

**HERITAGE PARK PROJECT –
PERPETUAL CARE FUND TRUST**

FINANCIAL STATEMENTS
December 31, 2017 and 2016

and

Report of Independent Auditors

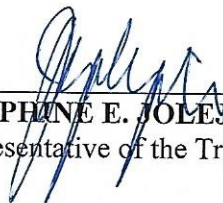
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **HERITAGE PARK PROJECT – PERPETUAL CARE FUND TRUST** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2017 and 2016 including the additional components attached therein in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.


The **Management** is responsible for overseeing the Trust Fund's financial reporting process.

The **Management** reviews and approves the financial statements and submits the same to the members' of the Organization.

Perez, Sese, Villa & Co., the independent auditor appointed by the Management for the years ended December 31, 2017 and 2016, has examined the financial statements of the Trust Fund in accordance the Philippine Standards on Auditing, and in its report to the Management, has expressed its opinion on the fairness of presentation upon completion of such examination.



JOSEPHINE E. JOLEJOLE
Representative of the Trustee



JAYCEE B. RIVERA
Representative of the Trustee


Signed this 2nd day of April 2018



SUBSCRIBED AND SWORN to before me, a Notary Public for and in the Las Piñas City Philippines, this APR 26 2018, affiants who are personally known to me and whose identity I have confirmed through their competent evidence of identity bearing the affiants photograph and signature.

| NAMES | COMPETENT EVIDENCE OF IDENTITY | DATE AND PLACE ISSUED |
|---------------------------|---------------------------------------|-----------------------|
| <u>JAYCEE RIVERA</u> | <u>UMID NO: CRN - 0022-2992802-02</u> | _____ |
| <u>JOSEPHINE JOLEJOLE</u> | <u>DL NO: N26-97-010112</u> | _____ |

Doc. No. 520
Page No. 105
Book No. 12
Series of 2018


FERNANDO T. GALLARDO JR.
Notary Public for Las Piñas City, Philippines
B2 L20 Woodridge Subdivision, Las Piñas City, 1742
My commission expires on 31 December 2019
PTR No. 11438644/Las Piñas City/11 January 2018
IBP Life Member Roll No. 00365/19 July 1995
Attorney's Roll No. 38060/10 June 1992
MCLE Compliance No. VI-0003717/25 October 2017



PEREZ, SESE, VILLA & Co.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Management
HERITAGE PARK PROJECT –
PERPETUAL CARE FUND TRUST
Corporate Bldg., Bayani Road,
Fort Bonifacio, Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **HERITAGE PARK PROJECT – PERPETUAL CARE FUND TRUST** (the Trust Fund), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of revenues and expenses, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust Fund as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

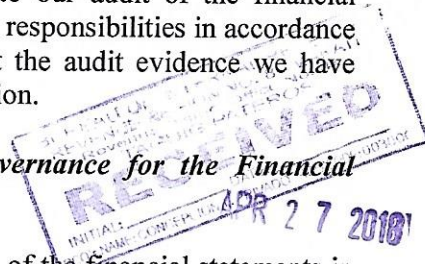
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust Fund in accordance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

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

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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 22 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PEREZ, SESE, VILLA & CO.

BOA/PRC Reg. No. 0222, Issued September 18, 2017

Valid until August 20, 2020

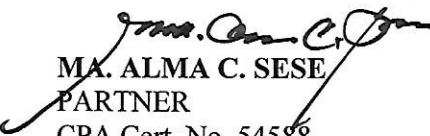
SEC A.N. (Firm) 0336-F, Group B Category, Issued January 19, 2017

Valid until January 19, 2020

IC A.N. (Firm) F-2017/008-R, Issued August 30, 2017

Valid until August 29, 2020

For the Firm:


MA. ALMA C. SESE
PARTNER

CPA Cert. No. 54588

TIN 212-955-173-000

PTR No. 7010225

Issued on January 10, 2018

SEC A.N. (Individual) 1606-A, Group B Category, Issued January 19, 2017

Valid until January 19, 2020

BIR No. 06-002735-001-2017, Issued January 04, 2018

Valid until January 03, 2021

IC A.N. (Individual) SP-2017/009-R, Issued August 30, 2017

Valid until August 29, 2020

Manila, Philippines

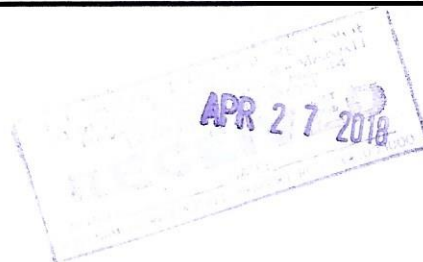
April 2, 2018



HERITAGE PARK PROJECT - PERPETUAL CARE FUND TRUST
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

| | <i>Notes</i> | 2017 | 2016 |
|---------------------------------------|--------------|----------------------|---------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4,5,6 | ₱115,595,109 | ₱105,036,761 |
| Receivables | 4,5,7 | 39,149,078 | 39,513,965 |
| Inventory - securities | 4,8 | 259,664,134 | 259,664,134 |
| Prepayments and other current assets | 4,9 | 51,096,431 | 49,929,374 |
| Total current assets | | 465,504,752 | 454,144,234 |
| Non-Current Assets | | | |
| Loan receivables | 4,5,10 | 24,285,714 | 30,357,143 |
| Available for sale investments | 4,5,11 | 170,497,865 | 178,888,119 |
| Property and equipment, net | 4,5,12 | 15,450,998 | 12,380,258 |
| Total non-current assets | | 210,234,577 | 221,625,520 |
| TOTAL ASSETS | | ₱675,739,329 | ₱675,769,754 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Payables | 4,5,13 | ₱99,113,336 | ₱73,068,857 |
| Non-current Liabilities | | | |
| Unearned revenues | 4,14 | 11,273,570 | 19,921,358 |
| Equity | | | |
| Funds and contributions | 16 | 826,433,508 | 826,433,508 |
| Net unrealized gain on AFS investment | 4,19 | 64,597,622 | 73,292,425 |
| Deficit | 4 | (325,678,707) | (316,946,394) |
| Net equity | | 565,352,423 | 582,779,539 |
| TOTAL LIABILITIES AND EQUITY | | ₱675,739,329 | ₱675,769,754 |

(See accompanying Notes to Financial Statements)



HERITAGE PARK PROJECT - PERPETUAL CARE FUND TRUST
STATEMENTS OF REVENUES AND EXPENSES
For The Years Ended December 31, 2017 and 2016

| | <i>Notes</i> | 2017 | 2016 |
|---|--------------|---------------------|--------------|
| REVENUES | <i>4,17</i> | | |
| Interest income on investments, loan and deposits | | ₱16,514,225 | ₱18,452,958 |
| Other income | | 26,648,144 | 21,622,854 |
| TOTAL REVENUE | | 43,162,369 | 40,075,812 |
| EXPENSES | <i>4,18</i> | 51,894,682 | 48,427,084 |
| NET LOSS | | (₱8,732,313) | (₱8,351,272) |

(See accompanying Notes to Financial Statements)

HERITAGE PARK PROJECT - PERPETUAL CARE FUND TRUST
STATEMENTS OF CHANGES IN EQUITY
For The Years Ended December 31, 2017 and 2016

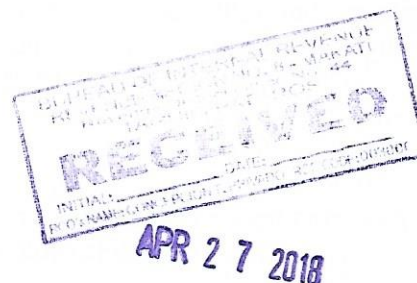
| | <i>Notes</i> | 2017 | 2016 |
|---|--------------|----------------------|---------------|
| FUNDS AND CONTRIBUTION | | | |
| Balance at beginning of year | 16 | ₱826,433,508 | ₱826,433,508 |
| DEFICIT | | | |
| Balance at beginning of year | 4 | (316,946,394) | (308,595,122) |
| Net loss | | (8,732,313) | (8,351,272) |
| Balance at end of year | | (325,678,707) | (316,946,394) |
| NET UNREALIZED GAIN ON AFS INVESTMENTS | | | |
| Balance at beginning of year | 4,19 | 73,292,425 | 81,608,818 |
| Unrealized loss for the year | | (8,694,803) | (8,316,393) |
| Balance at end of year | | 64,597,622 | 73,292,425 |
| TOTAL EQUITY | | ₱565,352,423 | ₱582,779,539 |

(See accompanying Notes to Financial Statements)

HERITAGE PARK PROJECT - PERPETUAL CARE FUND TRUST
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2017 and 2016

| | <i>Notes</i> | 2017 | 2016 |
|---|------------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | | (P8,732,313) | (P8,351,272) |
| Adjustment to reconcile net loss to net cash provided by operating activities: | | | |
| Foreign exchange gains on AFS investments | <i>4,5,11</i> | (304,549) | (2,628,538) |
| Depreciation | <i>4,5,12</i> | 5,037,094 | 5,123,524 |
| Operating loss before changes in working capital | | (3,999,768) | (5,856,286) |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | <i>4,5,7</i> | 364,887 | (2,038,048) |
| Prepayments and other current assets | <i>4,9</i> | (1,167,057) | (1,955,646) |
| Loan receivables | <i>4,5,10</i> | 6,071,429 | 6,071,429 |
| Increase (decrease) in: | | | |
| Payables | <i>4,5,13</i> | 26,044,479 | 2,680,073 |
| Unearned revenues | <i>4,14</i> | (8,647,788) | - |
| Other non-current liabilities | <i>4,5,14,15</i> | - | (2,063,639) |
| Net cash provided by (used in) operating activities: | | 18,666,182 | (3,162,117) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of property and equipment | <i>4,5,12</i> | (8,107,834) | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 10,558,348 | (3,162,117) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 105,036,761 | 108,198,878 |
| CASH AT END OF YEAR | | P115,595,109 | P105,036,761 |

(See accompanying Notes to Financial Statements)



HERITAGE PARK PROJECT-PERPETUAL CARE FUND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 - GENERAL INFORMATION

Heritage Park Project – Perpetual Care Fund Trust is an irrevocable trust fund established on November 3, 1994 by virtue of the Perpetual Care Fund Trust Agreement (the PCFTA) entered into by and between the Bases Conversion Development Authority (the Trustor) and the Philippine National Bank (the Trustee). The PCFTA was entered into pursuant to the provisions of the Pool Formation Trust Agreement (PFTA) between the Bases Conversion Development Authority (BCDA) as the project owner, Public Estate Authority (PEA) as the project manager, and Philippine National Bank (PNB) as the trustee. The Pool Formation Trust Agreement defines the Perpetual Care Fund as “*a special fund to be established exclusively for the long term maintenance of the Heritage Park, its facilities and amenities.*”

As owner and developer of the Heritage Park Project located in Fort Bonifacio, Taguig, Metro Manila, BCDA issued and sold to the public Heritage Park Investment Certificates (the Certificates) evidencing the right of the holder to the perpetual use of the burial lots specified therein and to the ownership of the improvements and the enjoyment of the common amenities, facilities and services and to the perpetual care and maintenance of the Heritage Park. Funds in the amount of ₱300,525,000 from the proceeds of the underwritten portion of the first tranche offering of the Certificates and an additional amount of ₱56,382,852 from the proceeds of the reserved Certificates under the first tranche offering was set aside for the perpetual care and maintenance of the Heritage Park. These funds initially constituted the Perpetual Care Fund Trust. As provided in the PCFTA, at any time after the initial contribution to the PCF Trust, and as and when BCDA issues and sells the reserved Certificates under the first tranche offering or the second tranche offering of the Certificates or any new inventories or memorial products, additional funds equivalent to 12% of the gross selling prices of the Certificates or new products shall be delivered to the Trustee (PNB) which shall form part of the Perpetual Care Fund.

The financial statements of the Trust Fund for the year ended December 31, 2017 were authorized for issue by the Management on April 2, 2018.

NOTE 2 - FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Trust Fund have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board Of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation

The financial statements of the Trust Fund have been prepared on the historical cost basis except for certain financial instruments carried at amortized cost and fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Trust Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing

the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these financial statement is determined on such a basis, except for share-based payment transactions that are within the scope of PFRS 2, leasing transactions that are within the scope of PAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS 2 or value in use in PAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs the asset or liability.

Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Trust Fund's functional currency. All financial information presented has been rounded off to the nearest peso, except when otherwise stated.

In preparing the financial statements of the Trust Fund, transactions in currencies other than the entity's functional currency (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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Use of Estimates and Judgments

The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are discussed in Note 5 to the financial statements.

The principal accounting policies are set out below.

NOTE 3 - ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Trust Fund adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax where an asset is measured at fair value and the fair value is below the asset's tax base (e.g. deferred tax asset related to unrealized losses on debt instruments measured at fair value), as well as certain other aspects of accounting for deferred tax assets.
- Amendments to PFRS 12, *Disclosures of Interests in Other Entities – Clarification of the Scope of the Standard* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the disclosure requirements in PFRS 12 apply to interests in entities within the scope of PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* except for summarized financial information for those interests (i.e. paragraphs B10-B16 of PFRS 12).

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Amended PFRS in Issue But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ending December 31, 2017 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on the classification by reference to the business model within which these are held and its contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

The Trust Fund has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017.

- All the financial assets and financial liabilities except for available-for-sale financial assets should continue to be measured on the same bases as currently under PAS 39.
- Concerning impairment, the Trust Fund expects to apply the simplified approach to recognize lifetime expected credit loss for the Trust Fund’s trade receivables. Although the Trust Fund is currently assessing the extent of this impact, it is anticipated that the application of the expected credit loss model of PFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed. In particular, the implementation of the new expected credit loss model proves to be challenging and might involve significant modifications to the Trust Fund’s credit management systems.
- As the new hedge accounting requirements will align more closely with the Trust Fund’s risk management policies, a preliminary assessment of the Trust Fund’s current hedging relationships indicate that these will qualify as continuing hedging relationships upon application of PFRS 9. The Trust Fund does not anticipate that the application of the PFRS 9 hedge accounting requirements will have a material impact on the financial statements.
- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and condition of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before implementing PFRS 17, *Insurance Contracts* (‘the overlay approach’). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9, thus continuing to apply PAS 39 instead (‘the deferral approach’).

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – This standard replaces PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Deferred effectivity -

- Amendment to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Trust Fund except for PFRS 9. Additional disclosures will be included in the financial statements, as applicable.

The Trust Fund anticipates that the application of PFRS 9 might have a significant effect on amounts reported in respect of the Trust Fund's financial asset and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Assets

Initial recognition

Financial assets are recognized in the Trust Fund's financial statements when the Trust Fund becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Trust Fund's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments (HTM), available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace

Financial assets at FVTPL

The Trust Fund classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Trust Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Trust Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statements of revenue and expenses.

As of the reporting date, the Trust Fund does not have financial assets that are designated as fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Trust Fund's financial assets classified under this category include cash and cash equivalents, receivables and loan receivables.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Trust Fund has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

As of the reporting date, the Trust Fund does not have financial assets that are classified as held-to-maturity investments.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM investments or financial assets at FVTPL.

Listed redeemable notes that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognized in profit or loss when the Trust Fund's right to receive the dividends is established.

AFS assets are included in non-current assets unless the investment matures or management intends to dispose it within 12 months after the end of the reporting period.

Available for sale investments are classified under this category.

Derecognition of financial assets

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

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Trust Fund retains an option to repurchase part of a transferred asset), the Trust Fund allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

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 considered to be impaired when 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 AFS equity investments, 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
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as 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 receivables could include the Trust Fund's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a 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.

For financial assets measured at amortized cost, 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 and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Trust Fund's financial statements when the Trust Fund becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Trust

Fund's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Classification and subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Trust Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of an Organization of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Trust Fund's documented risk management or investment strategy, and information about the Organization is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in notes.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method. Payables (except for withholding tax payable) are classified as other financial liabilities.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and 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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Trust Fund derecognizes financial liabilities when, and only when, the Trust Fund's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting of Financial Instruments

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

Inventories

Inventories which consists of investment certificates are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the specific identification method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Prepayments and Other Current Assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year or the Trust Fund's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

At the end of each reporting period, item of property and equipment measured using the cost model are carried at cost less any subsequent accumulated depreciation and impairment losses.

Depreciation is computed on the straight-line method based on the estimated useful lives of the assets.

Impairment of Non-financial Assets

At each reporting date, property and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory with its net realizable value. If an item of inventory is impaired, its carrying amount is reduced to net realizable value, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Unearned Revenues

Unearned revenues are income received by the Trust Fund which has not yet been earned as at reporting dates.

Leases

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

All other leases are classified as operating leases. Rentals payments (receipts) under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Trust Fund as Lessor

Leases wherein the Trust Fund substantially transfers to the lessee all risks and benefits incidental to ownership of the leased items are classified as finance leases and are presented as receivable at an amount equal to the Trust Fund's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Trust Fund's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the statement of revenue and expenses on a straight-line basis over the lease term.

The Trust Fund determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Deficit

Deficit represents accumulated losses incurred by the Trust Fund. Deficit may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Trust Fund and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Sale of investment certificates

Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged receipts of investment certificate.

Rental income

Revenue recognition for rental income is disclosed in the Trust Fund policy for leases.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Trust Fund and the amount of income can be measured reliably. Interest 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.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Taxation

Income tax expense represents the sum of the current tax and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of revenue and expenses because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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 to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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 liabilities and assets 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 Trust Fund expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

NOTE 5 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with *Philippine Financial Reporting Standards* requires the Trust Fund to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Judgments

In the process of applying the Trust Fund's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Classification of Financial Instruments

The Trust Fund classifies a financial instrument, or its component parts, on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument.

The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

Determination of Whether a Lease is a Finance or Operating Lease

Operating Lease Commitments – Trust Fund as Lessor

The Trust Fund has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of the properties leased to various lessees, thus, accounts for the contracts as operating leases.

Assessment of Impairment of Non-financial Assets

The Trust Fund determines whether there are indicators of impairment of the Trust Fund's non-financial assets such as property and equipment, and prepayments and other current assets. Indicators of impairment include significant change in usage, decline in the asset's fair value on underperformance relative to expected historical or projected future results. Determining the fair value requires the determination of future cash flows and future economic benefits expected to be generated from the continued use and ultimate disposition of such assets. It requires the Trust Fund to make estimates and assumptions that can materially affect the financial statements. Future events could be used by management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Trust Fund's financial position and financial performance. The preparation of the estimated future cash flows and economic benefits involves significant judgments and estimation.

No impairment loss is recognized in the Trust Fund's financial statements in 2017 and 2016.

Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Trust Fund evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

No impairment loss is recognized in the Trust Fund's financial statements in 2017 and 2016.

Estimates

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

Estimated Allowance for Impairment of Receivables and Loan Receivables

The Trust Fund reviews its receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of revenue and expenses. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when

determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

There was no objective evidence of impairment of receivables in both 2017 and 2016, and therefore no impairment loss was recognized in either of those years.

Total receivables recognized in the Trust Fund's statement of financial position amounted to ₱39,149,078 and ₱39,513,965 as at December 31, 2017 and 2016, respectively.

Total loan receivables recognized in the Trust Fund's statement of financial position amounted to ₱24,285,714 and ₱30,357,143 as at December 31, 2017 and 2016, respectively.

Estimating Impairment of Inventories

The net realizable value of inventories represents the estimated selling price for inventories less all estimated costs to sell. The Trust Fund determines the estimated selling price based on the recent sale transactions of similar goods with adjustments to reflect any changes in economic conditions since the date the transactions occurred. The Trust Fund records provision for excess of cost over net realizable value of inventories. While the Trust Fund believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

As at December 31, 2017 and 2016, Management believes that the net realizable values of the Trust Fund's inventories exceed their carrying values, accordingly, no loss on the decline in value was recognized in both years.

Total inventories recognized in the Trust Fund's statements of financial position amounted to ₱259,664,134 as at December 31, 2017 and 2016.

Estimating Useful Lives of Property and Equipment

The Trust Fund estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used for the depreciation of property and equipment:

| Description | Useful Lives |
|----------------------|---------------|
| Building | 20 years |
| Building improvement | 10 - 20 years |
| Office equipment | 5 years |

As at December 31, 2017 and 2016, the carrying amounts of the Trust Fund's property and equipment amounted to ₱15,450,998 and ₱12,380,258, respectively. Total accumulated depreciation as at December 31, 2017 and 2016 amounted to ₱89,490,371 and ₱84,453,277, respectively.

Determining the Fair Value of Financial Instruments

The Trust Fund carries some of its financial assets at fair value, which requires extensive use of accounting estimates and judgment. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates,

volatility rates, the amount of changes in fair value would differ if the Trust Fund utilized different valuation methodology. Any change in fair value of these financial assets would affect profit or loss and equity.

NOTE 6 - CASH AND CASH EQUIVALENTS

This account consists of:

| | 2017 | 2016 |
|---------------------------------|---------------------|---------------------|
| Cash in bank | P654 | P4,311 |
| Cash in time deposit placement | 115,594,455 | 37,532,450 |
| Cash in special deposit account | - | 67,500,000 |
| | P115,595,109 | P105,036,761 |

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of between one month and three months depending on the immediate cash requirements of the Trust Fund, and earn interest ranging from 0.3% to 4% in 2017 and 1.2% to 3.20% in 2016. Interest earned from these financial assets amounted to P2,169,898 and P2,046,919 in 2017 and 2016, respectively.

NOTE 7 - RECEIVABLES

This account consists of:

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Receivable from general fund | P25,514,224 | P25,514,224 |
| Receivable from sale of HPICs | 7,068,996 | 7,068,996 |
| Interment share receivables | 4,072,815 | 2,016,000 |
| Accrued interest receivables | 2,407,548 | 2,407,548 |
| Rental fee receivables | 85,495 | 580,280 |
| Water and electricity charges receivables | - | 1,926,917 |
| | P39,149,078 | P39,513,965 |

Receivable from general fund is associated to the construction of the Pavilion and Area 2 advanced by PCF.

Accrued interest receivables are interest earned but not yet received from interest bearing financial assets held by the Trust Fund.

Rental fee receivable represents unpaid rentals from RMMI for lease of mortuary, crematory and corporate building.

All of the Trust Fund's receivables have been reviewed for indicators of impairment. Management believes that none of receivable is impaired.

NOTE 8 - INVENTORY – SECURITIES

This account consists of Heritage Park Investment Certificates identified as follows:

| Description | No. of certificates | Amount |
|-----------------|---------------------|---------------------|
| Pavilion niches | 11,231 | P108,752,521 |
| Area 2 | 556 | 28,936,397 |
| Taguig area | 36 | 61,714,286 |
| Terrasauleum | 114 | 60,260,930 |
| | | P259,664,134 |

Heritage Park Investment Certificates evidence the right of the holder to the perpetual use of the burial lots/niches specified in the certificates and the ownership of the improvement and the enjoyment of the common amenities, facilities and services and to the perpetual care and maintenance of Heritage Park. The securities are valued at cost. There were no certificates sold in 2017 and 2016.

NOTE 9 - PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

| | 2017 | 2016 |
|--------------------|--------------------|--------------------|
| Input tax - net | ₱35,149,380 | ₱34,699,694 |
| Prepaid income tax | 15,796,170 | 15,229,680 |
| Prepaid insurance | 150,881 | - |
| | ₱51,096,431 | ₱49,929,374 |

Input tax pertains to accumulated VAT inputs from purchases of goods and services.

Prepaid income tax pertains to creditable taxes withheld from income payments. This amount can be claimed as charges to Trust Fund's future income tax liability.

Prepaid insurance represents the unexpired portion of insurance premium which is applicable to the succeeding period.

The management has assessed that the input taxes and prepaid income taxes will be used in the future.

NOTE 10 - LOAN RECEIVABLE

This account pertains to the promissory note granted to Rosehills Memorial Management (Philippines), Inc. with an original amount of ₱85,000,000 payable in fifteen (15) years subject to 7% interest per annum and additional earnings of 10% of net profit from the Nacional Memorial Homes. The purpose of the loan granted to RMMI was for the purchase of the Nacional Memorial Homes located at Araneta Ave., Quezon City and to maximize earnings of the Fund. Interest earned from this loan receivable amounted to ₱1,691,778 and ₱2,071,243 in 2017 and 2016, respectively. As at December 31, 2017 and 2016, outstanding balance of loans receivable amounts to ₱24,285,714 and ₱30,357,143, respectively. RMMI mortgaged the Nacional Memorial Homes to the Trust Fund to secure the loan.

NOTE 11 - AVAILABLE FOR SALE INVESTMENT

This account consists of various investments which are stated at fair value as follows:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Fixed rate treasury notes (FXTNs) | ₱95,067,836 | ₱102,575,351 |
| Republic of the Philippines (ROP) dollar bonds | 75,430,029 | 76,312,768 |
| | ₱170,497,865 | ₱178,888,119 |

Fair values of these financial assets are determined using level1 inputs.

FXTNs are subject to 18.25% interest rate which will mature on November 29, 2025.

Investment in ROP dollar bond has fair value of \$1,510,716 (@49.93) and \$1,534,850 (@49.72) as at December 31, 2017 and 2016, respectively. These are subject to 10.625% interest rate and will mature on March 16, 2025.

Interest income recognized from these investments in 2017 and 2016 amounts to ₱12,652,548 and ₱14,334,796, respectively.

NOTE 12 - PROPERTY AND EQUIPMENT - NET

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016, of property and equipment is shown below:

2017

| | Buildings | Building improvements | Office equipment | Total |
|---------------------------------|-------------------|-----------------------|------------------|--------------------|
| Cost | | | | |
| December 31, 2016 | ₱65,607,788 | ₱31,177,747 | ₱48,000 | ₱96,833,535 |
| Additions | - | 8,107,834 | - | 8,107,834 |
| Disposals | - | - | - | - |
| December 31, 2017 | 65,607,788 | 39,285,581 | 48,000 | 104,941,369 |
| Accumulated depreciation | | | | |
| December 31, 2016 | 55,619,229 | 28,810,048 | 24,000 | 84,453,277 |
| Depreciation expense | 3,280,389 | 1,747,105 | 9,600 | 5,037,094 |
| Disposals | - | - | - | - |
| December 31, 2017 | 58,899,618 | 30,557,153 | 33,600 | 89,490,371 |
| Carrying amount | | | | |
| December 31, 2016 | ₱9,988,559 | ₱2,367,699 | ₱24,000 | ₱12,380,258 |
| Carrying amount | | | | |
| December 31, 2017 | ₱6,708,170 | ₱8,728,428 | ₱14,400 | ₱15,450,998 |

2016

| | Buildings | Building improvements | Office equipment | Total |
|---------------------------------|-------------------|-----------------------|------------------|--------------------|
| Cost | | | | |
| December 31, 2015 | ₱65,607,788 | ₱31,177,747 | ₱48,000 | ₱96,833,535 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| December 31, 2016 | 65,607,788 | 31,177,747 | 48,000 | 96,833,535 |
| Accumulated depreciation | | | | |
| December 31, 2015 | 52,338,840 | 26,976,513 | 14,400 | 79,329,753 |
| Depreciation expense | 3,280,389 | 1,833,535 | 9,600 | 5,123,524 |
| Disposals | - | - | - | - |
| December 31, 2016 | 55,619,229 | 28,810,048 | 24,000 | 84,453,277 |
| Carrying amount | | | | |
| December 31, 2015 | ₱13,268,948 | ₱4,201,234 | ₱33,600 | ₱17,503,782 |
| Carrying amount | | | | |
| December 31, 2016 | ₱9,988,559 | ₱2,367,699 | ₱24,000 | ₱12,380,258 |

The carrying values of the property and equipment approximate their fair values. No revaluation was made on the value of the properties and equipment.

None of the property and equipment of the Trust Fund was used as collateral for loan.

NOTE 13 - PAYABLES

This account consists of:

| | 2017 | 2016 |
|-------------------------|--------------------|--------------------|
| Payable to general fund | P92,207,658 | P64,676,388 |
| Accrued expenses | 6,340,101 | 6,071,377 |
| Withholding tax payable | 565,577 | 257,453 |
| Payable to RMMI | - | 2,063,639 |
| | P99,113,336 | P73,068,857 |

Payable to general fund pertains to funds to be remitted to the General Fund as a result of the variation agreement between HPMC and RMMI signed June 27, 2014 (Note 21).

Details of accrued expenses are as follow:

| | 2017 | 2016 |
|---------------------|-------------------|-------------------|
| Maintenance fee | P5,123,856 | P2,396,343 |
| Security services | 872,346 | 1,082,005 |
| Water consumption | 195,883 | 187,066 |
| Accounting services | 127,680 | 63,840 |
| Trust fees | 20,336 | 800,985 |
| Legal fees | - | 778,000 |
| Outside services | - | 700,538 |
| Meals expenses | - | 62,600 |
| | P6,340,101 | P6,071,377 |

NOTE 14 - UNEARNED REVENUES

This account pertains to advance rental received from Pilipinas Shell Petroleum Corporation related to lease contract executed last August 13, 2014. Amount of unearned revenues as of December 31, 2017 and 2016 is P11,273,570 and P19,921,358, respectively (Note 20).

NOTE 15 - PAYABLE TO RMMI

This account pertains to remaining payable to RMMI as a result of the arbitration (Note 21). This amounts to nil and P2,063,639 as at December 31, 2017 and 2016, respectively.

NOTE 16 - FUNDS AND CONTRIBUTION

This account consists of:

| | 2017 | 2016 |
|---------------------------------|---------------------|---------------------|
| Initial amount allocated to PCF | P300,525,000 | P300,525,000 |
| Reserve heritage certificates | 56,382,852 | 56,382,852 |
| Additional contributions | 469,525,656 | 469,525,656 |
| | P826,433,508 | P826,433,508 |

The Trust recognized additional contributions of P46,517,706 in 2015 which are proceeds for prior transactions received during the period as a result of the settlement of accounts between RMMI and HPMC as agreed upon in compromise agreement (Note 21). These are Perpetual Care Fund contributions of 12% in relation to the sale of PCF products, lots in Area 2, CDA and Pavilion.

Below are the details of the increase:

| | Amount |
|----------------|--------------------|
| PCF Product | ₱3,151,459 |
| PCF - Area 2 | 1,614,501 |
| PCF - CDA | 11,804,933 |
| PCF - Pavilion | 29,946,813 |
| | ₱46,517,706 |

NOTE 17 - REVENUE

This account consists of interest income on investments, loan and deposits and other income.

Interest income on investments, loan and deposits consist of:

| | 2017 | 2016 |
|-----------------------|--------------------|--------------------|
| Interest income from: | | |
| Savings account | ₱2,174 | ₱1,532 |
| CTD/PSA | 2,167,725 | 2,045,387 |
| FXTN/Bonds | 12,652,548 | 14,334,796 |
| Loans | 1,691,778 | 2,071,243 |
| | ₱16,514,225 | ₱18,452,958 |

Other incomes of the Trust Fund are as follows:

| | 2017 | 2016 |
|------------------------|--------------------|--------------------|
| Rental income | ₱14,082,674 | ₱5,210,368 |
| Share on utilities | 7,270,922 | 6,595,922 |
| Share on interment | 4,990,000 | 5,400,000 |
| Foreign exchange gains | 304,548 | 4,331,361 |
| Income from food park | - | 85,203 |
| | ₱26,648,144 | ₱21,622,854 |

NOTE 18 - OPERATING EXPENSES

This account consists of:

| | 2017 | 2016 |
|------------------------------|--------------------|--------------------|
| Repairs and maintenance | ₱13,878,222 | ₱12,840,370 |
| Light and water | 10,750,427 | 10,546,724 |
| Security services | 9,541,207 | 8,756,353 |
| Management fee | 8,400,000 | 8,400,000 |
| Depreciation | 5,037,094 | 5,123,524 |
| Trust fee | 2,474,370 | 2,468,485 |
| Professional fees | 888,300 | 228,000 |
| Appropriated operating funds | 725,000 | - |
| Insurance | 30,176 | - |
| Fines and penalties | 20,000 | - |
| Miscellaneous | 149,886 | 63,628 |
| | ₱51,894,682 | ₱48,427,084 |

NOTE 19 - UNREALIZED GAIN (LOSS) ON AFS INVESTMENTS

This account pertains to increases and decreases in the fair values of the investments held by the Trust Fund during a given period. As at December 31, 2017 and 2016, net unrealized gain on AFS investments reported under equity amounted to ₱64,597,622 and ₱73,292,425, respectively.

Breakdown of this account is as follows:

| | 2017 | 2016 |
|--|--------------------|--------------------|
| Unrealized gains on: | | |
| Fixed rate treasury notes (FXTNs) | ₱37,120,123 | ₱44,457,425 |
| Republic of the Philippines (ROP) dollar bonds | 27,477,499 | 28,835,000 |
| | ₱64,597,622 | ₱73,292,425 |

NOTE 20 - LEASE AGREEMENT

On August 13, 2014, the Trust Fund entered into lease agreement through its representative Heritage Park Management Corporation (HPMC) with Pilipinas Shell Petroleum Corporation (SHELL). The Trust Fund leased to SHELL a portion of the parcel of land located along C-5 Road Southbound, Fort Bonifacio, Taguig City, containing an area of Two Thousand Seven Hundred Twenty-Five (2,725) square meters, more or less, as site for full service gasoline station. The term of the lease agreement is Twenty (20) years commencing in February 2017. The fixed amount of rent is ₱288.50 per square meter per month and subject to escalation rate of 5% per annum starting on the second year.

The agreement provides for the payment of advance rental which amounts to ₱11,273,570 and ₱19,921,358 as at December 31, 2017 and 2016.

Total rent income earned from this lease agreement which is presented under the statements of revenue and expenses amounts to ₱8,647,788 and nil in 2017 and 2016, respectively.

Future minimum lease receivables under such operating lease are as follows:

| | 2017 | 2016 |
|---|---------------------|-----------|
| Not later than one year | ₱9,905,648 | ₱- |
| Later than one year but not later than five years | 44,829,308 | - |
| Later than five years | 247,773,652 | - |
| | ₱302,508,608 | ₱- |

NOTE 21 - VARIATION AGREEMENTS

On June 27, 2014, the Trust Fund through its representative Heritage Park Management Corporation (HPMC) entered into variation agreement with Rosehills Memorial Management Philippines, Inc. (RMMI).

The following are the more significant terms and conditions of the agreement:

- *Settlement of Arbitral Award.* The parties agreed to abide by, respect and settle the arbitral awards. Whereas HPMC will pay the amount of ₱186,060,253 to RMMI for management and maintenance fee and on the other hand RMMI will remitted back the amount of ₱87,086,561 to HPMC for the over remittance of operating fund “management and maintenance fund”.

- *Settlement of Fees Dues Up to December 2013.* The parties further agree that the management and maintenance fee due to RMMI for the period June 2012 to December 2013 shall be ₱2,500,000.
- *Management Fee.* HPMC agrees to pay RMMI a management fee of ₱700,000 a month for the overall management and maintenance of the Park. The amount shall be subject to escalation every two years, at a rate that shall be agreed upon by both parties and subject to regular review.
- *Earning/Income of PCF.* The parties hereby agree that ₱10,000 of the payment for every interment conducted in the Park shall be remitted to and shall constitute earnings of income of the Perpetual Care Fund established for the long-term maintenance of the Park. The amount shall be subject to escalation in the same manner of the management fee.
- *Additional Park Lease Payments.* The parties agree that RMMI shall pay, for all areas or lots situated at the Park utilized by it as of the date of execution of the Agreement that are related or attributable to the park maintenance, a nominal or concessional lease payment in the amount of ₱10,000 monthly. For areas or lots situated at the Park that RMMI utilizes as of the execution of this Agreement that are solely devoted to the business enterprise of RMMI and are in no way related to the upkeep and maintenance of the Park, RMMI shall pay a standard lease payment in the amount of ₱50,000 monthly. These leases shall be paid and remitted to the Perpetual Care Fund as earnings or income of the Perpetual Care Fund.

NOTE 22 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE UNDER REVENUE REGULATION NO. 15-2010 AND 19-2011

The following supplementary information are presented for purposes of filing with the BIR and are not a required part of the basic financial statement:

Revenue Regulation 15-2010

Value-added Tax for 2017

| | Amount |
|------------|------------|
| Output tax | ₱5,462,329 |
| Input tax | 5,719,342 |

Withholding Taxes for 2017

Total withholding tax expanded recognized in 2017 amounts to ₱2,027,670.

Tax Assessments and Cases

The Organization did not receive any Letter of Authority or Tax Verification Notice from the Bureau of Internal Revenue (BIR) during the period. It has no pending examination of prior years.

Revenue Regulation 19-2011

The schedule and information of taxable income and deductions taken are as follow:

| | Amount |
|----------------------------------|----------------------|
| Revenue: | |
| Interest income from loan | P1,691,778 |
| Rental income | 14,082,674 |
| Share on utilities | 7,270,922 |
| Share on interment | 4,990,000 |
| Total taxable revenue | 28,035,374 |
| Expenses: | |
| Repairs and maintenance | 13,878,222 |
| Light and water | 10,750,427 |
| Security services | 9,541,207 |
| Management fee | 8,400,000 |
| Depreciation | 5,037,094 |
| Trust fee | 2,474,370 |
| Professional fees | 888,300 |
| Appropriated operating funds | 725,000 |
| Insurance | 30,176 |
| Miscellaneous | 149,886 |
| Total deductible expenses | 51,874,682 |
| Taxable loss | (P23,839,308) |