



Joanny A. Abo

2015

ANNUAL REPORT

PHILIPPINES





BRAC is a development organisation dedicated to alleviating poverty by empowering the poor. Our journey began in 1972 in the newly sovereign Bangladesh, and over the course of our evolution, we have been playing a role of recognising and tackling the many different realities of poverty.

BRAC believes that poverty is a system and its underlying causes are manifold and interlinked. Some of these linkages are obvious, for example, a day's wage forgone because of illness or resources lost to a natural disaster. Others play a more indirect role in perpetuating poverty, such as lack of awareness about laws and rights can lead not only to outright exploitation, but also encourage a lack of accountability on the part of the state to cater to its most vulnerable citizens.

In order for the poor to come out of poverty, they must have the tools to fight it across all fronts. We have, therefore, developed support services in the areas of human rights and social empowerment, education and health, economic empowerment and enterprise development, livelihood training, environmental sustainability and disaster preparedness. Gender equality, respect for the environment and inclusivity are themes crosscutting all of our activities.

To ensure that we are always learning and that our work is always relevant, we have put in place training, research and monitoring systems across all our activities and financial checks and balances in the form of audits. But what we really do is best portrayed in the true life stories of those who make the real changes.

## VISION

A world free from all forms of exploitation and discrimination where everyone has the opportunity to realise their potential.

## MISSION

To empower people and communities in situation of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large-scale, positive changes through economic and social programmes that enable women and men to realise their potential.

## VALUES

- Integrity
- Innovation
- Inclusiveness
- Effectiveness

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A close-up portrait of an elderly man with white hair and glasses, looking slightly to the left. He is wearing a dark red garment. The background is dark and textured.

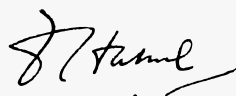
# CHAIRPERSON'S STATEMENT

It gives me great pleasure to present the annual report and the audited financial statements for the year ending 31 December 2015.

Poverty remains high in the Autonomous Region in Muslim Mindanao (ARMM), where one in every two families does not earn enough to meet their food and non-food requirements. The region has the lowest functional literacy rate in the Philippines at 71.6 per cent, compared to the national average of 86.4 per cent. The high drop-out rate and lack of investment in this sector greatly affect the quality of education and contribute to the low rate of literacy.

In an effort to provide quality and easily accessible kindergarten and elementary education, BRAC launched its education program in this region to implement the Alternative Delivery Model project. So far, 25,438 students have been provided with education at BRAC learning centres. At the nationwide Language Assessment for Primary Grades conducted by DepEd, 3,300 Grade 3 learners from BRAC learning centres scored 74 per cent, which is higher than the national average of 68 per cent.

I would like to take this opportunity to thank our staff in the Philippines, whose dedication ensures the smooth running of our programs. I also express my sincere appreciation to the government and our development partners in the Philippines for their continued support as we strive to contribute to the creation of progress and prosperity in the ARMM.

A handwritten signature in black ink, appearing to read 'F. Hasan'.

Sir Fazle Hasan Abed, KCMG  
Founder and Chairperson

# GOVERNANCE AND MANAGEMENT

## GOVERNANCE

### THE LEGAL STATUS OF BRAC INTERNATIONAL

BRAC International is registered as Stichting BRAC International under the laws of the Netherlands, with its seat in The Hague. All of BRAC International's development entities operate under this umbrella. The programmes include health, education, agriculture, livelihoods, targeting the ultra poor, human rights and legal services. BRAC International Holdings BV is a wholly owned subsidiary of Stichting BRAC International and was incorporated in 2010. BRAC International's microfinance programmes, social enterprises and investment companies are consolidated under this wing. The social programmes currently supporting the enterprises include seed production, feed mills, training centres and tissue culture labs. BRAC International has introduced programmes in Afghanistan, Haiti, Pakistan, Uganda, Tanzania, South Sudan, Sierra Leone, Liberia, the Philippines, Myanmar and Nepal. It is legally registered with the relevant authorities in each of these countries.

### GOVERNING BODY

BRAC International is governed by a governing body. The governing body is elected from amongst distinguished individuals with a sound reputation in the sector of social development, businesses or professions who have demonstrated their personal commitment to pro-poor causes. These individuals are elected in the governing body to bring their diverse skills, knowledge and experience to the governance of BRAC International. At present, there are 10 members in the governing body. The governing body usually meets four times a year, in accordance with the rules of Stichting BRAC International. The composition of the present governing body of Stichting BRAC International is as follows:

#### Members of the governing body

##### Chairperson:

Sir Fazle Hasan Abed, KCMG

##### Members:

Ahmed Mushtaque Raza Chowdhury  
Dr Muhammad Musa  
Ms Sylvia Borren  
Dr Debapriyo Bhattacharya

Ms Shabana Azmi  
Mr Shafiqul Hassan (Quais)  
Ms Parveen Mahmud  
Ms Irene Zubaida Khan  
Dr Fawzia Rasheed

The composition of the present governing body of BRAC International Holdings BV is as follows:

##### Chairperson:

Sir Fazle Hasan Abed, KCMG

##### Members:

Ms Sylvia Borren  
Dr Muhammad Musa  
Ms Parveen Mahmud  
Mr Hans Eskes

Details about the roles of the governing body are available in the Deed of Incorporation of Stichting BRAC International and BRAC International Holdings BV.

### FINANCE AND AUDIT COMMITTEE

Composition of the present finance and audit committee is as follows:

1. Ms Parveen Mahmud, Chair
2. Dr Muhammad Musa, Member
3. Ms Sylvia Borren, Member
4. Mr Faruque Ahmed, Member
5. Mr SN Kairy, Secretary of the Committee
6. Mr Hans Eskes

The primary function of the finance and audit committee is to assist the governing board in fulfilling its responsibilities on:

- The financial reporting and budgeting processes
- The system of internal controls and risk assessment
- The compliance with legal and regulatory requirements
- The qualifications, independence, and performance of the external auditors
- The qualifications, independence, and performance of the internal audit function

### LOCAL BOARDS

Each country's entities have a local board. We have aimed to pursue microfinance and development activities through separate entities in most of our countries. The local board members are appointed by Stichting BRAC International's board. The business of the local entities is managed by these local boards. Further details of the roles of the

local boards are available in the respective incorporation documents of these entities.

### ADVISORY COMMITTEE

In 2015, BRAC International decided to source suitable candidates in its countries of operation to form an advisory committee. This was in part driven by the need to strengthen governance, support advocacy at the national level and enhance credibility with donors whose expectations around governance included setting up boards at the country level which comprise largely of members who are preferably nationals.

The committee members provide the country leadership with advice and support on standards and policies, overseeing the development and implementation of programmes. They are expected to advise on key external developments and trends nationally, and promote BRAC's mission. That means developing and maintaining effective and strategic working relationships with key stakeholders and civil society partners in the countries through information sharing and relevant advocacy on behalf of BRAC.

### ACCOUNTABILITY AND TRANSPARENCY

The internal audit department normally conducts audits at all our cost centres on a sample basis. All departments or units in which irregularities are detected through the course of regular internal audit are then audited. Audits take place at least once a year and twice or more in locations and on programmes where a closer watch is warranted.

External audit of Stichting BRAC International, BRAC International Holdings BV and all of our legal entities are undertaken annually. Financial transparency is ensured by BRAC International's finance and accounts division, which prepares financial statements following the International Financial Reporting Standards and the laws of relevant countries.

## MANAGEMENT

There is a clear-cut policy regarding the authority of each level of staff at all levels of BRAC International's management. Staff members are equipped and empowered to act as effective managers. This is clearly set out in BRAC international's human resources policies and procedures and the Table of Authority. Staff are empowered to take decisions at relevant levels and areas of management, including recruitment, deployment, capacity building, transfer, leave, financial transactions, purchase and procurement. These are described in detail to staff at the area, regional and country office levels.

The Human rights policies and procedures also contain all policies relating to staff salary, benefits, recruitment and promotion procedures, and payments. Every staff member receives orientation on the Human rights policy procedures. The Stichting board appoints officers, namely the executive director, directors, group chief financial officer, chief people officer and finance director to manage affairs from the secretariat in Dhaka. BRAC International's management policies clearly define the authority of each level of staff. Appropriate staff are empowered to take decisions at the area, regional, country levels and the head office. Procedural manuals and policy documents are available to staff. Day-to-day decisions are taken by area managers, regional coordinators and programme heads as appropriate. Larger policy decisions involve country representatives, executive director, senior directors, group chief financial officer, finance director and chief people officer, and in particular cases, the executive director, the chairperson and the governing body.

## FINANCIAL MANAGEMENT

Matters relating to finance and accounts from branch offices to the country head offices are supervised and controlled by the country finance and accounts department. The branch offices prepare project-wise monthly cash requisitions, which are sent to the area/regional offices. The area/regional offices check and monitor the accuracy of the requisition and transmit them to the country office. The country office disburses funds as per the requisitions after checking. The area and branch offices send monthly expenditure statements along with bank statements to the country office's finance and accounts department. The country office then consolidates all the expenditure statements, prepares monthly financial statements and reports to BRAC International's head office (herein after secretariat) and donors, as required. A comprehensive accounting manual and statement of standard operating procedures guides the finance and accounts personnel to prepare the financial statements and reports in accordance with the accounting standards. It also guides in running the financial activities in a systematic and efficient way.

In consultation with different levels of stakeholders, the country office prepares project-wise budgets, which are then sent to the secretariat. The secretariat reviews and performs analytical procedures on the project budgets of its country offices, which are recommended by the finance director and finally approved by the group chief financial officer. The secretariat consolidates all BRAC International country financials and produces the BRAC International budget and consolidated audited financials.

The budget and the consolidations are submitted to the BRAC International governing body for approval.

## INFORMATION TECHNOLOGY

The country IT department provides data to the country management information system and finance teams by managing financial and programme-related information. This data is used by country and head office personnel to prepare various financial and managerial reports and to monitor project progress. The IT team based in the secretariat also provides support relating to software update, troubleshooting and Enterprise Resource Planning development. The country IT team is reportable to the respective country management and the worldwide operations are centrally administered by the secretariat.

## HUMAN RESOURCE MANAGEMENT

BRAC International's human resources and training department caters to about 7,110 employees across 10 operating countries. The team strengthens BRAC International's human resources capacity, visibility, and practices through strategic interventions and new initiatives. Following are some of the year's highlights:

**Key recruitment:** Significant changes to the upper management at BRAC International occurred in 2015 with the joining of new regional directors for the Africa and Asia regions, new chief people officer and research director, three new country representatives of Afghanistan, Liberia and Sierra Leone, and for the first time, a resident representative fundraiser in the Netherlands office. BRAC International established an emergency response coordination team with new emergency response coordinators joining in Uganda, Tanzania, Pakistan and South Sudan. More countries will recruit emergency response coordinators in 2016.

In keeping with BRAC's vision towards localisation of operations, local heads of department have joined in multiple countries. Some of these include local heads of finance, audit, monitoring, human resource development, research, agriculture and fundraising. The first chief executive officer of BRAC Uganda's microfinance is planning its transformation to a microfinance deposit-taking institution in 2016.

### Performance management system:

To promote a high-performance culture, the performance management system has cascaded down to all employees, from country management to field staff. This has clear guidelines provided for more focused performance management, discussing performance-related rewards and developing low performers through a performance improvement process. Employees have become more attuned to key performance indicator-based achievements and rewards are linked to both performance and demonstration of BRAC values in the workplace.

### Human resources management capacity:

In 2015, country-level HR departments were strengthened with improved automation of HR processes for better service delivery. The department aims to maximise

job satisfaction, enhance transparency and ensure procedural justice for all employees in accordance with the human resources policies and procedures manual. The manual provides all employees with an understanding of new policies, due benefits and the processes required to fulfil them. The human resources development further ensures employees' commitment to BRAC International's 15 policies under the code of conduct, particularly in regards to child protection and gender equality.

**Staff motivation schemes:** Full scholarships for higher studies are provided annually to high potential and committed staff to boost local capacity development. In 2015, four female employees were given full scholarships from BRAC to pursue postgraduate studies locally and overseas. In addition, seven female staff received the prestigious BRAC Values Award for their outstanding display of ethics and professionalism, after a rigorous screening of nominations from the entire BRAC workforce.

**Organisational development:** All representative job roles have been determined and placed within the organisational hierarchy. Roles have been evaluated using the Hay Method and accordingly, employees are being placed on a new salary structure. This year, all Bangladeshi staff on secondment underwent the re-grading process which took place at BRAC's headquarters. In the next phase, new country-specific salary structures, organograms and role-wise grading will come into practice for local employees next year.

**Enterprise resource planning:** A HR module in the new system has been designed and piloted in-house to streamline HR processes, enhance staff data management and analytic capacity. It will be implemented in phases across BRAC International, starting with BRAC South Sudan in the first quarter of 2016.

**Training and development:** With the vision of streamlining staff development activities, BRAC International HRD organised BRAC's first ever inclusion and diversity campaign to promote a culture of diversity, inclusion, gender sensitivity and BRAC values among its workforce. In October 2015, 16 employees from 10 operating countries participated in a 20-day training of trainers workshop at BRAC headquarters in Dhaka.

### Training received on four modules:

A group of 16 trainers received training on BRAC values, inclusion and diversity, gender awareness and people leadership programme. They will develop a further pool of trainers who will execute this training programme throughout the country in 2016 to promote the 'one BRAC' culture. In addition to classroom-based training, the trainers also visited BRAC's field operations in Bangladesh and met the chairperson and BRAC International's senior management.

World Diversity Day was celebrated for the first time in May 2015, where employees took part together in cultural programmes, sports tournaments, and cooking events. This will continue to be an annual event to promote harmony and inclusiveness within the workplace.





# EDUCATION

**BRAC's education** programme is the largest secular private education system in the world, reaching seven countries in total. At the pre-primary level, we target underprivileged children to prepare them for mainstream primary school entry. BRAC schools are designed to give a second chance at learning to children who have been left out of the formal education system due to extreme poverty, violence, displacement or discrimination. Our non-formal approach complements the mainstream school system with innovative teaching methods and materials. At the secondary level, we provide scholarships, need-based training and student mentoring to improve mainstream education.

## ERASING INEQUALITY IN EDUCATION

BRAC began operating in the Philippines in January 2012, in partnership with the Philippines' Department of Education (DepEd) based in the Autonomous Region in Muslim Mindanao (ARMM) and the Australian Government, implementing the Alternative Delivery Model (ADM) project as a component of the Basic Education Assistance in Muslim Mindanao (BEAM) program. The project aims to improve access and quality of kindergarten and elementary education, particularly in

areas without government schools, in partnership with 15 local NGOs. BRAC follows the DepEd kindergarten to grade 12 curriculum. The curriculum content and instruction materials are contextualized with the socio-cultural character of the ARMM children.

BRAC uses formative and summative evaluation procedures. Kindergarten pupils undergo the early childhood development checklist and school readiness year-end assessment (SReYA). Grade 2 learners take the Philippine-Informal Reading Inventory (Phil-IRI). Grade 3 and 6 learners take the language assessment for primary grades (LAPG) and national achievement test (NAT), respectively.

All BLCs are registered under the DepEd's enhanced basic education information system (EBEIS) and issued with school IDs. Learners have already been issued with learners reference numbers (LRN).



# PROGRAM HIGHLIGHTS

A total of **845** BRAC learning centers (BLCs) in **five** provinces of ARMM are benefitting **25,438** disadvantaged children with an alternative mode of education. **Seven** fully operational floating schools provide easy access to education for the Badjao and Sama children in Sulu, Basilan and Tawi-Tawi.

**550** BLCs are equipped with hand washing and tooth brushing facilities in coordination with GIZ's essential healthcare program.

**1,014** teachers, coordinators and organizers, including personnel from DepEd participated in various training sessions. BRAC collaborated with DepEd-ARMM and the Australian embassy to conduct the National Research Forum on education via the alternative delivery model in ARMM.

**3,300** Grade **3** learners from **118** BLCs participated in the nationwide

language assessment for primary grades (LAPG) conducted by DepEd this year. All learners achieved **74** per cent, which is slightly higher than the national and regional average.



<b>845</b>	<b>7</b>	<b>15,763</b>
BRAC learning centers	fully operational floating schools	students enrolled, of which 50% are girls

## CASE STORY

### THE BOY WHO LOVES BEING IN SCHOOL

I am Ben-Ben Biliual and I am 13 years old. I live with my aunt in Barangay Borongotan, Upi, Maguindanao. My parents separated when I was very young, leaving me under the foster care of my aunt, Malaga Usman. My aunt and her husband are low-income farmers earning USD 2 (PHP100) a day. They struggled to earn on days when they were not hired. With very little money for food, I often went to bed hungry.

At seven years of age, I enrolled into a public school. I dropped out eventually as the school was located far from our house and I did not find the classes interesting. One day, my aunt heard about a BRAC learning centre that was recently established in my community in Lenilitan. One of our neighbors advised her to speak to one of the program organizers. My aunt immediately went to the BRAC office to speak to the program organizer about my admission. The program organizer was extremely helpful to us and reassured my aunt that I would be well taken care of. When my teacher first saw me, she had the impression that it would be difficult



for me to cope with other children in terms of learning, due to my late enrollment, but she said I proved her wrong and made her happy. I am very happy to be at school. There are no school fees, and I even receive academic materials for free. I do not have to worry that my education is an extra burden for my aunt. I learn about many things in school and I enjoy the various discussions that we have, in small groups of five.

My teachers care about me. One day when I did not show up to class, the program organizer personally came to my house

to inquire about my health. She found that I was suffering from a high fever, due to an insect bite. When she saw that my aunt was unable to take me to the doctor, she realized the urgency of the situation and rushed to inform the BLC's management. BRAC then paid for my treatment. Receiving such kindness from people around me only urges me to be a better student. After a few weeks of rest, I was able to go back to school. I dream of becoming a teacher one day.

# SUPPORT PROGRAMMES

## PROJECT MANAGEMENT UNIT

The project management unit provides overall policy support in managing the alternative delivery model (ADM) project and includes the project management committee. The PMC, chaired by the secretary of DepEd-ARMM and co-chaired by the first secretary of the Australian embassy, provides policy guidance on project implementation.

## SCHOOL OPERATIONS UNIT

The school operations unit assists local partner NGOs in the establishment and operation of BRAC's learning centers in selected communities of the ARMM. It also coordinates and monitors the NGOs' operations, including reporting on the progress of their respective learning centers.

## ADMINISTRATIVE UNIT

The administrative unit covers three major functions – personnel, procurement and services. This unit manages the recruitment and induction of staff of BRAC Philippines. It also maintains and updates personnel records of staff in compliance with the labor laws of the Philippines. A procurement committee was formed to ensure proper procurement requirements in agreement with the BRAC guidelines.

## INTERNAL AUDIT DEPARTMENT

The internal audit department is an independent support program providing objective assurance and consulting services to add value and improve BRAC International's operations. It helps the organization accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of control and governance. It catalyses the efficiency of programs by providing insights and recommendations based on data analysis. With a commitment to integrity and accountability, the internal audit department provides value to governing

bodies and executive management as an objective source of independent opinion. The department also assists management by providing risk-based audit reports. It accelerates efficiency and effectiveness based on the internal audit charter, the terms of reference for the audit review committee, and the internal audit manual approved by the finance and audit committee.

In 2015, the external quality assurance review was conducted as per the requirement of the institute of internal auditors standards. We implemented 82 percent of our plans, and reviewed 40 cost centers across all programs in the same year. 2016 will be the year of implementing a full-fledged risk-based audit and system audit. The information systems audit will also be initiated, incorporating information systems audit and control association (ISACA) guidelines and best practices.

## COMPLIANCE SERVICES

Compliance services is committed to helping the organization achieve specific goals, by ensuring individuals' job responsibility and assessing all program's standing with the organizational goals. In 2015, the coverage of the internal compliance questionnaire (ICQ) was expanded to all areas and regional levels of country program management. This was done only for branch-level management the previous year, and reported quarterly. The ICQ 'quick review' mechanism was initiated in this period to strengthen the compliance culture by ensuring accountability and transparency. Compliance related to regulatory and donor affairs was reviewed and reported bi-annually for each BI country. To further strengthen the established compliance environment, plans have been made for more review of the self compliance activities (e.g. ICQ audit) in 2016.

## CURRICULUM, TRAINING AND ASSESSMENT

This curriculum, training and assessment unit ensures that students of BRAC's learning centers receive quality education and are appropriately assessed to meet the standards of DepEd's K to 12 curriculum. The unit trains teachers, coordinators, organizers and partner NGO staff on the curriculum, instructional materials and assessments. It develops appropriate instructional materials for kindergarten and elementary education and student assessment tools.

## MANAGEMENT INFORMATION SYSTEM

The management information system provides vital information for management through the establishment and maintenance of a database. This unit was established with support from experts in Bangladesh for developing software for the collection, storage and retrieval of relevant project-based information.

## MONITORING AND RESEARCH

This unit provides evidence-based information about the progress of project accomplishments, and documents the achievement of BRAC's learners. The unit assists three major research projects conducted by the University of the Philippines Los Baños Foundation Inc, University of Melbourne's Assessment, Curriculum and Technology Research Centre and University of South-eastern Philippines. The research focuses on the impact of the ADM project in ARMM communities, longitudinal learning achievements of the students in ARMM, and assessment of basic competencies in the BRAC's learning centers, respectively. It also covers the progress of reporting procedures for the partner NGOs, and field monitoring and documentation of project outcomes and impact.

## RISK MANAGEMENT SERVICES

Risk management is at the core of the operating structure for BRAC International and its country operations. The unit limits adverse variations in program activities and outcomes by managing risk exposures within agreed levels of risk appetite. Risk management processes in BRAC International have continued to prove effective throughout 2015, along with developing a group risk register. Executive management remained closely involved in important risk management initiatives, which focused on ensuring appropriate levels of funds, and effectively managing risk portfolios. Responsibility and accountability for risk management resides at all levels within the country; from the board, to the country management team, to each program manager and risk focal. Risks are controlled at both individual and aggregate levels of exposure across all programs and risk types.

On a country level, the bi-annual assessment of overall risk management was completed and the summary was discussed in the executive risk management committee meetings on 22 April and 4 November 2015, chaired by the executive director of BRAC International.

## HUMAN RESOURCE DEPARTMENT

BRAC Philippines works primarily in education development; specifically implementing the alternative delivery model (ADM) component of the basic education assistance in Muslim Mindanao (BEAM-ARMM) serving the Autonomous Region in Muslim Mindanao (ARMM). It covers five provinces with numerous multi-ethnic cultural groups, majority of whom are muslims and indigenous people. 90 per cent of its 43 employees are locals.

The department considers its workforce as its greatest asset. The department prioritizes the capacity development of staff, program participants and other key

stakeholders. These approaches include technical and non-technical training. A human resources policies and procedures (HRPP) manual is currently being developed to maximise job satisfaction, enhance transparency and ensure procedural justice for all employees. This is being done under the leadership of BRAC International HRD, collaborating with the BRAC Philippines' HR team. The team ensures employees' commitment to BRAC International's 15 policies under the code of conduct, particularly in regards to child protection and gender equality.

The performance management system has cascaded down to all employees, from country management to field staff at grassroots level, to ensure a culture of a high performance. It provides clear guidelines for more focused performance management, discussing performance-related rewards and developing low performers through a new improvement process. Employees have become more attuned to KPI-based achievements, and rewards are linked to both performance and demonstration of BRAC values in the workplace.

This unit organized BRAC's first ever inclusion and diversity campaign to promote a culture of diversity, inclusion, gender sensitivity and BRAC values among its workforce. In October 2015, 16 employees from 10 operating countries participated in a 20-day training of trainers (ToT) workshop at BRAC headquarters in Dhaka. Among the participants, one employee from BRAC Philippines received training on four modules: BRAC values, inclusion and diversity, gender awareness and people leadership program (PLP). A further pool of trainers will be trained to execute this mandatory training throughout the country in 2016 to promote the 'One BRAC' culture. In addition to classroom-based training, the trainers also visited BRAC's field operations in Bangladesh and met the chairperson and BRAC International's senior management.

## MONITORING UNIT

The monitoring unit of BRAC Philippines is responsible for regular collection of information on all aspects of the ADM learning centre operation. It also checks on how the ADM project activities are progressing in the Autonomous Region in Muslim Mindanao (ARMM). The monitoring information is vital for making decisions in planning and programming by BRAC's management. The monitoring strategy of the ADM project follows the monitoring design of BRAC Bangladesh's education program.

The unit conducts regular monitoring of BRAC's learning centers, and the learners' performance. Raw data generated from the field is processed, consolidated and reported quarterly.

BRAC's MIS, IT and research teams work closely with the monitoring unit for data management and data sharing.



# GOVERNANCE

## BRAC PHILIPPINES

### Local Board Members

Mr Faruque Ahmed  
Mr SN Kairy  
Dr Safiqul Islam

# MANAGEMENT

M Nazrul Islam • Country Representative, BRAC Philippines  
Ramon C Bobier • Project Management Advisor  
Norma T Gomez, PhD • Research & Evaluation Specialist  
Bella M Lanestosa • Curriculum Specialist  
Md Ibrahim Khalil • Project Manager  
Mohammad Humayun Kabir • Country Head of Accounts

Md Parvez Shahariar Talukdar • Country Head of Internal Audit  
Jovelyn O Alferez • Manager, Planning & Communications  
Aldis James Neville R Moral • Manager, IT & MIS  
Christopher A Gamao • Manager, Admin  
Janifa C Bangcola • Deputy Manager, Curriculum and Training  
Norodin A Samad • In-charge, Monitoring

# DEVELOPMENT PARTNERS

We are grateful to our development partners for their continued support for our work:



# BRAC IN PHILIPPINES

## Branch Programmes



# BRAC ACROSS THE WORLD

## USA

Initiated: 2007

An independent charity to raise profile and funds for BRAC globally

## UK

Initiated: 2006

An independent charity to raise profile and funds for BRAC globally

## SIERRA LEONE

Initiated: 2008

*Programme Focus:*  
MF, EHC, Ag, P&L, HRLE, ELA and FSN

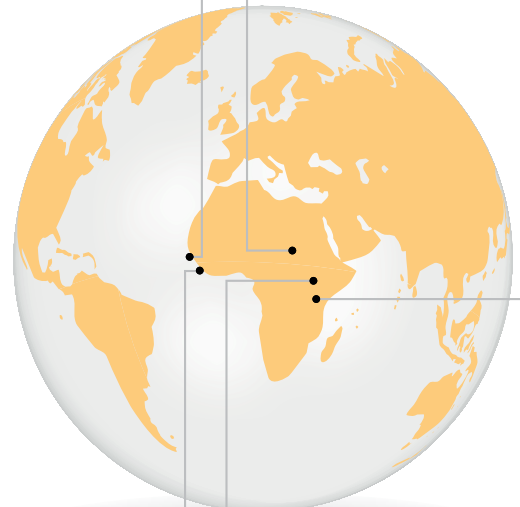
*Population reached:*  
1.5 million

## SOUTH SUDAN

Initiated: 2007

*Programme Focus:*  
Ag, BEP, ELA, EHC, NP, PB, TB and TUP

*Population reached:*  
1.5 million



## HAITI

Initiated: 2010

*Programme Focus:*  
BLBC

## NETHERLANDS

Initiated: 2009

BRAC International registered as a charity (Stichting)

## LIBERIA

Initiated: 2008

*Programme Focus:*  
MF, SEP, Ag, P&L, EHC and ELA

*Population reached:*  
0.7 million

## UGANDA

Initiated: 2006

*Programme Focus:*  
MF, SEP, BEP, SP, EHC, Ag, P&L, ELA, PB and KI

*Population reached:*  
4.4 million

## TANZANIA

Initiated: 2006

*Programme Focus:*  
MF, SEP, Ag, P&L, BEP, LEAD and ELA

*Population reached:*  
3.38 million

AFSP - Agriculture and Food Security Programme Ag - Agriculture Programme ARCs - Adolescent Reading Centres  
DECC - Disaster, Environment and Climate Change EHC - Essential Health Care ELA - Empowerment and Livelihood for Adolescents FSN - Food Security and Nutrition  
HRLS - Human Rights and Legal Aid Services IDP - Integrated Development Programme KI - Karamoja Initiative LEAD - Livelihood Enhancement through Agriculture Development  
PB - Peace Building P&L - Poultry and Livestock RS - Road Safety SEP - Small Enterprise Programme SP - Scholarship Programme



## AFGHANISTAN

Initiated: 2002

*Programme Focus:*  
MF, SEP, BEP, ARCs, EHC, CDP,  
NSP and TUP

*Population reached:*  
4.65 million

## PAKISTAN

Initiated: 2007

*Programme Focus:*  
MF, SEP, BEP, TUP, EHC, and  
Ag

*Population reached:*  
0.7 million

## NEPAL

Initiated : 2015

*Programme Focus:*  
Rehabilitation Programme

Population reached  
32,630 persons



## MYANMAR

Initiated: 2013

*Programme Focus:*  
MF

*Population reached:*  
0.0326 million

## PHILIPPINES

Initiated: 2012

*Programme Focus:*  
BEP

*Population reached:*  
0.06 million



## BANGLADESH

Initiated: 1972

*Programme Focus:*  
MF, BEP, HNPP, TUP, IDP, WASH, HRLS, CEP, AFSP, DECC, GJD, RS, MGP  
and Enterprises

*Population reached:*  
120 million

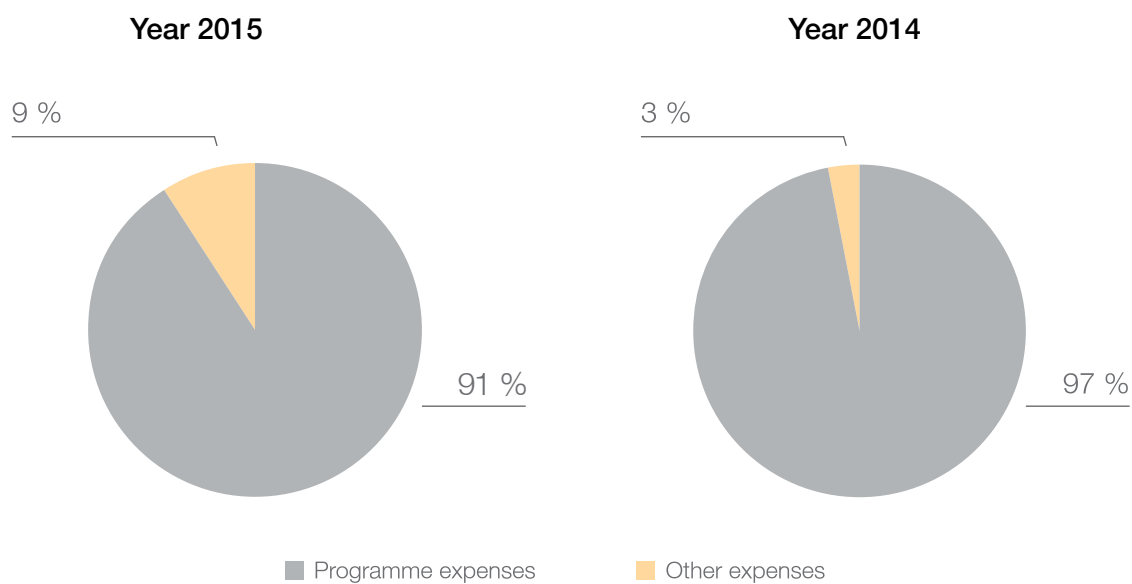
BEP - BRAC Education Programme BLBC - BRAC Limb and Brace Centre CDP - Capacity Development Programme CEP - Community Empowerment Programme  
GJD - Gender Justice and Diversity HNPP - Health, Nutrition and Population Programme HRLE - Human Rights and Legal Empowerment  
MF - Microfinance MGP - Migration Programme MLP - Malaria Programme NP - Nutrition Programme NSP - National Solidarity Programme  
TB - Tuberculosis Control TUP - Targeting the Ultra Poor WASH - Water, Sanitation and Hygiene

# FINANCIALS

BRAC Philippines completed its 4th year of operation in 2015 by receiving grants amounting to USD 4.3 million (AUD 6.1 million) against USD 6 million (AUD 6.8 million) in 2014. Out of total expenses, project expenses was USD 6.1 million (USD 6.9 million in 2014) and 91% (97% in 2014) of the total cost.

## Programme Cost by Nature of Expenses

Expenses	Year 2015		Year 2014	
	USD	%	USD	%
Programme Expenses	6,128,495	91%	6,940,887	97%
Other Expenses	632,437	9%	249,280	3%
<b>Total</b>	<b>6,760,932</b>	<b>100%</b>	<b>7,190,167</b>	<b>100%</b>



## Performance Review

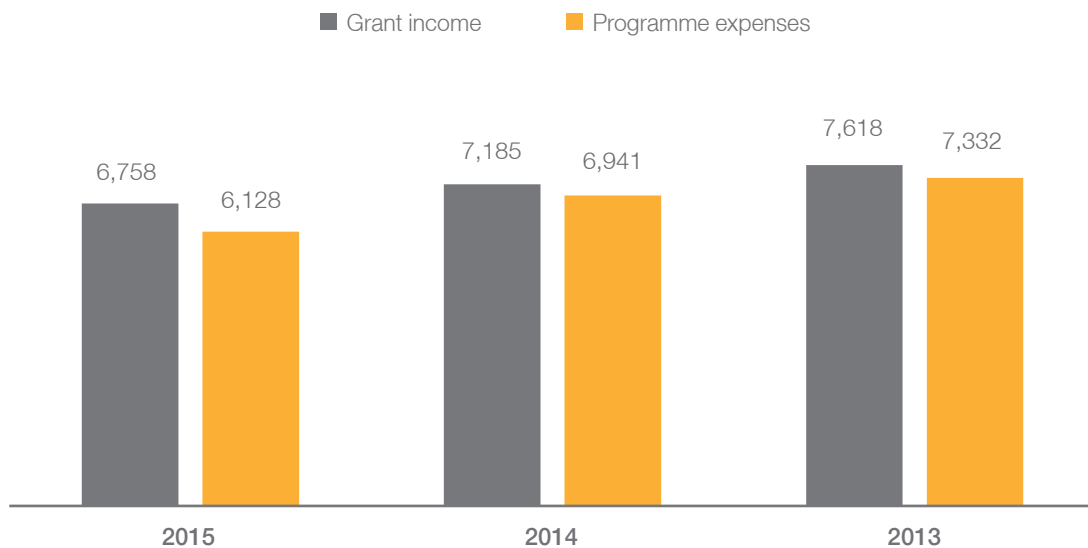
Income Statement	Year 2015	Year 2014	Year 2013
	USD	USD	USD
Grant Income	6,758,161	7,185,235	7,618,483
Other Income	2,771	4,932	3,680
Programme Expenses	6,128,495	6,940,887	7,332,406
Other Expenses	632,437	249,280	289,757

## Financial Position

Balance Sheet	Year 2015	Year 2014	Year 2013
	USD	USD	USD
Cash at Bank	6,628,206	8,466,983	10,147,817

## Annual Income and Expenses

in Thousand USD





# STICHTING BRAC INTERNATIONAL, INC.

(Incorporated in Netherlands)

PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

## FINANCIAL STATEMENTS

December 31, 2015 and 2014



**R.G. Manabat & co.**  
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Branches · Subic · Cebu · Bacolod · Iloilo

## REPORT OF INDEPENDENT AUDITORS

### The Management

**Stichting BRAC International, Inc. - Philippine Branch**

### Report on the Financial Statements

We have audited the accompanying financial statements of the Philippine Branch Office of Stichting BRAC International, Inc. (a nonstock, nonprofit organization), which comprise the statements of assets and liabilities as at December 31, 2015 and 2014, and the statements of revenues and expenses and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Philippine Branch Office of Stichting BRAC International, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

### Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

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 14 to the basic financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our 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.

**R.G. Manabat & Co.**

March 31, 2016  
Makati City, Metro Manila

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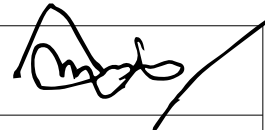
PRC-BOA Registration No. 0003, valid until December 31, 2016  
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017  
IC Accreditation No. F-2014/014-R, valid until August 26, 2017  
BSP Accredited, Category A, valid until December 17, 2017

**STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit Organization)

**STATEMENTS OF ASSETS AND LIABILITIES**

		<b>December 31</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4, 5	<b>P312,652,476</b>	P377,771,387
Other current assets	6	<b>2,755,906</b>	49,313,109
<b>Total Current Assets</b>		<b>315,408,382</b>	<b>427,084,496</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	7	<b>6,682,334</b>	9,329,099
Refundable deposits	4, 13	<b>375,850</b>	375,850
<b>Total Noncurrent Assets</b>		<b>7,058,184</b>	<b>9,704,949</b>
		<b>P322,466,566</b>	<b>P436,789,445</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	4, 8	<b>P6,483,362</b>	P4,555,345
Deferred grant income	9	<b>315,983,204</b>	432,234,100
<b>Total Current Liabilities</b>		<b>P322,466,566</b>	<b>P436,789,445</b>

See Notes to the Financial Statements.



Shib Narayan Kairy, Group CFO  
BRAC and BRAC International



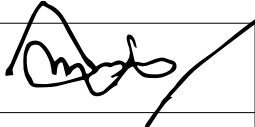
**STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH**

(A Nonstock, Nonprofit Organization)

**STATEMENTS OF INCOME AND EXPENSES**

		<b>Years Ended December 31</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>INCOME</b>			
Grants	9	<b>P318,782,474</b>	P320,583,631
Interest income	5	<b>81,690</b>	220,046
Other income		<b>49,000</b>	-
		<b>318,913,164</b>	320,803,677
<b>PROJECT EXPENSES</b>			
School supplies		<b>87,675,873</b>	60,675,905
Learning facilitators allowances		<b>82,520,082</b>	87,810,144
Partner non-government organizations (NGO) employee benefits		<b>29,262,473</b>	33,278,829
Salaries and employee benefits		<b>20,914,498</b>	20,604,136
Training and orientation		<b>16,906,215</b>	25,012,032
Transportation and travel		<b>13,640,816</b>	15,997,708
Evaluation activity		<b>10,131,870</b>	6,208,910
Rent	13	<b>6,987,836</b>	17,761,946
Office utilities		<b>5,711,904</b>	8,696,364
Production and development		<b>1,365,404</b>	3,717,686
Taxes and licenses		<b>9,482</b>	9,572
Partner NGO funding	10	-	6,768,262
Community learning center construction		-	2,754,051
Others	10	<b>12,707,822</b>	16,356,941
	10	<b>287,834,275</b>	305,652,486
<b>OTHER NONCASH EXPENSES (INCOME)</b>			
Foreign exchange losses (gains)	4	<b>(1,543,686)</b>	1,297,727
Depreciation	7	<b>2,790,503</b>	2,731,424
		<b>1,246,817</b>	4,029,151
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	11	<b>29,832,072</b>	11,122,040
		<b>318,913,164</b>	320,803,677
<b>NET EXCESS OF INCOME OVER EXPENSES</b>		<b>P -</b>	<b>P -</b>

See Notes to the Financial Statements.

  
 Shib Narayan Kairy, Group CFO  
 BRAC and BRAC International

**STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit Organization)

**STATEMENTS OF CASH FLOWS**

		<b>Years Ended December 31</b>	
	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net excess of income over expenses		<b>P -</b>	<b>P -</b>
Adjustments for:			
Depreciation	7	<b>2,790,503</b>	2,731,424
Unrealized foreign exchange losses (gains)	4	-	253,700
Interest income	5	<b>(81,690)</b>	(220,046)
Excess of income over expenses before working capital changes		<b>2,708,813</b>	2,765,078
Decrease (increase) in:			
Other current assets	6	<b>46,557,203</b>	(23,598,039)
Refundable deposits		-	(114,000)
Increase (decrease) in:			
Accounts payable and accrued expenses		<b>1,928,017</b>	2,161,981
Deferred grant income	9	<b>(116,250,896)</b>	(53,547,631)
Cash used from operations		<b>(65,056,863)</b>	(72,332,611)
Interest received		<b>81,690</b>	220,046
Net cash used by operating activities		<b>(64,975,173)</b>	(72,112,565)
<b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>			
Additions to property and equipment	7	<b>(143,738)</b>	(567,471)
<b>EFFECTS OF EXCHANGE RATE LOSSES ON CASH</b>		-	(253,700)
<b>NET DECREASE IN CASH</b>		<b>(65,118,911)</b>	(72,933,736)
<b>CASH AT BEGINNING OF YEAR</b>	5	<b>377,771,387</b>	450,705,123
<b>CASH AT END OF YEAR</b>	5	<b>P312,652,476</b>	P377,771,387

*See Notes to the Financial Statements.*

## STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

### NOTES TO FINANCIAL STATEMENTS

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#### 1. Branch Information

Stichting BRAC International, Inc. (the "Head Office"), a foundation registered under the laws of The Netherlands, was granted by the Philippine Securities and Exchange Commission (SEC) a license to transact business in the Philippines (the "Branch") on January 25, 2012 to manage the implementation of education assistance projects to Mindanao as part of then Australian Agency for International Development (AusAID) program, which subsequently changed its name to Department of Foreign Affairs and Trade - Australian Aid Program. The Branch implements the "Alternative Delivery Model (ADM) Project" of the Basic Education Assistance for Mindanao in the Autonomous Region in Muslim Mindanao (BEAM-ARMM) with an objective of improving access to quality pre-school and elementary education, particularly in communities without access to or which have difficulty in accessing government schools.

The Branch's management and implementation of the ADM Project of the BEAM-ARMM include the following:

##### Component 1: Curriculum, Materials and Assessment Development

This component involves reviewing the Department of Education's (DepEd) standard curriculum for both pre-school and the six-year elementary education to develop a mechanism and instructional plan for enhanced delivery, identification of appropriate teaching and learning materials for both pre-school and elementary education and the mechanism and tools to monitor and measure student learning and inform how the program delivery could be improved.

##### Component 2: Community Learning Center Operations

This component involves the establishment and operation of Community Learning Centers (CLCs) in identified priority barangays (villages). The CLCs implement the curriculum for both pre-school and elementary education targeting primarily the out-of-school children in barangays without schools and in areas with large number of out-of-school children.

##### Component 3: Capacity Building

This Component develops the capacity of key stakeholders to manage and sustain the implementation of an alternative delivery model for basic education. The key activities under this component include core resource group training in Bangladesh for senior managers of DepED Central and ARMM, trainings and workshops for specialized trainers, curriculum writers, project officers and coordinators, learning facilitators and specialized training courses for educators on curriculum materials development, assessment and instructional supervision.

##### Component 4: Project Management, Monitoring and Evaluation

This component includes the establishment, staffing and operations of the project management unit and provincial offices. In addition, this component performs the general coordination and supervision of CLCs, monitoring and evaluation, policy support and coordination for scale-up to other regions and conducts research and impact evaluations and policy advocacies.

The Branch, in its letter to International Tax Affairs Division of the Bureau of International Revenue dated May 10, 2013, has requested for confirmation of the tax exemption privileges of the BEAM-ARMM Program pursuant to Section 30 of the Tax Reform Act of 1997 (R.A. 8424). As at December 31, 2015, the Branch has not received confirmation of the said tax exemption.

The registered office of the Branch, which is also its principal place of business, is located at House No. 1 R. Mañara Street, Rosary Heights 10, Cotabato City.

## STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

### NOTES TO FINANCIAL STATEMENTS (contd.)

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#### 2. Basis of Preparation

##### Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS is based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consists of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The financial statements as at and for the years ended December 31, 2015 and 2014 were approved and authorized for issuance by the CFO on March 31, 2016, as designated by the Board of Directors of the Head Office of the Branch.

##### Basis of Measurement

The Branch's financial statements have been prepared under the historical cost basis of accounting.

##### Functional and Presentation Currency

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

##### Use of Estimates and Judgments

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, receipts and expenses. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates 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. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

##### Judgments

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

##### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Branch, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the cost of implementing the project.

##### *Operating Lease - Branch as Lessee*

The Branch has entered into lease agreements as lessee. The Branch had determined that all significant risks and rewards of ownership of the properties leased from third parties are retained by the lessors under operating lease agreements.

Rent expense charged to operations amounted to P6,987,836 and P17,761,946 in 2015 and 2014, respectively (see Note 13).

##### Estimates and Assumptions

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



**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

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**NOTES TO FINANCIAL STATEMENTS (contd.)**

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*Estimating Useful Lives of Property and Equipment*

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

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

As at December 31, 2015 and 2014, the property and equipment, net of depreciation amounted to P6,682,334 and P9,329,099, respectively (see Note 7).

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**3. Significant Accounting Policies**

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

Financial Instruments

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

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, include transaction costs.

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

The Branch has no AFS financial assets, HTM investments and financial assets and liabilities at FVPL.

Financial Assets

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the statements of receipts and expenses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the statements of receipts and expenses. Gains or losses are recognized in profit or loss when loans and receivables are derecognized and impaired.

Cash represents cash in bank and is stated at its face value, and earns interest at the respective bank deposit rates.

The Branch's cash and refundable deposits as at December 31, 2015 and 2014 are classified as loans and receivables (see Note 4).

**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

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**NOTES TO FINANCIAL STATEMENTS (contd.)**

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Financial Liabilities

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Branch's accounts payable and accrued expenses (excluding statutory liabilities to government agencies) are classified under this category.

Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset expired;
- the Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Branch has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from a financial asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Branch's continuing involvement in the financial asset.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Branch could be required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

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

Impairment of Financial Assets

The Branch assesses at each reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Branch first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Branch includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

**NOTES TO FINANCIAL STATEMENTS (contd.)**

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the year is recognized in profit or loss. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Other Current Assets

Other current assets which consist of learning materials and classroom supplies for distribution to CLCs are valued at the lower of cost and net realizable value (NRV). NRV of books and school supplies pertains to the current replacement cost. Cost, which includes all cost attributable to acquisition, is determined using the first-in, first-out method.

Property and Equipment

Items of property and equipment are initially measured at cost. After initial recognition, all items of property and equipment are measured at cost less accumulated depreciation, and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statements of income and expenses as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation is recognized in the statements of income and expenses on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, or the remaining term of the ADM Project, whichever is shorter.

The estimated useful life of each item of property and equipment is as follows:

	Number of Years
Office furniture and equipment	3 - 5
Transportation equipment	5

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

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

Impairment of Non-financial Assets

The carrying amounts of the Branch's nonfinancial assets such as property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

## STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

### NOTES TO FINANCIAL STATEMENTS (contd.)

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An impairment loss is recognized in the statements of income and expenses whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use.

The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of the useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statements of income and expenses.

#### Recognition of Grants

Grants received from Commonwealth of Australia, as represented by the Department of Foreign Affairs and Trade (DFAT), formerly AusAID, are initially recognized as deferred income and are then recognized as income to the extent of the expenses incurred for the year as set in the conditions associated with the grant. Assets acquired thru the grant are also recognized as deferred income and are recognized as income on a systematic basis over the useful life of the asset or duration of the ADM Project whichever is shorter.

#### Interest Income

Interest income, presented net of applicable tax withheld by the banks, is recognized when earned.

#### Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date these are incurred.

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

#### Operating Lease

Leases which do not transfer to the Branch substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of receipts and expenses on a straight-line basis over the lease term unless other systematic basis is more representative of the time pattern of the Branch's benefit.

#### Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in Philippine peso using the exchange rate prevailing at the reporting date.

Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded and translated at reporting date are recognized in the statements of receipts and expenses in the year in which they arise.

#### Provisions

Provisions are recognized when the Branch has a legal or constructive obligation as a result of a past events, it is probable that an outflow of economic benefits will be required to settle the obligation and reliable estimate of the amount can be made.



## STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

### NOTES TO FINANCIAL STATEMENTS (contd.)

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#### Contingencies

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

#### Events After the Reporting Date

Post year-end events that provide additional information about the Branch's statements of assets and liabilities at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

#### New or Revised Standards, Amendments to Standards and Interpretations

##### *Adopted as of January 1, 2015*

A number of new or revised standard, amendments to standards and interpretation are effective as of January 1, 2015 and are required to be adopted by the Branch. While these have been adopted as of January 1, 2015, none of these have a significant impact on the Branch's financial statements.

##### *To be Adopted in the Future*

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015. These will be adopted by the Branch as these become effective. None of these are expected to have a significant impact on the Branch's financial statements.

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## 4. Financial Risk Management

#### Objectives and Policies

The Branch has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Market Risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing such risks, and the Branch's management of capital. Further quantitative disclosures are included throughout the notes to the financial statements.

The main purpose of the Branch's dealings in financial instruments is to fund its operations and capital expenditures.

The Governing Body of the Head Office of the Branch has overall responsibility for the establishment and oversight of the Branch's risk management framework. The Governing Body has established the Audit Committee, which is responsible for developing and monitoring the Branch's risk management policies.

The Audit committee identifies all issues affecting the operations of the Branch and reports regularly to the Governing Body on its activities. The Branch's risk management policies are established to identify and analyze the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Branch's activities.

Mitigating strategies and procedures are devised to address the risks that inevitably occur so as not to affect the Branch's operations and impact forecasted results.

The Branch, through its training on and management of standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

### NOTES TO FINANCIAL STATEMENTS (contd.)

The Country Representative performs oversight over financial management functions, specifically in the areas of managing credit, market and other risks of the Branch. The Country Representative directly interfaces with the internal audit function, which undertakes reviews of risk management controls and procedures and ensures the integrity of internal control activities which affect the financial management system of the Branch.

#### Credit Risk

The results of procedures performed by the Country Representative are reported to the Audit Committee. The Country Representative reviews and institutes policies for managing each of the risks and they are summarized below.

The maximum exposure to credit risk for the Branch's financial assets as at December 31 is presented below:

	<b>Note</b>	<b>2015</b>	<b>2014</b>
Cash in banks	5	<b>P312,495,336</b>	P377,422,297
Refundable deposits	13	<b>375,850</b>	375,850
		<b>P312,871,186</b>	P377,798,147

Below is the classification of the Branch's financial assets that are neither past-due nor impaired:

<b>2015</b>	<b>High Grade</b>	<b>Standard Grade</b>	<b>Total</b>
Cash in banks	<b>P312,495,336</b>	<b>P -</b>	<b>P312,495,336</b>
Refundable deposits	<b>375,850</b>	<b>-</b>	<b>375,850</b>
	<b>P312,871,186</b>	<b>P -</b>	<b>P312,871,186</b>

<b>2014</b>	<b>High Grade</b>	<b>Standard Grade</b>	<b>Total</b>
Cash in banks	P377,422,297	P -	P377,422,297
Refundable deposits	375,850	-	375,850
	P377,798,147	P -	P377,798,147

The credit qualities of financial assets were determined as follows:

- Cash in banks is considered high grade as these pertain to deposits in reputable banks.
- Refundable deposits are considered high grade as these pertain to deposits that are covered by the lease agreements.

The Branch's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Branch for the years ended December 31, 2015 and 2014, except for the concentration risk relating to its cash in banks. The Branch's management performs an assessment of its external environment, including the related risks and limitations, and selects the Branch's depository banks based on factors such as reputation in the market place, and compliance with regulations, among others.

#### Market Risk

Market risk is the risk that changes in foreign exchange rates which affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### Foreign Currency Risk

The Branch is exposed to foreign currency risk on monetary asset and liability held in currencies other than the Philippine peso, the Branch ensures that its exposure is kept to an acceptable level by maintaining regular savings deposits in US dollar and Australian dollar, and buying foreign currencies at spot rates where necessary to address short-term imbalances.

# STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

## NOTES TO FINANCIAL STATEMENTS (contd.)

The Branch's foreign currency-denominated assets and liabilities as at December 31 are as follows:

2015	Current Assets	Current Liabilities	Net Foreign Currency Exposure	Exchange Rate	PHP Equivalent
Currency					
USD	238,797	109,026	129,771	47.06	P6,107,023
AUD	140	-	140	34.27	4,797
					P6,111,820
2014	Current Assets	Current Liabilities	Net Foreign Currency Exposure	Exchange Rate	PHP Equivalent
Currency					
USD	838,064	50,308	787,756	44.72	P35,228,448
AUD	115	-	115	36.21	4,164
					P35,232,612

The Branch recognized foreign exchange gains of P1,543,686 in 2015 and foreign exchange losses of P1,297,727 in 2014.

### Sensitivity Analysis

A 5% strengthening of the Philippine peso against USD and AUD as at December 31, 2015 would have increased foreign exchange gains by P319,296. A 1% strengthening of the Philippine peso against USD and AUD as at December 31, 2014 would have decreased foreign exchange loss by P253,539.

A weakening of the Philippine peso against the USD and AUD by the same percentage as above as at December 31, 2015 and 2014 would have had equal but opposite effect on the basis that all other variables remain constant.

**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

**NOTES TO FINANCIAL STATEMENTS (contd.)**

**5. Cash**

This account consists of:

	<i>Note</i>	2015	2014
Cash on hand		<b>P157,140</b>	P349,090
Cash in banks	4	<b>312,495,336</b>	377,422,297
		<b>P312,652,476</b>	P377,771,387

Cash in banks earns annual interest at the respective bank deposit rates.

Interest income earned from cash in banks in 2015 and 2014 amounted to P81,690 and P220,046, respectively.

**6. Other Current Assets**

This account consists of:

	2015	2014
Advances to non-government organizations (NGO) partners and Branch employees	<b>P2,455,493</b>	P -
Other assets	<b>300,413</b>	49,313,109
	<b>P2,755,906</b>	P49,313,109

Advances to NGO partners and Branch employees represent advances given by the Branch which exceeded amounts liquidated as of December 31, 2015. These are expected to be applied against expenses for the next quarter.

Other assets consist of learning materials and classroom supplies which are for distribution to CLCs.

**7. Property and Equipment**

The movements and balances of this account are as follows:

	Office Furniture and Equipment	Transportation Equipment	Total
<b>Cost</b>			
January 1, 2014	P4,218,819	P10,074,800	P14,293,619
Additions	567,471	-	567,471
December 31, 2014	4,786,290	10,074,800	14,861,090
Additions	143,738	-	143,738
<b>December 31, 2015</b>	<b>4,930,028</b>	<b>10,074,800</b>	<b>15,004,828</b>
<b>Accumulated Depreciation</b>			
January 1, 2014	749,137	2,051,430	2,800,567
Depreciation	716,462	2,014,962	2,731,424
December 31, 2014	1,465,599	4,066,392	5,531,991
Depreciation	775,542	2,014,961	2,790,503
<b>December 31, 2015</b>	<b>2,241,141</b>	<b>6,081,353</b>	<b>8,322,494</b>
<b>Carrying Amount</b>			
December 31, 2014	P3,320,691	P6,008,408	P9,329,099
<b>December 31, 2015</b>	<b>P2,688,887</b>	<b>P3,993,447</b>	<b>P6,682,334</b>

**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

**NOTES TO FINANCIAL STATEMENTS (contd.)**

**8. Accounts Payable and Accrued Expenses**

This account consists of:

	<i>Note</i>	2015	2014
Payable to BRAC Bangladesh	12	<b>P2,978,405</b>	P1,377,963
Payable to Stichting BRAC International	12	<b>2,295,750</b>	-
Payroll-related payable		<b>862,640</b>	625,098
Accrued expenses		<b>276,640</b>	1,044,653
Withholding tax payable		<b>62,945</b>	129,711
Payable to NGO partners		<b>6,982</b>	1,377,920
		<b>P6,483,362</b>	P4,555,345

Payables to BRAC Bangladesh and Stichting BRAC International pertain to reimbursements for expenses incurred in providing management and technical support to the Branch.

Payable to NGO partners pertain to the excess of the costs incurred for projects over the fund provided by the Branch.

**9. Grant Agreement**

A Grant Agreement between the Commonwealth of Australia, as represented by then AusAID and Stichting BRAC International, Inc. was executed on February 3, 2012 covering the ADM project for the BEAM-ARMM. This Grant Agreement was effective until June 30, 2015.

In accordance with the provisions of the Grant Agreement, the Branch received from AusAID a grant of AUD30,500,000 for the management and implementation of the ADM project which was given in four (4) tranches as follows:

- the first tranche amounting to AUD7,000,000 was given within thirty (30) days from the date of the agreement;
- the second tranche amounting to AUD7,700,000 was given in August 2012;
- the third tranche amounting to AUD9,000,000 was given in August 2013; and
- the fourth and final tranche amounting to AUD6,800,000 was given in August 2014.

The schedule of tranches is subject to the terms and conditions as stipulated in the Grant Agreement.

In March 2015, the Amendment of the Grant Agreement ("Amendment") was executed by DFAT (formerly AusAID) which extended the period covered by the Grant Agreement until June 30, 2017. As part of the Amendment, additional two (2) tranches were included amounting to AUD6,105,866 for each tranche. The first tranche was given in September 2015 and the remaining tranche will be given on August 2016. As a result of the Amendment, the new total amount of the grant is AUD42,711,732 from the previous amount of AUD30,500,000.



## STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

### NOTES TO FINANCIAL STATEMENTS (contd.)

As of December 31, 2015 and 2014, grant received by the Branch from DFAT/AusAID which has not yet been utilized in the implementation of the ADM Project amounts to P315.98 million and P432.23 million, respectively.

#### 10. Project Expenses

Project expenses incurred per cost component for the years ended December 31, 2015 and 2014, respectively, are presented below:

Description	2015	2014
Component 1: Curriculum, Materials and Assessment Development	<b>P1,365,404</b>	P3,717,686
Component 2: Community Learning Center Operations	<b>244,789,474</b>	255,196,734
Component 3: Capacity Building	<b>2,802,781</b>	2,763,404
Component 4: Project Management, Monitoring and Evaluation	<b>38,876,616</b>	37,206,400
	<b>287,834,275</b>	298,884,224
Partner NGO funding expenses	-	6,768,262
	<b>P287,834,275</b>	P305,652,486

The Branch entered into various agreements with local NGOs. As provided under the terms of these agreements, the NGOs will manage the operation of the CLCs in their designated provinces in ARMM. As at December 31, 2015, the Branch, together with its 16 duly recognized local NGOs, implemented and managed the ADM Project for 845 CLCs (1,220 CLCs as at December 31, 2014).

The Branch disburses funds to its local partner NGOs on a quarterly basis for the management and operations of the CLCs in their designated areas and provinces. The partner NGOs will liquidate the funds received for the expenses incurred in accordance with the agreement.

As at December 31, 2015 and 2014, the disbursed funds to local partner NGOs which are not yet liquidated are as follows:

Description	2015	2014
Community and Family Services International	<b>P552,703</b>	P10,196,871
Maranao People Development Center, Inc.	<b>265,118</b>	13,621,314
Kalimudan Sa Ranao Foundation, Inc.	<b>250,222</b>	5,108,180
Kapagawida Development Services Association, Inc.	<b>196,271</b>	3,392,221
Notre Dame University	<b>146,123</b>	3,001,719
Sug Educators Forum Incorporated	<b>138,352</b>	1,725,101
Integrated Learning for Moslems and Highlanders Foundations	<b>117,571</b>	1,972,973
Integrated Resource Development for Tri-People	<b>97,123</b>	2,874,448
Muslim Upliftment Foundation of Tawi-Tawi, Inc.	<b>96,386</b>	2,004,859
Mindanao Autonomous College Foundation Inc.	<b>88,131</b>	1,341,459
Tapukan Farmers Multipurpose Cooperative	<b>84,774</b>	3,101,009
Concerned Alliance of Professional and Students Inc.	<b>63,540</b>	1,239,903
Nagdilaab Foundation Inc.	<b>32,882</b>	1,285,385
Mahardika Institute of Technology, Inc.	<b>21,348</b>	1,660,747
Lanao Young Educators, Civic Alliance for Progress Inc.	-	3,941,345
Social Services for Grassroots Community Development, Inc.	-	3,391,686
	<b>P2,150,544</b>	P59,859,220

Other project expenses during the year include:

	2015	2014
Service charge overhead costs	<b>P9,303,376</b>	P11,189,032
Provincial office administrative expenses	<b>3,179,733</b>	3,108,293
Insurance	<b>207,714</b>	264,563
Innovation	<b>16,999</b>	1,795,053
	<b>P12,707,822</b>	P16,356,941

Service charge overhead costs are general and administrative expenses incurred by the Partner NGOs.

**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

**NOTES TO FINANCIAL STATEMENTS (contd.)**

**11. General and Administrative Expenses**

This account consists of:

	<i>Note</i>	2015	2014
Technical support	<b>12</b>	<b>P26,716,957</b>	P9,568,165
Outside services		<b>1,109,279</b>	101,628
Security measurement management		<b>888,883</b>	810,865
Utilities		<b>276,176</b>	52,808
Transportation and travel		<b>178,312</b>	100,472
Support services		<b>46,943</b>	51,966
Training		<b>16,509</b>	65,642
Others		<b>599,013</b>	370,494
		<b>P29,832,072</b>	P11,122,040

**12. Related Party Transactions**

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. Related parties may be individuals or corporate entities.

In the implementation of the ADM project, the Branch has transactions with its related parties as at 2015 and 2014 as follows:

- a. Technical support pertains to reimbursements to BRAC Bangladesh and the Head Office for expenses paid for in providing administration and financial management assistance to the Branch. It also entails sending support personnel to the Branch for the efficient and effective management and implementation of the ADM Project in accordance with the provisions of the Grant Agreement.

Related Party/Transaction	Ref		Amount of the Transaction	Outstanding Balance	Terms and Conditions
				Due to Related Parties	
<b>Head office</b>					
• Technical support	<b>12a</b>	2015 2014	P16,581,340 -	P2,295,750 -	30 days; non-interest bearing; unsecured
<b>BRAC Bangladesh</b>					
• Technical support	<b>12a</b>	2015 2014	P11,001,162 P9,568,165	P2,978,405 P1,377,963	30 days; non-interest bearing; unsecured
		<b>2015</b>		<b>P5,274,155</b>	
		2014		P1,377,963	

b. Compensation and other short-term benefits of key management personnel amounted to P8,548,276 and P9,124,990 as at December 31, 2015 and 2014, respectively.

The Branch has no receivable from related parties as at December 31, 2015 and 2014.

**STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH**  
(A Nonstock, Nonprofit organization)

**NOTES TO FINANCIAL STATEMENTS (contd.)**

**13. Lease Commitments**

On March 5, 2012, the Branch entered into a lease agreement for a parcel of land located at No. 1 R. Mañara Street, Rosary Heights 10, Cotabato City with two (2) residential buildings, two (2) stories with an annex one room office and a guard house, with concrete perimeter fence. The lease was renewed for a fixed period of three (3) years beginning March 1, 2015 to February 28, 2018, renewable thereafter upon mutual agreement of both parties.

The Branch also entered into other lease agreements as follows: a) one (1) year renewable lease contract commencing in June 2012 for a two-story apartment at Celdran Village, Iligan City. The lease was renewed on August 1, 2015, for another two (2) years; b) two (2) years renewable lease expiring in 2015 for the Branch's two (2) new office premises in Upi Maguindanao and Zamboanga City. Lease contracts expiring in 2015 were renewed for another two (2) years; and c) one (1) year renewable lease expiring in 2016 for the Branch's office premise in Davao City. All these lease agreements require a refundable deposit.

Refundable deposits amounted to P375,850 as at December 31, 2015 and 2014.

The future rental payables for these lease agreements are as follows:

	2015	2014
Within one year	<b>P1,955,624</b>	P1,558,500
After one year but not more than five years	<b>1,463,364</b>	2,080,000
	<b>P3,418,988</b>	P3,638,500

Rent expense amounted to P6,987,836 and P17,761,946 in 2015 and 2014, respectively.

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

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 information may not necessarily be the same with those amounts disclosed in the notes to financial statements which were prepared in accordance with PFRS. The following is the tax information required by Revenue Regulations No. 15-2010 for the taxable year ended December 31, 2015:

The Branch reported and/or paid the following types of taxes in 2015:

## STICHTING BRAC INTERNATIONAL, INC. PHILIPPINE BRANCH

(A Nonstock, Nonprofit organization)

### NOTES TO FINANCIAL STATEMENTS (contd.)

#### A. Withholding Taxes

Tax on compensation and benefits	P806,843
Final withholding taxes	619,061
	P1,425,904

#### B. All Other Taxes (Local and National)

*Other taxes paid during the year recognized under  
"Taxes and licenses" account under Project Expenses*

Licenses and permits	P9,482
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#### C. Deficiency Tax Assessments

As at December 31, 2015, the Branch has no deficiency tax assessment.

#### D. Tax Cases

As at December 31, 2015, the Branch has no pending tax court cases nor has received tax assessment notices from the BIR.

The Branch is a non-VAT registered entity not engaged in the sale of goods or service. All of its receipts, excluding interest income from banks, come from grants which were not charged with output VAT. The input tax incurred in all of its costs and expenses were charged to operations.

Information on the amount of custom duties and tariff fees, excise taxes and documentary stamp taxes paid or accrued are not applicable since the Branch did not enter into transactions that resulted in payment or accrual of such taxes.

# STICHTING BRAC INTERNATIONAL, INC.

(Incorporated in Netherlands)

PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

## SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

December 31, 2015

(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT  
REPORTING DATE)





**R.G. Manabat & co.**  
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Branches · Subic · Cebu · Bacolod · Iloilo

March 31, 2016

Stichting BRAC International, Inc. - Philippine Branch  
House No. 1 R. Mañara Street  
Rosary Heights 10  
Cotabato City

Attention: Mr. Shib Narayan Kairy, Group CFO BRAC and BRAC International

Gentlemen:

We have audited in accordance with Philippine Standards on Auditing, the financial statements of the Philippine Branch Office of Stichting BRAC International, Inc. (a nonstock, nonprofit organization) as at December 31, 2015 and 2014, and have issued our report thereon dated March 31, 2016. Such financial statements have been presented in Philippine peso, being the Branch's functional currency.

In reference to your request, we are pleased to submit the accompanying financial statements containing supplementary information using the U.S. dollars as the presentation currency.

Please note that the said financial statements are intended solely as supplementary information for the use of the Board of Directors of the Head Office of the Branch and the Management of the Philippine Branch Office of Stichting BRAC International, Inc. and are not intended to be and should not be used by anyone other than these specified parties.

Yours very truly,

Sharon G. Dayoan  
Partner

**STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH**

(A Nonstock, Nonprofit Organization)

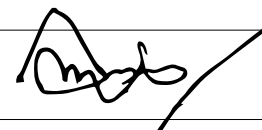
**SUPPLEMENTARY INFORMATION TO THE**

**STATEMENTS OF ASSETS AND LIABILITIES**

(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

		December 31	
	<i>Note</i>	2015	2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4, 5	\$6,628,206	\$8,466,983
Other current assets	6	58,425	1,105,254
<b>Total Current Assets</b>		<b>6,686,631</b>	<b>9,572,237</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	7	141,665	209,093
Refundable deposits	4, 13	7,968	8,424
<b>Total Noncurrent Assets</b>		<b>149,633</b>	<b>217,517</b>
		<b>\$6,836,264</b>	<b>\$9,789,754</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	4, 8	\$137,447	\$102,099
Deferred grant income	9	6,698,817	9,687,655
<b>Total Current Liabilities</b>		<b>\$6,836,264</b>	<b>9,789,754</b>

See Notes to the Financial Statements.



Shib Narayan Kairi, Group CFO  
BRAC and BRAC International

**STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH**

(A Nonstock, Nonprofit Organization)

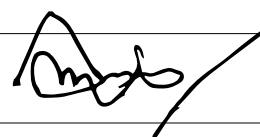
**SUPPLEMENTARY INFORMATION TO THE**

**STATEMENTS OF INCOME AND EXPENSES**

(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

		<b>Years Ended December 31</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>INCOME</b>			
Grants	9	\$6,758,161	\$7,185,235
Interest income	5	1,732	4,932
Other income		1,039	-
		<b>6,760,932</b>	<b>7,190,167</b>
<b>PROJECT EXPENSES</b>			
School supplies		1,858,721	1,359,928
Learning facilitators allowances	14	1,749,419	1,968,087
Partner non-government organizations (NGO) employee benefits	14	620,362	745,878
Salaries and employee benefits	14	443,386	461,800
Training and orientation		358,410	560,594
Transportation and travel		289,184	358,556
Evaluation activity		214,795	139,160
Rent	13	148,142	398,098
Office utilities		121,092	194,911
Production and development		28,946	83,324
Taxes and licenses		201	215
Partner NGO funding	10	-	151,697
Community learning center construction		-	61,726
Others	10	269,405	366,608
	10	<b>6,102,063</b>	<b>6,850,582</b>
<b>OTHER NONCASH EXPENSES (INCOME)</b>			
Foreign exchange losses (gains)	4	(32,726)	29,086
Depreciation	7	59,158	61,219
		<b>26,432</b>	<b>90,305</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
	11	<b>632,437</b>	<b>249,280</b>
		<b>6,760,932</b>	<b>7,190,167</b>
<b>NET EXCESS OF INCOME OVER EXPENSES</b>		<b>\$ -</b>	<b>\$ -</b>

See Notes to the Financial Statements.



Shib Narayan Kairy, Group CFO  
BRAC and BRAC International

**STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH**  
**(A Nonstock, Nonprofit Organization)**  
**SUPPLEMENTARY INFORMATION TO THE**  
**STATEMENTS OF CASH FLOWS**  
**(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)**

		<b>Years Ended December 31</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net excess of income over expenses		\$ -	\$ -
Adjustments for:			
Depreciation	7	59,158	61,219
Unrealized foreign exchange losses (gains)	4	-	5,686
Interest income	5	(1,732)	(4,932)
Excess of income over expenses before working capital changes		57,426	61,973
Decrease (increase) in:			
Other current assets	6	1,046,829	(526,268)
Refundable deposits		-	(2,528)
Increase (decrease) in:			
Accounts payable and accrued expenses		35,348	48,211
Deferred grant income	9	(2,988,838)	(1,249,926)
Cash used from operations		(1,849,235)	(1,668,538)
Interest received		1,732	-
Net cash used by operating activities		(1,847,503)	(1,663,606)
<b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>			
Additions to property and equipment	7	(3,047)	(12,719)
<b>EFFECTS OF EXCHANGE RATE CHANGES GAIN (LOSSES) ON CASH</b>		-	(5,686)
<b>NET DECREASE IN CASH</b>		<b>(1,850,550)</b>	<b>(1,682,011)</b>
<b>CASH AT BEGINNING OF YEAR</b>	5	<b>8,466,983</b>	<b>10,147,817</b>
Adjustment*	7	11,773	1,177
<b>CASH AT END OF YEAR</b>	5	<b>\$6,628,206</b>	<b>\$8,466,983</b>

\*Adjustment to translate beginning balance of "Property and equipment" and "Refundable deposit" account  
See Notes to the Financial Statements.

## STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

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### SUPPLEMENTARY INFORMATION TO THE NOTES TO FINANCIAL STATEMENTS (WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

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#### 1. Branch Information

Stichting BRAC International, Inc. (the “Head Office”), a foundation registered under the laws of The Netherlands, was granted by the Philippine Securities and Exchange Commission (SEC) a license to transact business in the Philippines (the “Branch”) on January 25, 2012 to manage the implementation of education assistance projects to Mindanao as part of then Australian Agency for International Development (AusAID) program. The Branch implements the “Alternative Delivery Model (ADM) Project” of the Basic Education Assistance for Mindanao in the Autonomous Region in Muslim Mindanao (BEAM-ARMM) with an objective of improving access to quality pre-school and elementary education, particularly in communities without access to or which have difficulty in accessing government schools.

The Branch's management and implementation of the ADM Project of the BEAM-ARMM include the following:

##### Component 1: Curriculum, Materials and Assessment Development

This component involves reviewing the Department of Education's (DepEd) standard curriculum for both pre-school and the six-year elementary education to develop a mechanism and instructional plan for enhanced delivery, identification of appropriate teaching and learning materials for both pre-school and elementary education and the mechanism and tools to monitor and measure student learning and inform how the program delivery could be improved.

##### Component 2: Community Learning Center Operations

This component involves the establishment and operation of Community Learning Centers (CLCs) in identified priority barangays (villages). The CLCs implements the curriculum for both pre-school and elementary education targeting primarily the out-of-school children in barangays without schools and in areas with large number of out-of-school children.

##### Component 3: Capacity Building

This component develops the capacity of key stakeholders to manage and sustain the implementation of an alternative delivery model for basic education. The key activities under this component include core resource group training in Bangladesh for senior managers of DepED Central and ARMM, trainings and workshops for specialized trainers, curriculum writers, project officers and coordinators, learning facilitators and specialized training courses for educators on curriculum materials development, assessment and instructional supervision.

##### Component 4: Project Management, Monitoring and Evaluation

This component includes the establishment, staffing and operations of the project management unit and provincial offices. In addition, this component performs the general coordination and supervision of CLCs, monitoring and evaluation, policy support and coordination for scale-up to other regions and conducts research and impact evaluations and policy advocacies.

The Branch, in its letter to International Tax Affairs Division of the Bureau of International Revenue dated May 10, 2013, has requested for confirmation of the tax exemption privileges of the BEAM-ARMM Program pursuant to Section 30 of the Tax Reform Act of 1997 (R.A 8424). As at December 31, 2015, the Branch has not received confirmation of the said tax exemption.

The registered office of the Branch, which is also its principal place of business, is located at House No. 1 R. Mañara Street, Rosary Heights 10, Cotabato City.

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**SUPPLEMENTARY INFORMATION TO THE  
NOTES TO FINANCIAL STATEMENTS  
(WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING  
CLOSING RATE AT REPORTING DATE) (contd.)**

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**2. Basis of Preparation**

Statement of Compliance

The financial statements, which are the basis of this supplementary information, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). However, the supplementary information displays financial information from the financial statements which are translated using the closing rate for Philippine peso to U.S. dollar as of reporting date. PFRS is based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consists of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The financial statements as at and for the years ended December 31, 2015 and 2014 were approved and authorized for issuance by the CFO on March 31, 2016, as designated by the Board of Directors of the Head Office of the Branch.

Basis of Measurement

The Branch's financial statements have been prepared under the historical cost basis of accounting.

Functional Currency

The Branch's functional currency is Philippine peso. However, these supplementary information to the financial statements were prepared by translating all financial information to U.S. dollar using the closing rate of Bangko Sentral ng Pilipinas as at December 31, 2015 and 2014 and has been rounded off to the nearest U.S. dollar, except when otherwise indicated. These supplemental information to the financial statements were prepared solely for the use of management.

Use of Estimates and Judgments

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, receipts and expenses. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates 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. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

*Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Branch, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the cost of implementing the project.

*Operating Lease - Branch as Lessee*

The Branch has entered into lease agreements as lessee. The Branch had determined that all significant risks and rewards of ownership of the properties leased from third parties are retained by the lessors under operating lease agreements.

Rent expense charged to operations amounted to \$148,142 and \$398,098 in 2015 and 2014, respectively (see Note 13).

Estimates and Assumptions

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

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**SUPPLEMENTARY INFORMATION TO THE  
NOTES TO FINANCIAL STATEMENTS  
(WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING  
CLOSING RATE AT REPORTING DATE) (contd.)**

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*Estimating Useful Lives of Property and Equipment*

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

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

As at December 31, 2015 and 2014, the property and equipment, net of depreciation amounted to \$141,665 and \$209,093, respectively (see Note 7).

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**3. Significant Accounting Policies**

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

Financial Instruments

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

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, include transaction costs.

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

The Branch has no AFS financial assets, HTM investments and financial assets and liabilities at FVPL.

Financial Assets

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the statements of receipts and expenses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the statements of receipts and expenses. Gains or losses are recognized in profit or loss when loans and receivables are derecognized and impaired.

Cash represents cash in bank and is stated at its face value, and earns interest at the respective bank deposit rates.

The Branch's cash and refundable deposits as at December 31, 2015 and 2014 are classified as loans and receivables (see Note 4).



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### SUPPLEMENTARY INFORMATION TO THE NOTES TO FINANCIAL STATEMENTS (WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE) (contd.)

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#### Financial Liabilities

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Branch's accounts payable and accrued expenses (excluding statutory liabilities to government agencies) are classified under this category.

#### Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset expired;
- the Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Branch has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from a financial asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Branch's continuing involvement in the financial asset.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Branch could be required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

#### Offsetting Financial Instruments

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

#### Impairment of Financial Assets

The Branch assesses at each reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Branch first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Branch includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

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### SUPPLEMENTARY INFORMATION TO THE NOTES TO FINANCIAL STATEMENTS (WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE) (contd.)

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Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the year is recognized in profit or loss. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

#### Other Current Assets

Other current assets which consist of learning materials and classroom supplies for distribution to CLCs are valued at the lower of cost and net realizable value (NRV). NRV of books and school supplies pertains to the current replacement cost. Cost, which includes all cost attributable to acquisition, is determined using the first-in, first-out method.

#### Property and Equipment

Items of property and equipment are initially measured at cost. After initial recognition, all items of property and equipment are measured at cost less accumulated depreciation, and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statements of income and expenses as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation is recognized in the statements of income and expenses on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, or the remaining term of the ADM Project, whichever is shorter. The estimated useful life of each item of property and equipment is as follows:

	Number of Years
Office furniture and equipment	3 - 5
Transportation equipment	5

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

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

#### Impairment of Non-financial Assets

The carrying amounts of the Branch's nonfinancial assets such as property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

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An impairment loss is recognized in the statements of income and expenses whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use.

The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of the useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statements of income and expenses.

Recognition of Grants

Grants received from Commonwealth of Australia, as represented by the Department of Foreign Affairs and Trade (DFAT), formerly AusAID, are initially recognized as deferred income and are then recognized as income to the extent of the expenses incurred for the year as set in the conditions associated with the grant. Assets acquired thru the grant are also recognized as deferred income and are recognized as income on a systematic basis over the useful life of the asset or duration of the ADM Project whichever is shorter.

Interest Income

Interest income, presented net of applicable tax withheld by the banks, is recognized when earned.

Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date these are incurred.

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

Operating Lease

Leases which do not transfer to the Branch substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of receipts and expenses on a straight-line basis over the lease term unless other systematic basis is more representative of the time pattern of the Branch's benefit.

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded using the applicable exchange rate in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in Philippine peso using the exchange rate prevailing at the reporting date.

Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded and translated at reporting date are recognized in the statements of receipts and expenses in the year in which they arise.

Provisions

Provisions are recognized when the Branch has a legal or constructive obligation as a result of a past events, it is probable that an outflow of economic benefits will be required to settle the obligation and reliable estimate of the amount can be made.

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Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Branch's statements of assets and liabilities at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

New or Revised Standards, Amendments to Standards and Interpretations

*Adopted as of January 1, 2015*

A number of new or revised standard, amendments to standards and interpretation are effective as of January 1, 2015 and are required to be adopted by the Branch. While these have been adopted as of January 1, 2015, none of these have a significant impact on the Branch's financial statements.

*To be Adopted in the Future*

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015. These will be adopted by the Branch as these become effective. None of these are expected to have a significant impact on the Branch's financial statements.

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#### **4. Financial Risk Management**

Objectives and Policies

The Branch has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Market Risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing such risks, and the Branch's management of capital. Further quantitative disclosures are included throughout the notes to the financial statements.

The main purpose of the Branch's dealings in financial instruments is to fund its operations and capital expenditures.

The Governing Body of the Head Office of the Branch has overall responsibility for the establishment and oversight of the Branch's risk management framework. The Governing Body has established the Audit Committee, which is responsible for developing and monitoring the Branch's risk management policies.

The Audit committee identifies all issues affecting the operations of the Branch and reports regularly to the Governing Body on its activities. The Branch's risk management policies are established to identify and analyze the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Branch's activities.

Mitigating strategies and procedures are devised to address the risks that inevitably occur so as not to affect the Branch's operations and impact forecasted results.

The Branch, through its training and management of standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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The Country Representative perform oversight over financial management functions, specifically in the areas of managing credit, market and other risks of the Branch. The Country Representative directly interfaces with the internal audit function, which undertakes reviews of risk management controls and procedures and ensures the integrity of internal control activities which affect the financial management system of the Branch.

Credit Risk

The results of procedures performed by the Country Representative are reported to the Audit Committee. The Country Representative reviews and institutes policies for managing each of the risks and they are summarized below.

The maximum exposure to credit risk for the Branch's financial assets as at December 31 is presented below:

	<i>Note</i>	<b>2015</b>	2014
Cash in banks	5	<b>\$6,624,875</b>	\$8,459,159
Refundable deposits	13	<b>7,968</b>	8,424
		<b>\$6,632,843</b>	\$8,467,583

Below is the classification of the Branch's financial assets that are neither past-due nor impaired:

<b>2015</b>	<b>High Grade</b>	<b>Standard Grade</b>	<b>Total</b>
Cash in banks	<b>\$6,624,875</b>	<b>\$ -</b>	<b>\$6,624,875</b>
Refundable deposits	<b>7,968</b>	<b>-</b>	<b>7,968</b>
	<b>\$6,632,843</b>	<b>\$ -</b>	<b>\$6,632,843</b>

2014	High Grade	Standard Grade	Total
Cash in banks	\$8,459,159	\$ -	\$8,459,159
Refundable deposits	8,424	-	8,424
	\$8,467,583	\$ -	\$8,467,583

The credit qualities of financial assets were determined as follows:

- Cash in banks is considered high grade as these pertains to deposits in reputable banks.
- Refundable deposits are considered high grade as these pertain to deposits that are covered by the lease agreements.

The Branch's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Branch for the years ended December 31, 2015 and 2014, except for the concentration risk relating to its cash in banks. The Branch's management performs an assessment of its external environment, including the related risks and limitations, and selects the Branch's depository banks based on factors such as reputation in the market place, and compliance with regulations, among others.

Market Risk

Market risk is the risk that changes in foreign exchange rates which affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign Currency Risk

The Branch is exposed to foreign currency risk on monetary asset and liability held in currencies other than the Philippine peso, the Branch ensures that its exposure is kept to an acceptable level by maintaining regular savings deposits in U.S. dollar and Australian dollar, and buying foreign currencies at spot rates where necessary to address short-term imbalances.

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The Branch's foreign currency-denominated assets and liability as at December 31 are as follows:

2015	Current Assets	Current Liabilities	Net Foreign Currency Exposure
Currency			
USD	238,797	(109,026)	129,771
AUD	140	-	140

2014	Current Assets	Current Liabilities	Net Foreign Currency Exposure
Currency			
USD	838,064	50,308	787,756
AUD	115	-	115

The Branch recognized foreign exchange gains of \$32,726 in 2015 and foreign exchange losses of \$29,086 in 2014.

*Sensitivity Analysis*

A 5% strengthening of the Philippine peso against USD and AUD as at December 31, 2015 would have increased foreign exchange gains by \$6,783. A 1% strengthening of the Philippine peso against USD and AUD as at December 31, 2014 would have decreased foreign exchange loss by \$5,668.

A weakening of the Philippine peso against the USD and AUD by the same percentage as above as at December 31, 2015 and 2014 would have had equal but opposite effect on the basis that all other variables remain constant.

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**5. Cash**

This account consists of:

	<i>Note</i>	2015	2014
Cash on hand		<b>\$3,331</b>	\$7,824
Cash in banks	4	<b>6,624,875</b>	8,459,159
		<b>\$6,628,206</b>	\$8,466,983

Cash in banks earns annual interest at the respective bank deposit rates.

Interest income earned from cash in banks in 2015 and 2014 amounted to \$1,732 and \$4,932, respectively.

**6. Other Current Assets**

This account consists of:

	2015	2014
Advances to non-government organizations (NGO) partners and Branch employees	<b>\$52,056</b>	\$ -
Other assets	<b>6,369</b>	1,105,254
	<b>\$58,425</b>	\$1,105,254

Advances to NGO partners and Branch employees represent advances given by the Branch which exceeded amounts liquidated as of December 31, 2015. These are expected to be applied against expenses for the next quarter.

Other assets consist of learning materials and classroom supplies which are for distribution to CLCs.

**7. Property and Equipment**

The movements and balances of this account are as follows:

	Office Furniture and Equipment	Transportation Equipment	Total
<b>Cost</b>			
January 1, 2014	\$94,556	\$225,806	\$320,362
Additions	12,719	-	12,719
December 31, 2014	107,275	225,806	333,081
Adjustment*	(5,806)	(12,221)	(18,027)
Additions	3,047	-	3,047
<b>December 31, 2015</b>	<b>104,516</b>	<b>213,585</b>	<b>318,101</b>
<b>Accumulated Depreciation</b>			
January 1, 2014	16,790	45,979	62,769
Depreciation	16,058	45,161	61,219
December 31, 2014	32,848	91,140	123,988
Adjustment*	(1,777)	(4,933)	(6,710)
Depreciation	16,441	42,717	59,158
<b>December 31, 2015</b>	<b>47,512</b>	<b>128,924</b>	<b>176,436</b>
<b>Carrying Amount</b>			
December 31, 2014	\$74,427	\$134,666	\$209,093
<b>December 31, 2015</b>	<b>\$57,004</b>	<b>\$84,661</b>	<b>\$141,665</b>

\*Adjustment to translate beginning balance at closing rate as of December 31, 2015



## STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

### SUPPLEMENTARY INFORMATION TO THE NOTES TO FINANCIAL STATEMENTS (WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE) (contd.)

#### 8. Accounts Payable and Accrued Expenses

This account consists of:

	<i>Note</i>	2015	2014
Payable to BRAC Bangladesh	12	\$63,142	\$30,884
Payable to Stichting BRAC International	12	48,670	-
Payroll-related payable		18,288	14,010
Accrued expenses		5,865	23,415
Withholding tax payable		1,334	2,907
Payable to NGO partners		148	30,883
		<b>\$137,447</b>	<b>\$102,099</b>

Payables to BRAC Bangladesh and Stichting BRAC International pertain to reimbursements for expenses incurred in providing management and technical support to the Branch.

Payable to NGO partners pertain to the excess of the costs incurred for projects over the fund provided by the Branch

#### 9. Grant Agreement

A Grant Agreement between the Commonwealth of Australia, as represented by then AusAID and Stichting BRAC International, Inc. was executed on February 3, 2012 covering the ADM project for the BEAM-ARMM. This Grant Agreement was effective until June 30, 2015.

In accordance with the provisions of the Grant Agreement, the Branch received from AusAID a grant of AUD30,500,000 for the management and implementation of the ADM project which was given in four (4) tranches as follows:

- the first tranche amounting to AUD7,000,000 was given within thirty (30) days from the date of the agreement;
- the second tranche amounting to AUD7,700,000 was given in August 2012;
- the third tranche amounting to AUD9,000,000 was given in August 2013; and
- the fourth and final tranche amounting to AUD6,800,000 was given in August 2014.

The schedule of tranches is subject to the terms and conditions as stipulated in the Grant Agreement.

In March 2015, the Amendment of the Grant Agreement ("Amendment") was executed by DFAT (formerly AusAID) which extended the period covered by the Grant Agreement until June 30, 2017. As part of the Amendment, additional two (2) tranches were included amounting to AUD6,105,866 for each tranche. The first tranche was given in September 2015 and the remaining tranche will be given on August 2016. As a result of the Amendment, the new total amount of the grant is AUD42,711,732 from the previous amount of AUD30,500,000.

As of December 31, 2015 and 2014, grant received by the Branch from DFAT/AusAID which has not yet been utilized in the implementation of the ADM Project amounts to \$6,698,817 and \$9,687,655, respectively.

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## SUPPLEMENTARY INFORMATION TO THE NOTES TO FINANCIAL STATEMENTS (WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE) (contd.)

### 10. Project Expenses

Project expenses per cost component as at December 31, 2015 and 2014, respectively, are presented below:

Description	2015	2014
Component 1: Curriculum, Materials and Assessment Development	\$28,946	\$83,324
Component 2: Community Learning Center Operations	5,189,516	5,719,720
Component 3: Capacity Building	59,419	61,936
Component 4: Project Management, Monitoring and Evaluation	824,182	833,905
	6,102,063	6,698,885
Partner non-government organizations funding expenses	-	151,697
	\$6,102,063	\$6,850,582

The Branch entered into various agreements with local NGOs. As provided under the terms of these agreements, the NGOs will manage the operation of the CLCs in their designated provinces in ARMM. As at December 31, 2015, the Branch, together with its 16 duly recognized local NGOs, implemented and managed the ADM Project for 845 CLCs (1,220 CLCs as at December 31, 2014).

The Branch disburses funds to its local partner NGOs on a quarterly basis for the management and operations of the CLCs in their designated areas and provinces. The partner NGOs will liquidate the funds received for the expenses incurred in accordance with the agreement.

As at December 31, 2015 and 2014, the disbursed funds to local partner NGOs which are not yet liquidated are as follows:

Description	2015	2014
Community and Family Services International	\$11,717	\$228,542
Maranao People Development Center, Inc.	5,620	305,294
Kalimudan Sa Ranao Foundation, Inc.	5,305	114,490
Kapagawida Development Services Association, Inc.	4,161	76,030
Notre Dame University	3,098	67,277
Sug Educators Forum Incorporated	2,933	38,665
Integrated Learning for Moslems and Highlanders Foundations	2,492	44,220
Integrated Resource Development for Tri-People	2,059	64,425
Muslim Upliftment Foundation of Tawi-Tawi, Inc.	2,043	44,935
Mindanao Autonomous College Foundation Inc.	1,868	30,066
Tapukan Farmers Multipurpose Cooperative	1,797	69,503
Concerned Alliance of Professional and Students Inc.	1,347	27,790
Nagdilaab Foundation Inc.	697	28,809
Mahardika Institute of Technology, Inc.	453	37,222
Lanao Young Educators, Civic Alliance for Progress Inc.	-	88,337
Social Services for Grassroots Community Development, Inc.	-	76,018
	\$45,590	\$1,341,623

Other project expenses during the year include:

	2015	2014
Service charge overhead costs	\$197,231	\$250,780
Provincial office administrative expenses	67,410	69,666
Insurance	4,404	5,930
Innovation	360	40,232
	\$269,405	\$366,608

Service charge overhead costs are general and administrative expenses incurred by the Partner NGOs.

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**SUPPLEMENTARY INFORMATION TO THE  
NOTES TO FINANCIAL STATEMENTS  
(WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING  
CLOSING RATE AT REPORTING DATE) (contd.)**

**11. General and Administrative Expenses**

This account consists of:

	<i>Note</i>	2015	2014
Technical support	<b>12</b>	<b>\$566,397</b>	\$214,451
Outside services		<b>23,517</b>	2,278
Security measurement management		<b>18,844</b>	18,174
Utilities		<b>5,855</b>	1,184
Transportation and travel		<b>3,780</b>	2,252
Support services		<b>995</b>	1,165
Training		<b>350</b>	1,471
Others		<b>12,699</b>	8,305
		<b>\$632,437</b>	\$249,280

**12. Related Party Transactions**

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. Related parties may be individuals or corporate entities.

In the implementation of the ADM project, the Branch has transactions with its related parties as at December 31, 2015 and 2014 as follows:

- a. Technical support pertains to reimbursements to BRAC Bangladesh and the Head Office for expenses it paid for in providing administration and financial management assistance to the Branch. It also entails sending support personnel to the Branch for the efficient and effective management and implementation of the ADM Project in accordance with the provisions of the Grant Agreement.

Related Party/Transaction	Ref	Year	Amount of the Transaction	Outstanding Balance	Terms and Conditions
				Due to Related Parties	
Head office					
• Technical support	12a	2015 2014	\$351,523 -	\$48,670 -	30 days; non-interest bearing; unsecured
BRAC Bangladesh					
• Technical support	12a	2015 2014	233,224 214,451	63,142 30,884	30 days; non-interest bearing; unsecured
		2015		\$111,812	
		2014		\$30,884	

- b. Compensation and other short-term benefits of key management personnel amounted to \$181,223 and \$204,518 as at December 31, 2015 and 2014, respectively.

The Branch has no receivable from related parties as at December 31, 2015 and 2014.

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**13. Lease Commitments**

On March 5, 2012, the Branch entered into a lease agreement for a parcel of land located at No. 1 R. Mañara Street, Rosary Heights 10, Cotabato City with two (2) residential buildings, two (2) stories with an annex one room office and a guard house, with concrete perimeter fence. The lease was renewed for a fixed period of three (3) years beginning March 1, 2015 to February 28, 2018, renewable thereafter upon mutual agreement of both parties.

The Branch also entered into other lease agreements as follows: a) one (1) year renewable lease contract commencing in June 2012 for a two-story apartment at Celdran Village, Iligan City. The lease was renewed on August 1, 2015, for another two (2) years; b) two (2) years renewable lease expiring in 2015 for the Branch's two (2) new office premises in Upi Maguindanao and Zamboanga City. Lease contracts expiring in 2015 were renewed for another two (2) years; and c) one (1) year renewable lease expiring in 2016 for the Branch's office premise in Davao City. All these lease agreements require a refundable deposit.

Refundable deposits as at December 31, 2015 and 2014 amounted to \$7,968 and \$8,424, respectively.

The future rental payables for these lease agreements are as follows:

	2015	2014
Within one year	<b>\$41,459</b>	\$34,931
After one year but not more than five years	<b>31,023</b>	46,619
	<b>\$72,482</b>	\$81,550

Rent expense amounted to \$148,142 and \$398,098 in 2015 and 2014, respectively.

**14. Staff cost**

	Salaries & employee benefits	Learning facilitators allowances	Partner NGOs employee benefits
Basic salary	\$382,330	\$1,510,056	\$521,987
13th month pay/Bonus	19,121	159,199	54,995
SSS/Philhealth/Pag-ibig contributions/Provident fund/Gratuity	41,935	80,164	43,380
	<b>\$443,386</b>	<b>\$1,749,419</b>	<b>\$620,362</b>





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