

**Clean Air Initiative for Asian Cities
(CAI-Asia) Center, Inc.**
(A Nonstock, Nonprofit Corporation)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Clean Air Initiative for Asian Cities (CAI-Asia) Center, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Clean Air Initiative for Asian Cities (CAI-Asia) Center, Inc. (a nonstock, nonprofit corporation) (the Center), which comprise the statements of assets, liabilities and fund balance as at December 31, 2017 and 2016, and the statements of support, income and expenditures, statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statements of assets, liabilities and fund balance of the Center as at December 31, 2017 and 2016, and its statements of support, income and expenditures, statements of comprehensive income and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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



In preparing the financial statements, management is responsible for assessing the 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 20 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Clean Air Initiative for Asian Cities (CAI-Asia) Center, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-A (Group A),

March 8, 2016, valid until March 8, 2019

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 6621276, January 9, 2018, Makati City

April 17, 2018



CLEAN AIR INITIATIVE FOR ASIAN CITIES (CAI-ASIA) CENTER, INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	\$1,167,156	\$804,590
Receivables (Note 6)	281,557	1,177,784
Other current assets (Notes 7 and 17)	15,689	16,118
Total Current Assets	1,464,402	1,998,492
Noncurrent Assets		
Property and equipment (Note 8)	11,238	17,061
Other noncurrent assets (Notes 9 and 17)	21,877	17,182
Total Noncurrent Assets	33,115	34,243
	\$1,497,517	\$2,032,735
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Trade and other payables (Note 10)	\$159,401	\$696,103
Deferred support (Note 11)	796,112	812,900
Total Current Liabilities	955,513	1,509,003
Noncurrent Liability		
Retirement obligation (Note 16)	56,797	19,955
Total Liabilities	1,012,310	1,528,958
Fund Balance	485,207	503,777
	\$1,497,517	\$2,032,735

See accompanying Notes to Financial Statements.



CLEAN AIR INITIATIVE FOR ASIAN CITIES (CAI-ASIA) CENTER, INC.**(A Nonstock, Nonprofit Corporation)****STATEMENTS OF SUPPORT, INCOME AND EXPENDITURES**

	Years Ended December 31					
	2017			2016		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
SUPPORT AND INCOME						
Support:						
Grants (Note 11)	\$530,768	\$1,812,716	\$2,343,484	\$662,380	\$3,020,643	\$3,683,023
Membership donations	140,000	–	140,000	20,000	–	20,000
Other income (Note 5)	1,770	–	1,770	1,824	–	1,824
	672,538	1,812,716	2,485,254	684,204	3,020,643	3,704,847
EXPENDITURES						
Grant expenses (Note 12)	–	1,812,716	1,812,716	–	3,020,643	3,020,643
Fundraising expenses (Note 13)	99,718	–	99,718	92,310	–	92,310
General and administrative expenses (Note 13)	570,196	–	570,196	519,501	–	519,501
	669,914	1,812,716	2,482,630	611,811	3,020,643	3,632,454
EXCESS OF SUPPORT AND INCOME OVER EXPENDITURES	\$2,624	\$–	\$2,624	\$72,393	\$–	\$72,393

See accompanying Notes to Financial Statements.

CLEAN AIR INITIATIVE FOR ASIAN CITIES (CAI-ASIA) CENTER, INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
EXCESS OF SUPPORT AND INCOME OVER EXPENDITURES	\$2,624	\$72,393
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement loss on retirement obligation (Note 16)	(21,194)	–
TOTAL COMPREHENSIVE INCOME (LOSS)	(\$18,570)	\$72,393

See accompanying Notes to Financial Statements.



CLEAN AIR INITIATIVE FOR ASIAN CITIES (CAI-ASIA) CENTER, INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF CHANGES IN FUND BALANCE

	Assigned Capital	Other Comprehensive Loss (Note 16)	Accumulated Excess of Support and Income over Expenditures	Total
Balances at January 1, 2016	\$111	\$-	\$431,273	\$431,384
Excess of support and income over expenditures	-	-	72,393	72,393
Balances at December 31, 2016	111	-	503,666	503,777
Excess of support and income over expenditures	-	-	2,624	2,624
Other comprehensive loss	-	(21,194)	-	(21,194)
Total comprehensive loss	-	(21,194)	2,624	(18,570)
Balances at December 31, 2017	\$111	(\$21,194)	\$506,290	\$485,207

See accompanying Notes to Financial Statements.



CLEAN AIR INITIATIVE FOR ASIAN CITIES (CAI-ASIA) CENTER, INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of support and income over expenditures	\$2,624	\$72,393
Adjustments for:		
Retirement expense (Note 16)	15,648	5,468
Depreciation and amortization (Notes 8 and 13)	12,243	10,690
Interest income (Note 5)	(1,770)	(1,824)
Operating income before working capital changes	28,745	86,727
Decrease (increase) in:		
Receivables	896,227	(583,611)
Other current assets	429	(1,602)
Increase (decrease) in:		
Trade and other payables	(536,702)	158,439
Deferred support	(3,236,824)	(3,163,552)
Net cash used in operations	(2,848,125)	(3,503,599)
Interest received	1,770	1,824
Net cash flows used in operating activities	(2,846,355)	(3,501,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
Grants received (Note 11)	3,220,036	3,322,951
Disposal of property and equipment (Note 8)	754	-
Decrease (increase) in other noncurrent assets	(4,695)	1,680
Acquisition of property and equipment (Note 8)	(7,174)	(13,578)
Net cash flows provided by investing activities	3,208,921	3,311,053
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	362,566	(190,722)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	804,590	995,312
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	\$1,167,156	\$804,590

See accompanying Notes to Financial Statements.



CLEAN AIR INITIATIVE FOR ASIAN CITIES (CAI-ASIA) CENTER, INC.
(A Nonstock, Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Clean Air Initiative for Asian Cities (CAI-Asia) Center, Inc. (the Center) is a nonstock, nonprofit corporation organized to improve air quality in Asia by implementing and managing projects, conferences and symposia in the Philippines and in Asia or elsewhere, to promote public awareness and generate public support for the Center's mandate, goals and activities.

In December 2012, the Center launched a rebranding from "CAI-Asia" to "Clean Air Asia" during the Better Air Quality (BAQ) 2012 Conference held in Hong Kong Special Administrative Region. This rebranding did not affect the Center's corporate legal name.

The Center was incorporated in the Philippines on June 20, 2007 and started its activities on July 1, 2007. Before its incorporation, the Center was an informal network of international agencies, governments, academic institutions, nongovernment organizations, and private companies supporting improved Air Quality Management (AQM) in Asia known as the Clean Air Initiative for Asian Cities (CAI-Asia). CAI-Asia was established by the Asian Development Bank (ADB), World Bank and the United States-Asia Environment Partnership in 2001 and over the years had grown into the largest and most widely respected regional initiative on AQM. ADB hosted the CAI-Asia and its Secretariat and provided core funding through the regional technical assistance (RETA) on project in "Rolling Out Air Quality Management in Asia" (RETA 6291) and "Better Air Quality Management in Asia" (RETA 6144) with support funding, administered by ADB, from the Government of Finland, the Swedish International Development Co-operation Agency, The William and Flora Hewlett Foundation, Energy Foundation and from various private sectors and other foundations through various projects of the ADB. The activities under RETA 6291 and RETA 6144, among others, have been carried out by CAI-Asia.

On September 20, 2011, the Center received approval from the Reserve Bank of India (RBI) to establish a Liaison office in New Delhi, India. Based on the RBI permission, the Center established a Liaison office on March 1, 2012 as registered under the India Ministry of Corporate Affairs for the purposes of undertaking liaison activities and acting as communication channel between the Center's Head Office and parties in India. On July 24, 2015, the Center's India Liaison office registration was upgraded to Branch office by RBI vide UIN: NDBO15003522 for the purpose of undertaking permitted activities in India under a branch registration. The branch office is also registered with Registrar of Companies against FCRN F04356.

In April 2017, the Center submitted its application documents to the China Ministry of Environmental Protection (MEP) to register the Center's China Office as a Representative office in compliance with the requirements of the new Law on the Management of the Activities of Overseas NGOs within Mainland China effective on January 01, 2017. In March 2018, the Center's China office received its registration certificate from the Office of Overseas Non-Government Organizations (NGOs) Administration of the Beijing Municipal Public Security Bureau with the MEP as its professional supervisory organization.

The Center, being a nonstock, not-for-profit organization, falls under Section 30 (G) of Republic Act No. 8424 entitled "An Act of Amending the National Internal Revenue Code, as Amended and For Other Purposes". The income from activities in pursuit of the objectives for which the Center was established is exempt from income tax. However, any income on any of its properties,



real or personal, or from any activity conducted for profit regardless of the disposition of such income, is subject to income tax.

The Center's registered office, which also used to be its principal place of business, is at Unit 3504-05, 35th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, 1605 Pasig City.

The financial statements of the Center as at and for the years ended December 31, 2017 and 2016 were authorized for issue by the Board of Trustees on April 17, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The financial statements of the Center have been prepared on a historical cost basis. The financial statements are presented in United States Dollar (USD), which is the Center's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

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

Revenue Regulation No. 13-98 of Bureau of Internal Revenue (BIR)

The financial statements of the Center is compliant with the BIR's prescribed allocation and utilization of funds wherein 70% of the funds shall be allocated for programs and projects of the Center while the remaining 30% shall be for the general and administrative expenses.

3. Summary of Significant Accounting and Financial Reporting Policies

Change in Accounting Policies and Disclosures

The Center applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. The adoption of these pronouncements did not have a significant impact on the Center's statement of assets, liabilities and fund balance, statement of support, income and expenditures and statement of comprehensive income, unless otherwise indicated.

2015 Amendments to the PFRSs for SMEs

In August 2016, the Securities and Exchange Commission resolved to adopt the *2015 Amendments to the PFRSs for SMEs* as part of its rules and regulations on financial reporting.

Most of the amendments clarify existing requirements and add supporting guidance to the existing standard rather than change the underlying requirements. Among the most significant amendments to the standards are:

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



The adoption of the 2015 Amendments to the PFRSs for SMEs is not expected to have a significant impact on the Center's financial statements.

Cash and Cash Equivalents

Cash consists of cash on hand and in banks. Cash in banks earn interest at the respective bank deposit rate. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of acquisition and that are subject to an insignificant risk of change in value.

Receivables

Receivables, which do not bear interest, are recognized and carried at original invoice amounts. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in the statement of support, income and expenditures.

Prepayments

Prepayments include expenses already paid but not yet incurred. These are measured at amortized cost less any impairment loss, if any.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any accumulated impairment loss. The initial cost of property and equipment comprises its purchase price and other directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. It excludes day-to-day servicing.

Property and equipment acquired for a project through restricted contributions are recorded as grant expenses. The Center recognizes the asset only upon project completion or upon transfer of the ownership of the asset to the Center at its new book value or the fair value at the time it was transferred.

Depreciation of office equipment is computed on a straight-line basis, net of any estimated residual value, over its estimated useful life of three (3) years while leasehold improvements are amortized on a straight-line basis over its estimated useful life of two (2) years or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of support, income and expenditures in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

Intangible Assets

The Center's intangible assets pertain to acquired computer software licenses which are presented under "other noncurrent assets" account and are stated at cost less accumulated amortization and any accumulated impairment loss. Acquired computer software licenses are capitalized on the basis of



the cost incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred. Capitalized costs are amortized on a straight-line basis over the estimated lives of three (3) years. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

Fully amortized assets are retained in the accounts until they are no longer in use and no further amortization is charged to current operations.

Impairment of Nonfinancial Assets

At each reporting date, property and equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected property and equipment and intangible assets are estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of support, income and expenditures.

If an impairment loss subsequently reverses, the carrying amount of the property and equipment and intangible assets are increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the property and equipment and intangible assets in prior years. A reversal of impairment loss is recognized immediately in the statement of support, income and expenditures.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Center makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of support, income and expenditures.

Trade and Other Payables

Trade payables represent obligations of the Center to outside parties arising from its normal operations on the basis of normal credit terms and do not bear interest.

Deferred Support

Deferred support is a liability as of the balance sheet date related to a revenue producing activity for which revenue has not yet been recognized. The Center records deferred support when it receives donation from its donors for the next project or events.

Retirement Benefits

The Center has an unfunded, non-contributory defined benefit plan covering its regular permanent employees. The retirement benefits cost is determined using the projected unit credit method and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost is recognized during the employees' period of service and discounted using the PDST-R2 rates. Remeasurement gains and losses are recognized in other comprehensive income for the period.

Fund Balance

Assigned capital represents the actual initial contribution paid by the incorporators.



Accumulated excess of support and income over expenditures includes the results of current and prior year operation as a result of the utilization of unrestricted funds.

Other Comprehensive Loss (OCL) are items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS for SMEs. The Center's OCL pertains to remeasurement gains and losses arising from defined benefit pension plan which cannot be recycled to profit or loss.

Support and Income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Center and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from restricted support

Revenue is recognized upon fulfillment of the donor-imposed conditions attached to the support and/or to the extent that expenses are incurred.

Restricted support for which restrictions and conditions have not yet been met are classified as deferred support. At project completion date, any excess funds in the deferred support are returned to the donors unless otherwise agreed by both parties that the excess shall be retained by the Center and therefore credited to unrestricted support.

Revenue from unrestricted support

Revenue is recognized upon receipt of the support applicable to current and prior periods.

Interest income

Interest income on cash and cash equivalents is recognized as it accrues using the effective interest method.

Expenditures

Grants and general and administrative expenses are recognized in the statement of support, income and expenditures upon utilization of the goods or services or at the date they are incurred. Property and equipment acquired for a restricted project and in which ownerships of the assets are not transferred to the Center are recorded as grant expenses.

Leases

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

Operating lease payments are charged to the statement of support, income and expenditures on a straight-line basis over the term of the relevant lease.

Foreign Currency Transactions

The accounting records of the Center are maintained in USD. Foreign currency transactions during the year are translated into USD at exchange rates which approximate those prevailing on the month of transaction. Foreign exchange gains and losses resulting from the settlement of and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of support, income and expenditures. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange



rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Provisions

Provisions are recognized only when the following conditions are met: (a) there exists a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of time value of money is material, provisions are determined by discounting the expected future cash flow rate at a pre-tax rate that reflects the current market assessments of the time value of money and where approximate, the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Center's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes when material.

4. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS for SMEs necessitates the use of judgment and estimate. These judgment and estimate affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date, as well as the reported revenues and expenses for the year. Although estimate is based on management's best knowledge and judgment of current facts as of the reporting date, the actual outcome may differ from this estimate, possibly significantly.

Judgment

As of December 31, 2017 and 2016, the preparation of financial statements did not involve any significant judgment by management.

Estimates and Assumptions

The key estimate concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below:

Use of monthly weighted average exchange rates

Monthly weighted average exchange rates are used to translate currencies other than USD using prevailing exchange rates from the market.



Estimating allowance for impairment losses on receivables

Allowance is made for specific and groups of accounts, where, objective evidence of impairment exists. The Center evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Center's relationship with the third party, the third party's current credit status, average age of accounts, collection experience and historical loss experience. No allowance for impairment losses on receivables was recognized in 2017 and 2016. As of December 31, 2017 and 2016, receivables amounted to \$281,557 and \$1,177,784, respectively (Note 6).

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	\$2,238	\$1,073
Cash in banks	1,141,834	780,514
Short-term investment	23,084	23,003
	\$1,167,156	\$804,590

The Center's cash comprise of restricted and unrestricted cash on hand and in banks. Restricted cash are available funds on hand and in banks which are generally used for projects undertaken under grants and support with donor-imposed restrictions. The Center is restricted from using the funds for purposes other than its intended use. Unrestricted cash, on the other hand, are funds on hand and in banks from sources without donor-imposed restrictions, which can be used for general operating expenses of the Center. Cash accounts with the banks generally earn interest based on daily bank deposit rates.

Short-term investment represent time deposit which was required in 2014 to guarantee a performance bond issued by Banco De Oro for the Hanoi project which was already completed in 2014. This time deposit is not yet terminated as of December 31, 2017 and earns interest at the respective short-term investment rate at 0.30% in 2017 and 2016.

Interest income from cash and cash equivalent amounted to \$1,770 (unrestricted) and nil (restricted) in 2017, and to \$1,824 (unrestricted) and nil (restricted) in 2016, and are included as part of other income account in the statements of support, income and expenditures.

6. Receivables

This account consists of:

	2017	2016
Receivables from donors (Note 11)	\$218,851	\$1,054,629
Other receivables	62,706	123,155
	\$281,557	\$1,177,784

Receivables from donors pertain to expenses incurred and paid by the Center in implementing projects funded by donors for which remaining funding are yet to be received in the succeeding period.



Other receivables pertain mainly to expenses relative to travel, trainings, conferences and other related activities paid by the Center but are chargeable to or reimbursable from other organizations.

7. **Other Current Assets**

This account consists of:

	2017	2016
Prepayments	\$15,689	\$14,799
Refundable deposits (Notes 9 and 17)	–	1,319
	<u>\$15,689</u>	<u>\$16,118</u>

8. **Property and equipment**

The rollforward analysis of this account follows:

December 31, 2017

	Office Equipment	Leasehold Improvements	Total
Cost			
Balances at beginning of year	\$83,898	\$10,226	\$94,124
Additions	4,496	2,678	7,174
Disposals	(920)	–	(920)
Balances at end of year	<u>87,474</u>	<u>12,904</u>	<u>100,378</u>
Accumulated Depreciation and Amortization			
Balances at beginning of year	66,837	10,226	77,063
Depreciation and amortization (Note 13)	11,239	1,004	12,243
Disposals	(166)	–	(166)
Balances at end of year	<u>77,910</u>	<u>11,230</u>	<u>89,140</u>
	<u>\$9,564</u>	<u>\$1,674</u>	<u>\$11,238</u>

December 31, 2016

	Office Equipment	Leasehold Improvements	Total
Cost			
Balances at beginning of year	\$70,320	\$10,226	\$80,546
Additions	13,578	–	13,578
Balances at end of year	<u>83,898</u>	<u>10,226</u>	<u>94,124</u>
Accumulated Depreciation and Amortization			
Balances at beginning of year	56,147	10,226	66,373
Depreciation and amortization (Note 13)	10,690	–	10,690
Balances at end of year	<u>66,837</u>	<u>10,226</u>	<u>77,063</u>
	<u>\$17,061</u>	<u>\$–</u>	<u>\$17,061</u>

All property and equipment acquired during the year were used for the Center's operations.



Leasehold improvements classified as part of property and equipment, with a gross amount of \$10,226, were fully depreciated as of December 31, 2017 and 2016.

The Center has no property and equipment which was used as collateral to secure its obligations as of December 31, 2017 and 2016.

9. Other Noncurrent Assets

This account consists of:

	2017	2016
Refundable deposits - net of current portion (Notes 7 and 17)	\$21,877	\$17,182
Computer software licenses	8,946	8,946
Accumulated amortization	(8,946)	(8,946)
	\$21,877	\$17,182

Fully amortized computer software licenses classified as intangible assets with an amount of \$8,946 as at December 31, 2017 and 2016 are still in use.

10. Trade and Other Payables

This account consists of:

	2017	2016
Accounts payable	\$46,368	\$408,947
Accrued expenses	113,033	287,156
	\$159,401	\$696,103

Accounts payable are noninterest-bearing and are generally payable on 30-day term.

Accrued expenses include accrual of payroll and other employee benefits, utilities and project expenses including unbilled costs.

11. Deferred Support

Deferred support represents funds received from donors applicable to succeeding periods. The funds are to be used only for the specific projects and in compliance with the terms and conditions of the grant.

In general, unused funds at the end of the project are returned to the donors unless otherwise agreed.

The movements of deferred support are shown below:

	2017	2016
Beginning balance	\$812,900	\$653,501
Grants received	3,220,036	3,322,951
Changes in receivables from donors (Note 6)	(893,340)	519,471
Realized grants	(2,343,484)	(3,683,023)
	\$796,112	\$812,900



Significant grants received per donor are summarized as follow:

	2017	2016
Ministry of Environment of Japan		
Integrated Better Air Quality Program	\$1,170,000	\$1,170,000
Asian Development Bank (ADB)		
Better Transport Data for Sustainable Transport Policies and Investment Planning- Improving the Availability and Quality of Transport Data	425,512	327,703
Mainstreaming Air Quality in Urban Development through South-South Twinning		
Phase 1	151,735	65,590
Phase 2	237,883	-
Oak Foundation		
Promoting Science-based and Stakeholder-inclusive Air Quality Management in China	403,537	-
Advancing Clean Air Action in Indian Cities	70,930	69,230
Rockefeller Brothers Fund		
Promoting Science-based and Stakeholder-inclusive Air Quality Management in China	100,000	200,000
Toyota Motor Asia Pacific Pte. Ltd. (Toyota)		
Jakarta Eco-Driving Program	100,000	200,000
European Climate Foundation		
Advancing Clean Air Action in Indian Cities	85,000	-
Alleviating Air Pollution Meeting	64,682	-
Policy Review of Coal-fired Power Plant Emissions	33,129	-
International Environmental Partnership- USEPA/EPAT		
Cities Clean Air Partnership	27,775	342,359
Energy Foundation		
Campaign for Clean Diesel Engines	16,500	148,500
United Nations Environment Program (UNEP)		
Supporting Clean and Efficient Vehicle Policies in Asian Countries	-	200,000
First Joint Forum of Asia Pacific Clean Air Partnership-UNEP ROAP	-	64,063
Faurecia Emissions Control Technologies		
Development		
Year 1 of Three-Year Collaboration in China	-	60,000
Better Air Quality Conference 2016	-	50,000



Breakdown of deferred support per donor as of December 31 are as follows:

	2017	2016
Ministry of Environment of Japan	\$491,224	\$294,902
Rockefeller Brothers Fund	90,889	214,441
UNEP	79,777	164,320
Toyota	75,106	47,610
Oak Foundation	31,112	40,063
Fredskorpset	-	18,930
Others	28,004	32,634
	\$796,112	\$812,900

12. Grant Expenses

This account consists of:

	2017	2016
Remuneration and benefits (Note 15)	\$1,011,820	\$1,525,594
Sub-grants to third parties	363,750	567,018
Trainings, seminars and workshops	258,533	645,807
Travel and per diem	112,640	128,051
Third party services	54,343	121,144
Office rental and utilities (Note 17)	8,510	26,445
Miscellaneous expenses	3,120	6,584
	\$1,812,716	\$3,020,643

Sub-grants to third parties refer to subcontract arrangements to undertake an entire project or activity on behalf of the Center. The Center entered into sub-agreements with various foreign organizations, mainly for the implementation of the Integrated Better Air Quality Program in 2017 and 2016 and for the Better Transport Data for Sustainable Transport Policies and Investment Planning project and FK Exchange Program in 2016.

13. General and Administrative Expenses

This account consists of:

	2017	2016
Remuneration and benefits (Note 15)	\$249,179	\$140,600
Office rental and utilities (Note 17)	119,133	110,463
Third party services	82,768	96,149
Travel and per diem	49,149	93,141
Trainings, seminars and workshops	19,481	22,263
Bank Charges	12,578	11,187
Depreciation and amortization (Note 8)	12,243	10,690
Miscellaneous	25,665	35,008
	\$570,196	\$519,501

General and administrative expenses are costs incurred by the Center which are not directly related to its restricted projects.



In 2017 and 2016, the Center presented separately under fundraising expense in the statements of support, income and expenditures remuneration costs incurred in connection with fundraising activities. Fundraising expenses amounted to \$99,718 and \$92,310 in 2017 and 2016, respectively.

The Center's overhead rate for 2017 and 2016 representing total general and administrative and fundraising expenses as a percentage of total support and income is equivalent to 27% and 17%, respectively. Excluding fundraising costs, general and administrative expenses as a percentage of total support and income equaled to 23% and 14%, respectively.

Miscellaneous expenses include stationery office supplies, dues and subscription, licenses and permits, postage and delivery, foreign exchange cost and other miscellaneous administrative cost.

14. **Income Tax**

The Center, a nonstock, nonprofit corporation, is under the provisions of Section 30 (G) of the Tax Reform Act of 1997 (Republic Act No. 8424) and is exempt from the payment of income taxes. However, income of whatever kind and character of the Center from any of its properties, real or personal, or from any of its activities conducted for profit, regardless of the disposition of such income, shall be subjected to income tax as imposed under the National Internal Revenue Code.

On December 16, 2015, the Center submitted a request for the revalidation of the Center's tax exemption granted by the BIR last 2012. On January 4, 2017, the BIR returned the Center's request upon evaluation by the Revenue District Office (RDO) that the Center has to amend its Articles of Incorporation (AOI) and By-laws. On November 7, 2017, the Securities and Exchange Commission approved the amendments in the Center's AOI and By-laws to specifically state that (a) the trustees shall serve without any compensation or remuneration; and (b) that in case of legal dissolution of the Center all of its assets, after paying its liabilities, shall be distributed to another accredited NGO organized for similar purposes, or the State for public purpose/s, or would be distributed by a competent court of justice to another NGO to be used in such manner as in the judgement of said court shall best accomplish the general purpose for which the dissolved organization was organized.

On January 2018, the Center has submitted to the BIR the Center's amended AOI and By-laws to comply with final requirements for the revalidation of the Center's tax exemption status.

In February 2018, the Regional Director has already signed the Ruling for Tax Exemption (the Ruling). The Ruling is now before the Law and Legislative Division of the National Office for signature of the Commissioner of Internal Revenue. As of April 17, 2018, the Center is still awaiting from the BIR the issuance of the Ruling.

Republic Act (RA) No.10963

On December 19, 2017, the Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN Law changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.



15. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Key management personnel are considered related parties.

The Center's related party transactions pertain to compensation given to its key management personnel in 2017 and 2016 amounting to \$142,754 and \$146,305, respectively, which are presented as part of remuneration and benefits and are allocated to grant expenses and general and administrative expenses accounts in the statements of support, income and expenditures (Notes 12 and 13).

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Center has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2017 and 2016. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

16. Employee Benefits

The Center does not have a formal retirement plan. Employees who will qualify for retirement will be paid the minimum retirement benefit under Republic Act No. 7641.

Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sectors employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under law. The law does not require minimum funding for the plan.

The Center computes the actuarial valuation every year by hiring the services of a professional third party qualified actuary. The latest actuarial valuation report for the retirement plan was issued on March 27, 2018.

The components of pension expense included under "General and administrative expenses" accounts in the statements of support, income and expenditures are as follow:

	2017	2016
Current service cost	\$14,752	\$4,818
Interest cost on benefit obligation	896	650
	\$15,648	\$5,468

The Center's policy is to recognize actuarial gains and losses in other comprehensive loss. The amount of actuarial losses amounted to \$21,194 and nil for the year ended December 31, 2017 and 2016, respectively.

The present value of defined benefit obligation amounted to \$56,797 and \$19,955 in 2017 and 2016, respectively.



Movements in the retirement obligation follow:

	2017	2016
Balances at beginning of year	\$19,955	\$14,487
Net pension expense	15,648	5,468
Remeasurement losses	21,194	-
Balances at end of year	\$56,797	\$19,955

The Center expects to contribute into the retirement fund in 2019.

Changes in present value of the defined benefit obligation follow:

	2017	2016
Balances at beginning of year	\$19,955	\$14,487
Current service cost	14,752	4,818
Interest cost on benefit obligation	896	650
Remeasurement losses (gains) due to:		
Experience adjustments	23,865	-
Change in assumptions	(2,671)	-
Balances at end of year	\$56,797	\$19,955

Fair value of plan assets as of December 31, 2017 and 2016 amounted to nil.

The principal assumptions used in determining pension cost for the Center's plan are shown below:

	2017	2016
Discount rate	5.78%	4.49%
Salary increase rate	5.00%	5.00%

Shown below is the maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than 1 year	\$-	\$-
More than 1 year but less than 5 years	-	-
More than 5 years but less than 10 years	157,037	-
More than 10 years but less than 15 years	142,877	90,623
More than 15 years but less than 20 years	44,539	34,108
More than 20 years	16,432	976

17. Commitments

The following are the significant commitments relating to the operations of the Center:

Operating lease commitment - Center as a lessee

In July 2017, the Center signed a two-year, non-cancellable operating lease contract for its new office premises in Pasig City, Philippines. The lease is being renewed every two (2) years.

Other operating lease contracts entered into by the Center were for its office premises in Delhi, India effective February 2017 with a term of thirty-six (36) months expiring January 2020 and a renewal of lease contract entered last June 2017 for China office with a term of one (1) year



expiring May 2018. The leases are renewable upon expiration through mutual consent between the parties.

The Center also entered into operating lease contracts covering the housing accommodation for participants of the FK Exchange Program in 2016.

Rent expense charged to operations in 2017 and 2016 amounted to \$71,560 and \$79,194 respectively, and are presented as part of office rental and utilities account under grant and general and administrative expenses in the statements of support, income and expenditures (Notes 12 and 13).

The carrying amount of the refundable deposit amounted to \$21,877 and \$18,501 as of December 31, 2017 and 2016, respectively (Notes 7 and 9).

The future minimum lease payments under these lease contracts are as follows:

	2017	2016
Within one (1) year	\$57,423	\$29,286
Later than one (1) year but within five (5) years	29,238	—
	\$86,661	\$29,286

General

In the normal course of business, the Center makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements.

As of December 31, 2017 and 2016, management believes that losses, if any, that may arise from these commitments will not have any material effect on the financial statements.

18. Reclassification

In 2017, the Center reclassified accrued expense in the 2016 financial statements and supporting note disclosure to conform to the current year presentation.

The impact of the reclassifications in the Center's 2016 financial statements is summarized as follows:

	As previously reported	Reclassifications	As reclassified
Trade and other payables	\$716,058	(\$19,955)	\$696,103
Retirement obligation	—	19,955	19,955
	\$716,058	\$—	\$716,058

19. Contingencies

As of December 31, 2017 and 2016, there is no present nor threatened litigation, claim, lawsuit or proceeding by or against the Center. The Center is not aware of any other case under preliminary investigation, litigation and/or prosecution courts.



20. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR has issued RR No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the income tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

The Center reported and/or paid the following types of taxes in 2017:

Other Taxes and Licenses

Taxes and licenses, local and national, include licenses and permit fees for 2017:

Included in General and administrative expenses:

License and permit fees	₱27,931
Others	500
	<hr/>
	₱28,431
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Withholding Taxes

Withholding taxes on compensation and benefits	₱6,735,575
Expanded withholding taxes	638,160
	<hr/>
	₱7,373,735
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Tax Assessments and Cases

The Center has no pending tax cases, litigation and/or prosecution in court or bodies outside the BIR.

