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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
BUREAU OF INTERNAL REVENUE**

The Board of Trustees
PEMSEA Resource Facility Center
PEMSEA Building, Department of Environment and Natural Resources Compound
Visayas Avenue, Quezon City, Philippines.

We have audited the accompanying financial statements of PEMSEA Resource Facility Center (Headquarters Office of Partnerships in Environmental Management for the Seas of East Asia) as at and for the year ended December 31, 2013, on which we have rendered our report dated April 8, 2014.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to any senior officer or member of the Board of Trustees of the Facility Center.

R.G. MANABAT & CO.

TOMAS G. MAHINAY

Partner

CPA License No. 0024593

SEC PA Control No. A-653-A, Group A, valid until June 6, 2014

Tax Identification No. 121-597-818

BIR Accreditation No. 08-001987-21-2013

Issued May 9, 2013; valid until May 8, 2016

PTR No. 4225129MC

Issued January 2, 2014 at Makati City

April 8, 2014
Makati City, Metro Manila



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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
PEMSEA Resource Facility Center
PEMSEA Building, Department of Environment and Natural Resources Compound
Visayas Avenue, Quezon City, Philippines

Report on the Financial Statements

We have audited the accompanying financial statements of PEMSEA Resource Facility Center (Headquarters Office of Partnerships in Environmental Management for the Seas of East Asia) which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of receipts and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, as shown in the books maintained by PEMSEA Facility Center, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

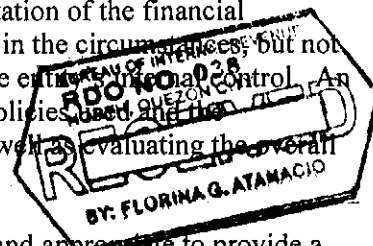
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PEMSEA Resource Facility Center as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended, as shown in the books maintained by PEMSEA Facility Center, in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities.

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 15 to the basic 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 supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Report on the Supplementary Information Presenting Grants and Expense per Project

The supplementary information presenting the grants and expense per project for the year ended December 31, 2013 and 2012 in Note 16 is presented for the purpose of the interested internal users of the financial statements and is not a required part of the audited financial statements. Such supplementary information is the responsibility of the management.

R.G. MANABAT & CO.



TOMAS G. MAHINAY

Partner

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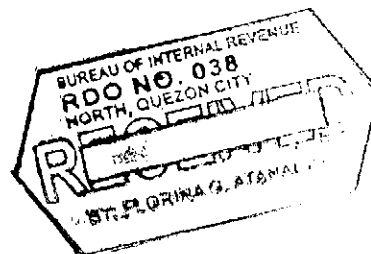
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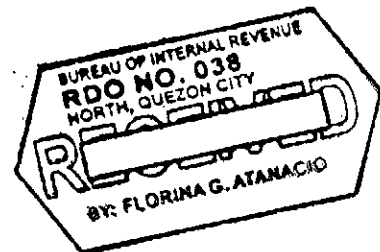


PEMSEA RESOURCE FACILITY CENTER
(Headquarters Office of Partnerships in Environmental Management for
the Seas of East Asia)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	<i>Note</i>	2013	2012
ASSETS			
Current Assets			
Cash	4, 8, 14	\$1,662,195	\$1,432,204
Receivable from grantor	5, 14	6,228	405
Total Current Assets		1,668,423	1,432,609
Noncurrent Assets			
Property and equipment - net	6	456	1,819
Intangible asset	7	7,952	-
Total Noncurrent Assets		8,408	1,819
		\$1,676,831	\$1,434,428
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Advances from grantor	8, 14	\$8,927	\$14,986
Accounts payable and accrued expenses	9, 14	154,698	171,919
Total Current Liabilities		163,625	186,905
Fund Balance		1,513,206	1,247,523
		\$1,676,831	\$1,434,428

See Notes to the Financial Statements.

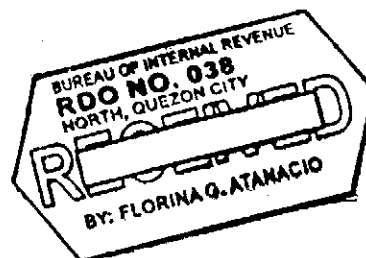


PEMSEA RESOURCE FACILITY CENTER
(Headquarters Office of Partnerships in Environmental Management for
the Seas of East Asia)

STATEMENTS OF RECEIPTS AND EXPENSES

		Years Ended December 31	
	<i>Note</i>	2013	2012
RECEIPTS			
Grants	10	\$1,911,650	\$2,356,854
Interest from cash in bank	4	2,108	2,741
Donations		1,241	1,859
		1,914,999	2,361,454
EXPENSES			
Project expenses	11, 12	1,391,929	1,618,039
Core staff		148,345	374,335
Travel and meeting cost		55,686	58,716
Amortization and depreciation	6	1,363	27,715
Others		51,993	93,000
		1,649,316	2,171,805
EXCESS OF RECEIPTS OVER EXPENSES	1	\$265,683	\$189,649

See Notes to the Financial Statements.



PEMSEA RESOURCE FACILITY CENTER
(Headquarters Office of Partnerships in Environmental Management for
the Seas of East Asia)

STATEMENTS OF CHANGES IN FUND BALANCE

	Years Ended December 31	
	2013	2012
FUND BALANCE		
Balance at beginning of year	\$1,247,523	\$1,057,874
Excess of receipts over expenses	265,683	189,649
Balance at end of year	\$1,513,206	\$1,247,523

See Notes to the Financial Statements.

PEMSEA RESOURCE FACILITY CENTER
(Headquarters Office of Partnerships in Environmental Management for
the Seas of East Asia)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	<i>Note</i>	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net excess of receipts over expenses		\$265,683	\$189,649
Adjustments for:			
Amortization and depreciation	6	1,363	27,715
Interest income	4	(2,108)	(2,741)
Excess of receipts over expenses before working capital changes		264,938	214,623
Increase in advances to grantor		(5,823)	(405)
Increase (decrease) in:			
Advances from grantor		(6,059)	14,986
Accounts payable and accrued expense		(17,221)	171,919
Cash generated from operations		235,835	401,123
Interest received		2,108	2,741
Net cash generated from operations		237,943	403,864
CASH FLOWS FROM AN INVESTING ACTIVITY			
Acquisition of intangible asset	7	(7,952)	-
NET INCREASE IN CASH		229,991	403,864
CASH AT BEGINNING OF YEAR	4, 14	1,432,204	1,028,340
CASH AT END OF YEAR	4, 14	\$1,662,195	\$1,432,204

See Notes to the Financial Statements.

PEMSEA RESOURCE FACILITY CENTER
(Headquarters Office of Partnerships in Environmental Management for
the Seas of East Asia)

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Partnerships in Environmental Management for the Seas of East Asia ("PEMSEA") is a Global Environment Facility (GEF)-supported regional project implemented by the United Nations Development Programme (UNDP) since 1993 and executed by the International Maritime Organization (IMO) and United Nations Office for Project Services (UNOPS) during Phase 1 (1993-2007) and Phase 2 (2008-2013) of the project, respectively. PEMSEA's primary function is to facilitate and promote the implementation of the Sustainable Development Strategy for the Seas of East Asia (SDS-SEA). PEMSEA was organized primarily to cater activities that directly assist countries on national policy reforms, scaling up of Integrated Coastal Management (ICM) programmes at the national and local government levels, and technical cooperation in integrated and ecosystem-based management of watersheds, estuaries and adjacent coastal seas. The Government of the Republic of the Philippines through the Department of Environment and Natural Resources has hosted PEMSEA since 1993 by providing the use of land, building as well as other services and facilities to PEMSEA.

In 2009, the PEMSEA member countries recognized the international legal personality of PEMSEA, launching it as a regional coordinating mechanism for coastal and ocean governance in the Seas of East Asia. Pursuant to the international legal personality, PEMSEA and the Government of the Republic of the Philippines formalized the existing arrangement with the signing of an agreement on the establishment of the PEMSEA Resource Facility Center as the Headquarters Office of PEMSEA in the Philippines. The agreement was signed by the Executive Director of PEMSEA and the Secretary of the Department of Foreign Affairs on July 31, 2012. The agreement was ratified by the President of the Philippines on 22 November 2013 and forwarded to the Philippine Senate for concurrence. Concurrence by the Philippine Senate is forthcoming.

Under this "Agreement between the Government of the Republic of the Philippines and the Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) Establishing the PEMSEA Resource Facility Center" signed by the Executive Director of PEMSEA, and the Secretary of the Department of Foreign Affairs on July 31, 2012, certain privileges, immunities, and facilities have been granted by the Government of the Philippines to ensure its full functions and operations in achieving its goals and objectives. Among these incentives are the following:

- a. PEMSEA shall be exempt from payment of all direct taxes and value-added taxes on its purchase of goods, materials, equipment, vehicles and services for its official use.
- b. PEMSEA shall be exempt from duty to collect or withhold taxes on its payments to other entities including payments to its officers and staff.
- c. All gifts, bequests, donations, and contributions which may be received by PEMSEA from any source whatsoever, or which may be granted by PEMSEA to any individual or non-profit organization for educational or scientific purposes, shall be exempt from taxation and considered allowable deductions for purposes of determining the income tax of the donor.

The Bureau of Internal Revenue, Department of Finance, Department of Justice, National Economic and Development Authority, Bangko Sentral ng Pilipinas, Bureau of Customs, and Department of Environment and Natural Resources have been consulted on the "Agreement between the Government of the Republic of the Philippines and the Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) Establishing the PEMSEA Resource Facility Center" and they concurred the ratification of the above agreement through the "Certificate of Concurrence by Concerned Agencies and Officials". BIR Revenue Memorandum Circular No. 31-2013 issued on April 12, 2013, in particular, has categorized PEMSEA as an international organization.

The Facility Center mobilizes resources, products and services to support the implementation of the SDS-SEA, through inter-governmental and multi-sectoral partnerships. Its core functions include providing secretariat services to the East Asian Seas (EAS) Partnership Council and the Executive Committee, and providing technical services to country and non-country partners for the implementation of the SDS-SEA.

Funding for the Facility Center's secretariat service in part, comes from voluntary contributions from China, Japan and Republic of Korea managed by UNDP, while the funding for the Facility Center's technical services comes from sponsored projects and programmes, principally by the GEF, UNDP, and United Nations Office for Project Services (UNOPS), which serves as the executing arm of UNDP. For 2013, the Facility Center continued to operate within the legal and administrative framework of the UNDP.

An Executive Director oversees the coordination between the secretariat and technical services, specifically in programme development and implementation.

As a testament of PEMSEA's commitment to pursuing excellence and providing quality services, it received its ISO 9001:2008 certification last October 2013, adding confidence and credibility to the organization as it continues to champion SDS-SEA.

The registered address of the Facility Center's office is PEMSEA Building, Department of Environment and Natural Resources Compound, Visayas Avenue, Quezon City, Philippines.

2. Basis of Preparation

Statement of Compliance

The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standard (PFRS) for Small and Medium-sized Entities (SMEs). PFRS for SMEs are based on International Financial Reporting Standards issued by the International Accounting Standards Board.

The accompanying financial statements were approved and authorized for issuance by the Board of Trustees (BOT) on April 8, 2014.

Basis of Measurement

The Facility Center's financial statements have been prepared using the historical cost basis of accounting.

Functional and Presentation Currency

The financial statements are presented in United States (US) dollar, which is also the Facility Center's functional currency. All financial information has been rounded off to the nearest US dollar, except when otherwise indicated.

Use of Judgments, Assumptions, and Estimates

The preparation of the financial statements in conformity with PFRS for SMEs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. 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 and in any future periods affected.

Judgments

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

Determining Functional Currency

The Facility Center considers factors, including but not limited to, the currency in which receipts and disbursements from the operating activities are usually made. Based on the economic substance of the underlying circumstances relevant to the Facility Center, the functional currency has been determined to be the United States Dollar.

Estimates and Assumptions

The key estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from such estimates.

Estimating Useful Lives of Property and Equipment

The Facility Center estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use or the duration of the project whichever is shorter. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

As at December 31, 2013 and 2012, the Facility Center's property and equipment, net of depreciation amounted to \$456 and \$1,819, respectively (see Note 6).

Estimating Useful Life of Intangible Asset

The Facility assessed that the useful life of its intangible asset is finite. Thus, intangible asset is amortized over its useful life. The Facility Center estimates the useful life and amortization method of intangible asset based on the period and pattern in which its future economic benefits are expected to be consumed by the Facility Center. The estimated useful life and amortization period of computer software are reviewed at each reporting date and are updated if there are changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset. It is possible, however, that future financial performance could be materially affected by changes in estimates used.

Intangible asset is measured at cost less accumulated amortization and impairment loss, if any. Amortization is computed using the straight line method over its useful life.

As at December 31, 2013, the carrying amount of intangible asset amounted to \$7,952 (see Note 7).

Estimating Allowance for Impairment Losses on Non-Financial Assets

The Facility Center's non-financial assets are property and equipment and intangible asset. The carrying values of these non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Determining the recoverable amount of the assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of future cash flows are appropriate and reasonable, significant changes in these assumptions may materially affect the Facility Center's assessments of the recoverable amounts and may lead to future impairment loss that could have a material adverse impact on the financial position and financial performance of the Facility Center.

As at December 31, 2013 and 2012, there is no indication of impairment on the Facility Center's property and equipment and intangible asset.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

Financial Assets and Liabilities

Financial assets and liabilities of the Facility Center comprise cash, receivable from grantor, and accounts payable and accrued expenses.

Date of Recognition. The Facility Center recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given or received. The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Facility Center classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, financial assets at FVPL, and loans and receivables. The Facility Center classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired or the financial liabilities are incurred and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Cash. Cash includes cash on hand and cash in bank which are stated at face value.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. Receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. Gains and losses are recognized in statement of receipts and expenses when the financial asset are derecognized or impaired, as well as through the amortization process. Included in this category is the receivable from grantor.

Advances from Grantor, Accounts Payable and Accrued Expenses. Advances from grantor, accounts payable, and accrued expenses are recognized initially at the transaction price including transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Interest expense is recognized on the basis of the effective interest method and is included in other expense in the statement of receipts and expenses.

The Facility has no HTM investments, AFS financial assets and liabilities, and financial assets and liabilities at FVPL as at December 31, 2013 and 2012.

Property and Equipment

Items of property and equipment are initially measured at cost. After initial recognition, all items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Facility Center, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of receipts and expenses as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in the statement of receipts and expenses on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of property and equipment are as follows:

	Number of Years
Leasehold improvements	5 years or the term of the lease, whichever is shorter
Computer equipment	3 years

If there is an indication that there has been a significant change in the depreciation method, useful life or residual value of an asset, the depreciation of that asset is reviewed and adjusted prospectively, if appropriate.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized on a net basis in the statement of receipts and expenses.

Intangible Asset

Intangible asset that are acquired by the Facility Center with finite useful lives are measured at cost less accumulated amortization and allowance for impairment losses, if any.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, are recognized in the statement of receipts and expenses as incurred.

Amortization is recognized in the statement of receipts and expenses on a straight-line basis over the estimated useful life of intangible asset, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the intangible asset. The EUL of the Facility Center's computer software is three (3) years.

Gains or losses arising from disposal or retirement of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of receipts and expenses when the asset is derecognized.

Receipts Recognition

Receipts are recognized to the extent that it is probable that the economic benefits will flow to the Facility Center and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Grants are recognized in the period received and if all the requirements of the grantor are satisfied.

Interest income is recognized as it accrues.

Donations are cash contributions that are free from conditions or requirements from the donors and are recognized in the period received.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and are recognized when incurred.

Defined Contribution Plan

The Facility Center maintains a funded, contributory defined contribution retirement plan, which covers all employees with UNDP issued contracts. A defined contribution plan is a post-employment benefit plan under which the Facility Center pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the statement of receipts and expenses in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that the prepayment will lead to a reduction in future payment or a cash refund. Contributions to a defined contribution plan that are due more than twelve months after the end of the period in which the employees render the services are discounted to their present value.

Short-term Benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Events After the Reporting Date

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

4. Cash

This account consists of:

	<i>Note</i>	2013	2012
Cash on hand		\$6,724	\$1,000
Cash in bank	<i>14</i>	1,655,471	1,431,204
		\$1,662,195	\$1,432,204

As at December 31, 2013 and 2012, interest income from cash in bank amounted to \$2,108 and \$2,741, respectively.

5. Receivable from Grantor

This account pertains to disbursements incurred by the Facility Center for a particular project where fund is not yet received from the grantor.

6. Property and Equipment

The movements and balances of this account consist of:

	Leasehold Improvements	Computer Equipment	Total
Cost			
December 31, 2012 and 2013	\$197,840	\$4,090	\$201,930
Accumulated Amortization and Depreciation			
January 1, 2012	171,488	908	172,396
Amortization and depreciation	26,352	1,363	27,715
December 31, 2012	197,840	2,271	200,111
Amortization and depreciation	-	1,363	1,363
December 31, 2013	197,840	3,634	201,474
Carrying Amount			
December 31, 2012	-	1,819	1,819
December 31, 2013	\$ -	\$456	\$456

7. Intangible Asset

The cost of the intangible asset amounted to \$7,952 as at December 31, 2013. No amortization expense was recorded for the period since the computer software is not yet put into operational use as at December 31, 2013.

8. Advances from Grantor

This account pertains to the unutilized cash in bank account which is payable to United Nations Office for Project Services (UNOPS), executing arm of UNDP.

9. Accounts Payable and Accrued Expense

	<i>Note</i>	2013	2012
Accounts payable		\$146,923	\$165,919
Accrued expenses		7,775	6,000
	14	\$154,698	\$171,919

Accounts payable and accrued expenses consist of technical services, project evaluation services and consultancy services arising from various projects.

10. Grants

This account consists of grants from the following partners:

	2013	2012
Global Environment Facilities	\$1,384,135	\$1,795,336
International Maritime Organization	213,645	100,995
State Oceanic Administration	162,918	-
Timor Leste	99,980	99,980
Korea Marine Environment Management Organization	44,985	14,995
Stockholm Environment Institute	5,987	-
Korea International Cooperation Agency	-	224,995
United Nations Environment Programme	-	120,553
	\$1,911,650	\$2,356,854

The Grants cover the following projects:

Global Environment Facilities (GEF)

GEF has been a major donor to PEMSEA over the past 20 years, providing the necessary financial support to cover the incremental costs of addressing regional environmental issues that are of global significance via implementation of the SDS-SEA.

As agreed during the 4th EAS Partnership Council Meeting held in July 2011 in Busan, Korea, the GEF Project on implementation of the SDS-SEA is extended until December 31, 2013.

International Maritime Organization (IMO)

Project on Strengthening Oil Spill Preparedness and Response in a Subregional Sea Area: Environmental Sensitivity Mapping in the Gulf of Thailand

The specific project objective is to develop Gulf of Thailand (GoT) sensitivity maps for planning and response to oil spill incidents covering the coastal and marine resources of the Gulf, existing economic activities along the coast and offshore and gazetted areas, as well as locations of emergency services, spill response equipment and related services.

State Oceanic Administration (SOA)

Financial contribution for the implementation of the Facility Center's Re-Engineering Plan

The SOA of the People's Republic of China agreed to contribute funds to PEMSEA, represented by the Facility Center, in support of the Staff and Operational Costs of the Facility Center's Core Group and PEMSEA Office in line with the Implementation of the Re-Engineering Plan.

Timor Leste

Sustainable Development Strategy for the Seas of East Asia (SDS-SEA)

In line with the commitment on the SDS-SEA, the Government of Timor Leste expressed its support to the continuous implementation of the SDS-SEA and announced their provision of financial support to PEMSEA, amounting to \$100,000 on an annual basis.

Korea Marine Environment Management Organization (KOEM)

Cooperation on the Organization and Conduct of an International Education Program on Marine Environment for High-Level Officials from the East Asian Region 2013

KOEM and PEMSEA agreed to collaborate on the proposed activities on the organization and conduct of an international education program on marine environment for high level officials in the East Asian Seas (EAS) Region.

Cooperation on Conducting Research on Monitoring and Analysis of Waters in the East Asian Seas Relating to Climate Change

KOEM and PEMSEA collaborate on the proposed activities on conducting research through monitoring and analysis of waters in the EAS region in relation to climate change, analysis of gaps and needs in ocean monitoring, and identification of collaborative areas for KOEM to work within the EAS region.

Stockholm Environment Institute (SEI)

Regional Climate Change Adaptation Knowledge Platform for Asia (or Adaptation Platform)

The adaptation platform seeks to facilitate climate change adaptation at local, national, and regional levels and to strengthen adaptive capability of countries in South and South East Asian countries, while bridging existing and emerging networks and knowledge.

Korea International Cooperation Agency (KOICA)

Funding Agreement Regarding the Implementation of the Yeosu Project

The Organizing Committee, KOICA and PEMSEA for the EAS have mutually agreed to implement the project under the Yeosu Project entitled "PEMSEA-Yeosu Project on Port Safety Health and Environmental Management".

United Nations Environment Programme (UNEP)

Small Scale Funding Agreement

Under this Agreement, PEMSEA facilitates the participation of Project Partners and Project Steering Committee members in the meeting and organizes all logistics for the successful Project Inception leading to approval of the 2012 work plan and budget for the project activities.

Project Cooperation Agreement

UNEP and PEMSEA have agreed to cooperate to implement the project entitled "Global foundations for reducing nutrient enrichment and oxygen depletion from land based pollution, in support of Global Nutrient Cycle"

11. Project Expenses

This account consists of the following expenses:

	2013	2012
Technical staff	\$281,588	\$356,951
Consultancy	254,448	150,151
Subcontractors	190,743	432,046
Support staff	164,536	91,528
Travel and transportation	148,017	43,795
Overhead	141,990	117,631
Printing and distribution	100,708	60,196
Contracted staff	77,188	83,548
Training	32,711	282,193
	\$1,391,929	\$1,618,039

12. Defined Contribution Retirement Plan

The funded, contributory defined contribution retirement plan covers all employees with contract issued by UNDP. Contribution from the Facility Center is equal to 15.8% of the basic salary of each covered employee. Total retirement benefit costs recognized under "Project Expenses" account in the statements of receipts and expenses amounted to \$84,568 and \$146,732 in 2013 and 2012, respectively (see Note 11).

Contributions made for the defined contribution plan equals the contributions due for the years ended December 31, 2013 and 2012.

The retirement benefit cost is included in the budget of GEF project and part of the total expenditure on under project and administration expenses.

13. Other Matter

Compensation and other short-term benefits of key management personnel amounted to \$172,920 and \$338,617 in 2013 and 2012, respectively, which were paid through GEF's funded project under "Project Expenses" account presented in statements of receipts and expenses (see Note 11).

14. Categories of Financial Asset and Financial Liability

As at December 31, the categories of financial assets and financial liability of the Facility Center are as follows:

	<i>Note</i>	2013	2012
Financial asset Measured at Amortized Cost			
Cash in bank	4	\$1,655,741	\$1,431,204
Receivable from grantor	5	6,228	405
		\$1,661,969	\$1,431,609
Financial Liability Measured at Amortized Cost			
Advances from grantor	8	\$8,927	\$14,986
Accounts payable and accrued expenses	9	154,698	171,919
		\$163,625	\$186,905

15. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs), and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS for SMEs. The following is the tax information required for the taxable year ended December 31, 2013:

I. Based on Revenue Regulations (RR) No. 19-2011

Pursuant to the “Agreement between the Government of the Republic of the Philippines and the Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) Establishing the PEMSEA Resource Facility Center” signed by the Executive Director of PEMSEA, and the Secretary of the Department of Foreign Affairs on July 31, 2012, the Facility Center’s taxation incentives are the following:

- a. PEMSEA shall be exempt from payment of all direct taxes and value-added taxes on its purchase of goods, materials, equipment, vehicles and services for its official use.
- b. PEMSEA shall be exempt from duty to collect or withhold taxes on its payments to other entities including payments to its officers and staff.
- c. All gifts, bequests, donations, and contributions which may be received by PEMSEA from any source whatsoever, or which may be granted by PEMSEA to any individual or non-profit organization for educational or scientific purposes, shall be exempt from taxation and considered allowable deductions for purposes of determining the income tax of the donor.

On September 2012, the Bureau of Internal Revenue (BIR) issued the “Certificate of Concurrence by Concerned Agencies and Officials” agreeing to the requested action on the ratification of the above agreement and through BIR Revenue Memorandum Circular No. 31-2013 issued on April 12, 2013, the BIR categorized PEMSEA as an international organization.

A. Receipts

	In PHP Exempt	In USD Exempt
Grants	P81,232,642	\$1,911,650
Donations	52,569	1,241
	P81,285,211	\$1,912,891

B. Itemized Deductions

	In PHP Exempt	In USD Exempt
Project expenses	P58,671,274	\$1,376,182
Consultancy	7,400,537	170,034
Transportation	1,913,020	44,656
Training	1,350,220	31,347
Printing and distribution	855,965	19,592
Depreciation	57,737	1,363
Others	59,549	6,142
	P70,308,302	\$1,649,316

II. Based on RR 15-2010

Information on the withholding taxes, taxes paid during the year, input value added taxes (VAT) claimed, output tax declared during the year, the amount of import and amount of custom duties and tariff fees paid or accrued, the amount of excise taxes, documentary stamp taxes and other local taxes are not applicable since the Facility Center is either exempt or there are no transactions that the Facility Center would be subjected to these taxes.

As at December 31, 2013, the Facility Center has no pending tax cases in court nor has received tax assessment notices from the BIR.

16. Supplementary Information Presenting Grants and Expenses per Project

	For the Year Ended December 31, 2013												
	Global Environment Facilities	International Maritime Organization	State Oceanic Administration	Timor Leste	Korea Marine Environment Management Organization	Stockholm Environment Institute	International Cooperation Agency	Nations United Environment Programme	Subtotal per Project	PEMSEA*	Subtotal	Cost Sharing Agreement**	Grand Total
Grants	\$1,384,135	\$213,645	\$162,918	\$99,980	\$44,985	\$5,987	\$ -	\$ -	\$1,911,650	\$ -	\$1,911,650	\$554,495	\$2,466,145
Project expenses													
Technical staff	281,588	-	-	-	-	-	-	-	281,588	-	281,588	-	281,588
Consultancy	84,418	133,375	-	-	-	2,000	24,307	6,343	250,443	4,005	254,448	-	254,448
Subcontracts	190,743	-	-	-	-	-	-	-	190,743	-	190,743	-	190,743
Support staff	164,536	-	-	-	-	-	-	-	164,536	-	164,536	10,723	175,259
Travel and transportation	103,361	2,902	-	6,647	24,528	-	720	500	138,658	9,359	148,017	-	148,017
Printing and distribution	81,116	3,514	-	8	69	-	33	-	84,740	15,968	100,708	-	100,708
Contracted staff	77,188	-	-	-	-	-	-	-	77,188	-	77,188	-	77,188
Training	-	23,284	-	-	-	-	6,149	3,278	32,711	-	32,711	-	32,711
Overhead	141,990	-	-	-	-	-	-	-	141,990	-	141,990	62,924	204,914
	1,124,940	163,075	-	6,655	24,597	2,000	31,209	10,121	1,362,597	29,332	1,391,929	73,647	1,465,576
Core staff	148,345	-	-	-	-	-	-	-	148,345	-	148,345	387,635	535,980
Travel and meeting cost	55,686	-	-	-	-	-	-	-	55,686	-	55,686	81,260	136,946
Audit	-	-	-	-	-	-	-	-	-	-	-	10,137	10,137
Amortization and depreciation	1,363	1,888	-	-	-	-	-	-	1,363	-	1,363	-	1,363
Others	45,849	1,888	-	359	-	-	736	-	48,832	3,161	51,993	1,816	53,809
	251,243	1,888	-	359	-	-	736	-	254,226	3,161	257,387	480,848	738,235
Total expense	1,376,183	164,963	-	7,014	24,597	2,000	31,945	10,121	1,616,823	32,493	1,649,316	554,495	2,203,811
Excess of grants over expenses	57,952	\$48,682	\$162,918	\$92,966	\$20,388	\$3,987	(\$31,945)	(\$10,121)	\$294,827	(\$32,493)	\$262,334	\$ -	\$262,334
Other receipts													
Interest income from cash in bank											\$2,108	\$ -	\$2,108
Donations											1,241	-	1,241
											3,349	-	3,349
Excess of receipts over expenses											\$265,683	\$ -	\$265,683

*Represents expenses not charged to a specific project
**Unaudited expenses amount were lifted from the 2013 Combined Delivery Report

For the Year Ended December 31, 2012

	Global Environment Facilities	International Maritime Organization	Timor Leste	Korea Marine Environment Management Organization	Korea International Cooperation Agency	United Nations Environment Programme	Total per Project	PEMSEA*	Subtotal	Cost Sharing Agreement**	Grand Total
Grants	\$1,795,336	\$100,995	\$99,980	\$14,995	\$224,995	\$120,553	\$2,356,854	\$ -	\$2,356,854	\$280,889	\$2,637,743
Project expenses											
Subcontracts	351,797	46,660	-	-	30,020	3,569	432,046	-	432,046	-	432,046
Technical Staff	356,951	-	-	-	-	-	356,951	-	356,951	-	356,951
Training	87,146	28,042	85,848	1,545	23,709	41,707	267,997	14,195	282,192	-	282,192
Consultancy	132,411	17,740	-	-	-	-	150,151	-	150,151	-	150,151
Overhead	117,631	-	-	-	-	-	117,631	-	117,631	-	117,631
Support Staff	91,528	-	-	-	-	-	91,528	-	91,528	12,845	104,373
Contracted Staff	38,529	21,000	-	5,335	12,321	-	77,185	6,364	83,549	-	83,549
Printing and distribution	55,490	-	-	4,706	-	-	60,196	-	60,196	-	60,196
Travel and Transportation	37,802	4,038	-	-	1,955	-	43,795	-	43,795	-	43,795
	1,269,285	117,480	85,848	11,586	68,005	45,276	1,597,480	20,559	1,618,039	12,845	1,630,884
Core staff	374,335	-	-	-	-	-	374,335	-	374,335	263,172	637,507
Travel and meeting cost	58,716	-	-	-	-	-	58,716	-	58,716	4,817	63,533
Amortization and depreciation	27,715	-	-	-	-	-	27,715	-	27,715	-	27,715
Others	93,000	-	-	-	-	-	93,000	-	93,000	55	93,055
	553,766	-	-	-	-	-	553,766	-	553,766	268,044	821,810
Total expense	1,823,051	117,480	85,848	11,586	68,005	45,276	2,151,246	20,559	2,171,805	280,889	2,452,694
Excess of grants over expenses	(\$27,715)	(\$16,485)	\$14,132	\$3,409	\$156,990	\$75,277	\$205,608	(\$20,559)	\$185,049	\$ -	\$185,049
Other receipts											
Interest from cash in bank									\$2,741	\$ -	\$2,741
Donations									1,859	-	1,859
									4,600	-	4,600
Excess of receipts over expenses									\$189,649	\$ -	\$189,649

*Represents expenses not charged to a specific project
 **Unaudited expenses amount were lifted from the 2012 UNDP Status Report of the Cost Sharing Agreement

Cost Sharing Agreement

The PEMSEA Resource Facility Center "Facility Center" provides the secretariat services as well as technical services in the East Asian Sea (EAS) Partnership Council, EAS Congress and various activities. A number of countries have made a commitment to support the operations of the Facility Center, through financial and in-kind contributions. The 11th PSC approved the Cost Sharing Agreement (CSA), to be executed between the donor national agency and United Nations Development Programme (UNDP) as the instrument for cash contributions to support the Facility Center secretariat services for the purpose of implementing the Sustainable Development Strategy of the Seas of East Asia (SDS-SEA). UNDP receives and administers the payment of contributions in accordance with its rules, regulations, and directives.

The UNDP is responsible for the execution of the project, by applying and enhancing the technical resources of the Facility Center, with guidance from and in coordination with the EAS Partnership Council and EAS Congress. EAS Partnership Council will serve as the Project Steering Committee.

Cash contributions received by UNDP are as follows:

	2013	2012
Ministry of Marine Affairs and Fisheries of the Republic of Korea	\$188,112	\$185,126
Ministry of Land, Infrastructure, and Transportation of Japan	125,000	125,000
State Oceanic Administration of the People's Republic of China	-	157,000
	\$313,112	\$467,126

Global Environment Facilities

The expenses incurred under GEF project comprise of the following components:

	2013	2012
Intellectual Capacity and Human Resources	\$477,775	\$382,530
Scaling up ICM Programs	352,947	411,255
Strategic Partnership Arrangements	145,195	86,575
Project Management	115,983	155,515
Twinning Arrangements for River Basin and Coastal Area Management	102,466	223,821
Functional Regional Mechanism for SDS-SEA Implementation	98,061	358,700
Corporate Social Responsibility for Sustainable Development of Coastal and Marine Resources	34,967	59,581
National Policies and Reforms for Sustainable Coastal and Ocean Governance	29,328	101,658
Public and Private Sector Investment and Financing in Environmental Infrastructure Projects and Services	19,461	43,416
	\$1,376,183	\$1,823,051

Intellectual Capacity and Human Resources

This component emphasizes the use of the region's intellectual capital and human resources strengths, and addressing policy, economic, scientific, technical and social challenges and constraints to integrated management and sustainable use of the marine and coastal environment and resources of the Seas of East Asia.

Scaling Up ICM Programs

This component focuses on the implementation of ICM scaled up as an on-the-ground framework for achieving sustainable development of coastal lands and waters in at least 5% of the total coastline of the region.

Strategic Partnership Arrangements

This component focuses on the development and implementation of the Strategic Partnership for the SDS-SEA, functioning as a mechanism for GEF, the World Bank, the UNDP, and other international and regional partners to incorporate and coordinate their strategic action plans, programs and projects under the framework of the SDS-SEA, thus promoting greater sustainability and political commitment to the effort.

Project Management

This component involves project management and coordination, financial management, office administration, and human resources management.

Twinning Arrangements for River Basin and Coastal Area Management

This component contains south-south and north-south twinning arrangements established for integrated management of watersheds, estuaries and adjacent coastal seas, promoting knowledge and experience sharing and collaboration for the implementation of management programs in environmental hotspots of the region.

Functional Regional Mechanism for SDS-SEA Implementation

This component focuses on coordination, evaluation and the implementation of the SDS-SEA and advancement of the regional partnership arrangement through inter-government and multi-sectoral EAS Partnership Council.

Corporate Social Responsibility for Sustainable Development of Coastal and Marine Resources

This component focuses on multinational and national corporations integrating social responsibility into their organizational strategies, programs and practices, and facilitating the replication and scaling up of capacities in sustainable development of marine and coastal resources among local governments and communities of the region.

National Policies and Reforms for Sustainable Coastal and Ocean Governance

This component includes development and implementation of national policies and programs on sustainable coastal and ocean development mainstreamed into social and economic development programs of participating countries.

Public and Private Sector Investment and Financing in Environmental Infrastructure Projects and Services

This component promotes cooperation from public and private sectors in achieving environmental sustainability through the mobilization of investments in pollution reduction facilities and services.