Fund to Fight AIDS, Tuberculosis, and Malaria

Benefactors

Beatrice d. Campos
(for PMU at Montepino)

Jocelyn Campos-Hess
(for PMU at Montepino)

Ayala Corporation
(for the site of the International Center for Tuberculosis)

Angelo King Foundation

Makati Rotary Club Foundation, Inc.

World Lung Foundation

The Cathay Drug, Inc.

Elena P. Tan Foundation

Patrons

Asia Brewery Scholarship Foundation
Bayer Philippines, Inc.
Johnson (Phil), Inc.
Daiichi Seiyaku Co., Ltd
Insular Life Assurance Co, Ltd.
Schering Corp. (Phil.), Inc.
Mr. Lucio C. Tan
Zuellig Pharma Corporation
Oscar L Liboro, MD.
Tan Yan Kee Foundation
Nutrition Center of the Philippines
Carlos Palanca Foundation
Far East Bank and Trust Co.
Stephen Fuller, M.D.
Miguel de Leon, M.D.
Dr. & Mrs. Roel Romero
Mr. Harry Tan
Elena P. Tan Foundation
Sen. Loren Legarda
Eli-Lilly (Phils) Inc.
Lapanday Foods
Boysen
Zuellig Pharma Corp.
Servier Phils.
Stars Bar and Dining
Mercedes Concepcion, Ph.D.
Alicia and Madu Rao Family Fund
Unilever Philippines
Thelma E. Tupasi, MD
NCDPC-IDO-DOH
Judge Hector Corpus
Christina A. Feliciana
Unilever Philippines
Nellie V. Mangubat
Romel Lacson
Albert Angelo Concepcion

AstraZeneca
Bristol-Myers Squibb-Mead
United Laboratories, Inc.
E.R. Squibb & Sons (Phil.) Corp
Phil. Investment Management
Consultants Inc. (PHINMA)
Dr. & Mrs. Claver Ramos
Florina Kaluag, M.D.
Amb. & Mrs. Ramon del Rosario
Glaxo-SmithKline
BOIE-Takeda Chemicals, Inc
Dona Kingpaoguat Typoco Tanyu
Trans-Philippines Investment Corp.
Romeo H. Gustilo, M.D.
Fmr. Senator & Mrs. Manuel Manahan
Glocrito Sagisi, M.D.
Mrs. Carmen Yulo
Philippine Cut Flower Corp.
Pablo Antonio Jr. Design Consult., Inc.
Dr.Thelma Crisostomo
Esicor Inc.
Wyeth Philippines Inc.
Bayer Philippines, Inc.
Abbott Laboratories
AIC Realty Corportaion
Christina A. Feliciano
Robert Alan C. Romero
Standard Chartered Bank
Dr. Magda
Social Security System
Lombardo M. Santiago / Ana V. Santiago
Robert Alan C. Romero
Standard Chartered Bank
Rodolfo T. Sim
Roland Francisco
Dr. Jose & Josefina Francisco

Sponsors

Dr. Raul Fores
Normando C, Gonzaga, M.D.
Rebecca Singson, M.D.
M.M. Lazaro and Associates
Cathay Drug Company, Inc.
Otsuka Pharmaceuticals Philippines
Avon Cosmetics, Inc.
David M. Consunji
Highlight Metal Craft
Asia Industries,Inc.
LEC Steel Marketing
Max's Restaurant
Asia Industries
Col. & Mrs. Juan Arroyo
Mr. Jun Ichinose
Engr. Proceso P. Ramos
Dr. & Mrs. Vicente Magsino
Cordillera Savings & Loan Bank
Roche Philippines Inc.
Microbase Inc.
N.L. Villa Medical Center
SANOFI Winthrop,Inc.
Atty. & Mrs. Zoilo Dejaresco
Bank of Commerce
Pfizer
Material Handling Equipment Corp.

Donors

Counsellor's Inn
Ms. Nina Aquino
Mrs. Lilian de Leon
Mr. Johnny Matanagmon
Mr. Joey Reyes
Angela Villanueva, M.D.
Dr. Lourdes Manahan
Annie & Rudy Sim
Rural Bank of Solano
The American Eye
Mariposa Foundation, Inc.
Dr. Carmelita Grande
Sen. Juan Ponce Enrile
Beta Electric Corp.
Alpha Plumbing Works
Dr. & Mrs. Dante B. Morales
3M Philippines
George and Grace Ramos
Center for Skin Research Testing
and Product Development, Inc.
Danilo Atienza
Ima Layug
Claver P./Thelma T. Ramos, MDs
Development Bank of the Philippines
Roberta Romero, M.D.
Rosario M. Labrador
Jimmy Cordero M.D
Gonzalo T. Chua / Jean Y. Chua
Leticia Q. Del Pilar, M.D.
Mr. Hubert d' Aboville
Mr. & Mrs. Juanito de Dios
Mrs. Asuncion G. Aviado
Reynaldo Que
Vermen Verallo, M.D.
Atty. & Mrs. Rafael Borromeo
Dr. Floro Brosas
Dr. & Mrs. Alipio Abad
Dr. and Mrs. Renato Sibayan
Antonio & Regina Alvarez
Dr. Jose Paolo Lorenzo
Makati Heart Foundation
Mr. & Mrs. Alex Villamar
Transworld Rubber
Gerald & Daniel Quelapio
General Offset Press Inc
VMV Hypoallergenics
Mr. Vince Garcia
Juan Dizon
Maria Luz G. Pascual
Ladia and Ladia, MDs PA
Ma. Tarcela S. Gler, MD
Dr. Mercedes Concepcion
Dr. Jaime Jose Hilao
Ruben F. / Adelaida G. Ballesteros
Jacinto V./ Dorothy M. De Borja
Benedicto Gallardo
Benjamin V. / Susan Rabe Del Carmen
Ima Layug

Institutional Donors

Frontline Linkage Incorporated
New World Sales Center
Sycip, Gorres, Velayo & Co.

Memorial endowments in honor of:

CONSTANTINO P. MANAHAN, M.D.

LUCRECIA LIZARES GUSTILO

Friends of the Foundation

Miss Asuncion M. Albert
Jose Lopez David, M.D.
Arch. & Mrs. Willi Fernandez
Dr. Yoshio Hamaguchi
Eduardo Jamora, M.D.
Mr. Horacio Pascual
Engr. Antonio Simpao
Mr. & Mrs. Adolfo Villegas
Mr. & Mrs. Jose Yuzon
Kidney Unit, Makati Medical Center
R. & T. Rodriguez
Bacnotan Consolidated Industries, Inc.
Dermhaus
Trans-Asia Oil and Mineral Devt. Corp.
Unimer Trading Corporation
Victorias Marketing
Dr. Clemente Gatmaitan
Dr. Gary Lopez
Dr. Annabelle Aherrera
Dr. Thelma Leelin
Dr. Bienvenido Cabral
Dr. Filomena Montinola
Dr. Benjamin Bince
Dr. Ludivina Garces
Marissa Rovillos
Dr.Theresa Ortin
Dr. Victor Lopez
Dr. Dindo Isabela
Dr. Juliet Yap
Philippine Orthopedic Institute
Dr. Angelita Aguirre
Dr. Zenaida Bagabaldo
Dr. Jaime Lapuz
Dr. Saturnino Javier
Dr. Emmanuel Ibay
Dr. Elsie Floreza
Mr. William CoDr. Jose San Gabriel
Susan Lamb
Dr. Sylvia Jamora
Dr. Benjamin Magsino
Dr. Milan Tambunting
Dr. Carmela Isabela
Dr. Josephine Raboca
Dr. Gerardo Beltran

Mr. & Mrs. Chester Babst
Arch. Santiago Esplana
Atty. & Mrs. Joselin Fragada
Mr. & Mrs. Bernardo Jalandoni
Mr. & Mrs. Precha Kulapongse
Mrs. Beatrice Sim
Arch. & Mrs. Greg Timbol
Mr. Antonio Yap
FC Masagana Bld.
Mg Man To
A & S Hardware
Bataan Pulp and Paper Mills
EMAR Corporation
Internationale Foundation, Inc.
United Pulp and Paper Corporation
Dr. Patricia Santos
Dr. Eloisa Pastores
Dr. Bienvenido Aldanese
Dr. John Pastores
Dr. Arnel Diaz
Dr. Nora Figueroa-Santos
Dr. Benjamin Luna
Dr. Antonio Cayco
Dr. Rosario Paguntalan
Dr. Wilma Baltazar
Dr. Ruth Divinagracia
Dr. Roberto Ingles
Dr. Estela Cabrera
Dr. & Mrs. Michael Wassmer
Dr. Agripino Reloza
Dr. Ma. Teresa Tangkeko
Dr. Eduardo Jamora
Dr. Elaine Baens Araneta
Dr. Santos Ocampo
Dr. Jacqueline King
Dr. & Mrs. Roberto Mata
Dr. Oswald Herrera
Dr. Augusto Litonjua
Dr. Imelda Villar
Dr. Gregorio Martinez
Dr. Alexis Reyes
Dr. Nazario Macalintal
Dr. Eduardo Rondain
Dr. Benjamin Adapon

Friends of the Foundation

Dr. Jack Arroyo
Dr. Tito Torralba
Dr. Cristina Antonio
Dr. Martesio Perez
Dr. Homobono Calleja
Dr. Johnny Almirante
Dr. Simon Sawit
Dr. Ramon Ongsiako
Conchita Morales
Dr. Ariston Bautista
Henry & Lucy Co
Dr. Esther Leynes
Dr. Benjamin Famador
Dr. Reynaldo Rivera
Dr. May Sison
Philippine Orthopedic Institute
Dr. Vicente Arguelles
Aurelia Gopuansuy
Roberto Gopuansuy
Dr. Aurelia Leus
Dr. Grace Luna
Dr. Santiago del Rosario
Dr. Regina Liboro
Dr. Elizabeth Rondain
Dr. Antonio Mendoza
Dr. Abundio Balgos
Dr. Danilo Francisco
Electro Systems Ind.
Dr. & Mrs. Paulino Tenchavez
Dr. Ma. Lourdes Gozali
Carmelita Amora
Jose Solano
Dr. Manuel Canlas
Dr. Erlinda Escara
Dr. Romeo Nuguid
Dr. Luz Gamez
Dr. Rodrigo Cesario
Herophil
Atty. Victoria Martinez
Dr. Raymund Serina
Paris Manila Technology
Dr. Luis Capuchino
Nell Datu
Milly Chua
Peter Dejaresco
Sister Tajanlangit
Dr. Natividad Alimurong
Maribel Rivera
Dr. Edmundo Villacorta
Enrique&Susana Campos
Dr. Ramon Ocampo
Dr. Deogracias Custodio
Dr. Mercy Viduya
Dr. Federico Leelin
Dr. Shirley Ong
Mary Lou Claudio
Gerald Panlilio
Ma. Chuatico
Saudi Ambassador Al-Ghandi
Dr. Erlinda Famador
Dr. Conrado Lorenzo
Dr. Bernardo Cueto
Dr. Ernesto Santos
Dr. Bernardita Gabriel
Hali Gopuansuy
Panda Devt. Corp.
Dr. Prudencio Dy
Dr. Victor Alvarez
Dr. Paul Tan
Dr. Salvador Valdez
Dr. Manuel Kanapi
Dr. Genara Limson
Dr. Gregorio Ocampo
Crysma Trading
Dr. Monina Ozaeta
Dr. Eric Nubla
Engr. Proceso Ramos
Dr. Miguel Celdran
Dr. Rosario Alcaneses
Dr. Teresa Fontillas
Dr. Dennis Garcia
Dr. Jorge Arkoncel
Dr. Francisco Barros
Nilo's Machine
Salvador Martinez
Atty. Robert Abad
Alfonso Tiu/Concept Packaging
Dr. Leticia Andres
Dr. Julius Lecciones
Arlene Pioderoda
Elly Dejaresco
Bingo Dejaresco
Danny Anastacio
Novartis

Tropical Disease Foundation Inc.

2009 - 2010 Financials

INDEPENDENT AUDITOR'S REPORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

STATEMENT OF FINANCIAL POSITION

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN FUND BALANCES

STATEMENT OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN

The Board of Trustees and Members
TROPICAL DISEASE FOUNDATION, INC.
(A Non-stock, Not-for-Profit Organization)
Philippine Institute of Tuberculosis Bldg.,
Amorsolo corner Urban Avenue, Pio del Pilar,
Makati City.

We have audited the financial statements of **TROPICAL DISEASE FOUNDATION, INC.** for the year ended July 31, 2010 on which we have rendered the attached report dated June 1, 2012.

In compliance with Revenue Regulation V-20, we are stating the following:

1. The schedule of taxes paid and accrued by the above Foundation for the fiscal year ended July 31, 2010 is attached to the Annual Income Tax Return.

2. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Foundation.

R.S. BERNALDO & ASSOCIATES
BOA/PRC No. 0300
Valid until December 31, 2012
SEC Group A Accredited
Accreditation No. 0153-FR-1
Valid until September 13, 2014
BSP Group B Accredited
Valid until February 14, 2014
CDA CEA No. 013-AF
Valid until October 25, 2013

ROSARIO S. BERNALDO
Managing Partner
CPA Certificate No. 25927
SEC Group A Accredited
Accreditation No. 1192-A
Valid until March 1, 2015
BSP Group B Accredited
Valid until February 14, 2014
BIR Accreditation No. 08-002793-1-2009
Valid from October 27, 2009 until October 26, 2012
Tax Identification No. 109-227-722
PTR No. 3181642
Issued on January 5, 2012 at Makati City

June 1, 2012

INDEPENDENT AUDITORS' REPORT

The Board of Trustees and Members
TROPICAL DISEASE FOUNDATION, INC.
(A Non-stock, Not-for-Profit Organization)
Philippine Institute of Tuberculosis Bldg.,
Amorsolo corner Urban Avenue, Pio del Pilar,
Makati City.

We have audited the accompanying financial statements of **TROPICAL DISEASE FOUNDATION, INC.** which comprise the statement of financial position as of July 31, 2010 and the statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year 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 Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **TROPICAL DISEASE FOUNDATION, INC.** as of July 31, 2010, and its financial performance and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 30 to the financial statements which describe the correction of prior period error on the adjustments made on Fund balance and Funds held in trust account. Our opinion is not qualified in respect of this matter.

Other Matter

The financial statements of the Foundation as of July 31, 2009, were audited by another auditor whose report dated February 9, 2012, expressed an unqualified opinion on those statements.

As part of our audit of the July 31, 2010 financial statements, we also audited the adjustments described in Note 30. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the July 31, 2009 financial statements of the Foundation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the July 31, 2009 financial statements taken as a whole.

R.S. BERNALDO & ASSOCIATES
BOA/PRC No. 0300
Valid until December 31, 2012
SEC Group A Accredited
Accreditation No. 0153-FR-1
Valid until September 13, 2014
BSP Group B Accredited
Valid until February 14, 2014
CDA CEA No. 013-AF
Valid until October 25, 2013

ROSARIO S. BERNALDO
Managing Partner
CPA Certificate No. 25927
SEC Group A Accredited
Accreditation No. 1192-A
Valid until March 1, 2015
BSP Group B Accredited
Valid until February 14, 2014
BIR Accreditation No. 08-002793-1-2009
Valid from October 27, 2009 until October 26, 2012
Tax Identification No. 109-227-722
PTR No. 3181642
Issued on January 5, 2012 ,at Makati City

June 1, 2012

Tropical Disease Foundation Inc.

Philippine Institute of Tuberculosis Bldg., Amorsolo cor. Urban Ave., Pio del Pilar, Makati City, 1230 Philippines • Tel. 8102874; 7516021

www.tdf.org.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **TROPICAL DISEASE FOUNDATION, INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended July 31, 2010. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to, the value added tax and/ or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended July 31, 2010 and the accompanying Annual Income Tax Return are in accordance with the books and records of **TROPICAL DISEASE FOUNDATION, INC.** complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Foundation's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the **TROPICAL DISEASE FOUNDATION, INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

JOSE CONRADO BENITEZ, Ph.D.	**VITALLANO N. NAÑAGAS II**
Chairman of the Board	Treasurer

TROPICAL DISEASE FOUNDATION, INC.

(A Non-Stock, Not-for-Profit Organization)

STATEMENT OF FINANCIAL POSITION

July 31, 2010

(With Comparative Figures for 2009 and 2008)

(In Philippine Peso)

	NOTES	2010	2009 (As restated)	2008 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	6	332,211,022	1,206,287,726	789,679,382
Advances and other receivables	8	28,526,065	207,549,459	10,222,295
		360,737,087	1,413,837,185	799,901,677
Non-current Assets				
Property and equipment – net	9	87,120,837	105,304,433	105,379,850
Investment property – net	10	15,098,500	-	-
Available for-sale-financial asset	7	21,053	13,104	14,112
Other investment		-	-	3,258,636
Refundable deposit	23	1,106,069	3,676,740	3,351,275
Deferred tax asset	26	55,350	-	-
		103,401,809	108,994,277	112,003,873
TOTAL ASSETS		464,138,896	1,522,831,462	911,905,550
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Current Liabilities				
Trade and other current liabilities	11	27,455,584	39,360,018	18,976,813
Notes payable	13	2,675,920	11,662,919	15,000,000
Funds held in trust	12	249,099,519	1,303,967,632	756,560,204
		279,231,023	1,354,990,569	790,537,017
Non-current Liabilities				
Notes payable – net of current portion	13	10,456,028	-	-
Retirement benefits obligation	22	-	9,052,959	3,383,998
		10,456,028	9,052,959	3,383,998
TOTAL LIABILITIES		289,687,051	1,364,043,528	793,921,015
FUND BALANCES				
Members' contribution	14	70,000	70,000	70,000
Fund balance	14	174,363,042	158,707,080	117,902,673
Fair value reserve on available-for-sale financial asset	15	18,803	10,854	11,862
TOTAL FUND BALANCES		174,451,845	158,787,934	117,984,535
TOTAL LIABILITIES AND FUND BALANCES		464,138,896	1,522,831,462	911,905,550

(See Notes to Financial Statements)

TROPICAL DISEASE FOUNDATION, INC.

(A Non-Stock, Not-for-Profit Organization)

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended July 31, 2010

(With Comparative Figures for 2009 and 2008)

(In Philippine Peso)

	NOTES	2010	2009
SOURCES OF FUNDS	16	**137,462,638**	230,940,022
OTHER INCOME	17	**3,677,406**	2,031,349
		141,140,044	232,971,371
PROGRAM EXPENSES	18	**93,654,077**	163,278,766
GENERAL AND ADMINISTRATIVE EXPENSES	19	**21,120,218**	13,259,126
OTHER EXPENSE	20	**1,330,600**	-
FINANCE COSTS	21	**1,116,924**	1,589,023
		117,221,819	178,126,915
EXCESS OF INCOME OVER EXPENSES BEFORE TAX		**23,918,225**	54,844,456
INCOME TAX EXPENSE	25	**228,669**	-
EXCESS OF INCOME OVER EXPENSES AFTER TAX		**23,689,556**	54,844,456
FAIR VALUE GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSET	15	**7,949**	10,854
EXCESS OF INCOME OVER EXPENSES		**23,697,505**	54,855,310

(See Notes to Financial Statements)

TROPICAL DISEASE FOUNDATION, INC.

(A Non-Stock, Not-for-Profit Organization)

STATEMENT OF CHANGES IN FUND BALANCES

For the Year Ended July 31, 2010

(With Comparative Figures for 2009 and 2008)

(In Philippine Peso)

	Notes	Members' Contribution	Fund Balance	Reserve Available-For-Sale Financial Asset	Total
Balance at August 1, 2009		70,000	117,902,673	-	117,972,673
Prior period adjustments	30		(22,073,643)	-	(22,073,643)
Balance at August 1, 2009, as restated		70,000	95,829,030	-	95,899,030
Excess of income over expenses			54,844,456	-	54,844,456
Fair value gain on available-for-sale financial asset	15			10,854	10,854
Balance at July 31, 2009		70,000	150,673,486	10,854	150,754,340
Excess of income over expenses			23,689,556		23,689,556
Fair value gain on available-for-sale financial asset	15			7,949	7,949
Balance at July 31, 2010		**70,000**	**174,363,042**	**18,803**	**174,451,845**

(See Notes to Financial Statements)

TROPICAL DISEASE FOUNDATION, INC.

(A Non-Stock, Not-for-Profit Organization)

STATEMENT OF CASH FLOWS

For the Year Ended July 31, 2010

(With Comparative Figures for 2009 and 2008)

(In Philippine Peso)

	NOTES	2010	2009 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of income over expenses		**23,918,225**	54,844,456
Adjustments for:			
Depreciation	9,10	**6,688,089**	6,995,418
Finance cost	21	**1,116,924**	1,589,023
Unrealized foreign exchange (gain) loss-net		**1,029,947**	(585,936)
Gain on sale of equipment	9,17	**(220,000)**	-
Finance income	6	**(494,125)**	(211,221)
Realized foreign exchange gain	17	**-**	(169,021)
Operating cash flows before changes in working capital		**32,039,060**	62,462,719
Decrease (Increase) in operating assets:			
Advances and other receivables		**179,023,394**	(197,327,163)
Available-for-sale financial asset		**-**	3,259,386
Refundable deposit		**2,570,671**	(325,465)
Increase (Decrease) in operating liabilities			
Trade and other current liabilities		**(12,188,453)**	26,051,415
Funds held in trust		**(1,062,901,708)**	533,367,379
Net cash from (used in) operating activities		**(861,457,036)**	427,488,271
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	9	**(3,602,993)**	(6,920,001)
Proceeds from disposal of property and equipment	9	**220,000**	-
Finance income received	6	**494,125**	211,221
Net cash used in investing activities		**(2,888,868)**	(6,708,780)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans	13	**15,000,000**	-
Repayment of loans	13	**(13,530,970)**	(3,337,081)
Finance cost paid	21	**(1,116,924)**	(1,589,023)
Retirement benefits paid		**(9,052,959)**	-
Net cash used in financing activities		**(8,700,853)**	(4,926,104)
EFFECTS OF FOREIGN EXCHANGE RATE		**(1,029,947)**	754,957
NET INCREASE (DECREASE) IN CASH		**(874,076,704)**	416,608,344
CASH AT BEGINNING OF YEAR		**1,206,287,726**	789,679,382
CASH AT END OF YEAR		**332,211,022**	1,206,287,726

(See Notes to Financial Statements)

TROPICAL DISEASE FOUNDATION, INC.

(A Non-stock, Not-for-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

July 31, 2010

(With Comparative Figures for 2009 and 2008)

1. CORPORATE INFORMATION

Tropical Disease Foundation, Inc. (the "Foundation") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on November 5, 1984 as a non-stock, not-for-profit organization. The principal activities of the Foundation are to undertake biological research and provide training and service in the control and management of tropical and infectious diseases, including therapeutic and preventive measures.

As a non-stock, nonprofit organization, the Foundation is exempt from payment of income tax with respect to receipts received in accordance with the provision of Section 30 (e) of RA No.8424 entitled "An Act 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 Foundation was established is exempt from tax. However, any income on any properties, real or personal, or from any activity conducted for profit, regardless of the disposition of such income, is subject to tax. Also, the Foundation is an accredited donee institution by the Philippine Council for NGO Certification. As such, its donors are entitled to full or limited deduction and exemption from donor's tax. However, the Foundation's accreditation from PCNC has expired last April 20, 2009.

The Company's registered address is located at the Philippine Institute of Tuberculosis Bldg., Amorsolo corner Urban Avenue, Pio del Pilar, Makati City.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Philippine Financial Reporting Standards Council (FRSC) approved the issuance of new and revised Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the FRSC and adopted by SEC.

These new and revised PFRS prescribe new accounting recognition, measurement and disclosure requirements applicable to the Foundation. When applicable, the adoption of the new standards was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors".

2.01 New and Revised PFRSs Applied with No Material Effect on the Financial Statements

The following new and revised PFRSs have been adopted in these financial statements. The application of these new and revised PFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements

- PAS 1 (as revised in 2007), *Presentation of Financial Statements*

  This revised Standard introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income.' Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income.

  It also requires additional requirements in the presentation of the statement of financial position and equity as well as additional disclosures to be included in the financial statements.

  As a result, statement of income and expenses was changed to statement of comprehensive income and statement of changes in equity was changed to statement of changes in fund balance

- *Improvements to PFRS (2009)*

  Amendments to PFRS 7, *Financial Instruments: Disclosures* - The amendments to PFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

  Amendments to PAS 1, *Presentation of Financial Statements* - The amendments to PAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

  Amendments to PAS 7, *Statement of Cash Flows* - The amendments to PAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

  Amendments to PAS 17, *Leases* - The amendments to PAS 17 clarify that when lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

  Amendments to PAS 18, *Revenue* - The Amendments provide guidance on determining whether an entity is acting as a principal or as an agent.

  Amendments to PAS 36, *Impairment of Assets* – PAS 36 clarifies that the largest unit permitted for the purpose of allocating goodwill to cash-generating units for goodwill impairment is the operating segment level defined in PFRS 8 before aggregation.

  Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* – The Amendments clarify whether embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan, are considered closely related to the host debt contract. It also clarifies the scope exemption which applies only to binding contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. Gains and losses on hedging instruments should be reclassified from equity to profit or loss account as a reclassification adjustment.

2.02 New and Revised PFRSs in Issue but Not Yet Effective

The Foundation will adopt the following standards and interpretations enumerated below when they become effective. Except as otherwise indicated, the Foundation does not expect the adoption of these new and amended PFRS to have significant impact on the financial statements.

- *Improvements to PFRS (2010)* – Effective for annual periods beginning on or after January 1, 2011

  Amendments to PAS 1, *Presentation of Financial Statements* - The amendments to PAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

- PFRS 7 (Revised), *Financial Instruments: Disclosures – Transfers of Financial Assets*

  The amendments to PFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

  The effective date of the amendment is July 1, 2011, with earlier application permitted.

- PFRS 9, *Financial Instruments: Classification and Measurement*

  PFRS 9, *Financial Instruments,* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  PFRS 9 requires all recognised financial assets that are within the scope of PAS 39, *Financial Instruments: Recognition and Measurement,* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  The most significant effect of PFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under PFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under PAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss

PFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

- PFRS 13, *Fair Value Measurement*

  The Standard explains how to measure fair value for financial reporting. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It emphasizes that fair value is market-based not an entity-specific measurement; hence an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. It was developed to eliminate inconsistencies of fair value measurements dispersed in various existing PFRSs. It clarifies the definition of fair value, provides a single framework for measuring fair value and enhances fair value disclosures.

  PFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

- PAS 32 (Revised), *Financial Instruments: Presentation – Classification of Rights Issues*

  The amendments to PAS 32 address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. This standard is applicable for annual periods beginning on or after February 1, 2010.

- PAS 24 (as revised in 2009), *Related Party Disclosures – Revised Definition of Related Parties*

  PAS 24 modifies the definition of a related party and simplifies disclosures for government-related entities. This standard is applicable for annual periods beginning on or after January 1, 2011.

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

  The amendment to IFRIC 14 requires entities that are subject to minimum funding requirement to treat the benefit of an early payment as an asset. This Interpretation will be effective for periods beginning on or after January 1, 2011.

3. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

3.01 Statement of Compliance

The financial statements have been prepared in conformity with PFRS and are under the historical cost convention, except for certain financial instrument that are carried either at fair value or at amortized cost.

3.02 Functional and Presentation Currency

Items included in the financial statements of the Foundation are measured using Philippine Peso, the currency of the primary economic environment in which the Foundation operates (the "functional currency").

The Foundation chose to present its financial statements using its functional currency.

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Foundation in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets that are subsequently measured at cost or at amortized cost ,and where the purchase or sale are under a contract whose terms require delivery of such within the timeframe established by the market concerned are initially recognized on the trade date.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and advances and other receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Foundation's financial assets include cash and cash equivalents, advances and other receivables, available-for-sale financial assets and refundable deposits.

4.01.01 Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating finance income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

4.01.02 Amortized Cost

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of effective interest rate.

4.01.03 AFS Financial Assets

Listed shares held by the Foundation that are traded in an active market are classified as being AFS and are stated at fair value.

Dividends on AFS equity instruments are recognized in income and expense when the Foundation's right to receive the dividends is established.

4.01.04 Advances and other Receivables

Advances and other receivables or determinable payments that are not quoted in an active market are classified as 'loans and advances and other receivables'. Loans and advances and other receivables are measured at amortized cost using the effective interest method, less any impairment. Finance income is recognized by applying the effective interest rate, except for short-term advances and other receivables when the recognition of interest would be immaterial.

4.01.05 Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

For certain categories of financial asset, such as advances and other advances and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of advances and other receivables could include the Foundation's past experience of collecting payments.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances and other advances and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

4.01.06 Derecognition of Financial Assets

The Foundation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Foundation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Foundation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Foundation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Foundation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

4.02 Investment Property

Investment property, which is property held to earn rentals for such purposes, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at its cost less accumulated depreciation and impairment loss.

Depreciation is computed using the straight-line method based on the estimated useful life of the asset which is 20 years.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use.

Investment property is derecognized by the Foundation upon its disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

4.03 Property and Equipment

4.03.01 Property and Equipment Acquired from Sources other than Global Fund

Property and equipment are initially measured at cost. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Subsequent to initial recognition property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Foundation. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

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

Building	20 years
Office furniture, fixtures and equipment	5 years
Laboratory equipment	5 years
Office equipment	5 years
Transportation equipment	5 years

Leasehold improvements are depreciated over the shorter between the improvements' useful life of 5 or the lease term, whichever is shorter.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4.03.02 Property and Equipment Acquired from Global Fund

The Foundation accounts for acquisition of property and equipment and other capital expenditure using the grant received from Global Fund as period cost are presented as part of expenses under the Restricted Fund "Global Fund" portion in the statement of income and expenses.

The acquisition costs are accounted for as an outright expense in the year the costs are incurred since Management believes that it will be able to properly account for the grant received from Global Fund if the acquisition costs of property and equipment are expensed outright.

4.04 Borrowing Costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.05 Financial Liabilities and Equity Instruments

4.05.01 Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

4.05.02 Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Foundation considers Fund balance as equity.

4.05.03 Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

The foundation's financial liabilities include trade and other current liabilities, notes payable and funds held in trust.

4.05.04 Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value inclusive of directly attributable transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with finance cost recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating finance cost over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4.05.05 Derecognition of Financial Liabilities

The Foundation derecognizes financial liabilities when, and only when, the Foundation's obligations are discharged, cancelled or expired. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4.06 Employee Benefits

4.06.01 Post-employment Benefits

The Foundation has a unfunded, contributory retirement plan. The cost of providing benefits is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Post-employment expenses include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees. Cumulative actuarial gains and losses in excess of the 10% of the greater between present value of the defined benefit obligation and fair value of any plan assets were amortized over the expected average remaining working lifetime of the employees and recognized as part of retirement expense.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

4.06.02 Short-term Benefits

The Foundation recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Foundation to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits.

4.07 Provisions

Provisions are recognized when the Foundation has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Foundation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.08 Income Recognition

4.08.01 Grants, Contributions and Donations

Income is recognized upon receipt of the grants, contributions and donations. Grants received for specific purposes and which are covered by contracts or agreements to implement specific projects and are required by donors to be accounted for separately are accounted for separately and are recorded under "Funds Held in Trust" account in the statement of assets, liabilities and fund balance. Contributions-in-kind are recorded at fair market value on the date of contribution.

Unrestricted income

In the absence of any explicit stipulation or circumstances surrounding the receipt of the grants, contributions or donations that make clear the donor or grantor's implicit restriction on use, such grants, donations and contributions are reported as unrestricted income in the statement comprehensive income.

Restricted income

When the grants, donations and contributions received are with donor or grantor imposed restrictions are reported as restricted income in the statement of comprehensive income.

4.08.02 Finance income

Finance income is recognized when it is probable that the economic benefits will flow to the Foundation and the amount of revenue can be measured reliably. Finance income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4.09 Expense Recognition

Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.

The Foundation recognizes expenses in the statement of comprehensive income when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

However, for expenses paid out of funds from The Global Fund, such expenses are, at the end of the reporting period closed to funds held in trust account to facilitate the management of the funds, thereby leaving the expenses paid out of general funds to be deducted from the total income for the period.

Further, the Foundation allocates 1%-10% of its expenses to be matched against its income derived from leasing activities.

4.10 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4.10.01 The Foundation as a Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

4.10.02 The Foundation as a Lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.11 Foreign Currency Transactions and Translations

In preparing the financial statements of the Foundation, transactions in currencies other than the Foundation's functional currency, i.e. foreign currencies, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognized in profit or loss in the period in which they arise.

4.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The Company's income tax expense is with respect to its rental income earned.

4.12.01 Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of income and expense because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Foundation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4.12.02 Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Foundation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Foundation intends to settle its current tax assets and liabilities on a net basis.

4.12.03 Current and Deferred Tax for the Period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss, whether in other comprehensive income or directly in equity, in which case the tax is also recognized outside profit or loss.

4.13 Events after the Reporting Period

The Foundation identifies subsequent events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Foundation's position at the reporting period, adjusting events, are reflected in the financial statements, while subsequent events that do not require adjustments, non-adjusting events, are disclosed in the notes to financial statements when material.

4.14 Prior Period Errors

The Foundation corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Foundation's accounting policies, which are described in Note Note 4, Management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Tne estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate ' revised if the revision affects only that period or in the period of the revision and f' periods if the revision affects both current and future periods.

5.01 Key Sources of Estimation Uncertainty

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

5.01.01 Estimating the Recoverability of Advances and Other Receivables

The Foundation evaluates the status of the advances and other receivables based on available facts and circumstances, including, but not limited to, the length of the Foundation's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average of the accounts and historical loss experience.

The Foundation estimates the allowance for doubtful accounts related to its advances and other receivables based on assessment of specific accounts where the Foundation has information that certain implementers and employees are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the implementers and employees. The Foundation used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for doubtful accounts would increase the recognized operating expenses and decrease current assets.

Allowance for impairment amounted to ₱479,452 and nil as of July 31, 2010 and 2009, respectively, as disclosed in Note 8.

5.01.02 Reviewing Residual Values, Useful Lives and Depreciation Method of Property and Equipment and Investment Property

The residual values, useful lives and depreciation method of the Foundation's property and equipment are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Foundation's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Foundation considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Foundation's assets. In addition, the estimation of the useful lives is based on Foundation's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment property would increase the recognized operating expenses and decrease non-current assets. The Foundation uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which an Foundation expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

The useful lives of the Foundation's property and equipment and investment property range from 3 to 20 years. Depreciation charged to program expense and general and administrative expense amounted to ₱6,688,089 and ₱6,875,328 in 2010 and 2009, respectively for property and equipment and investment property, as disclosed in Notes 18 and 19.

As of July 31, 2010 and 2009, the carrying amount of property and equipment amounted to ₱87,120,837 and ₱105,304,433, as disclosed in Note 9. Investment property has carrying amount of ₱15,098,500 and nil in 2010 and 2009, as disclosed 10.

5.01.03 Asset Impairment

The Foundation performs an impairment review when certain impairment indicators are present. Determining the fair value of property and equipment and investment property, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Foundation to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Foundation to conclude that property and equipment and investments associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Foundation believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

RECEIVED

Based on Management evaluation, the Foundation's property and equipment and investement property are recoverable at carrying amounts. As of July 31, 2010 and 2009, carrying amount of property and equipment and investment property amounted to ₱87,120,837 and ₱105,304,433 and ₱15,098,500 and nil, respectively as disclosed in Notes 9 and 10.

5.01.04 Income Recognition

The Foundation's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and advances and other receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Revenues under a multiple element arrangement were split into separately identifiable components and recognized when the related components were delivered in order to reflect the substance of the transaction. The fair value of components was determined using verifiable objective evidence.

In 2010, grants received from sources other than Global Fund are recognized in the statement of income and expense. For income from donations and contributions and lab test, income is recognized upon collection.

5.01.05 Fair Value Determination of Investment Property

The Foundation has adopted to measure its investment property initially at its cost, including transaction costs in determining the carrying value of its investment properties. The fair value was determined by reference on recent prices of similar properties within the location. The amounts and timing of the disclosed fair value would differ if the Company made different judgments and estimates or utilized different basis for determining fair value.

As of the year ended July 31, 2010, the Foundation believes that the cost of the investment property approximate its fair value. The carrying amount of the investment property amounted to ₱15,098,500 for the year ended July 31, 2010, as disclosed in Note 10.

6. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Cash and cash equivalents at the end of the reporting period as shown in the statements of cash flows can be reconciled to the related items in the statements of assets, liabilities and fund balance as follows:

	Unrestricted	Restricted	2010	2009	2008
Cash on hand	P 92,430	P 5,000	P 97,430	P 553,266	P 407,000
Cash in bank-PHP	31,355,547	91,471,000	122,826,547	86,889,891	29,855,346
Cash in bank-USD	56,360,018	48,153,015	104,513,033	171,202,587	55,602,154
Cash in bank-EURO	-	104,774,012	104,774,012	928,545,597	134,935,526
Cash equivalents	-	-	-	19,096,385	568,879,356
	P 87,807,995	P 244,403,027	P 332,211,022	P 1,206,287,726	P 789,679,382

Unrestricted Funds

These represent funds held by the Foundation without donor or grantor's restriction.

Restricted Funds

The Foundation is the principal recipient of grants from Global Fund. These funds should be used only for the implementation of the specific programs agreed upon by the Foundation and Global Fund.

Cash in banks earn interest at rates ranging from 0.25% to 0.50%. Finance income recognized amounted to P494,125 and P211,221 for the July 31, 2010 and 2009, respectively, as disclosed in Note 17.

7. AVAILABLE-FOR-SALE-FINANCIAL ASSET

This account pertains to the investment in available-for-sale financial asset of Ayala Land Inc. with a carrying value of P21,053, P13,104 and P14,112 as of July 31, 2010, 2009 and 2008, respectively.

The listed security represents opportunities for return through dividend income and trading gains.

The sources of the fair value of these securities are disclosed in Note 27.

Gains and losses arising from available-for-sale financial assets amounted to P18,803, P10,854 and P11,862 in 2010, 2009 and 2008, respectively, and is separately presented in the statement of comprehensive income and as disclosed in Note 15.

8. ADVANCES AND OTHER ADVANCES AND OTHER RECEIVABLES

The Foundation's advances and other receivables consist of:

	Unrestricted	Restricted	2010	2009	2008
Officers and employees	P 1,323,781	P 1,187,377	P 2,511,158	P 33,723,270	P 7,078,297
Suppliers	249,465	-	249,465	94,154	94,026
Sub-recipient (SR) and implementors	-	318,400	318,400	160,286,634	-
Sub-recipient (SR)	-	793,340	793,340	2,075,665	-
General Fund	-	1,955,679	1,955,679	1,955,678	-
Other	21,174,191	611,599	21,785,790	414,058	3,049,972
Salary loans	451,149	45,800	496,949	-	-
Inter-fund transfer transaction account	-	894,647	894,646	-	-
	23,198,586	5,806,932	29,005,517	207,549,459	10,222,295
Allowance for impairment (Note 5.01.01)	(233,746)	(245,707)	(479,452)	-	-
	P 22,964,840	P 5,561,225	P 28,526,065	P 207,549,459	P 10,222,295

Allowance for impairment represents the amount recognized for the salary loans and advances to (from) employees which the Management believes to be unrecoverable.

9. PROPERTY AND EQUIPMENT - net

The carrying amounts of the Foundation's property and equipment are as follows:

	Land	Condominium units	Construction in progress	Building-new	Leasehold improvements	Laboratory equipment	Transportation equipment	Office Furniture and fixtures and equipment	TOTAL
Movements during 2008									
Balance August 1, 2007	P	P 22,371,251	P 2,404,285	P -	P 104,014	P 2,100,630	P 603,257	P 2,457,818	P 30,041,255
Additions	32,373,000	-	41,881,921	-	291,881	2,373,174	-	3,889,388	80,809,364
Adjustments	-	-	(44,286,206)	44,286,206	-	-	-	-	-
Depreciation	-	(1,275,388)	-	(522,799)	(254,523)	(1,664,916)	(392,960)	(1,360,184)	(5,470,769)
	32,373,000	**21,095,863**	-	**43,763,407**	**141,372**	**2,808,888**	**210,297**	**4,987,022**	**105,379,850**
July 31, 2008									
Cost	32,373,000	25,486,628	-	44,286,206	1,272,615	11,117,401	1,964,800	9,466,973	125,967,623
Accumulated depreciation	-	(4,390,765)	-	(522,799)	(1,131,243)	(8,308,513)	(1,754,503)	(4,479,951)	(20,587,773)
Carrying amount	**P 32,373,000**	**P 21,095,863**	**P -**	**P 43,763,407**	**P 141,372**	**P 2,808,888**	**P 210,297**	**P 4,987,022**	**P 105,379,850**

(Forwarded)

	Land	Condominium units	Building-new	Leasehold Improvements	Laboratory equipment	Transportation equipment	Office Furniture and fixtures and equipment	TOTAL
Movements during 2009								
Balance August 1, 2008	P 32,373,000	P 21,095,863	P 43,763,407	P 141,372	P 2,808,888	P 210,297	P 4,987,022	P 105,379,850
Additions	-	-	4,479,414	-	1,187,466	-	1,253,121	6,920,001
Depreciation	-	(1,275,387)	(2,316,029)	(113,133)	(1,367,200)	(210,297)	(1,713,370)	(6,995,418)
	32,373,000	19,820,475	45,926,792	28,239	2,629,154	-	4,526,773	105,304,433
July 31, 2009								
Cost	32,373,000	25,486,627	48,765,620	1,272,616	12,304,867	1,964,800	10,720,094	132,887,624
Accumulated depreciation	-	(5,666,152)	(2,838,828)	(1,244,377)	(9,675,713)	(1,964,800)	(6,193,321)	(27,583,191)
Carrying amount	**32,373,000**	**19,820,475**	**45,926,792**	**28,239**	**2,629,154**	-	**4,526,773**	**105,304,433**
Movements during 2010								
Balance, August 1, 2009	32,373,000	19,820,475	45,926,792	28,239	2,629,154	-	4,526,773	105,304,433
Additions	-	-	927,867	900,000	1,626,026	-	149,100	3,602,993
Transfer to investment Property (Note 10)								
Cost	-	(20,000,191)	-	-	-	-	-	(20.000.191)
Accumulated depreciation	-	3.900.626	-	-	-	-	-	3.900.626
Disposal	-	-	-	-	-	-	-	-
Cost	-	-	-	-	-	(1.285.000)	-	(1.285.000)
Accumulated depreciation	-	-	-	-	-	1.285.000	-	1.285.000
Depreciation (Note 18)	-	(274,322)	(2,471,704)	(140,404)	(1,152,664)	-	(1,647,930)	(5,687,024)
Balance, July 31, 2010	**32,373,000**	**3,446,588**	**44,382,955**	**787,835**	**3,102,516**	-	**3,027,943**	**87,120,837**
July 31, 2010								
Cost	32,373,000	5,486,436	49,693,487	2,172,616	13,930,893	679,800	10,869,194	115,205,426
Accumulated depreciation	-	(2,039,848)	(5,310,532)	(1,384,781)	(10,828,377)	(679.800)	(7.841.251)	(28.084.589)
Carrying amount	**P 32,373,000**	**P 3,446,588**	**P 44,382,955**	**P 787,835**	**P 3,102,516**	**P -**	**P 3,027,943**	**P 87,120,837**

The Foundation's fully depreciated transportation equipment with a cost of ₱1,285,000 and accumulated depreciation of ₱1,285,000 was sold for ₱220,000 during the year. The gain on sale was presented under other income as disclosed in Note 17.

Further, condominium unit with cost amounting to ₱20,000,191 and accumulated depreciation of ₱3,900,626 was transferred to investment property as a result of change in the intention of the Foundation, as disclose in Note 10.

All the property and equipment above represent acquisitions from sources other than The Global Fund.

During the year, the Foundation carried out a review of the recoverable amounts of its Property and equipment. The Foundation has determined that there is no indication that an impairment loss has occurred on its property and equipment.

10. INVESTMENT PROPERTY - net

The carrying amount of the Foundation's investment property is as follow:

	2010	2009	2008
Carrying amount			
Cost	₱ 20,000,191	₱ -	₱ -
Accumulated depreciation	(4,901,691)	-	-
	15,098,500	-	-
Movements during the year			-
Balance, January 1	16,099,565	-	-
Depreciation (Note 19)	1,001,065	-	-
Balance, December 31	₱ 15,098,500	₱ -	₱ -

The Foundation has pledged its investment property to secure a loan obtain from a local bank as disclosed in Note 13.

The property rental income earned by the Foundation from its investment property, which is leased out under operating leases, amounted to ₱2,352,375 during 2010, as disclosed in Note 17. Direct operating cost incurred in relation to the investment property amounted to ₱1,590,146.

During the year, the Foundation carried out a review of the recoverable amounts of its investment properties. The Foundation has determined that there is no indication that an impairment loss has occurred on its investment property.

The fair value of the investment property is not based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property.

The fair value of investment property is derived by making reference on recent prices of similar properties within the location. As of the fiscal year ended July 31, 2010, the Management believes that the cost of the investment property approximates it fair value. The carrying amount of the investment property amounted to ₱15,098,500.

11. TRADE AND OTHER CURRENT LIABILITIES

The components of this account are as follows:

	Unrestricted	Restricted	2010	2009	2008
Accounts payable	₱ 19,528,099	₱ 5,130,436	₱ 24,658,535	₱ 34,133,006	₱ 16,792,263
Due to the government	3,696,015	(1,903,702)	1,792,313	1,926,411	2,132,317
Accrued expenses	46,808	-	46,808	3,299,801	52,233
Security deposits	507,375	-	507,375	-	-
Rental deposits	184,500	-	184,500	-	-
Income tax payable	266,053	-	266,053	-	-
	₱ 24,228,850	₱ 3,226,734	₱ 27,455,584	₱ 39,360,018	₱ 18,976,813

The average credit period on purchases of certain goods from suppliers is 30 days.

12. FUNDS HELD IN TRUST

This account is composed of:

	Unrestricted	Restricted	2010	2009 (As restated)	2008 (As restated)
Case Western Reserve University (CWRU)	₱ -	₱ 5,987,989	₱ 5,987,989	₱ 1,925,635	₱ 2,487,239
General fund					596,699
Global Fund	-	235,427,530	235,427,530	1,296,403,598	755,275,542
Center For Disease Control and Prevention (CDC)	-	7,684,000	7,684,000	5,638,399	(1,799,276)
	₱ -	₱ 249,099,519	₱ 249,099,519	₱ 1,303,967,632	₱ 756,560,204

13. NOTES PAYABLE

An analysis of this account is as follows:

	2010	2009	2008
Balance, August 1	₱ 11,662,919	₱ 15,000,000	₱ 2,000,000
Proceeds	15,000,000	-	15,000,000
Repayment	(13,530,971)	(3,337,081)	(2,000,000)
	13,131,948	11,662,919	15,000,000
Current portion	2,675,920	11,662,919	15,000,000
Non-current portion	₱ 10,456,028	₱ -	₱ -

On October 30, 2009, the Foundation obtained a loan amounting to ₱15,000,000 from BPI maturing on October 30, 2014 with interest rate of 8.5% per annum. The principal and interest is payable monthly in arrears in the amount of ₱307,748. The purpose of the loan is to finance the construction of the Foundation's new building. This is collateralized by the Foundation's condominium unit at the Montepino Building and Makati Medical Plaza with TCT numbers 97735 and 81082, respectively, presented as investment property. The Foundation is in compliance with the borrowing terms and that no defaults as of the reporting period.

Finance cost recognized in statement of income and expense amounted to ₱1,067,357 and ₱1,589,023 for the fiscal year July 31, 2010 and 2009, respectively, as disclosed in Note 21.

14. FUND BALANCES

The fund balance of the Foundation is as follows:

	2010	2009 (As restated)	2008 (As restated)
Fund balance	P 174,366,118	P 158,707,080	P 117,902,673
Members' contribution	70,000	70,000	70,000
	P 174,436,118	P 158,777,080	P 117,972,673

15. FAIR VALUE RESERVE ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

Details on the movement of this account is as follows:

	2010	2009	2008
Balance, August 1	P 10,854	P 11,862	P -
Unrealized gain (loss)	7,949	(1,008)	11,862
	P 18,803	P 10,854	P 11,862

This account represents accumulated gain and losses arising on the revaluation of available-for-sale financial asset that have been recognized in other comprehensive income.

16. SOURCES OF FUNDS

The account is composed of the following items:

	Unrestricted	Restricted	2010	2009
Grants	P 71,922,763	P 46,333,522	P 118,256,275	P 200,522,837
Laboratory test	10,431,303	-	10,431,303	18,273,103
Donations and contributions	8,775,060	-	8,775,060	12,144,082
	P 91,129,116	P 46,333,522	P 137,462,638	P 230,940,022

17. OTHER INCOME

The account is composed of the following items:

	2010	2009
Rental income (Note 10)	P 2,352,375	P -
Finance on bank deposits (Note 6)	494,125	211,221
Gain on sale of equipment (Note 9)	220,000	1,065,171
Unrealized foreign exchange gain	-	585,936
Realized foreign exchange gain	-	169,021
Others and miscellaneous	610,906	-
	P 3,677,406	P 2,031,349

18. PROGRAM EXPENSES

The account is composed of the following items:

		Unrestricted		Restricted		2010		2009
Personnel cost	₱	16,402,274	₱	19,453,565	₱	35,855,839	₱	53,661,625
Medicines		17,465,485		278,071		17,743,556		27,816,087
Honorarium		416,994		10,952,420		11,369,414		16,116,805
Laboratory and office supplies		5,039,935		3,812,546		8,852,481		27,854,135
Professional fees		3,315,079		1,541,755		4,856,834		9,467,889
Rent		31,387		3,354,791		3,386,178		3,149,030
Utilities		1,424,615		1,351,281		2,775,896		2,827,600
Travel expenses		237,766		2,407,237		2,645,003		7,416,085
Depreciation		1,382,419				1,382,419		1,317,343
Communication		238,661		914,904		1,153,565		2,225,859
Seminars and training		578,287		726,725		1,305,012		6,501,391
Repairs and maintenance		558,176		314,843		873,019		2,570,489
Entertainment, Amusement and Recreation		466,127		8,891		475,018		242,359
Insurance		137,871		292,395		430,266		568,096
Taxes and licenses		87,094		69,241		156,335		637,912
Advertising		-		96,320		96,320		-
Others		138,573		158,350		296,922		906,061
	₱	47,920,743	₱	45,733,335	₱	93,654,077	₱	163,278,766

19. GENERAL AND ADMINISTRATIVE EXPENSES

The account is composed of the following operating expenses:

		Unrestricted		Restricted		2010		2009
Personnel cost (Note 22)	₱	5,622,453	₱	-	₱	5,622,453	₱	2,661,776
Depreciation (Notes 9 and 10)		5,305,670		-		5,305,670		5,557,985
Professional fees		3,968,808		-		3,968,808		70,025
Travel expenses		2,572,555		-		2,572,555		803,382
Rent (Note 23)		1,017,906		-		1,017,906		58,898
Honorarium		457,054		-		457,054		860,704
Seminars and training		399,152		-		399,152		1,312,182
Utilities		363,555		-		363,555		584,951
Taxes and licenses		351,038		-		351,038		399,136
Insurance		117,281		-		117,281		52,595
Laboratory and office supplies		107,065		-		107,065		158,206
Repairs and maintenance		80,656		-		80,656		256,038
Medicines		42,844		-		42,844		263,807
Entertainment, Amusement and Recreation		2,393				2,393		83,000
Communincation		131,261		-		131,261		46,392
Others		580,527		-		580,527		90,049
	₱	21,120,218	₱	-	₱	21,120,218	₱	18,259,166

RECEIVED

20. OTHER EXPENSE

Component of other expenses is as follows:

		Unrestricted		Restricted		2010		2009
Surcharges	P	40,097	P	-	P	40,097	P	-
Compromise penalties		16,000		-		16,000		-
Unrealized foreign exchange loss		674,317		600,186		1,274,503		-
	P	730,414	P	600,186	P	1,330,600	P	-

21. FINANCE COSTS

The Foundation's finance costs comprised:

		2010		2009
Finence cost on loans (Note 13)	P	1,067,357	P	1,509,023
Finance cost on penalties		49,567		-
	P	1,116,924	P	1,589,023

22. EMPLOYEE BENEFITS

Aggregate employee benefits expense comprised:

		Unrestricted		Restricted		2010		2009
Basic pay	P	11,355,142	P	12,484,183	P	23,839,325	P	474,734
Performance bonus		2,973,338		833,051		3,806,389		11,788,530
Fringe benefits		1,779,898		1,225,576		3,005,474		13,031,189
13th month pay		1,231,408		1,324,178		2,555,586		8,085,167
Sick/vacation leave conversion		608,619		1,699,325		2,307,944		4,347,070
Hazard pay		1,927,017		105,418		2,032,435		4,733,365
Social benefits		1,048,681		700,247		1,748,928		5,033,088
Health insurance		885,836		858,340		1,744,176		4,631,384
Medical & dental		12,175		118,313		130,488		132,070
Other benefits		202,613		104,933		307,546		1,134,003
	P	22,024,727	P	19,453,564	P	41,478,291	P	53,390,600

22.01 Short-term Employee Benefits

Short term employee benefits consist of basic pay, 13th month pay, performance bonus, fringe benefits, honoraria, sick and vacation leave conversion and other bonuses. Short term employee benefits are presented under general and administrative expenses as disclosed in Notes 18 and 19.

22.02 Post-employment benefits

The Foundation provides for the retirement benefits of qualified employees under the requirement of Republic Act 7641, pending the adoption of a formal retirement plan. Based on the latest actuarial valuation report dated July 31, 2009, the present value of retirement obligations amounted to P1,240,586 while the fund balance amounted P3,644,866. No retirement cost was recognized in 2009 and 2008 because the annual amortization of the excess of plan assets over the present value of retirement obligations exceeds the current service cost.

The projected unit credit cost method was used to determine the current service cost for the period and the past service liability. The principal assumptions used to determine retirement benefits were an interest rate and average salary increase rate of 10% per annum.

The Foundation has no actuarial valuation report for the fiscal years 2010 and 2009.

For the periods ended July 31, 2010, 2009 and 2008, the retirement benefit obligation amounted to nil, ₱9,052,959 and ₱3,383,98, respectively.

The Foundation derecognized its retirement benefit obligation as of July 31, 2010 since most employees were separated as a result of the suspension of the Global Funds and were given benefits. Present employees are on term contract and Management believes there is no future actuarial obligation for the Foundation.

23 OPERATING LEASE AGREEMENTS

23.01 The Foundation as a Lessee

Operating leases relate to leases of office space for clinical activities and parking spaces with lease terms of between 1 to 3 years. For the fiscal years ended July 31, 2010 and 2009, the rent expense included in program, general and administrative expenses amounted to ₱4,404,085 and ₱3,207,928, respectively as disclosed in Notes 18 and 19. Operating lease payments represent rentals payable by the Foundation for leased facilities. Security deposits relating to the lease amounted to ₱1,106,069 and ₱3,676,740 for the fiscal years 2010 and 2009, respectively.

An analysis of the rent expense included in general and administrative expense recognized by the Foundation is as follows:

		Unrestricted	Restricted	2010	2009
Minimum lease payments	₱	**1.049.294 ₱**	**3.354.791 ₱**	**4.404.085 ₱**	3.207.928

At reporting date, the Foundation had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

		2010	2009
Within one year	₱	**1,176,247 ₱**	4,130,760
More than one year but less than two years		**394,852**	1,047,696
Within Two years		**312,140**	154,700
	₱	**1,883,239 ₱**	5,333,156

23.02 The Foundation as a Lessor

Operating lease relate to the investment property owned by the Foundation with lease term of one (1) year starting May 1, 2009 to April 30, 2010. The contract is renewable for a period of one (1) year and on May 1, 2010 the lessee renewed its lease contract with the Foundation for another one (1) year. The monthly rate had increased by 10%. Leased units are only to be use for office purposes and not for any other purposes.

The property rental income earned by the Foundation from its investment property, all of which is leased out under operating leases, amounted to P2,352,375 and nil during 2010 and 2009, respectively, as disclosed in Note 17.

Direct operating expenses arising on the investment property amounted to P1,001,065 and nil during 2010 and 2009, respectively.

At reporting date, the Foundation had outstanding commitments for future minimum lease collection under non-cancelable operating leases amounting to P2,080,238 which will fall due within one year.

24. CONTRACTS AND AGREEMENTS

The Global Fund

The Foundation entered into program grant agreements with The Global Fund for the implementation or overseeing the implementation of six programs as follows:

Programs	Grant No.	Start Date	Proposed Completion Date
Accelerating the Response to Tuberculosis	PHL-202-G02-T-00	August 1,2003	July 31,2008
Accelerating the Response to Malaria	PHL-202-G01-M-00	August 1,2003	July 31,2008
Accelerating STI and HIV Prevention and Care Through Intensified Delivery of Services to Vulnerable Groups and People Living with HIV in Strategic Areas in the Philippines	PHL-304-G03-H	August 1,2004	July 31,2009
Upscaling the National Response to HIV/AIDS Through the Delivery of Service and Information to Populations at Risks and People Living with HIV/AIDS	PHL-506-G04-H	October 1,2006	September 24,2009
Scaling up and Enhancement of the National Tuberculosis Program in the Philippines	PHL-506-G06-T	October 1,2006	December 31, 2008

(forwarded)

An Intensified Strengthening of Local Response and Health Systems to Consolidate the Gains in Malaria Control in Rural Philippines Through Public Private Partnership	PHL-607-G07-M	November 1,2007	September 24,2009
Advancing Malaria control towards elimination by 2020	PHL-202-G01-M-00	August 1,2003	September 24,2009

In prior years, the Foundation entered into program grant agreement with The Global Fund for the implementation or overseeing the implementation of its programs. The Foundation is a Principal Recipient, Sub-Recipient of The Global Fund to Fight AIDS Tuberculosis, and Malaria.

Since its creation in 2002, The Global Fund (TGF) has become the main source of finance for programs to fight AIDS, tuberculosis and malaria with approved funding of US$19.3 billion for more than 572 programs in 144 countries.

However, in September 2009, TGF has suspended its projects with the Foundation on the basis of the Forensic Audit Report issued by the Office of the Inspector General and the report of its outgoing internal auditor. In the press release made by the Foundation, is stated that over the past six years of the Foundation's projects, Foundation's expenditures had been periodically examined, reviewed and audited by the Local Fund Agent (LFA) and external auditors, and eventually submitted by the LFA to TGF. In no instance had the LFA or TGF raised any alleged unauthorized expenditure during examinations of expenditures and assessments of financial management system, until only recently. In response to the allegation, the Foundation stated that the alleged expenditures are actually within the authorization given to the Foundation, as previously instructed by its Portfolio Managers, that for so long as the objectives and the work plan and overall project budget are not changed, such adjustments do not have to be cleared with TGF.

Centers for Disease Control and Prevention (CDC)

The Foundation entered into a cooperative agreement with CDC under the project title "Improving the Effectiveness of the Diagnosis of Tuberculosis in the Philippines" under Program Announcement Number 04259. The program started on September 15, 2004 with expected completion date of September 14, 2009.

Otsuka Pharmaceutical Development & Commercialization, Inc. (OPDC)

The agreement between the Foundation and OPDC is contracted through Parexel APEX International Clinical Research Co., Ltd., who acts as the independent contractor. OPDC engaged the Foundation to carry out clinical trials in accordance with the protocol dated February 13, 2008 and entitled "A Multi-center, Randomized, Double-Blind, Placebo-controlled Phase 2 Trial to Evaluate the Safety, Efficacy and Pharmacokinetics of Multiple Doses of OPC-67683 in Patients with Pulmonary Sputum Culture-Positive, Multidrug-resistant Tuberculosis". The period of performance of the study began in June 2008 and shall continue until April 2011. In consideration for the performance of the study, the Foundation is compensated in accordance with the budget and payment schedule attached in the agreement.

RECEIVED

A Phase 2, Multi-center, Uncontrolled, Open-label Trial to Evaluate Safety, Tolerability, and Efficacy of Orally Administered OPC-67683 as 100 mg BID with optional titration to 200 mg BID for up to six months Exposure in Patients with Pulmonary Multi-drug Resistant Tuberculosis. The period covered of the study is from November 2009 to June 2012.

Foundation for Innovative New Diagnostics (FIND)

Project to evaluate the feasibility and impact of use of the Xpert MTB/RIF assay for use on the Cepheid GeneXpert System, for case detection of Tuberculosis and multi-drug resistant and extreme drug resistant or extensively drug-resistant (XDR) TB. The period covered of the study is from October 2009 to December 2010.

25. INCOME TAXES

As a non-stock, nonprofit organization, the Foundation is exempt from payment of income tax with respect to receipts received in accordance with the provision of Section 30 (e) of RA No.8424 entitled "An Act 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 Foundation was established is exempt from tax. However, any income on any properties, real or personal, or from any activity conducted for profit, regardless of the disposition of such income, is subject to tax. Also, the Foundation is an accredited donee institution by the Philippine Council for NGO Certification. As such, its donors are entitled to full or limited deduction and exemption from donor's tax. Howver the Foundation's accreditation from PCNC has expired last April 20, 2009.

For the fiscal year 2010, the Foundation is subject to income tax with respect to its rental income.

25.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2010		2009
Current tax expense	P	284,019	P	-
Deferred tax benefit		(55,350)		-
	P	228,669	P	-

A numerical reconciliation between tax expense and the product of excess of oncome over expense multiplied by the tax rate in 2010 and 2009 follows:

		2010		2009
Excess of income over expense	P	23,918,224	P	-
Tax expense at 30%		7,175,467		-
Income exempt from taxation		(27,588,007)		-
Tax effect of expenses that are not deductible:		20.789.446		-
Interest income subject to final tax		(148,237)		-
	P	228,669	P	

RECEIVED

26. DEFERRED TAXES

26.01 Deferred Tax Assets

Deferred tax asset amounting to ₱55,350 recognized at year end arises from the rental deposit received in advance.

27. FAIR VALUE MEASUREMENTS

27.01 Fair Value of Financial Assets and Liabilities

The carrying amounts and estimated fair values of the Foundation's financial assets and financial liabilities as of July 31, 2010 and 2009 are presented below:

	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:						
Cash and cash equivalents	₱332,211,022	₱ 332,211,022	₱ 1,206,287,726	₱ 1,206,287,726	₱ 789,679,382	₱ 789,679,382
Available-for-sale financial asset	21,053	21,053	13,104	13,104	3,261,636	3,261,636
Advances and other receivables	28,526,065	28,526,065	207,549,459	207,549,459	10,222,295	10,222,295
Refundable deposits	1,106,069	1,106,069	3,070,740	3,070,740	3,351,275	3,351,275
	₱361,864,209	₱ 361,864,209	₱ 1,417,527,029	₱ 1,417,527,029	₱ 806,514,588	₱ 806,514,588

	2010		2009		2008	
Financial Liabilities:	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Trade and other current liabilities	₱ 27,455,584	₱ 27,455,584	₱ 39,360,018	₱ 39,360,018	₱ 22,360,811	₱ 22,360,811
Notes payable	13,131,948	13,131,948	11,662,919	11,662,919	15,000,000	15,000,000
Funds held in trust	249,099,519	249,099,519	1,303,967,632	1,303,967,632	756,560,204	756,560,204
	₱ 289,687,051	₱ 289,687,051	₱ 1,354,990,569	₱ 1,354,990,569	₱ 793,921,015	₱ 793,921,015

The fair values of financial assets and financial liabilities are determined as follows.

- Due to short-term maturities, the carrying amounts of financial assets and financial liabilities, excluding loans payables, approximate their fair values.
- Loans payable bears fixed interest rate, thus, face value approximates fair value.
- Fair value of the available-for-sale financial asset was determined by making reference to the stock quotations published by Philippine Stock Exchange.

27.02 Fair Value Measurements Recognized in the Statement of Financial Position

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Available-for-sale financial asset has been valued based on the level 1 fair value measurements or those derived from quoted prices.

There were no transfers between Level 1 and 2 in the period.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Foundation's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Foundation through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, including currency risk, fair value interest rate risk and price risk, credit risk, liquidity risk and cash flow interest rate risk.

The Corporate Treasury function reports quarterly to the Foundation's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

28.01 Market Risk Management

28.01.01 Foreign Currency Risk Management

The Foundation undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Foundation's foreign currency denominated monetary assets at the end of the reporting period are as follows:

		2010			2009	
		Foreign Currency Equivalent	**Peso Equivalent**		Foreign Currency Equivalent	Peso Equivalent
Financial assets:						
Cash in bank	**USD**	**2.221.313 ₱**	**104.513.034**	USD	3.560.045 ₱	171,202,587
	EURO	**1,804,379**	**104,744,012**	EURO	13,717,254	928,545,597
		4,025,692 ₱	**209,257,046**		17,277,299 ₱	1,099,748,184

The Foundation is mainly exposed to the changes in USD and EURO. Exchange rate used to convert cash in bank denominated in USD is ₱45.540 and ₱59.8959 for EURO.

The following table details the Foundation's sensitivity to a 10% increase and decrease in the Functional Currency against the relevant foreign currencies. The sensitivity rate of 10% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Foundation where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Functional Currency strengthens 10% against the relevant currency. For a 10% weakening of the Functional Currency against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	USD/EURO	
	2010	2009
(Loss)	P (20,925,705)	P (109,974,818)

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. The Foundation mitigates its exposure to foreign currency risk by monitoring its USD and EURO cash flows.

28.01.02 Interest Rate Risk Management

The Foundation is exposed to interest rate risk because entities in the Foundation borrow funds at both fixed and floating interest rates. The risk is managed by the Foundation by maintaining an appropriate fixed rate borrowing.

The Foundation's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period.

Income for the year ended July 31, 2010 would have been unaffected as the Foundation maintains fixed rate borrowing.

28.02 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Foundation. The Foundation has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Foundation only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Foundation uses other publicly available financial information and its own trading records to rate its major customers. The Foundation's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recognized in the financial statements, which is net of impairment losses, represents the Foundation's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held.

	Unrestricted	Restricted	2010	2009	2008
Cash and cash equivalents (Note 6)	P 87,812,995	P 244,398,027	P 332,211,022	P 1,206,287,726	P 789,679,382
Advances and other receivables (Note 8)	22,964,840	5,561,225	28,526,065	207,549,459	10,222,295
Refundable deposits	1,106,068		1,106,068	3,676,740	3,351,276
	P 111,883,903	P 249,959,252	P 361,843,155	P 1,417,513,925	P 803,252,952

The Foundation does not hold any collateral or other credit enhancements to cover this credit risk.

The table below shows the credit quality by class of financial assets of the Foundation:

	2010			
	Neither Past Due nor Impaired			
	High Grade	**Medium Grade**	**Low Grade**	**Total**
Cash and cash equivalent	₱ 332,211,022	₱ -	₱ -	₱ 332,211,022
Advances and other receivables	12,298,402	14,309,901	1,917,762	28,526,065
Refundable Deposits	-	-	1,106,069	1,106,069
	₱ 344,509,424	₱ 14,309,901	₱ 3,023,831	₱ 361,843,156

	2009			
	Neither Past Due nor Impaired			
	High Grade	Medium Grade	Low Grade	Total
Cash and cash equivalent	₱ 1,206,287,726	₱ -	₱ -	₱ 1,206,287,726
Advances and other receivables	101,856,968	103,774,729	1,917,762	207,549,459
Refundable Deposits	2,570,672	-	1,106,068	3,676,740
	₱ 1,310,715,366	₱ 103,774,729	₱ 3,023,830	₱ 1,417,513,925

	2008			
	Neither Past Due nor Impaired			
	High Grade	Medium Grade	Low Grade	Total
Cash and cash equivalent	₱ 789,679,382	₱ -	₱ -	₱ 789,679,382
Advances and other receivables	10,222,295	-	-	10.222.295
Refundable Deposits	3,351,275	-	-	3,351,275
	₱ 803,252,952	₱ -	₱ -	₱ 803,252,952

The credit quality of the financial assets was determined as follows:

Advances and Other Receivables and Refundable deposits

- High grade – These are receivables from counterparties with no default in payment.
- Medium – These are receivables from counterparties with up to three defaults in payment.
- Low – These are receivables from counterparties with more than three defaults in payment.

28.03 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of trustees, which has established an appropriate liquidity risk management framework for the management of the Foundation's short-, medium- and long-term funding and liquidity management requirements. The Foundation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Foundation's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Foundation can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Foundation may be required to pay.

	Weighted Average Effective Interest Rate		Within 1 Year		1 – 5 Years		Over 5 Years		Total
July 31, 2010									
Trade and other current liabilities		₱	27,455,584	₱	-	₱	-	₱	27,455,584
Funds held in trust			249,099,519		-		-		249,099,519
Notes payable	8.5%		13,131,948		-		-		13,131,948
		₱	289,687,051	₱	-	₱	-	₱	289,687,051

	Weighted Average Effective Interest Rate		Within 1 Year		1 – 5 Years		Over 5 Years		Total
July 31, 2009									
Trade and other current liabilities		₱	39,360,018	₱	-	₱	-	₱	39,360,018
Funds held in trust			1,303,967,632		-		-		1,303,967,632
Notes payable	9.25%		11,662,919		-		-		11,662,919
		₱	1,354,990,969	₱	-	₱	-	₱	1,354,990,969

As disclosed in Note 13, the purpose of the loan is to finance the construction of the Foundation's new building.

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting dates.

The liquidity is managed on a net asset and liability basis. The following table details the Foundation's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Foundation's liquidity risk management

	Weighted Average Effective Interest Rate		Within 1 Year		1 – 5 Years		Over 5 Years		Total
July 31, 2010									
Cash and cash equivalents		P	69,621,540	P	262,589,482	P	-	P	332,211,022
Advances and other receivables			28,526,065		-		-		28,526,065
Available for-sale-financial asset			21,053		-		-		21,053
Refundable deposit			1,106,069		-		-		1,106,069
		P	99,274,727	P	262,589,482	P	-	P	361,864,209

	Weighted Average Effective Interest Rate		Within 1 Year		1 – 5 Years		Over 5 Years		Total
July 31, 2009									
Cash and cash equivalents		P	173,605,091	P	1,032,682,635	P	-	P	1,206,287,726
Advances and other receivables			207,549,459		-		-		207,549,459
Available for-sale-financial asset			13,104		-		-		13,104
Refundable deposit			3,676,740		-		-		3,676,740
		P	384,844,394	P	1,032,682,635	P	-	P	417,527,029

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Foundation manages its capital to ensure that the Foundation will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Foundation's overall strategy remains unchanged from 2009.

The capital structure of the Foundation consists of net debt (borrowings as detailed in Note 13 offset by cash and bank balances) and equity of the Foundation (comprising fund balance and member's contribution as disclosed in Note 14).

The Foundation is not subject to any externally imposed capital requirements.

The Foundation's risk Management committee reviews the capital structure of the Foundation on an annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Foundation has a target debt to equity ratio of 2:1, 9:1 and 7:1 for 2010, 2009 and 2008, respectively, determined as the proportion of debt to equity.

The debt to equity ratio at end of the reporting period was as follows:

		2010	2009	2008
Debt	P	289,683,975 P	1,364,043,528 P	793,921,765
Fund balance		174,433,042	158,777,080	117,972,673
Net debt to equity ratio		2:1	9:1	7:1

Debt is defined as long- and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in Note 14, while fund balance includes all capital and reserves of the Foundation that are managed as capital.

30. CORRECTION OF PRIOR PERIOD ERRORS

During the year, the Foundation discovered an error pertaining to prior years due to non reversal of funds held in trust account and non recognition of unrealized gain(loss) on available-for-sale financial assets.

- The reversal of the account pertains to the amounts incurred in prior years in which various projects were being carried out. The amounts were recognized to the account when it should have been to fund balance account. As a result, the fund balance and funds held in trust accounts were adjusted by P22,073,643.
- In the prior years, the Foundation acquired an available-for-sale financial assets but was carried at cost, no unrealized gain(loss) was recognized on the investment as a result of changes in the market value of the shares as provide for under PAS 39. During the fiscal period, the Foundation adjusted the cost of its investment to conform with its fair market value which resulted into recognition of unrealized gain on investment amounting to P18,803.

31. RECLASSIFICATIONS OF COMPARATIVE AMOUNTS

Certain amounts in the comparative financial statements and note disclosures have been reclassified to conform to the current year's presentation. The table below shows reclassifications made with comparative amounts in 2009.

2010 Presentation	2009 Presentation		Amount
Unrealized foreign exchange Gain	Finance cost net	P	585,936
Finance cost			169,021
Finance income			1,489,363
Retirement benefit payable	Account payable		9,052,959
		P	11,297,279

Management believes that the above reclassifications resulted to a better presentation of accounts and did not have any impact on prior year's profit or loss.

32. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Trustees on June 1, 2012.

RECEIVED