

**International Care Ministries
Foundation Inc.
(A Nonstock, Nonprofit
Corporation)**

Financial Statements
May 31, 2018 and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
International Care Ministries Foundation Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of International Care Ministries Foundation Inc. (a nonstock, nonprofit corporation), which comprise the statements of financial position as at May 31, 2018 and 2017, and the statements of revenue and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at May 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Foundation's Financial Statements* section of our report. We are independent of the Foundation 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 Foundation's 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 PFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

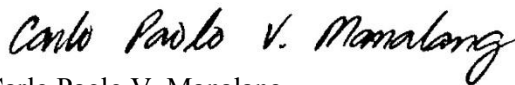
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 14 to the Foundation's financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of International Care Ministries Foundation Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Carlo Paolo V. Manalang

Partner

CPA Certificate No. 111947

SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020

Tax Identification No. 210-730-804

BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020

PTR No. 6621287, January 9, 2018, Makati City

September 10, 2018



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

	May 31	
	2018	2017
ASSETS		
Current Assets		
Cash	₱14,046,174	₱14,701,085
Receivables (Note 4)	91,150	7,800
Inventories (Note 5)	46,693,054	65,736,286
Other current assets (Note 6)	1,536,679	899,267
Total Current Assets	62,367,057	81,344,438
Noncurrent Assets		
Property and equipment (Note 7)	16,503,615	19,974,474
Other noncurrent assets (Notes 6 and 13)	7,618,303	1,895,273
Total Noncurrent Assets	24,121,918	21,869,747
TOTAL ASSETS	₱86,488,975	₱103,214,185
LIABILITIES AND FUND BALANCE		
Current Liability		
Accounts payable and others (Note 8)	₱5,514,750	₱7,830,724
Noncurrent Liability		
Accrued retirement benefits (Note 12)	6,846,180	8,968,716
Total Liabilities	12,360,930	16,799,440
Fund Balance		
General fund	5,000	5,000
Accumulated excess of revenue over expenses	74,123,045	86,409,745
Total Fund Balance	74,128,045	86,414,745
TOTAL LIABILITIES AND FUND BALANCE	₱86,488,975	₱103,214,185

See accompanying Notes to Financial Statements.



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF REVENUE AND EXPENSES

	Years Ended May 31	
	2018	2017
REVENUE		
Donations from ICM Hong Kong (Note 11)	₱131,524,280	₱146,437,630
Donations of goods	118,656,283	144,889,294
Donations from Australia	1,956,393	5,193,165
Other donations	33,273,770	40,865,380
	285,410,726	337,385,469
PROJECT COSTS (Note 9)		
Strategic program	221,788,129	287,684,491
Program development	42,570,423	58,163,204
Health services program	13,475,876	15,834,990
Vision trip	6,531,358	10,047,560
Special project	3,639,311	–
Others	10,305,385	9,131,174
	298,310,482	380,861,419
GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	3,896,580	4,319,103
OTHER INCOME (EXPENSE)		
Actuarial gain on pension liabilities (Note 12)	3,485,538	–
Gain on disposal of property and equipment (Note 7)	1,020,224	1,907,640
Interest income	13,750	18,323
Foreign exchange loss	(9,876)	(137,863)
	4,509,636	1,788,100
DEFICIENCY OF REVENUE OVER EXPENSES	(₱12,286,700)	(₱46,006,953)

See accompanying Notes to Financial Statements.



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.

(A Nonstock, Nonprofit Corporation)

STATEMENTS OF CHANGES IN FUND BALANCE

FOR THE YEARS ENDED MAY 31, 2018 AND 2017

	General Fund	Accumulated Excess of Revenue Over Expenses	Total
BALANCES AT MAY 31, 2016	₱5,000	₱132,416,698	₱132,421,698
Deficiency of revenue over expenses for the year	–	(46,006,953)	(46,006,953)
BALANCES AT MAY 31, 2017	5,000	86,409,745	86,414,745
Deficiency of revenue over expenses for the year	–	(12,286,700)	(12,286,700)
BALANCES AT MAY 31, 2018	₱5,000	₱74,123,045	₱74,128,045

See accompanying Notes to Financial Statements



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended May 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficiency of revenue over expenses	(₱12,286,700)	(₱46,006,953)
Adjustments for:		
Depreciation (Notes 7, 9 and 10)	2,741,910	4,748,107
Foreign exchange loss	9,876	137,863
Interest income	(13,750)	(18,323)
Gain on disposal of property and equipment (Note 7)	(1,020,224)	(1,907,640)
Retirement benefit cost (income) - net (Note 12)	(1,937,653)	1,342,241
Deficiency of revenue over expenses before working capital changes	(12,506,541)	(41,704,705)
Decrease (increase) in:		
Receivables	564,050	473,092
Inventories	19,043,232	41,147,510
Other current assets	(637,412)	(533,247)
Increase (decrease) in accounts payable and others	(2,500,857)	4,343,705
Cash generated from operations	3,962,472	3,726,355
Interest received	13,750	18,323
Net cash provided by operating activities	3,976,222	3,744,678
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 7)	(656,472)	(1,118,822)
Proceeds from sale of property and equipment (Note 7)	1,758,245	2,793,242
Increase in other noncurrent assets	(5,723,030)	(200,423)
Net cash provided by (used in) investing activities	(4,621,257)	1,473,997
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATE IN CASH		
	(9,876)	(137,863)
NET INCREASE (DECREASE) IN CASH	(654,911)	5,080,812
CASH AT BEGINNING OF YEAR	14,701,085	9,620,273
CASH AT END OF YEAR	₱14,046,174	₱14,701,085

See accompanying Notes to Financial Statements.



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

International Care Ministries Foundation Inc, (the Foundation), is a nonstock, nonprofit corporation registered with the Philippine Securities and Exchange Commission (SEC) on July 5, 1993. The Foundation was organized to make available Christian services for the glory of God in all aspects of community development and provide livelihood activities, leadership and comprehensive training for the less privileged. The Foundation partners with International Care Ministries Ltd. (ICM HK), a nonstock, nonprofit organization incorporated in Hong Kong. As a partner ministry with ICM HK, the Foundation receives support from sponsors to enable it to carry out its objectives and continue as a going concern entity.

The Foundation is exempt from payment of income tax under the 1997 National Internal Revenue Code, Section 30 (e), for nonstock corporations organized and operated exclusively for religious and charitable institutions.

On March 12, 2018, the Foundation obtained its certificate of tax exemption from the Bureau of Internal Revenue with validity until March 12, 2021.

The financial statements were approved and authorized for issue by the Foundation's Board of Trustees (BOT) on September 10, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements were prepared under the historical cost convention and are presented in the Philippine Peso (₱), which is the Foundation's functional and presentation currency. All amounts were rounded off to the nearest Peso, except when otherwise indicated.

Statement of Compliance

The financial statements of the Foundation have been prepared in compliance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Changes in Accounting Policy and Disclosure

The accounting policies adopted in the preparation of the Foundation's financial statements are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements starting June 1, 2017. Adoption of these pronouncements did not have significant impact on the Foundation's financial statements.

- Aligning the recognition and measurement requirements for deferred income tax with full PFRSs
- Permitting SMEs to use the revaluation model to measure items of property, plant and equipment
- Allowing SMEs to use the equity method to account for investments in subsidiaries, associates and jointly controlled entities in the separate financial statements



Future Changes in Financial Reporting Framework

Adoption of PFRS for Small Entities

In March 2018, the Philippine Securities and Exchange Commission resolved to adopt PFRS for Small Entities (the Framework) as part of its rules and regulations on financial reporting. This Framework was developed in response to feedback of small entities that PFRS for SMEs is too complex to apply. By reducing choices for accounting treatment, eliminating topics that are generally not relevant to small entities, simplifying methods for recognition and measurement, and reducing disclosure requirements, the Framework allows small entities to comply with the financial reporting requirements without undue cost or burden. Some of the key simplifications introduced by the Framework are as follows:

- For defined benefit plans, an entity is required to use the accrual approach in calculating benefit obligations in accordance with Republic Act (RA) 7641, The Philippine Retirement Pay Law, or company policy (if superior than RA 7641). Accrual approach is applied by calculating the expected liability as of reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods.
- Investment properties can be carried either at cost or at fair value, depending on the policy choice made by the entity.
- There is no concept of "finance lease" under the Framework. All lease receipts (payments) are recognized as income (expense) as earned (incurred).
- Inventories are to be subsequently valued at the lower of cost and market value (i.e., the probable selling price to willing buyers as of reporting date).
- Entities are given a policy choice of not recognizing deferred taxes in the financial statements.

Small entities are those that meet all of the following criteria: (1) total assets of between ₱3 million to ₱100 million or total liabilities of ₱3 million to ₱100 million; (2) are not required to file the financial statements under Part II of SRC Rule 68; (3) are not in the process of filing their financial statements for the purpose of issuing any class instruments in a public market, and; (4) are not holders of secondary licenses issued by regulatory agencies.

The Foundation plans to adopt the Framework when it becomes mandatory starting January 1, 2019. The Foundation has yet to assess the impact of adopting the Framework on its financial statements.

Cash

Cash includes cash on hand and in banks. Cash in bank earns interest at prevailing bank deposit rates.

Receivables

Receivables pertain to excess of advances to employees and third parties which are subject for refund. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If not recoverable, an impairment loss is recognized immediately. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of revenue and expenses.



Security and Containers' Deposits

Security deposits represent rental deposits to the lessor related to leased properties and are measured at amortized cost. Containers' deposits pertains to deposits for containers used for the shipments of inventories measured at amortized cost.

Deposits that are recoverable or consumable within twelve (12) months are classified as current; otherwise, they are classified as noncurrent.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost comprises the invoice amount and other directly attributable costs incurred in bringing the inventories to their present location and condition. NRV is determined by adjusting for inventory obsolescence generally provided for damaged inventories.

Prepaid Expenses

Prepaid expenses are amortized over the period covered by the payment and charged to the appropriate accounts in the statement of revenue and expenses when incurred.

Prepaid expenses that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise these are classified as other noncurrent assets.

Software-in-progress

Software-in-progress pertains to costs for software development works that are still to be completed by the service provider.

The amortization of the software will commence when the asset is available for use. Amortization will be computed using the straight line method over the estimated useful life.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of property and equipment when that cost is incurred and if the recognition criteria are met. Maintenance and repairs that do not improve efficiency or extend economic life are expensed as incurred.

The depreciation of the property and equipment commences when the asset is available for use. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

	Number of Years
Buildings and improvements	10-30
Vehicles	4
Office furniture and equipment	3-5

Leasehold improvements are amortized over the estimated useful life of the improvements ranging from two to five years or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in the depreciation method and estimated useful life of an item of property and equipment, the depreciation of that asset is revised prospectively to reflect the new expectations.



When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation, and any impairment in value are eliminated from the accounts. Any gain or loss resulting from their disposal is recognized in the statement of revenue and expenses.

Impairment of Property and Equipment

At each financial reporting date, property and equipment are reviewed to determine whether there is any indication that assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. The recoverable amount of the property and equipment is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of revenue and expenses.

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 the statement of revenue and expenses.

Accounts Payable and Others

Accounts payable and others are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Foundation is established. These amounts are measured as the amount paid or payable.

Fund balance

General fund represents the initial contribution of the BOT members. This fund is available for use in operations of the Foundation. Disbursements from the general fund are subject to approval.

Fund balance includes the cumulative balance of excess of revenue over expenses, effect of any change in accounting policy and other fund balance adjustments.

Revenue Recognition

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

Donations

Donations are recognized when actually received, earned or when the right to receive is established. Donations of goods mainly consists of Nutripacks, supplies and shoes. Donations of goods in transit are recognized as revenue once loaded in the Philippine ports.

Interest Income

Interest income is recognized as it accrues.



Other Income

Other income is recognized when the related services or goods have been rendered or delivered and right to receive payment is established.

Cost and Expenses

Costs and expenses are recognized in the statement of revenue and expenses when decrease in future economic benefits related to the decrease in an asset or increase in a liability has arisen and can be measured reliably. These are recognized in the period in which they are incurred and measured at the amount paid or payable.

Project Costs

Project costs are recognized when costs associated to the delivery of goods and services to beneficiaries or members that fulfill the Foundation's mission are incurred.

General and Administrative Expenses

General and administrative expenses constitute costs of administering the operations and are expensed as incurred.

Retirement Benefits Cost

The cost of providing retirement benefits is determined using the projected unit credit method. The method reflects services rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost include current service, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses and past service costs are recognized in their entirety in the statement of revenue and expenses.

The present value of the obligation (PVO) is the actuarial present value of expected future payments required to settle the obligation resulting from employee service in current and prior periods. The calculation of the PVO assumes that the plan continues to be in effect and that estimated future events (including compensation increases, turnover and mortality) occur.

Leases

Foundation as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the statement of revenue and expenses on a straight-line basis over the lease term.

Foreign Currency Transactions

Transactions denominated in foreign currencies are initially recorded in Philippine Peso using exchange rate based on the Philippine Dealing and Exchange Corporation (PDEX) rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are translated using PDEX rate at the reporting date. Foreign exchange differentials between the rate at transaction date and the rate at settlement date or reporting date of foreign currency-denominated monetary assets or liabilities are credited to or charged against current operations.

Provisions

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.



Contingencies

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

Events after Reporting Date

Events after the financial reporting date that provide additional information about the Foundation's position at the end of the financial reporting date (adjusting events) are reflected in the financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of financial statements in compliance with PFRS for SMEs requires the Foundation to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of dates of the financial statements. Actual results could differ from estimates and assumptions used.

Judgments

In the process of applying the Foundation'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.

Operating lease - Foundation as a lessee

The Foundation has entered into office space and vehicle leases where the Foundation has determined that the significant risks and rewards for the leased properties are retained by the lessors.

Rent expense amounted to ₱8,461,867 and ₱4,444,818 for the years ended May 31, 2018 and 2017, respectively (see Notes 9 and 13).

Impairment assessment of inventories

The Foundation assesses at each reporting period whether any inventories are impaired. Given the nature of the operations of the Foundation, the cost of the inventories is assessed to be equal to its NRV.

Estimates and Assumptions

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

Impairment assessment of receivables and deposits

The Foundation assesses at the end of each reporting period whether there is objective evidence of impairment of receivables and security and containers' deposits. If there is objective evidence of impairment, the Foundation shall recognize an impairment loss in profit or loss. Impairment loss is evaluated on the basis of the factors that affect the recoverability of the accounts. These factors include, but not limited to, the age and collection history of the accounts, length of relationship with the debtors, the debtors' payment behavior and known market factors.



Impairment loss recognized amounted to ₱647,400 and ₱325,164, for the years ended May 31, 2018 and 2017, respectively (see Notes 4, 6 and 10).

The carrying value of the receivables amounted to ₱91,150 and ₱7,800 as of May 31, 2018 and 2017, respectively (see Note 4), while security and containers' deposits amounted to ₱864,400 and ₱1,067,823, as of the same dates (see Note 6).

Impairment assessment for property and equipment and software-in-progress

The Foundation determines whenever there is any indication that its property and equipment and software-in-progress are impaired. Indicators of impairment include physical deterioration and change in expected use of the asset, and negative cash flows from operations, among others. No impairment loss was recognized in 2018 and 2017 since the Foundation believes that there are no indicators of impairment.

The carrying value of property and equipment amounted to ₱16,503,615 and ₱19,974,474 as of May 31, 2018 and 2017, respectively (see Note 7), while software-in-progress amounted to ₱7,206,503 and ₱1,331,250 as of May 31, 2018 and 2017, respectively (see Note 6).

Retirement benefits cost and obligation

The determination of the Foundation's obligation and pension benefits cost is dependent on management's selection of certain assumptions in calculating such amounts. While the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Foundation's retirement benefit cost and obligation.

Retirement expense (income) amounted to (₱1,864,978) and ₱1,759,768 in 2018 and 2017, respectively. Accrued retirement benefits amounted to ₱6,846,180 and ₱8,968,716 as of May 31, 2018 and 2017, respectively (see Note 12).

4. Receivables

This account pertains to excess of advances to employees and third parties which are subject for refund. These are noninterest-bearing and expected to be collected within one year. As of May 31, 2018 and 2017, receivables amounted to ₱91,150 and ₱7,800, respectively.

Receivables determined to be no longer collectible were written-off during the year (presented under "General and administrative expense" in the statements revenue and expenses, see Note 10).

5. Inventories - at Cost

This account consists of:

	2018	2017
Nutripacks	₱46,629,273	₱65,632,832
Supplies	13,005	34,362
Others	50,776	69,092
	₱46,693,054	₱65,736,286



6. Other Assets

Other Current Assets

	2018	2017
Advances to officers and employees	₱663,217	₱525,660
Prepaid expenses	420,862	194,971
Rental deposits - current portion (Note 13)	410,600	345,800
Containers' deposits	42,000	158,000
	1,536,679	1,224,431
Less allowance for doubtful accounts (Note 10)	-	325,164
	₱1,536,679	₱899,267

Advances to officers and employees are for travel costs or other expenses related to program activities or administrative purposes which are subject to liquidation.

Provision for doubtful accounts was recognized for advances to officers and employees identified as doubtful of collection amounting to ₱167,164 for the year ended May 31, 2017 (nil in 2018, see Note 10). These accounts were fully written-off in 2018.

In 2017, provision for uncollectible containers' deposit amounting to ₱158,000 was recognized for deposits that were identified as doubtful of collection (nil in 2018, see Note 10).

Other Non-current Assets

	2018	2017
Software-in-progress	₱7,206,503	₱1,331,250
Rental deposits - net of current portion (Note 13)	411,800	564,023
	₱7,618,303	₱1,895,273

Software-in-progress pertains to payments for the development works of the Foundation's data and analysis software, which started as of May 31, 2017.

7. Property and Equipment

As of May 31, 2018:

	Land	Buildings and Improvements	Leasehold Improvements	Office Furniture and Equipment	Vehicles	Total
Cost						
Beginning balances	₱2,694,950	₱22,862,464	₱759,928	₱5,293,738	₱12,709,157	₱44,320,237
Additions	-	-	-	317,670	338,802	656,472
Disposals	(647,400)	-	(70,600)	(10,000)	(7,536,000)	(8,264,000)
Ending balances	2,047,550	22,862,464	689,328	5,601,408	5,511,959	36,712,709
Accumulated Depreciation and Impairment Losses						
Beginning balances	-	9,449,997	541,125	4,548,624	9,806,017	24,345,763
Depreciation (Notes 9 and 10)	-	622,452	171,412	503,641	1,444,405	2,741,910
Disposals	-	-	(70,600)	(10,000)	(6,797,979)	(6,878,579)
Ending balances	-	10,072,449	641,937	5,042,265	4,452,443	20,209,094
Net Book Values	₱2,047,550	₱12,790,015	₱47,391	₱559,143	₱1,059,516	₱16,503,615



As of May 31, 2017:

	Land	Buildings and Improvements	Leasehold Improvements	Office Furniture and Equipment	Vehicles	Total
Cost						
Beginning balances	₱2,944,950	₱22,782,464	₱1,017,174	₱5,008,573	₱14,346,657	₱46,099,818
Additions	–	80,000	152,465	351,357	535,000	1,118,822
Disposals	(250,000)	–	(409,711)	(66,192)	(2,172,500)	(2,898,403)
Ending balances	2,694,950	22,862,464	759,928	5,293,738	12,709,157	44,320,237
Accumulated Depreciation and Impairment Losses						
Beginning balances	–	8,827,545	718,490	3,556,391	8,508,031	21,610,457
Depreciation (Notes 9 and 10)	–	622,452	232,346	1,048,782	2,844,527	4,748,107
Disposals	–	–	(409,711)	(56,549)	(1,546,541)	(2,012,801)
Ending balances	–	9,449,997	541,125	4,548,624	9,806,017	24,345,763
Net Book Values	₱2,694,950	₱13,412,467	₱218,803	₱745,114	₱2,903,140	₱19,974,474

The cost of fully depreciated property and equipment that are still in use amounted to ₱7,378,915 and ₱3,338,952 as of May 31, 2018 and 2017, respectively.

The net book value of property and equipment disposed in 2018 and 2017 amounted to ₱1,385,421 and ₱885,602, respectively. The Foundation recognized gain on disposals amounting to ₱1,020,224 and ₱1,907,640 in 2018 and 2017, respectively.

8. Accounts Payable and Others

This account consists of:

	2018	2017
Accounts payable	₱1,002,661	₱2,530,304
Accrued salaries	1,666,870	1,709,962
Withholding taxes, SSS, Philhealth, and HDMF premiums payable	696,379	782,685
Payable to ICMMI (Notes 11 and 12)	184,883	–
Other accrued expenses	1,963,957	2,807,773
	₱5,514,750	₱7,830,724

Accounts payable are noninterest-bearing and are normally settled within one year.

Other accrued expenses represent incurred charges for software costs, meeting, travel, utilities and other services. These are noninterest-bearing and are normally settled within one year.



9. Project Costs

As of May 31, 2018:

	Strategic Program	Program Development	Health Services Program	Vision	Special Project	Others*	Total
Consumption of Nutripacks	₱125,252,330	₱13,257,363	₱92,273	₱106,650	₱9,671	₱7,240,072	₱145,958,359
Payroll and other employee benefits (Note 12)	48,437,423	6,614,779	3,333,357	–	–	329,889	58,715,448
Transportation and travel	11,697,368	3,104,110	2,413,695	6,424,708	798,424	103,491	24,541,796
Meeting expenses	3,941,814	8,323,909	326,996	–	2,831,216	29,252	15,453,187
Rent (Note 13)	6,807,955	1,168,325	478,237	–	–	7,350	8,461,867
Training expenses	5,957,353	1,685,385	93,323	–	–	477,436	8,213,497
Outside Services	2,919,666	1,496,005	2,345,966	–	–	130,000	6,891,637
Office and medical supplies	1,979,597	922,434	1,268,100	–	–	75,803	4,245,934
Meals	2,584,737	233,024	1,135,276	–	–	–	3,953,037
Repairs and maintenance	2,012,624	1,118,015	289,685	–	–	–	3,420,324
Utilities	2,019,806	734,293	381,601	–	–	1,125	3,136,825
Depreciation (Note 7)	1,988,982	–	–	–	–	54,097	2,043,079
Scholarships	–	–	1,097,869	–	–	–	1,097,869
Others	6,188,474	3,912,781	219,498	–	–	1,856,870	12,177,623
	₱221,788,129	₱42,570,423	₱13,475,876	₱6,531,358	₱3,639,311	₱10,305,385	₱298,310,482

* Others consist mainly of costs related to the disaster relief operations and gifts in kind to various provinces of the Philippines.

As of May 31, 2017:

	Strategic Program	Program Development	Health Services Program	Vision	Special Project	Others*	Total
Consumption of Nutripacks	₱171,898,267	₱19,166,382	₱735,897	₱–	₱–	₱8,055,278	₱199,855,824
Payroll and other employee benefits (Note 12)	48,312,830	11,359,172	3,573,450	–	–	394,272	63,639,724
Transportation and travel	14,062,850	4,471,852	2,187,191	10,047,560	–	200,821	30,970,274
Meeting expenses	4,093,119	10,123,954	123,734	–	–	71,991	14,412,798
Rent (Note 13)	3,051,335	1,093,577	299,906	–	–	–	4,444,818
Training expenses	6,247,509	1,877,777	125,751	–	–	32,702	8,283,739
Outside services	9,335,370	1,689,482	198,241	–	–	6,000	11,229,093
Office and medical supplies	5,266,397	872,486	6,403,114	–	–	18,248	12,560,245
Meals	6,346,731	323,647	888,637	–	–	15,582	7,574,597
Repairs and maintenance	5,137,402	1,791,812	293,590	–	–	–	7,222,804
Utilities	3,298,305	1,063,518	405,645	–	–	2,837	4,770,305
Depreciation (Note 7)	3,490,607	–	–	–	–	–	3,490,607
Scholarships	1,199,884	–	431,716	–	–	–	1,631,600
Distribution of Tom shoes	75,471	–	–	–	–	60,690	136,161
Others	5,868,414	4,329,545	168,118	–	–	272,753	10,638,830
	₱287,684,491	₱58,163,204	15,834,990	₱10,047,560	₱–	₱9,131,174	₱380,861,419

* Others consist mainly of costs related to the disaster relief operations in various provinces of the Philippines.



10. General and Administrative Expenses

This account consists of:

	2018	2017
Training expenses	₱833,148	₱627,017
Depreciation (Note 7)	698,831	1,257,500
Impairment loss (Notes 4 and 6)	647,400	325,164
Transportation and travel	606,750	692,327
Outside services	322,620	319,730
Consumption of Nutripacks	205,510	238,615
Bank charges	198,022	357,450
Taxes and licenses	169,900	239,864
Meeting expenses	114,492	104,869
Office and medical supplies	1,913	1,551
Miscellaneous	97,994	155,016
	₱3,896,580	₱4,319,103

11. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or trustees.

The following are the Foundation's significant related party transactions:

- a. ICM Hong Kong, a nonstock, nonprofit organization, having some common directors with the Foundation, provides the operating fund requirements of the Foundation. Donations received from ICM Hong Kong amounted to ₱131,524,280 and ₱146,437,630 for the years ended May 31, 2018 and 2017, respectively.
- b. The Foundation's financial and administrative functions are handled by ICMManila, Inc. (ICMMI; a nonstock, nonprofit organization with some common directors) at no cost to the Foundation. The Foundation also obtains/provides advances to ICMMI that are settled within the fiscal year. Advances made to ICMMI for the years ended May 31, 2018 and 2017 amounted to ₱5,799,664 and ₱5,498,000, respectively.
- c. Payable to ICMMI as of May 31, 2018 pertains to retirement benefit obligation of the Foundation's previous employees, whose employment were transferred to ICMMI in August to October 2017, amounting to ₱184,883 (nil as of May 31, 2017, see note 12). This is a noninterest-bearing payable and is expected to be settled within twelve months.
- d. Compensation of the key management personnel is assumed by ICM HK. Required disclosures under Section 33, *Related Party Disclosures* of PFRS for SMEs are disclosed in the financial statements of ICM HK.



12. Retirement Benefits

The components of retirement benefit obligation based on an actuarial valuation report are presented in the succeeding tables. The Foundation obtains an actuarial valuation as of May 31, 2018 by hiring the services of a third party professionally qualified actuary.

The components of retirement benefits recognized in statement of revenue and expenses are as follows:

	2018	2017
Current service cost	₱1,154,187	₱1,363,191
Interest cost	466,373	396,577
Net actuarial gain	(3,485,538)	-
Retirement expense (income)	(₱1,864,978)	₱1,759,768

Movements in accrued retirement benefits as of May 31 are as follows:

	2018	2017
Balance at beginning of year	₱8,968,716	₱7,626,475
Current service cost	1,154,187	1,363,191
Interest cost	466,373	396,577
Benefits paid	(72,675)	(417,527)
Transferred liabilities to ICMMI	(184,883)	-
Net actuarial loss	(3,485,538)	-
Balances at end of year	₱6,846,180	₱8,968,716

The assumptions used to determine the retirement benefits as of May 31 are as follow:

	2018	2017
Discount rate	7.60%	5.20%
Salary increase rate	4.00%	4.00%

13. Lease Agreements

The Foundation leases various office spaces that expires over periods over the next five (5) years. Rental deposits amounted to ₱822,400 and ₱909,823 as of May 31, 2018 and 2017, respectively (of which, ₱410,600 and ₱345,800 as of May 31, 2018 and 2017, respectively, is shown as "Other current assets" in Note 6). The rental deposits will be applied against unpaid obligation of the Foundation at the end of the lease term, provided that whatever remaining amount after payment of unpaid obligation shall be returned to the Foundation. The Foundation may terminate the contract early, provided that, prior to the termination, a written notice is given to the lessors.

On March 3, 2017, the Foundation entered into an Operating Lease Facility with BPI Century Tokyo Rental Corporation (the Lessor) for brand new motor vehicles amounting to ₱10.0 million. On March 6, 2017, the Foundation entered into an operating lease agreement (the Agreement) with the Lessor for the lease of specific vehicles with lease term of 36 to 42 months and fixed monthly rent payments.



The Agreement allows the Foundation to cancel or early terminate the individual vehicle leased prior to expiry subject to payment of liquidated damages to the lessor. The vehicles are, at all times, the sole and exclusive property of the Lessor and the Agreement gives no option to the Foundation to purchase or otherwise acquire title to the vehicles during the entire lease term. The Foundation may at its option renew the lease upon expiration of the original lease term, subject to the Lessor's approval. In addition, the Agreement requires the Foundation to pay for repairs and maintenance, insurance, taxes and licenses, and a penalty for usage above a standard mileage allowance.

As of May 31, 2018 and 2017, 24 and seven (7) vehicles, respectively, were received. Total future minimum lease payments as of May 31 are as follows:

	2018	2017
Within one year	₱2,903,637	₱1,214,072
One to five years	12,186,970	2,677,173
	₱15,090,607	₱3,891,245

Rental expense related to operating lease agreements amounted to ₱8,461,867 and ₱4,444,818 for the years ended May 31, 2018 and 2017, respectively (see Note 9).

14. Supplementary Information Required under Revenue Regulations 15-2010

Summarized below are the taxes paid or accrued by the Foundation for the fiscal year 2018:

Value-Added Taxes (VAT)

The Foundation, being a non-stock, non-profit corporation, is a VAT exempt entity.

Taxes and Licenses

Total amount paid by the Foundation for the taxes and licenses in 2018 amounted to ₱169,900 included under "Taxes and licenses" classified as "General and Administrative Expenses" in the statement of revenue and expenses.

Business permits and licenses	₱106,800
Taxes and licenses	63,100
	₱169,900

Withholding Taxes

The following are the categories of the Foundation's withholding taxes:

	Paid	Accrued
Withholding taxes on compensation and benefits	₱915,209	₱8,522
Expanded withholding taxes	265,196	23,762
	₱1,180,405	₱32,284

Accrued withholding taxes are included in "Accounts payable and others" in the Foundation's statement of financial position.

Customs Duties

The Foundation paid ₱550,776 for customs duties relating to the inventories shipped to the Philippines as of May 31, 2018.



ICMManila Inc.
(A Nonstock, Not for Profit Organization)

Financial Statements
May 31, 2018 and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
ICMManila Inc.

Report on the Audit of the Foundation's financial statements

Opinion

We have audited the accompanying financial statements of ICMManila Inc. (a nonstock, nonprofit association), which comprise the statements of financial position as at May 31, 2018 and 2017, and the statements of revenue and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at May 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the 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 PFRS for SMEs, 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

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



Auditor's Responsibilities for the Audit of the Foundation's financial statements

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

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

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

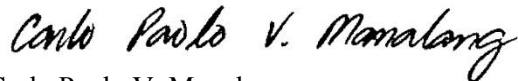
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 9 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of ICMManila Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Carlo Paolo V. Manalang
Partner

CPA Certificate No. 111947

SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020

Tax Identification No. 210-730-804

BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020

PTR No. 6621287, January 9, 2018, Makati City

August 30, 2018



ICMMANILA INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF FINANCIAL POSITION

	May 31	
	2018	2017
ASSETS		
Current Assets		
Cash	₱859,880	₱930,180
Receivable from ICMFI (Notes 6 and 7)	184,883	–
Advances to officers and employees	20,967	–
Prepayments and security deposits (Note 8)	566,195	534,225
Total Current Assets	1,631,925	1,464,405
Noncurrent Asset		
Property and equipment (Note 4)	43,378	127,938
TOTAL ASSETS	₱1,675,303	₱1,592,343
LIABILITIES AND FUND BALANCE		
Current Liability		
Accounts payable and others (Note 5)	₱1,336,886	₱1,836,619
Noncurrent Liability		
Accrued retirement benefits (Note 7)	1,831,257	2,933,962
Total Liabilities	3,168,143	4,770,581
Fund Balance		
General fund (Note 6)	1,000,000	1,000,000
Accumulated deficiency of revenue over expenses	(2,492,840)	(4,178,238)
Total Fund Balance	(1,492,840)	(3,178,238)
TOTAL LIABILITIES AND FUND BALANCE	₱1,675,303	₱1,592,343

See accompanying Notes to Financial Statements.



ICMMANILA INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF REVENUE AND EXPENSES

	Years Ended May 31	
	2018	2017
REVENUE		
Donations from ICM Hong Kong (Note 6)	₱25,585,200	₱23,848,000
EXPENSES		
Payroll and other employee benefits (Note 7)	15,789,624	13,846,660
Transportation and travel	2,414,521	3,711,888
Rent (Note 8)	2,025,938	1,782,111
Utilities	2,017,437	2,058,806
Meeting expense	1,884,338	1,153,839
Office supplies	287,479	303,107
Depreciation (Note 4)	84,560	239,486
Consulting fee	30,800	82,860
Miscellaneous	1,122,145	985,411
	25,656,842	24,164,168
OTHER INCOME		
Interest income	181	382
Others (Notes 5 and 7)	1,756,859	95,552
	1,757,040	95,934
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	₱1,685,398	(₱220,234)

See accompanying Notes to Financial Statements.



ICMMANILA INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

	General Fund	Accumulated Deficiency of Revenue Over Expenses	Total
BALANCES AT MAY 31, 2016	₱1,000,000	(₱3,958,004)	(₱2,958,004)
Deficiency of revenue over expenses for the year	–	(220,234)	(220,234)
BALANCES AT MAY 31, 2017	1,000,000	(4,178,238)	(3,178,238)
Excess of revenue over expenses for the year	–	1,685,398	1,685,398
BALANCES AT MAY 31, 2018	₱1,000,000	(₱2,492,840)	(₱1,492,840)

See accompanying Notes to Financial Statements.



ICMMANILA INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF CASH FLOWS

	Years Ended May 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	₱1,685,398	(₱220,234)
Adjustments for:		
Depreciation (Note 4)	84,560	239,486
Interest income	(181)	(382)
Net pension expense (income) (Note 7)	(1,287,588)	528,041
Excess of revenue over expenses before working capital changes	482,189	546,911
Decrease (increase) in:		
Advances to officers and employees	(20,967)	82,505
Prepayments and security deposits	(31,970)	(31,072)
Increase (decrease) in accounts payable and others	(499,733)	98,530
Net cash generated from (used in) operations	(70,481)	696,874
Interest received	181	382
Net cash provided by (used in) operating activities	(70,300)	697,256
CASH FLOWS FROM INVESTING ACTIVITY		
Acquisitions of property and equipment (Note 4)	-	(18,000)
NET INCREASE (DECREASE) IN CASH	(70,300)	679,256
CASH AT BEGINNING OF YEAR	930,180	250,924
CASH AT END OF YEAR	₱859,880	₱930,180

See accompanying Notes to Financial Statements.



ICMMANILA INC.
(A Nonstock, Nonprofit Association)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

ICMManila Inc. (the “Foundation”) is a nonstock, nonprofit association registered with the Philippine Securities and Exchange Commission (SEC) on June 28, 2010. The Foundation was organized to make available Christian services for the glory of God in all aspects of community development, provide livelihood activities, leadership and comprehensive training for the less privileged. It is a Christian nonstock, nonprofit and non-denominational organization, established for charitable purposes. The Foundation partners with International Care Ministries Ltd. (ICM HK), a nonstock, nonprofit organization incorporated in Hong Kong. As a partner ministry with ICM HK, the Foundation receives support from sponsors to enable it to carry out its objectives.

The Foundation is exempt from payment of income tax under the 1997 National Internal Revenue Code, Section 30 (e), for non-stock corporation organized and operated exclusively for religious and charitable institutions.

On April 6, 2017, the Foundation obtained its certificate of tax exemption from the Bureau of Internal Revenue valid until April 6, 2020.

The financial statements were approved and authorized for issue by the Foundation’s Board of Trustees (BOT) on August 30, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis and are presented in Philippine Peso (₱), which is the Foundation’s functional and presentation currency. All amounts are rounded off to the nearest Peso, unless otherwise indicated.

Statement of Compliance

The financial statements of the Foundation have been prepared in compliance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Changes in Accounting Policy and Disclosure

The accounting policies adopted in the preparation of the Foundation’s financial statements are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements starting June 1, 2017. Adoption of these pronouncements did not have significant impact on the Foundation’s financial statements.

- Aligning the recognition and measurement requirements for deferred income tax with full PFRSs
- Permitting SMEs to use the revaluation model to measure items of property, plant and equipment
- Allowing SMEs to use the equity method to account for investments in subsidiaries, associates and jointly controlled entities in the separate financial statements



Future Changes in Financial Reporting Framework

Adoption of PFRS for Small Entities

In March 2018, the Philippine Securities and Exchange Commission resolved to adopt PFRS for Small Entities (the Framework) as part of its rules and regulations on financial reporting. This Framework was developed in response to feedback of small entities that PFRS for SMEs is too complex to apply. By reducing choices for accounting treatment, eliminating topics that are generally not relevant to small entities, simplifying methods for recognition and measurement, and reducing disclosure requirements, the Framework allows small entities to comply with the financial reporting requirements without undue cost or burden. Some of the key simplifications introduced by the Framework are as follows:

- For defined benefit plans, an entity is required to use the accrual approach in calculating benefit obligations in accordance with Republic Act (RA) 7641, The Philippine Retirement Pay Law, or company policy (if superior than RA 7641). Accrual approach is applied by calculating the expected liability as of reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods.
- Investment properties can be carried either at cost or at fair value, depending on the policy choice made by the entity.
- There is no concept of "finance lease" under the Framework. All lease receipts (payments) are recognized as income (expense) as earned (incurred).
- Inventories are to be subsequently valued at the lower of cost and market value (i.e., the probable selling price to willing buyers as of reporting date).
- Entities are given a policy choice of not recognizing deferred taxes in the financial statements.

The Foundation plans to adopt the Framework when it becomes mandatory starting January 1, 2019. The Foundation has yet to assess the impact of adopting the Framework on its financial statements.

Financial Instruments

Cash

Cash includes cash on hand and in bank. Cash in bank earns interest at prevailing bank deposit rates.

Security Deposits

Security deposits represent rental deposits to the lessor related to lease properties and are measured at amortized cost. Deposits held by the Foundation for realization within 12 months from reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Accounts Payable and Others

Accounts payable and others are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Foundation is established.



Advances to officers and employees

Advances to officers and employees are subject to liquidation. At the end of each reporting period, the carrying amounts of advances are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of revenue and expenses.

Prepayments

Prepayments are amortized over the period covered by the payment and charged to the appropriate accounts in the statement of revenue and expenses when incurred.

Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets; otherwise these are classified as other noncurrent assets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of property and equipment when that cost is incurred and if the recognition criteria are met. Cost excludes the day-to-day servicing of the asset.

The depreciation of the property and equipment commences when the asset is available for use. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Office equipment	3
Furniture and fixtures	5

Leasehold improvements are amortized over the estimated useful life of the improvements ranging from two to five years or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in the depreciation method and estimated useful life of an item of property and equipment, the depreciation of that asset is revised prospectively to reflect the new expectations.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation, and any impairment in value are eliminated from the accounts. Any gain or loss resulting from their disposal is recognized in the statement of revenue and expenses. Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

Impairment of Property and Equipment

At each financial reporting date, property and equipment are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. The recoverable amount of property and equipment is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU)



to which the asset belongs. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of revenue and expenses.

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 the statement of revenue and expenses.

Fund Balance

General fund represents the initial contribution of the members of the BOT. The general fund is available for use in operations of the Foundation and disbursement from which is subject to approval.

Fund balance includes the cumulative balance of excess (deficit) of revenue over expenses, effect of any change in accounting policy and other fund balance adjustments.

Revenue and Income Recognition

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

Donations

Donations are recognized when actually received, earned or when right to receive is established.

Interest Income

Interest income is recognized as it accrues.

Other Income

Other income is recognized when the related services or goods have been rendered or delivered and right to receive payment is established.

Expenses

Expenses are recognized in the statement of revenue and expenses when decrease in future economic benefits related to the decrease in an asset or an increase in liability has arisen and can be measured reliably. These are recognized in the period they are incurred and measured at the amount paid or payable.

Retirement Benefits Cost

The cost of providing retirement benefits is determined using the projected unit credit method. The method reflects services rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost include current service, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses and past service costs are recognized in their entirety in the statement of revenue and expenses.

The present value of the obligation (PVO) is the actuarial present value of expected future payments required to settle the obligation resulting from employee service in current and prior periods. The calculation of the PVO assumes that the plan continues to be in effect and that estimated future events (including compensation increases, turnover and mortality) occur.



Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and involves an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- d. there is a substantial change to the asset.

Where re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenario a, c, or d and at the date of renewal or extension period for scenario b.

Foundation as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the statement of revenue and expenses on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events After Reporting Date

Events after the financial reporting date that provide additional information about the Foundation's position at the end of the financial reporting date (adjusting events) are reflected in the financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in compliance with PFRS for SMEs requires the Foundation to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of dates of the financial statements. Actual results could differ from estimates and assumptions used.



Judgments

In the process of applying the Foundation’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:

Going concern assumption

The Foundation determines no indicators of doubt on the ability to continue as a going concern in connection with the accumulated capital deficiency of the ₱1,492,840 and ₱3,178,238 as of May 31, 2018 and 2017. The Foundation continuously receives support from sponsors (e.g. ICM HK) to enable it to carry out its objectives and continue as a going concern entity.

Operating lease - Foundation as a lessee

The Foundation has entered into a commercial property lease where the Foundation has determined that the significant risks and rewards for the leased property are retained by the lessor. Rent expense related to office space amounted to ₱1,972,438 and ₱1,736,611 for the years ended May 31, 2018 and 2017, respectively (see Note 8).

Estimate and Assumption

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

Retirement benefits cost and obligation

The determination of the Foundation’s retirement obligation and pension benefits cost is dependent on management’s selection of certain assumptions including salary increase and discount rates in calculating such amounts. While the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Foundation’s retirement benefit cost and obligation.

Retirement benefits cost amounted to ₱469,271 in 2018 and ₱528,041 in 2017. Accrued retirement benefits amounted to ₱1,831,257 and ₱2,933,962 as of May 31, 2018 and 2017, respectively. Net actuarial gain on retirement benefits amounted to ₱1,756,859 in 2018 and nil in 2017 (see Note 7).

4. Property and Equipment

As of May 31, 2018:

	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Beginning balances	₱1,221,873	₱159,034	₱14,871	₱1,395,778
Disposal	(22,000)	-	-	(22,000)
Ending balances	1,199,873	159,034	14,871	1,373,778
Accumulated Depreciation				
Beginning balances	1,153,388	99,581	14,871	1,267,840
Depreciation for the year	52,753	31,807	-	84,560
Disposal	(22,000)	-	-	(22,000)
Ending balances	1,184,141	131,388	14,871	1,330,400
Net Book Values	₱15,732	₱27,646	₱-	₱43,378



As of May 31, 2017:

	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Beginning balances	₱1,203,873	₱159,034	₱14,871	₱1,377,778
Additions	18,000	—	—	18,000
Ending balances	1,221,873	159,034	14,871	1,395,778
Accumulated Depreciation				
Beginning balances	946,535	67,774	14,045	1,028,354
Depreciation for the year	206,853	31,807	826	239,486
Ending balances	1,153,388	99,581	14,871	1,267,840
Net Book Values	₱68,485	₱59,453	₱—	₱127,938

The cost of fully depreciated property and equipment that are still in use amounted to ₱1,179,205 and ₱700,811 as of May 31, 2018 and 2017, respectively.

5. Accounts Payable and Others

	2018	2017
Accounts payable and accrued expenses	₱210,441	₱191,975
Accrued salaries	452,458	472,513
Other accrued expenses	503,139	945,905
Withholding taxes, SSS, HDMF and PHIC premiums payable	170,848	226,226
	₱1,336,886	₱1,836,619

Accounts payable are noninterest-bearing and are normally settled within one year.

Other accrued expenses represent incurred charges for meeting, travel, utilities and other services. These are noninterest-bearing and are normally settled within one year.

In 2017, the Foundation reversed long outstanding accrued expense and other payables amounting to ₱95,552, which is presented under “Other income” in the statement of revenue and expenses.

6. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or trustees. The following are the Foundation’s significant related party transactions:

- a. International Care Ministries (ICM), a nonstock, nonprofit organization having some common directors with the Foundation, provides the operating fund requirements of the Foundation. Donations received from ICM amounted to ₱25,585,200 and ₱23,848,000 for the years ended May 31, 2018 and 2017, respectively.



- b. Initial contribution of the members of the BOT at the inception of the Foundation amounted to ₱1,000,000. This is presented as “General fund” in the statement of financial position.
- c. The Foundation handles the financial and administrative functions of International Care Ministries Foundation, Inc. (ICMFI), a nonstock, nonprofit organization with some common directors with the Foundation, at no cost to ICMFI. Certain costs and expenses of the Foundation are paid for by ICMFI subject to reimbursement. These are fully settled as of May 31, 2018 and 2017.
- d. Receivable from ICMFI as of May 31, 2018 pertains to retirement benefit obligation of ICMFI’s former employees, who were transferred to the Foundation in August to October 2017, amounting to ₱184,883 (nil as of May 31, 2017). This noninterest-bearing receivable is expected to be settled within 12 months and unsecured with no impairment.
- e. Compensation of the key management personnel is assumed by ICM HK. Required disclosures under Section 33, Related Party Disclosures of PFRS for SMEs are disclosed in the financial statements of ICM HK.

7. Retirement Benefits

The components of retirement benefit obligation based on an actuarial valuation report are presented in the succeeding tables. The Foundation obtains an actuarial valuation by hiring the services of a third party professionally qualified actuary.

The components of retirement benefits recognized in statement of revenue and expenses are as follows:

	2018	2017
Current service cost	₱316,705	₱402,933
Interest cost	152,566	125,108
Net actuarial gain	(1,756,859)	-
Net retirement benefits cost (income)	(₱1,287,588)	₱528,041

Changes in accrued retirement benefits as of May 31 are as follows:

	2018	2017
Balance at beginning of year	₱2,933,962	₱2,405,921
Current service cost	316,705	402,933
Interest cost	152,566	125,108
Transferred liabilities from ICMFI	184,883	-
Net actuarial gain	(1,756,859)	-
Balances at end of year	₱1,831,257	₱2,933,962

The assumptions used to determine the retirement benefits as of May 31 are as follow:

	2018	2017
Discount rate	7.60%	5.20%
Salary increase rate	4.00%	4.00%



8. Lease Agreement

In July 2013, the Foundation entered into a lease agreement covering its office space from July 15, 2013 to July 15, 2016. Upon expiry of the lease term, the lease contract was continued on a month to month basis until a new lease agreement was negotiated with new lease term from February 1, 2017 to January 31, 2018. At the expiration of the lease term, the lease contract was renewed with lease term from February 01, 2018 to January 31, 2019. The lease maybe extended for another year on terms and conditions mutually agreed upon by the parties.

Security deposit and prepayment related to the agreement amounted to ₱497,695 and ₱491,726 as of May 31, 2018 and 2017, respectively, presented under “Prepayments and security deposits” account in the statements of financial position.

Rental expense related to office space amounted to ₱1,972,438 and ₱1,736,611 for the years ended May 31, 2018 and 2017, respectively.

9. Supplementary Information Required under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes and licenses, fees paid or accrued during the taxable year 2018:

Value-Added Taxes

The Foundation being a non-stock, non-profit corporation has not engaged in any sale transaction subject to VAT in 2018.

Taxes and License Fees

The Foundation paid business permit amounting to ₱39,247 for 2018 under “Miscellaneous” classified as “Expenses” in the statement of revenue and expenses.

Withholding Taxes

The following are the categories of the Foundation’s withholding taxes:

	Paid	Accrued
Withholding taxes on compensation and benefits	₱1,126,306	₱29,905
Expanded withholding taxes	88,622	7,381
	<u>₱1,214,928</u>	<u>₱37,286</u>

Accrued withholding taxes are included in “Accounts payable and others” in the Foundation’s statement of financial position.

