

**Independent Auditor's Report**

To the Executive Committee and Partnership Council of  
**PEMSEA Resource Facility Center**  
PEMSEA Building, Department of Environment and Natural Resources compound  
Visayas Avenue, Quezon City

**Report on the Audits of the Financial Statements*****Our Opinion***

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PEMSEA Resource Facility Center (the "Center") as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

***What we have audited***

The financial statements of the Center comprise of:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of receipts and expenses and other comprehensive income for the years ended December 31, 2019 and 2018;
- the statements of changes in equity for the years ended December 31, 2019 and 2018;
- the statements of cash flows for the years ended December 31, 2019 and 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We are independent of the Center 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.

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***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, 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 Center'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 Center or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Center'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 PSA 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 PSA, 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 Center's internal control.



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- 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 Center'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 Center 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 Bureau of Internal Revenue Requirement***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 18 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits 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.





Isla Lipana & Co.

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***Report on the Supplementary Information Presenting Grants and Expenses per Project***

The supplementary information presenting grants and expenses per project for the years ended December 31, 2019 and 2018 in Note 19 to the basic financial statements is presented for the purpose of the interested internal users of the basic financial statements and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management. We were not able to apply auditing procedures on such information because of the following reasons: (i) a different reporting framework is required to be used as basis for the preparation; and (ii) the grants and expenses under the Cost Sharing Agreement between the donor national agency and the United Nations Development Programme (UNDP) are under the administration of UNDP. The amounts were only lifted from the 2019 and 2018 Combined Delivery Report. Accordingly, it is inappropriate to and we do not express an opinion on the information referred to above.

**Isla Lipana & Co.**

Nelson Charsegun L. Aquino  
Partner

CPA Cert. No. 0102077

P.T.R. No. 0011078, issued on January 7, 2020, Makati City

SEC A.N. (individual) as general auditors 1589-AR-1, Category A; effective until September 23, 2022

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 211-507-088

BIR A.N. 08-000745-127-2019, issued on January 14, 2019; effective until January 13, 2022

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
April 23, 2020



Isla Lipana & Co.

Statement Required by Section 8-A Revenue Regulations No. V-1

To the Executive Committee and Partnership Council of  
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PEMSEA Building, Department of Environment and Natural Resources compound  
Visayas Avenue, Quezon City

None of the partners of the firm have any financial interest in the PEMSEA Resource Facility Center or any family relationships with its president and officers.

The supplementary information on taxes and licenses for the year ended December 31, 2019 is presented in Note 18 to the financial statements.

**Isla Lipana & Co.**

Nelson Charsegun L. Aquino  
Partner

CPA Cert. No. 0102077

P.T.R. No. 0011078, issued on January 7, 2020, Makati City

SEC A.N. (individual) as general auditors 1589-AR-1, Category A; effective until September 23, 2022

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 211-507-088

BIR A.N. 08-000745-127-2019, issued on January 14, 2019; effective until January 13, 2022

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**PEMSEA Resource Facility Center**

Statements of Financial Position  
As at December 31, 2019 and 2018  
(All amounts in US Dollars)

|  | <b>Notes</b> | <b>2019</b> | <b>2018</b> |
|--|--------------|-------------|-------------|
| <b><u>ASSETS</u></b>   |              |             |             |
| <b>Current assets</b>  |              |             |             |
| Cash   | 2            | 2,882,978   | 2,546,680   |
| Receivables  | 3            | 14,577      | 94,955      |
| Total current assets   |              | 2,897,555   | 2,641,635   |
| <b>Non-current assets</b>  |              |             |             |
| Financial asset at fair value through other comprehensive income (FVOCI) | 4            | 171,265     | 155,032     |
| Property and equipment, net  | 5            | 17,976      | 25,952      |
| Other non-current assets   | 9            | 74,996      | 91,797      |
| Total non-current assets   |              | 264,237     | 272,781     |
| <b>Total assets</b>  |              | 3,161,792   | 2,914,416   |
| <b><u>LIABILITIES AND EQUITY</u></b>                                     |              |             |             |
| <b>Current liabilities</b>   |              |             |             |
| Accrued expenses and other liabilities                                   | 7            | 376,349     | 366,886     |
| Deferred grants  | 8            | 1,148,066   | 915,032     |
| Total current liabilities  |              | 1,524,415   | 1,281,918   |
| <b>Non-current liabilities</b>   |              |             |             |
| Defined contribution liability   | 9            | 94,532      | 102,636     |
| Retirement benefit obligation  | 9            | 83,659      | 35,158      |
| Total non-current liabilities  |              | 178,191     | 137,794     |
| <b>Total liabilities</b>   |              | 1,702,606   | 1,419,712   |
| <b>Equity</b>  |              |             |             |
| Fund balance   |              | 1,471,666   | 1,495,703   |
| Reserve for remeasurements on retirement benefit obligation              | 9            | (24,593)    | 3,121       |
| Fair value reserve   | 4            | 12,113      | (4,120)     |
| Total equity   |              | 1,459,186   | 1,494,704   |
| <b>Total liabilities and equity</b>                                      |              | 3,161,792   | 2,914,416   |

The notes on pages 1 to 30 are integral part of these financial statements.

**PEMSEA Resource Facility Center**

Statements of Receipts and Expenses and Other Comprehensive Income  
For the years ended December 31, 2019 and 2018  
(All amounts in US Dollars)

|  | <b>Notes</b> | <b>2019</b>      | <b>2018</b>      |
|--|--------------|------------------|------------------|
| <b>Receipts</b>  |              |                  |                  |
| Grants   | 10           | 2,510,778        | 2,866,778        |
| Other income   | 13           | 80,269           | 266,400          |
|  |              | <b>2,591,047</b> | <b>3,133,178</b> |
| <b>Expenses</b>  |              |                  |                  |
| Project expenses   | 11           | 2,281,651        | 3,123,863        |
| General and administrative expenses                        | 12           | 333,433          | 631,623          |
|  |              | <b>2,615,084</b> | <b>3,755,486</b> |
| <b>Deficiency of receipts over expenses</b>                |              | <b>(24,037)</b>  | <b>(622,308)</b> |
| <b>Other comprehensive (loss) income for the year</b>      |              |                  |                  |
| Item that will not be reclassified to receipts or expenses |              |                  |                  |
| Remeasurement (loss) gain on retirement benefit            |              |                  |                  |
| Obligation   | 9            | (27,714)         | 5,826            |
| Fair value gain (loss) on financial asset at FVOCI         | 4            | 16,233           | (31,258)         |
|  |              | <b>(11,481)</b>  | <b>(25,432)</b>  |
| <b>Total comprehensive loss for the year</b>               |              | <b>(35,518)</b>  | <b>(647,740)</b> |

The notes on pages 1 to 30 are integral part of these financial statements

**PEMSEA Resource Facility Center**

Statements of Changes in Equity  
For the years ended December 31, 2019 and 2018  
(All amounts in US Dollars)

|   | Fund<br>Balance | Reserve for<br>remeasurements<br>on retirement<br>benefit obligation<br>(Note 9) | Fair Value<br>Reserve<br>(Note 4) | Total     |
|---|-----------------|--|-----------------------------------|-----------|
| <b>Balances at January 1, 2018</b>                    | 2,118,011       | (2,705)  | 27,138                            | 2,142,444 |
| <b>Comprehensive loss</b>                             |                 |  |                                   |           |
| Deficiency of receipts over expenses                  | (622,308)       | -  | -                                 | (622,308) |
| Other comprehensive income (loss) for the year        | -               | 5,826  | (31,258)                          | (25,432)  |
| <b>Total comprehensive (loss) income for the year</b> | (622,308)       | 5,826  | (31,258)                          | (647,740) |
| <b>Balances at December 31, 2018</b>                  | 1,495,703       | 3,121  | (4,120)                           | 1,494,704 |
| <b>Comprehensive loss</b>                             |                 |  |                                   |           |
| Deficiency of receipts over expenses                  | (24,037)        | -  | -                                 | (24,037)  |
| Other comprehensive (loss) income for the year        | -               | (27,714)   | 16,233                            | (11,481)  |
| <b>Total comprehensive (loss) income for the year</b> | (24,037)        | (27,714)   | 16,233                            | (35,518)  |
| <b>Balances at December 31, 2019</b>                  | 1,471,666       | (24,593)   | 12,113                            | 1,459,186 |

The notes on pages 1 to 30 are integral part of these financial statements.



# **PEMSEA Resource Facility Center**

## Statements of Cash Flows For the years ended December 31, 2019 and 2018 (All amounts in US Dollars)

|   | Notes | 2019      | 2018      |
|---|-------|-----------|-----------|
| <b>Cash flows from operating activities</b>                                   |       |           |           |
| Deficiency of receipts over expenses  |       | (24,037)  | (622,308) |
| Adjustments for:  |       |           |           |
| Depreciation and amortization   | 5     | 14,025    | 12,867    |
| Unrealized foreign exchange (gain) loss                                       |       | (1,867)   | 116       |
| Interest income   | 13    | (3,385)   | (3,249)   |
| Deficiency of receipts over expenses before changes in assets and liabilities |       | (15,264)  | (612,574) |
| Decrease (Increase) in:   |       |           |           |
| Receivables   | 3     | 80,410    | 74,598    |
| Other non-current assets  | 9     | 18,249    | (8,826)   |
| Increase (Decrease) in:   |       |           |           |
| Accrued expenses and other liabilities  | 7     | 7,505     | (17,665)  |
| Deferred grants   | 8     | 233,034   | (222,958) |
| Defined contribution liability  | 9     | (8,104)   | 20,587    |
| Defined benefit obligation  | 9     | 20,787    | 13,044    |
| Cash generated from (used in) operations                                      |       | 336,617   | (753,794) |
| Interest received   | 2     | 3,385     | 3,249     |
| Net cash generated from (used in) operating activities                        |       | 340,002   | (750,545) |
| <b>Cash flow from investing activity</b>                                      |       |           |           |
| Acquisition of property and equipment   | 5     | (6,049)   | (10,417)  |
| <b>Net increase (decrease) in cash</b>  |       | 333,953   | (760,962) |
| Cash at January 1   |       | 2,546,680 | 3,307,867 |
| Effect of exchange rate changes on cash                                       |       | 2,345     | (225)     |
| <b>Cash at December 31</b>  | 2     | 2,882,978 | 2,546,680 |

The notes on pages 1 to 30 are integral part of these financial statements.

## **PEMSEA Resource Facility Center**

### **Notes to the Financial Statements**

As at and for the years ended December 31, 2019 and 2018

(All amounts are shown in US Dollars unless otherwise stated)

### **Note 1 - General information**

Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) is a partnership arrangement involving various stakeholders of the Seas of East Asia, including national and local governments, civil society, the private sector, research and educational institutions, communities, international agencies, regional programs, financial institutions and donors. It is also the regional coordinating mechanism for the implementation of the Sustainable Development Strategy for the Seas of East Asia (SDS -SEA).

The PEMSEA Resource Facility Center (the "Center") is the operating arm of PEMSEA. It provides secretariat and technical services to the East Asian Seas Partnership Council and the participating partners.

The Center mobilizes resources, products and services to support the implementation of the SDS-SEA through inter-governmental and multi-sectorial 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 Center's secretariat services in part, comes from voluntary contributions from Japan, China and Republic of Korea, while the funding for the Center's technical services comes from sponsored projects and programs, principally from Global Environment Facility (GEF) and United Nations Development Programme (UNDP).

The Philippines has hosted PEMSEA, through the Center, since 1993 by providing the use of land and building as well as other services and facilities for its use as the Philippines' contribution to implement sustainable coastal development in the region.

Pursuant to the recognition of PEMSEA's International Legal Personality signed on November 26, 2009, which provides that the seat of PEMSEA shall be in Metro Manila, Philippines, PEMSEA and the Government of the Republic of the Philippines formalized the existing arrangement with the signing of the Agreement between the Government of the Republic of the Philippines and the Partnerships in Environmental Management for the Seas of East Asia (the "Agreement") on the establishment of the PRE as the Headquarters of PEMSEA in the Philippines. The Agreement was further ratified by concurrence of Philippine Senate on May 25, 2015.

Under the Agreement, certain privileges, immunities, and facilities have been granted by the Government of the Republic of the Philippines to the Center to ensure its full functions and operations in achieving its goals and objectives. Among these incentives are the following:

- a. Exemption 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. Exemption 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 the Center from any source whatsoever, or which may be granted by the Center 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 (BIR), 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 and they concurred on the ratification of the Agreement through the issuance of 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.

An Executive Director oversees the coordination between the secretariat and technical services, specifically in program 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 and is renewing it in 2020.

The Center has its registered office address at PEMSEA Building, Department of Environment and Natural Resources Compound, Visayas Avenue, Quezon City, Philippines.

These financial statements of the Center have been approved and authorized for issuance by the Executive Committee through the Audit Committee on April 23, 2020.

#### **Note 2 - Cash**

Cash at December 31 consists of:

|               | 2019             | 2018             |
|---------------|------------------|------------------|
| Cash on hand  | 1,005            | 1,005            |
| Cash in banks | 2,881,973        | 2,545,675        |
|               | <u>2,882,978</u> | <u>2,546,680</u> |

Cash in banks earn interest based on the prevailing interest rate. Interest income earned for the year ended December 31, 2019 amounted to USD3,385 (2018 - USD3,249) (Note 13).

#### **Note 3 - Receivables**

Receivables at December 31 consist of:

|                   | 2019          | 2018          |
|-------------------|---------------|---------------|
| Grant receivables | 14,080        | 91,097        |
| Other receivable  | 497           | 3,858         |
|                   | <u>14,577</u> | <u>94,955</u> |

Grant receivables pertain to disbursements made by the Center for a particular project where funding has not been received from grantors as at December 31, 2019 and 2018.

#### **Critical accounting estimate and assumptions: Expected credit losses (ECL) on receivables**

ECLs are unbiased probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessment of future economic conditions.

The Center has used relevant historical information and loss experience to determine the probability of default of the instruments and incorporated forward looking information, including significant changes in external market indicators which involved significant estimates and judgements.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Center's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

In determining the ECL of receivables, the Center had used three years of historical loss data to determine the loss rate and applied an adjustment against the historical loss rate based on the change in inflation rate to reflect the current and forward-looking information. As at December 31, 2019 and 2018, the Center believes that the carrying amount of its receivables is recoverable.

#### **Note 4 - Financial asset at fair value through other comprehensive income (FVOCI)**

The Center's financial assets at fair value through other comprehensive income (FVOCI) consist of its investment in an investment fund with a reputable financial institution. These investments are restricted and intended to fund the retirement benefit obligation once the latter falls due.

The movements in the financial assets at FVOCI for the years ended December 31, are as follows:

|                                      | 2019    | 2018     |
|--------------------------------------|---------|----------|
| Fair value, beginning                | 155,032 | 186,290  |
| Unrealized gain (loss) on fair value | 16,233  | (31,258) |
| Fair value, ending                   | 171,265 | 155,032  |

The movements in fair value reserve for the years ended December 31 are as follows:

|                                      | 2019    | 2018     |
|--------------------------------------|---------|----------|
| At January 1                         | (4,120) | 27,138   |
| Unrealized gain (loss) on fair value | 16,233  | (31,258) |
| At December 31                       | 12,113  | (4,120)  |

#### **Note 5 - Property and equipment, net**

Details of property and equipment, net at December 31 consist of:

|   | Building improvements | Computer equipment | Office equipment | Vehicles | Total     |
|---|-----------------------|--------------------|------------------|----------|-----------|
| <b>At January 1, 2018</b>                   |                       |                    |                  |          |           |
| Cost  | 197,840               | 4,090              | 19,157           | 30,343   | 251,430   |
| Accumulated depreciation                    | (197,840)             | (4,090)            | (11,995)         | (9,103)  | (223,028) |
| Net carrying value                          | -                     | -                  | 7,162            | 21,240   | 28,402    |
| <b>For the year ended December 31, 2018</b> |                       |                    |                  |          |           |
| Opening net carrying value                  | -                     | -                  | 7,162            | 21,240   | 28,402    |
| Additions                                   | -                     | -                  | 10,417           | -        | 10,417    |
| Depreciation (Notes 11 and 12)              | -                     | -                  | (6,799)          | (6,068)  | (12,867)  |
| Closing net carrying value                  | -                     | -                  | 10,780           | 15,172   | 25,952    |
| <b>At December 31, 2018</b>                 |                       |                    |                  |          |           |
| Cost  | 197,840               | 4,090              | 29,574           | 30,343   | 261,847   |
| Accumulated depreciation                    | (197,840)             | (4,090)            | (18,794)         | (15,171) | (235,895) |
| Net carrying value                          | -                     | -                  | 10,780           | 15,172   | 25,952    |
| <b>For the year ended December 31, 2019</b> |                       |                    |                  |          |           |
| Opening net carrying value                  | -                     | -                  | 10,780           | 15,172   | 25,952    |
| Additions                                   | -                     | -                  | 6,049            | -        | 6,049     |
| Depreciation (Notes 11 and 12)              | -                     | -                  | (7,956)          | (6,069)  | (14,025)  |
| Closing net carrying value                  | -                     | -                  | 8,873            | 9,103    | 17,976    |
| <b>At December 31, 2019</b>                 |                       |                    |                  |          |           |
| Cost  | 197,840               | 4,090              | 35,623           | 30,343   | 267,896   |
| Accumulated depreciation                    | (197,840)             | (4,090)            | (26,750)         | (21,240) | (249,920) |
| Net carrying value                          | -                     | -                  | 8,873            | 9,103    | 17,976    |



Depreciation for the years ended December 31 are charged as part of overhead to the following:

|                                     | Notes | 2019   | 2018   |
|-------------------------------------|-------|--------|--------|
| Project expenses                    | 11    | 4,316  | 4,316  |
| General and administrative expenses | 12    | 9,709  | 8,551  |
|                                     |       | 14,025 | 12,867 |

***Critical accounting estimates and assumptions: Useful lives of property and equipment***

The Center determines the estimated useful lives for its property and equipment based on the period over which the assets are expected to be available for use. The Center annually reviews the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

Management has assessed that the useful lives of property and equipment are appropriate.

***Critical accounting judgment: Impairment of property and equipment***

The carrying amount of property and equipment is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those assessment and judgment could have a significant effect on the carrying amount of property and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2019 and 2018, based on management's assessment and judgment, there are no significant events or changes in circumstances which indicate that the Center's property and equipment may be impaired at reporting dates.

**Note 6 - Intangible assets**

The intangible asset of the Center as at December 31, 2019 amounting to USD7,952 (2018 - USD7,952) pertains to computer software acquired in 2013 and was placed into use in August 2014.

The intangible asset was still in use and already fully depreciated as at December 31, 2019 and 2018.

**Note 7 - Accrued expenses and other liabilities**

Accounts payable and other liabilities at December 31 consist of:

|                                   | Note | 2019    | 2018    |
|-----------------------------------|------|---------|---------|
| Accrued expenses                  |      | 301,353 | 275,089 |
| Employee retirement contributions | 9    | 74,996  | 91,797  |
|                                   |      | 376,349 | 366,886 |

Accrued expenses include short-term employee benefits such as annual leave, educational grants, and medical benefits.

Employee retirement contributions represent the employees' share in funding the retirement benefits which was deducted from employees' salaries.

#### **Note 8 - Deferred Grants**

Deferred grants represent funds received from the grantors but were unspent as of reporting date and are to be spent in the succeeding periods. The funds are to be used only for specific projects and should comply with the terms and conditions of the respective grant agreements. Unused funds at the end of the project are returned to the grantor unless otherwise agreed by the grantor to be retained by the Center.

Deferred grant as at December 31 consist of unspent funds from the following partners:

|  | 2019      | 2018    |
|--|-----------|---------|
| Ministry of Oceans & Fisheries, Republic of Korea        | 923,036   | 621,573 |
| State Oceanic Administration, People's Republic of China | 118,324   | 71,855  |
| Global Environment Facility                              | 74,959    | 194,345 |
| Center for Southeast Asian Studies                       | 16,540    | -       |
| Department of Agriculture                                | 11,077    | -       |
| Marine Biodiversity Institute of Korea                   | 4,130     | -       |
| Western & Central Pacific Fisheries Commission           | -         | 6,952   |
| Korea Institute of Science and Technology                | -         | 4,000   |
| Coastal Management Center                                | -         | 16,307  |
|  | 1,148,066 | 915,032 |

#### **Note 9 - Retirement benefit plan**

The Center's employees were previously covered by a contract with the UNDP. On December 31, 2013, said employees agreed with UNDP to extinguish such contract. The employees were then employed by PEMSEA starting January 1, 2014. Any retirement benefit contributions due to the employees when they were with UNDP were paid out to the employees in full by UNDP.

On January 1, 2014, the Center established the PEMSEA Resource Facility Pension Fund (the "Fund"), in accordance with the Regulations of the PEMSEA Resource Facility Staff Pension (the "Regulations"). The Fund is contributory and of the defined benefit type covering all qualified officers and employees, which provides retirement benefits as the higher of:

- a. The benefit shall, subject to minimum payment and maximum accumulation as defined in the Regulations, be payable at the standard annual rate obtained by multiplying: i) the first five years of the participant's contributory service, by 1.5 per cent of the final average remuneration; ii) the next five years of contributory service, by 1.75 per cent of the final average remuneration; iii) the next 25 years of contributory service, by 2 per cent of the final average remuneration; and iv) the years of contributory service in excess of 35, by 1 per cent of the final average remuneration, subject to a maximum total accumulation rate of 70 per cent.
- b. The benefit shall, subject to minimum and maximum payments as defined in the Regulations, be payable at the standard annual rate obtained by multiplying: i) the first 30 years of the Participant's contributory service, by 2 per cent of the final average remuneration; ii) the years of contributory service in excess of 30, but not exceeding five, by 1 per cent of the final average remuneration; and iii) the years of contributory service in excess of 35 by 1 per cent of the final average remuneration, subject to a maximum total accumulation rate of 70 per cent.

The retirement benefits are computed as a proportion of the final average remuneration, with the proportion determined based on number of years of contributory service, subject to minimum payments and maximum accumulation as provided in the Regulations.

In 2016, the Center implemented changes in the provisions of its pension fund such that the PEMSEA Resource Facility Retirement Plan is contributory and provides benefits of both the defined benefit (DB) and the defined contribution (DC) type. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the Plan.

The Plan provides a retirement benefit equal to the sum of the following:

- a) From Fund A - Guaranteed benefit ranging from five percent (5%) to one hundred percent (100%) of Plan Salary for every year of contributory service;
- b) From Fund B - 100% of the Members' Employee Accumulated Value (EEAV), which represents the member's own contributions to Fund B (7.90% of Plan Salary) plus the corresponding investment earnings and losses (net of taxes and expenses) on such contributions, provided, that such net investment earnings and losses corresponding to the member's own contributions shall not be less than the minimum annual interest rate in accordance with Center policy, compounded annually; and
- c) From Fund C - 100% of the Members' Employer Accumulated Value (ERAV), which represents the Center's contributions to Fund C in the member's favor (15.80% of Plan Salary) plus the corresponding investment earnings and losses (net of taxes and expenses) on such contributions, provided, that such net investment earnings and losses corresponding to the Center's contributions in the member's favor shall not be less than the minimum annual interest rate in accordance with Center policy, compounded annually.

The Members' Accumulated Values shall be determined based on the latest calendar quarter financial valuation of the Fund, adjusted to include the reimbursement of the Members' contributions and the Center's contributions for his account made after the latest calendar quarter financial valuation.

Management assessed that the Center is an International Agency with Juridical Personality and is therefore not covered by the provisions of the Labor Code of the Philippines on the minimum retirement benefit payable by an employer.

#### *Defined Benefit*

The defined benefit (DB) fund (Fund A), which is to be funded solely by the Center is computed based on a formula stipulated in the plan rules. An independent actuary conducts periodic actuarial valuation of the DB plan using the projected unit credit method.

The amounts recognized in the statement of financial position as at December 31 follows:

|   | 2019     | 2018     |
|---|----------|----------|
| Present value of defined benefit obligation | 109,839  | 60,548   |
| Fair value of plan assets                   | (26,180) | (25,390) |
|   | 83,659   | 35,158   |

The movement in the defined benefit obligation for the years ended December 31 is as follows:

|   | 2019    | 2018     |
|---|---------|----------|
| Beginning of the year                   | 60,548  | 52,872   |
| Current service cost                    | 16,239  | 14,204   |
| Interest cost                           | 4,378   | 2,880    |
| Effect of movement in exchange rates    | 2,796   | (2,181)  |
| Remeasurement (gain) loss arising from: |         |          |
| Experience adjustment                   | (2,499) | 5,409    |
| Financial assumptions                   | 28,377  | (12,636) |
| End of the year                         | 109,839 | 60,548   |

The movement in the fair value of plan assets of the years ended December 31 are as follows:

|                                      | 2019    | 2018    |
|--------------------------------------|---------|---------|
| Beginning of the year                | 25,390  | 24,931  |
| Interest income                      | 1,836   | 1,401   |
| Contributions                        | -       | 1,500   |
| Remeasurement loss on plan assets    | (1,836) | (1,401) |
| Effect of movement in exchange rates | 790     | (1,041) |
| End of the year                      | 26,180  | 25,390  |

The amounts of retirement benefit expense recognized under project expenses (Note 11) for the years ended December 31 in relation to defined benefit plan are as follows:

|                      | 2019   | 2018   |
|----------------------|--------|--------|
| Current service cost | 16,239 | 14,204 |
| Net interest cost    | 2,542  | 1,479  |
|                      | 18,781 | 15,683 |

Movements in reserve for remeasurements on retirement benefit obligation recognized within equity account for the years ended December 31 are as follows:

|   | 2019    | 2018     |
|---|---------|----------|
| Balances, beginning of the year         | (3,121) | 2,705    |
| Remeasurement loss (gain) arising from: |         |          |
| Experience adjustment                   | (2,499) | 5,409    |
| Financial assumptions                   | 28,377  | (12,636) |
| Demographic assumptions                 | -       | -        |
| Remeasurement loss on plan assets       | 1,836   | 1,401    |
|   | 27,714  | (5,826)  |
| Balances, end of the year               | 24,593  | (3,121)  |

The composition of the plan assets at December 31 follows:

|                                     | 2019   |      | 2018   |      |
|-------------------------------------|--------|------|--------|------|
| Government Securities               | 19,897 | 76%  | -      | -    |
| Unitized Investment Trust Funds     | 4,450  | 17%  | 21,147 | 83%  |
| Other Securities & Debt Instruments | 1,571  | 6%   | -      | -    |
| Cash and cash equivalents           | 262    | 1%   | 4,243  | 17%  |
|                                     | 26,180 | 100% | 25,390 | 100% |

Plan assets are held in trustee bank and are governed by local regulations and practice in the Philippines. The Center has no transactions with the fund other than the contributions. The Plan has no investments in shares of stocks of related parties.

The largest proportion of plan assets is invested in government securities. The Retirement plan believes that government securities offer the best returns over the long term with an acceptable level of risk.

Principal actuarial assumptions used to determine the present value of the defined benefit obligation as at December 31 are as follows:

|                      | 2019  | 2018  |
|----------------------|-------|-------|
| Discount rate        | 4.65% | 7.15% |
| Future salary growth | 3.00% | 2.00% |



Assumptions regarding future mortality rates are in accordance with the 1994 GAM table.

The weighted-average duration of the retirement benefit liability is 9.1 years as at December 31, 2019 (2018 - 9.4 years).

Maturity analysis of the benefit payments is as follows:

|      | Contractual cash flows | Within one year | Within 2 - 5 years | More than 5 years |
|------|------------------------|-----------------|--------------------|-------------------|
| 2019 | 232,085                | 664             | 41,514             | 189,907           |
| 2018 | 187,268                | 3,443           | 4,725              | 179,100           |

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

There are no unusual or significant risks to which the defined benefit plan exposes the Center, however in the event a benefit claim arises the benefit shall immediately be due and payable.

*Critical accounting estimates and assumptions: Retirement benefit obligation*

The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Those assumptions are described above and include among others, discount rate and salary increase rate. While it is believed that the Center's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Center's retirement benefit obligation and the recording of future expenses arising thereon.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as at December 31 follows:

|                                | Impact on retirement benefit obligation |                        |                        |
|--------------------------------|---|------------------------|------------------------|
|                                | Change in assumption                    | Increase in assumption | Decrease in assumption |
| <i>As at December 31, 2019</i> |   |                        |                        |
| Discount rate                  | +/- 0.50bps                             | (12,558)               | 13,370                 |
| Future salary increase rate    | +/- 0.50bps                             | 13,523                 | (12,813)               |
| <i>As at December 31, 2018</i> |   |                        |                        |
| Discount rate                  | +/- 0.50bps                             | (2,741)                | 2,921                  |
| Future salary increase rate    | +/- 0.50bps                             | 3,058                  | (2,888)                |

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged.

*Defined contribution*

The defined contribution (DC) fund (Fund B & C) is a separate and allocated fund established to hold contributions made by the employees and the Center for the employees' behalf.

Contributions to the Fund are made by the Center and the employees at 15.8% and 7.9%, respectively, of the employees' basic pay. All employee contributions are initially held in the Center's payroll account. In 2015, the Center invested funds in a reputable financial institution where all fund contributions of the Center's employees in 2014, together with the Center's contribution in 2015 which is equivalent to its 2014 required contribution, were invested (Note 4).

As at December 31, 2019 and 2018, total employer and employee contributions, including any interest earned, are presented in the statements of financial position as follows:

|  | Note | 2019   | 2018    |
|--|------|--------|---------|
| Employee contributions                 |      |        |         |
| Other non-current assets               |      | 74,996 | 91,797  |
| Accounts payable and other liabilities | 7    | 74,996 | 91,797  |
| Employer contributions                 |      |        |         |
| Defined contribution liability         |      | 94,532 | 102,636 |

Other non-current assets pertain to employees' contributions which are held in the Center's bank accounts and are earmarked for the retirement benefits of the Center's employees. Corresponding liability was recognized under accounts payable and other liabilities equivalent to the total amount of employees' contribution as at December 31, 2019 and 2018 (Note 7).

For the years ended December 31, the Center's required contributions to the DC fund is charged to personnel cost as follows:

|                                     | Notes | 2019   | 2018    |
|-------------------------------------|-------|--------|---------|
| Direct project expenses             | 11    | 66,790 | 71,845  |
| Indirect project expenses           | 11    | 19,817 | 20,527  |
| General and administrative expenses | 12    | 7,925  | 10,264  |
|                                     |       | 94,532 | 102,636 |

#### **Note 10 - Grants**

This account consists of grants from the following partners:

|   | 2019      | 2018      |
|---|-----------|-----------|
| Global Environment Facility   | 1,559,116 | 2,135,872 |
| Ministry of Oceans & Fisheries, Republic of Korea                       | 328,771   | 201,638   |
| Republic of the Philippines   | 220,221   | 236,885   |
| Timor Leste   | 99,980    | -         |
| Ministry of Natural Resources, The People's Republic of China           | 95,658    | 95,350    |
| Ministry of Land Infrastructure and Transportation, Government of Japan | 93,191    | 65,333    |
| Marine Biodiversity Institute of Korea (MABIK)                          | 35,610    | -         |
| Government of Singapore   | 20,000    | 20,000    |
| Coastal Management Center   | 16,307    | 9,550     |
| United Nations Environment Programme                                    | 15,744    | 25,764    |
| Food and Agriculture Organization of the United Nations (FAO)           | 14,805    | 35,185    |
| Western and Central Pacific Fisheries Commission (WCPFC)                | 6,952     | 6,010     |
| Korea Institute of Science and Technology (KIOST)                       | 4,000     | 23,984    |
| Center for Southeast Asian Studies                                      | 423       | -         |
| DENR RB IIMS  | -         | 11,207    |
|   | 2,510,778 | 2,866,778 |

The grants cover the following projects:

#### **Global Environment Facility (GEF)**

GEF has been a major donor of 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.

The fourth phase of the GEF project entitled, GEF/UNDP/PEMSEA Project on Scaling up the Implementation of the SDS-SEA took effect in August 2014 and was originally slated for completion in August 2019 but was approved for a no-cost extension until August 2020. The project aims to catalyze actions and investments at the regional, national and local levels to rehabilitate and sustain coastal and marine ecosystem services and build a sustainable coastal and ocean-based economy in the East Asian region.

GEF also provided a Project Preparatory Grant on Reducing Pollution and Preserving Environmental Flows in the East Asian Seas through the Implementation of Integrated River Basin Management (IRBM) in Asean countries. The project aims to enhance the water/food/energy ecosystem nexus and application of the source-to-sea approach by piloting and upscaling of IRBM in national river basins, which transport upstream and downstream pollutants affecting coastal ecosystems and resources of seas and oceans.

#### Ministry of Oceans & Fisheries, Republic of Korea

##### *Cost Sharing Agreement between the Ministry of Oceans and Fisheries of the Republic of Korea and PEMSEA*

The objective of this project is to strengthen the engagement and collaboration of the Center and RO Korea, as well as non-country partners in RO Korea, in scaling up the implementation of the SDS-SEA and to support successful stationing of the seconded RO Korean officer to the Center.

#### Republic of the Philippines

The Philippines has hosted PEMSEA, through the Center, since 1993 by providing the use of land and building as well as other services and facilities for its use as the Philippines' contribution to the implementation of sustainable coastal development in the region.

#### 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 USD50,000 annually for 2018 and 2019.

#### Ministry of Natural Resources, The People's Republic of China

##### *Financial Contribution for the Implementation of the Center's Re-engineering Plan*

MNR places high importance on the cooperation with PEMSEA and will continuously support the implementation of SDS-SEA by contributing RMB1,000,000 to PEMSEA in 2019. In order to better gear-up the implementation of SDS-SEA in China, RMB500,000 was allotted to facilitate the programs and activities conducted by PEMSEA and the remaining RMB500,000 was for the capacity building activities of China ICM management and technical personnel. This is to concretize the smooth implementation of the SDS-SEA in China, promote the capacity building of the Center and further the development of ICM at local level.

#### Ministry of Land Infrastructure and Transportation, Government of Japan

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

As part of the Cost Sharing Agreement (CSA) executed between the donor national agency and UNDP, as the instrument for cash contributions to support the Center's secretariat services for the purpose of implementing the SDS-SEA, UNDP receives and administers the payment of contributions from the Ministry of Land Infrastructure and Transportation, Government of Japan in accordance with its rules, regulations and directives.

#### The National Marine Biodiversity Institute of Korea (MABIK)

##### *Developing Project Proposals for Targeted Research on Marine Biodiversity Conservation and Management in the East Asian Seas (EAS) Region*

The project objective is to identify at least three (3) targeted research proposals in support of improved marine biodiversity conservation and management in selected countries in the EAS Region, including required resources and information.

#### Government of Singapore

In line with the commitment it made during the sixth East Asian Seas Partnership Council Meeting, the Government of Singapore committed to contribute \$20,000 on annual basis.

#### Coastal Management Center (CMC)

PEMSEA and CMC have been closely collaborating over the past 20 years for the sustainable development of the marine and coastal resources in East Asian region, including joint initiatives on project development and management, marine pollution monitoring, special skills training of participants from national and local governments, publication and dissemination of scientific and technical materials, resource mobilization, and co-organization of a regional Youth Forum at the EAS Congress 2006.

Pursuant to the Letter of Cooperation and Partnership Operating Arrangement signed on December 16, 2006 and Memorandum of Agreement signed on June 14, 2008, PEMSEA and CMC have identified areas for collaboration and will undertake collaborative activities relative to the objectives and targets of the SDS-SEA, consistent with the programs and objectives of both organizations.

#### United Nations Environment Programme (UNEP)

##### *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." With reference to this agreement, PEMSEA will be responsible for the development of nutrient reduction strategies through application of quantitative source-impact modelling and best practices in Manila Bay Watershed. This agreement is effective until 2015 and was subsequently extended until 2019.

#### Food and Agriculture Organization of the United Nations (FAO)

##### *Exploring Source to Sea (S2S) Potentials in the Philippines and the East Asia Seas*

The Source to Sea framework offers an approach that recognizes the need for integration and genuine cross sectoral decision making that balances complex economic, social and environmental dimensions. S2S permits a high degree of flexibility to focus on the key priorities of critical basin and landscapes. This include, the impacts of pesticides on coastal and marine fisheries, the impacts of intensifying irrigation on water availability to urban areas, and the impacts of land-use changes on downstream water quality.

#### Western and Central Pacific Fisheries Commission (WCPFC)

WCPFC and PEMSEA have agreed to cooperate to implement the project of developing and implementing the West Pacific and East Asian Seas (WPEA) project portal and monitoring & evaluation reporting system.



### Korea Institute of Science and Technology (KIOST)

#### *Organization of 2018 East Asian Seas Congress Partnership Hub Session on Ocean Energy - the Future of Blue Economy*

In this workshop, the success stories of the ocean energy development as well as up to date government policies will be presented in support of the ocean energy development around the globe. The case studies in the East Asian Seas region will be highlighted. The roles and contributions of ocean energy in the Blue Economy are also delved into.

### Center for Southeast Asian Studies

#### *ASEAN- Norwegian Capacity Building Project for Reducing Plastic Pollution*

This is a regional capacity building project funded by the Norwegian Government to Combat Marine Litter for the period 2019-2022.

### DENR RB IIMS

PEMSEA and DENR works towards the design, development, installation and system implementation & support to DENR users of web-based River Basin Integrated Information Management System (RB-IIMS).

### **Note 11 - Project expenses**

The components of project expenses for the years ended December 31 are as follows:

|                               | Notes | 2019      | 2018      |
|-------------------------------|-------|-----------|-----------|
| Direct project expenses       |       |           |           |
| Subcontract                   |       | 926,855   | 1,069,745 |
| Personnel cost                | 9     | 569,544   | 733,521   |
| Training                      |       | 228,111   | 270,790   |
| Consultancy fees              |       | 156,203   | 408,664   |
| Travel and meetings           |       | 149,069   | 239,522   |
| Other direct costs            |       | 61,997    | 71,998    |
|                               |       | 2,091,779 | 2,794,240 |
| Indirect project expenses     |       |           |           |
| Personnel cost                | 9     | 157,616   | 217,642   |
| Travel and meetings           |       | 24,230    | 9,316     |
| Depreciation and amortization | 5     | 4,316     | 4,316     |
| Overhead                      |       | 3,710     | 45,178    |
| Consultancy fees              |       | -         | 53,171    |
|                               |       | 189,872   | 329,623   |
|                               |       | 2,281,651 | 3,123,863 |

Personnel cost amounting to USD123,371 and USD62,383 presented under direct and indirect project expenses respectively, has been covered by the PEMSEA fund.

**Note 12 - General and administrative expenses**

The components of general and administrative expenses for the years ended December 31 are as follows:

|                                  | Notes | 2019    | 2018    |
|----------------------------------|-------|---------|---------|
| Office space rental              |       | 170,075 | 178,700 |
| Personnel cost                   | 9     | 60,981  | 87,034  |
| Travel and meeting               |       | 23,645  | 68,535  |
| Janitorial and security services |       | 22,358  | 19,861  |
| Consultancy                      |       | 22,185  | 214,113 |
| Utilities                        |       | 21,665  | 38,325  |
| Depreciation and amortization    | 5     | 9,709   | 8,551   |
| Overhead                         |       | 2,815   | 16,504  |
|                                  |       | 333,433 | 631,623 |

**Note 13 - Other income, net**

The components of other income, net for the years ended December 31 are as follows:

|                                   | Note | 2019    | 2018    |
|-----------------------------------|------|---------|---------|
| Training fees                     |      | 78,182  | 263,116 |
| Interest income                   | 2    | 3,385   | 3,249   |
| Foreign exchange (loss) gain, net |      | (2,007) | 35      |
| Others                            |      | 709     | -       |
|                                   |      | 80,269  | 266,400 |

Net foreign exchange loss debited to statements of receipts and expenses for the year ended December 31, 2019 amounted to USD2,007 (2018 - USD35 gain), of which net unrealized foreign exchange gain amounted to USD1,867 (2018 - USD116 loss).

Others pertain to various miscellaneous income including the forfeiture of retirement benefits relating to the defined contribution portion of the plan and unrealized foreign exchange gain on retirement benefits.

**Note 14 - Related party transactions**

Compensation and other short-term benefits of key management personnel amounted to USD131,678 in 2019 (2018 - USD143,419) and is included under project expenses account presented in the statements of receipts and expenses (Note 11).

There are no retirement benefits of key management personnel for the year ended December 31, 2019 and 2018 which is included under project expenses account in the statements of receipts and expenses (Note 11).

The Center has contributions to the retirement plan known as PEMSEA Resource Facility Pension Fund, a trustee plan covering its regular employees. The contributions to the retirement benefit plans are determined by management based on the recommendations from the actuary.

#### **Note 15 - Critical accounting estimates, assumptions and judgments**

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Center's accounting policies, management has made the following key estimates, assumptions and judgments and the related impact and associated risks in the financial statements:

- a) Critical accounting estimates and assumptions
  - *Useful lives of property and equipment (Note 5)*
  - *Retirement benefit obligation (Note 9)*
- b) Critical judgments in applying the Center's accounting policies
  - *Recoverability of receivables (Note 3)*
  - *Impairment of property and equipment (Note 5)*
  - *Functional currency*

The primary economic environment in which the Center operates is normally the one in which it mainly generates and expends cash. In determining its functional currency, the Center considers as primary indicators the currency in which receipts and disbursements from the operating activities are usually made. Additional indicators which may provide evidence of functional currency are also considered like the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained.

When indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators before considering the additional indicators, which are designed to provide additional supporting evidence to determine an entity's functional currency. The Center's financial performance and results and operations are measured and reported to the Partnership Council in US Dollars.

Based on its assessment, management has ascertained that US Dollar is the functional currency of the Center.

#### **Note 16 - Financial risk and fund management**

The Center's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Center's financial performance.

The Partnership Council is responsible for the overall risk management approach and for approval of risk strategies and principles of the Center.

The Center's activities expose it to a variety of financial risks: market risk (mainly foreign exchange risk), credit risk, liquidity risk and other market price risk.

Details of the Center's financial assets and liabilities as at December 31 are as follows:

|  | Notes | 2019      | 2018      |
|--|-------|-----------|-----------|
| Financial assets measured at amortized cost                              |       |           |           |
| Cash   | 2     | 2,882,978 | 2,546,680 |
| Receivables  | 3     | 14,577    | 94,955    |
| Other non-current assets   | 9     | 74,996    | 91,797    |
| Financial asset at fair value through other comprehensive income (FVOCI) | 4     | 171,265   | 155,032   |
|  |       | 3,143,816 | 2,888,464 |
| Financial liability at amortized cost                                    |       |           |           |
| Accrued expenses and other liabilities                                   | 7     | 376,349   | 366,886   |

## 16.1 Market risk

### *Foreign currency exchange risk*

Foreign currency exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Center's functional currency.

The Center's foreign currency exchange risk exposure arises mainly from purchases of goods and services where the resulting payables are denominated in foreign currency, particularly Philippine peso.

Management monitors the timing of payments of foreign currency-denominated monetary assets and liabilities to ensure that the Center is not unfavorably exposed to fluctuations of foreign exchange rates.

The Center's monetary assets and liabilities denominated in Philippine peso as at December 31 are as follows:

|   | 2019         | 2018         |
|---|--------------|--------------|
| Current assets                          |              |              |
| Cash                                    | Php6,188,310 | Php4,241,699 |
| Receivables                             | 84,451       | 1,309,784    |
|   | 6,272,761    | 5,551,483    |
| Non-current asset                       |              |              |
| Other non-current asset                 | 3,819,834    | 3,343,832    |
| Total assets                            | 10,092,595   | 8,895,315    |
| Current Liabilities                     |              |              |
| Accrued expenses and other liabilities  | (5,166,369)  | (6,709,720)  |
| Net foreign currency-denominated assets | Php4,926,226 | Php2,185,595 |
| USD equivalent                          | USD96,897    | USD41,694    |

The exchange rates in Philippine peso as at December 31 are as follows:

| Year | Average Rate | Spot Rate |
|------|--------------|-----------|
| 2019 | 51.84        | 50.84     |
| 2018 | 52.57        | 52.42     |

Foreign exchange rates are based on the published operational rates of exchange by the United Nations treasury.



A reasonable possible change in foreign currency exchange (US Dollar versus foreign currency) would lead to the following movements in receipts and expenses:

|   | 2019         | 2018         |
|---|--------------|--------------|
| Net foreign currency denominated assets       | Php4,926,226 | Php2,185,595 |
| Reasonably possible changes in exchange rates | (0.16)       | 0.13         |
| Effect on receipts for the year and equity    | USD306       | (USD809)     |

The reasonable possible change in foreign exchange rate used in performing the above sensitivity analysis is the change in rate between the US Dollar and the Philippine Peso determined thirty (30) days from reporting date, by which management is expected to receive or settle the Center's significant financial assets or liabilities, respectively.

## 16.2 Credit risk

Credit risk is the risk that the Center will incur losses because its counterparties fail to discharge their contractual obligations.

The Center's exposure to credit risk relates primarily to cash in banks, receivables and other non-current assets. To manage the risks, the Center places its cash deposits in reputable commercial banks without restrictions as to withdrawal and by monitoring the receivables and other non-current assets on an ongoing basis.

The Center's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these assets.

The Center has the following financial assets as at December 31, 2019 and 2018 where the expected credit loss model has been applied:

| Class of financial assets | At gross amounts | Expected credit losses | Net carrying amount | Internal credit rating | Basis for recognition of expected credit loss (ECL) |
|---------------------------|------------------|------------------------|---------------------|------------------------|---|
| <b>December 31, 2019</b>  |                  |                        |                     |                        |   |
| Cash in bank              | 2,881,973        | -                      | 2,881,973           | Performing             | 12-month ECL  |
| Receivables               | 14,577           | -                      | 14,577              | Performing             | Lifetime ECL  |
| Other non-current assets  | 74,996           | -                      | 74,996              | Performing             | 12-month ECL  |
| Total                     | 2,971,546        | -                      | 2,971,546           |                        |   |

| Class of financial assets | At gross amounts | Expected credit losses | Net carrying amount | Internal credit rating | Basis for recognition of expected credit loss (ECL) |
|---------------------------|------------------|------------------------|---------------------|------------------------|---|
| <b>December 31, 2018</b>  |                  |                        |                     |                        |   |
| Cash in bank              | 2,545,675        | -                      | 2,545,675           | Performing             | 12-month ECL  |
| Receivables               | 94,955           | -                      | 94,955              | Performing             | Lifetime ECL  |
| Other non-current assets  | 91,797           | -                      | 91,797              | Performing             | 12-month ECL  |
| Total                     | 2,732,427        | -                      | 2,732,427           |                        |   |

Cash presented above excludes cash on hand at December 31, 2019 and 2018 amounting to USD1,005 which is not exposed to credit risk.

*(a) Cash in banks*

To minimize credit risk exposure, the Center deposits its cash in banks with strong credit ratings. The Center maintains all of its cash deposits in universal banks with strong credit ratings to minimize exposure to credit risk.

*(b) Receivables*

Receivables are neither past due nor impaired and are fully recoverable as the counterparties are highly rated financial obligors with whom the Center has excellent repayment experience.

*(c) Other non-current assets*

Other non-current assets pertain to employees' contributions which are held in the Center's bank accounts and are earmarked for the retirement benefits of the Center's employees. To minimize credit risk exposure, the Center deposits its cash in banks with strong credit ratings.

### **16.3 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash to meet its operating cash requirements. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity.

The Center's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows. It aims to maintain flexibility in funding its operations through efficient collection strategies and maintaining sufficient and available cash in bank. The Center does not maintain credit facilities from third parties, instead, all funding requirements are obtained from the grantors.

The amounts of financial liabilities disclosed in Note 7 are the contractual undiscounted cash flows which equal their carrying balances, as the impact of discounting is considered not significant. The center has no long-term financial liabilities as at December 31, 2019 and 2018.

### **16.4 Other market price risk**

Other market price risk arises from the financial assets at fair value through other comprehensive income (FVOCI) held to fund the retirement obligation once it falls due. Changes in fair value of FVOCI are recognized in other comprehensive income. Market price risk related to these financial assets was assessed to be insignificant.

*Fair value of financial instruments*

The carrying amounts of financial assets and liabilities presented in the statements of financial position approximate their fair values at the reporting date. The impact of discounting on the fair value calculation is deemed not significant as financial assets and liabilities generally have short-term maturities.

*Fair value hierarchy*

The fair value of FVOCI is determined by reference to quoted bid price at the reporting date, which is classified under Level 1 in the fair value hierarchy.

|                   | Level 1 | Level 2 | Level 3 | Total   |
|-------------------|---------|---------|---------|---------|
| December 31, 2019 | 171,265 | -       | -       | 171,265 |
| December 31, 2018 | 155,032 | -       | -       | 155,032 |

## **16.5 Fund management**

The Center's equity is comprised of fund balance as shown in the statements of financial position. Management's objective in managing its fund is to safeguard the Center's ability to continue as a going concern so it can sustain its drive to provide services.

In order to maintain or adjust its fund structure, the Center may obtain funding from other partner countries. In line with its fund structure policy, the Center performs cash management on a monthly basis and strictly implements work plan and budget preparation and evaluation to ensure the Center's fund is sufficient to meet its operating requirements.

The Center is not subject to externally imposed capital requirements.

### **Note 17 - Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **17.1 Basis of preparation**

The financial statements of the Center have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS is based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Center's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are considered significant to the financial statements, are disclosed in Note 15.

#### **Changes in accounting policies and disclosures**

##### *New standards, amendments and interpretations adopted by the Center*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning January 1, 2019, and none of these have a material impact in the Center's financial statements.

There are no other applicable and relevant standards, amendments or interpretations which are issued and effective beginning after January 1, 2019 that have or are expected to have a significant impact on the Center's financial statements during and at the end of the reporting period.

## **17.2 Financial assets**

### *Classification*

The Center classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Center's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Center has made an irrevocable option at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Center reclassifies financial assets when and only when its business model for managing those assets changes.

### *Financial asset at amortized cost*

The Center's financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and where the Center's management has no intention of trading. These are included in current assets, except for maturities greater than twelve (12) months after the financial reporting date which are classified as non-current assets.

The Center's financial assets at amortized cost comprise of cash, receivables, and other non-current assets.

### *Financial asset at fair value through other comprehensive income (FVOCI)*

The Center's FVOCI are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months from the reporting date. The Center's investments in investment funds are classified under this category (Note 4).

### *Recognition and measurement*

Financial assets are recognized in the statement of assets, liabilities and fund balance account when the Center becomes party to the contractual provisions of the instrument.

At initial recognition, the Center measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

### *Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Center has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss.

### *Impairment of financial assets*

From January 1, 2018, the Center assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Loss allowances of the Center are measured on either of the following bases:

- 12-month expected credit losses (ECLs): these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

### *Simplified approach*

The Center applies the simplified approach to provide for ECLs for receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

### *Measurement of ECLs*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

### *Credit-impaired financial assets*

At each reporting date, the Center assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as a default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

### *Write-off*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Center determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Center's procedures for recovery of amounts due.

## **17.3 Financial liabilities**

### *(a) Classification*

The Center classifies its financial liabilities in the following categories: (a) financial liabilities at fair value through profit or loss; and (b) financial liabilities at amortized cost. Financial liabilities at fair value through profit or loss is composed of two sub-categories: financial liabilities classified as held for trading and financial liabilities designated by the Center as at fair value through profit or loss upon initial recognition. Management determines the classification of its financial liabilities at initial recognition.



The Center did not hold any financial liabilities under category (a) during and at the end of each reporting period.

Financial liabilities at amortized cost are contractual obligations which are either to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Center. They are included in current liabilities, except for maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

The Center's financial liabilities at amortized cost consist of accrued expenses and other liabilities (Note 7).

#### *(b) Recognition and measurement*

The Center recognizes a financial liability in the statement of financial position when the Center becomes a party to the contractual provision of the instrument.

Financial liabilities are initially measured at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest method.

#### *(c) Derecognition*

Financial liabilities are derecognized when extinguished i.e., when the obligation is discharged, cancelled or expired.

### **17.4 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Center or the counterparty.

The Center has no existing right to offset financial assets and liabilities in the years ended December 31, 2019 and 2018.

### **17.5 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Center classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The Center uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- **Market approach** - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- **Income approach** - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- **Cost approach** - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

As at December 31, 2019, the Center's financial asset at fair value through other comprehensive income (FVOCI) amount to USD171,265 (2018 - USD155,032). Other than these investments, the Center has no other financial assets and liabilities carried at fair value during and at the end of each reporting period. The carrying amounts of the remaining financial assets and liabilities (Note 16) approximates their fair values as the impact of discounting is not considered significant considering that the remaining significant financial assets and liabilities generally have short term maturities.

## **17.6 Cash**

Cash includes cash on hand and deposits held at call with banks. These are carried in the statement of financial position at face amount or at nominal amount, which approximates its amortized cost using the effective interest method. Bank deposits earn interest at prevailing bank deposit interest rate.

Relevant accounting policies for classification, recognition, measurement, impairment and derecognition are presented in Note 17.2.

## **17.7 Receivables**

Receivables pertain to funds receivables from partners and other projects, which are expected to be collected upon demand.

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment.

Relevant accounting policies for classification, recognition, measurement, impairment and derecognition are presented in Note 17.2.

## **17.8 Other assets**

Other assets are contributions from employees has been held in the Center's bank account and are earmarked for the retirement benefits and measured at nominal amounts.

Relevant accounting policies for classification, recognition, measurement, impairment and derecognition are presented in Note 17.2.

## **17.9 Property and equipment**

Property and equipment are recognized at cost upon initial recognition. Cost includes expenditure that is directly attributable to the acquisition of the items. Following the initial recognition, all items of property and equipment are recorded at cost less accumulated depreciation and amortization, and provision for impairment, if any.

Subsequent costs are included in the carrying amount of assets or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Center and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to receipts and expenses during the financial period in which they are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

|                       |         |
|-----------------------|---------|
| Building improvements | 5 years |
| Computer equipment    | 3 years |
| Office equipment      | 3 years |

Fully depreciated assets are retained in the property and equipment until these are retired.

The assets' residual values and useful lives are reviewed and adjusted, as appropriate, at each financial reporting date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than the its estimated recoverable amount (Note 17.10).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and the related accumulated depreciation and amortization are removed from the statement of financial position. Any gains or losses arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in receipts and expenses.

## **17.10 Impairment of non-financial assets**

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in receipts and expenses.

### **17.11 Accrued expenses and other liabilities**

Accrued expenses and other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accrued expenses and other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

The relevant policies on classification, recognition, measurement and derecognition are disclosed in Note 17.3.

### **17.12 Provisions**

Provisions are recognized when the Center has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized from the statement of financial position.

### **17.13 Employee benefits**

#### **(a) Short-term benefits**

Accrual for employee benefits is made for benefits accruing to employees in respect of wages and salaries, vacation leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Accruals made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Accruals made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of estimated future cash outflows to be made by the Center in respect of services provided by employees up to the financial reporting date.

#### **(b) Retirement benefit obligation**

The Center has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Center pays fixed contributions into a separate fund. Under a defined contribution plan, the Center has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.



(i) *Defined benefit plan*

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Philippine Peso, and that have terms to maturity approximating the terms of the related retirement benefit obligation.

The liability recognized in the statement of financial position in respect of funded defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to other comprehensive income under remeasurement gain or loss in the period in which they arise.

All past service costs are recognized immediately in receipts and expenses.

The interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included as part of retirement benefit expense recognized in receipts and expenses.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in receipts and expenses. The Center recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

(ii) *Defined contribution plan*

For the defined contribution plan, the Center pays contributions to a separate and allocated fund established to contributions made by the employees and the Center for the employees' behalf. The Center has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when these are due. Forfeitures of the Center's contributions are recognized as other income on the year of forfeiture.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Center recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

**17. 14 Related party relationships and 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 exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among the reporting enterprises and their key management personnel, directors, or their shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.



### **17.15 Fund balance**

Fund balance account includes all net assets received from the grantors. At the end of each accounting period, the Center closes its books and transfers excess of receipts over expenses to fund balance account.

### **17.16 Receipts recognitions**

#### *(a) Grants and deferred grants*

Grants are initially recognized as deferred grant upon receipt and are then recognized as income to the extent of the expenses incurred for the year in accordance with the conditions associated with the grant as provided in the grant agreements. At project completion date, any excess funds are returned to the grantors, unless otherwise agreed by both parties that the excess be retained by the Center and therefore recognized as income.

#### *(b) Donations*

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

#### *(c) Interest income*

Interest income is recognized as it accrues, taking into account the effective yield on the asset and is presented net of applicable tax.

#### *(d) Training fees and other income*

Training fee and other income is recognized when earned.

### **17.17 Costs and expenses**

Costs and expenses are recognized in receipts and expenses when a decrease in future economic benefit related to a decrease in an asset, or an increase in a liability has arisen, that can be measured reliably.

Costs and expenses are recognized:

- a) on the basis of a direct association between the costs incurred and the earning of specific items of income;
- b) on the basis of systematic and rational allocation procedures (i.e. when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined); or
- c) immediately (i.e. when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position).

Costs and expenses are presented in receipts and expenses according to their function.

### **17.18 Foreign currency transactions and translation**

#### *(a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in US Dollar, which is the Center's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in receipts and expenses.

**17.19 Subsequent events**

Post year-end events that provide additional information about the Center's position at 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.

**Note 18 - Supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010**

In addition to the disclosures mandated under PFRS, 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.

As discussed in Note 1 to the financial statements, the Center enjoys a number of tax incentives pursuant to the Agreement signed by the Executive Director of PEMSEA, and the Secretary of the Department of Foreign Affairs on July 31, 2012.

On September 2012, the 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.

Accordingly, 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 and tax cases are not applicable.

As at December 31, 2019, the Center has no pending tax cases in court nor has received tax assessment notices from the BIR.

**Note 19 - Supplementary information presenting reports on grants and expenses per project for the Partnership Council**

| December 31, 2019                   | GEF/<br>UNDP | UNEP   | PEMSEA/<br>CMC | ROK     | KIOST  | WCPEC | FAO    | SG       | CHINA  | TIMOR<br>LESTE | MABIK  | CSEAS   | PH        | Sub-total | PEMSEA    | CSA    | Grand<br>Total |
|-------------------------------------|--------------|--------|----------------|---------|--------|-------|--------|----------|--------|----------------|--------|---------|-----------|-----------|-----------|--------|----------------|
| <b>Receipts</b>                     |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| Grant                               | 1,558,116    | 15,744 | 16,307         | 328,771 | 4,000  | 8,962 | 14,805 | 20,000   | 95,658 | 99,980         | 35,610 | 423     | 220,221   | 2,417,087 | -         | 83,191 | 2,510,776      |
| PEMSEA Services                     | -            | -      | -              | -       | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | -              |
| Interest income                     | 386          | -      | -              | -       | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | -              |
|                                     | 1,559,502    | 15,744 | 16,307         | 328,771 | 4,000  | 8,962 | 14,805 | 20,000   | 95,658 | 99,980         | 35,610 | 429     | 220,221   | 2,417,087 | -         | 83,191 | 2,510,776      |
| <b>Expenses</b>                     |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| Direct Project                      |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| expenses                            | 1,559,116    | -      | -              | 298,967 | -      | 7,259 | -      | -        | -      | 51,085         | 35,610 | 423     | 220,221   | 2,172,681 | -         | -      | 2,172,681      |
| Personnel cost                      | -            | -      | -              | 29,804  | -      | -     | -      | -        | 90,424 | -              | -      | -       | -         | 120,228   | -         | -      | 364,441        |
| Travel and Meeting                  | -            | -      | -              | -       | -      | -     | -      | -        | 5,234  | -              | -      | -       | -         | 5,234     | -         | -      | 11,513         |
| Depreciation                        | -            | -      | -              | -       | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | 23,845         |
| Professional fees                   | -            | -      | -              | -       | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | 9,709          |
| Others                              | -            | -      | -              | -       | -      | -     | -      | 22,185   | -      | -              | -      | -       | -         | 22,185    | -         | -      | 22,185         |
|                                     | 1,559,116    | -      | -              | 328,771 | -      | 7,259 | -      | 22,185   | 95,658 | 51,085         | 35,610 | 423     | 220,221   | 2,320,328 | -         | 2,647  | 2,647          |
| Excess of receipts<br>over expenses | 386          | 15,744 | 16,307         | -       | 4,000  | (307) | 14,805 | (2,185)  | -      | 48,895         | -      | 6       | -         | 97,651    | (100,613) | (1)    | (2,963)        |
| <b>December 31, 2018</b>            |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| <b>Receipts</b>                     |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| Grant                               | 2,135,872    | 25,764 | 9,550          | 201,638 | 20,000 | -     | 85,350 | -        | -      | 23,984         | 6,010  | 35,185  | 248,092   | 2,801,445 | -         | 65,333 | 2,868,778      |
| PEMSEA Services                     | -            | -      | -              | -       | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | -              |
| Interest income                     | 261          | -      | -              | -       | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | -              |
|                                     | 2,136,133    | 25,764 | 9,550          | 201,638 | 20,000 | -     | 85,350 | -        | -      | 23,984         | 6,010  | 35,185  | 248,092   | 2,801,445 | -         | 65,333 | 2,868,778      |
| <b>Expenses</b>                     |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| Direct Project                      |              |        |                |         |        |       |        |          |        |                |        |         |           |           |           |        |                |
| expenses                            | 2,135,872    | 25,764 | 9,550          | -       | -      | -     | -      | 56,741   | 23,984 | 6,010          | 35,185 | 248,092 | 2,801,445 | 2,801,445 | -         | -      | 2,868,778      |
| Personnel cost                      | -            | -      | -              | 150,461 | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | -              |
| Travel and Meeting                  | -            | -      | -              | 51,158  | -      | -     | -      | -        | -      | -              | -      | -       | -         | -         | -         | -      | -              |
| Janitorial and<br>security services | -            | -      | -              | -       | -      | -     | -      | 19,984   | -      | -              | -      | -       | -         | -         | -         | -      | -              |
| Others                              | -            | -      | -              | -       | -      | -     | -      | 16       | -      | -              | -      | -       | -         | -         | -         | -      | -              |
|                                     | 2,135,872    | 25,764 | 9,550          | 201,638 | 20,000 | -     | 85,350 | 56,741   | 23,984 | 6,010          | 35,185 | 248,092 | 2,801,445 | 2,801,445 | -         | -      | 2,868,778      |
| Excess of receipts<br>over expenses | 261          | -      | -              | -       | -      | -     | -      | (56,741) | -      | -              | -      | -       | -         | (56,480)  | (550,235) | -      | (606,715)      |

### Basis of Preparation

The supplementary information presenting grants and expenses per project have been prepared using the following basis:

- expenses are recognized when incurred;
- grants are recognized when received; and
- expenditure for the acquisition of intangibles and property and equipment are recognized when paid.

Accordingly, the supplementary information is not intended to present results of operations in conformity with PFRS.

### Reporting Framework

The supplementary information presenting grants and expenses per project have been prepared using cash and accrual basis of accounting. Grants and acquisition of property and equipment is recognized using the cash basis of accounting while expenses are recognized using the accrual basis.

### Cost Sharing Agreement

The Center provides the secretariat services as well as technical services in the EAS Partnership Council, EAS Congress and various activities. A number of countries have made a commitment to support the operations of the Center, through financial and in-kind contributions. The 11th Project Steering Committee (PSC) approved the Cost Sharing Agreement (CSA) executed between the donor national agency and UNDP, as the instrument for cash contributions to support the Center's secretariat services for the purpose of implementing the 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 Center, with guidance from and in coordination with the EAS Partnership Council and EAS Congress. EAS Partnership Council serves as the PSC.

UNDP received USD125,000 representing cash contributions both for 2016 and 2015 from the Ministry of Land Infrastructure and Transportation, Government of Japan.

### Global Environment Facilities

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

|   | 2019      | 2018      |
|---|-----------|-----------|
| Healthy and Resilient Marine and Coastal Ecosystems   | 961,028   | 1,065,576 |
| Partnerships in Coastal and Ocean Governance  | 296,865   | 566,067   |
| Innovative Financing Mechanisms   | 178,698   | -         |
| Project Management  | 65,342    | 51,269    |
| The Implementation of the Arafura and Timor Seas Regional and National Strategic Action Programme (ATSEA 2) | 45,173    | -         |
| Integrated River Basin Management   | 12,010    | 152,935   |
| Knowledge Platform for Building an Ocean-based Blue Economy   | -         | 300,025   |
|   | 1,559,116 | 2,135,872 |

Under the GEF/UNDP/PEMSEA Project on Scaling up Implementation of the SDS-SEA, the project will focus on four key components, namely:

#### Component 1: On Partnerships in Coastal and Ocean Governance

This component aims to enable a self-sustaining, country-owned regional mechanism governing the LMEs in the East Asian region, including partnerships with other regional and sub-regional governance mechanisms; adoption of ocean policy, legal instruments and institutional improvements by national and local governments; and innovative financing mechanisms for the continuing support services required by countries for SDS-SEA implementation.

#### Component 2: On Healthy and Resilient Marine and Coastal Ecosystems

This component aims to increase areal extent of healthy and resilient habitats through conservation-focused ICM programs; by improving management of over exploited and depleted fisheries; reducing discharge of pollutants from land-based activities and improving water use efficiency and conservation; increasing preparedness and capability of coastal communities to respond to natural and man-made hazards; and use of economic and investment instruments to generate funds to rehabilitate and sustain coastal and marine ecosystem services.

#### Component 3: On Knowledge Platform for Building an Ocean-based Blue Economy and Innovative Financing Mechanisms

This component aims to develop a knowledge platform for building a sustainable ocean-based blue economy by catalyzing resource allocation for ICM, CCA/DRR and SAP/NAP implementation at national and sub-regional LME levels in the East Asian region, in partnership with the YSL and WCPFC projects under the GEF/UNDP program framework entitled "Reducing Pollution and Rebuilding Degraded Marine Resources in the East Asian Seas through Implementation of Intergovernmental Agreements and Catalyzed Investments"; the 6 projects under the GEF/World Bank program framework entitled "Applying Knowledge Management to Scale up Partnership Investments for Sustainable Development of Large Marine Ecosystems of East Asia and their Coasts"; GEF IW Learn; and other relevant regional and global KM networks.

#### Component 4: Integrated River Basin Management

This component aims to enhance the water/food/energy ecosystem nexus and application of the source-to-sea approach by piloting and upscaling of IRBM in national river basins, which transport upstream and downstream pollutants affecting coastal ecosystems and resources of seas and oceans.

#### Project Management

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

#### The Implementation of the Arafura and Timor Seas Regional and National Strategic Action Programme (ATSEA 2)

This component aims to enhance sustainable development of the Arafura-Timor Seas (ATS) region to protect biodiversity and improve the quality of life of its inhabitants through conservation and sustainable management of marine-coastal ecosystems (as indicated in the SAP).