



ANNUAL REPORT



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CHAIRMAN'S MESSAGE

EDGAR O. CHUA

Chairman, Makati Business Club



In 2018, Makati Business Club continued its pro active initiatives on the policy front, focusing on Global Competitiveness and mainstreaming Inclusive Business using the UNDP Sustainable Development Goals as framework.

research on the cost and complexity of such a shift.

We expect to re-engage on these issues as a new Congress convenes in 2019.

On tax reform, MBC organised two roundtables and two membership meetings to engage Finance Undersecretary Karl Chua, Senate Ways and Means Chairman Sonny Angara, House Ways and Means Chairman Dax Cua, Trade Undersecretaries Perry Rodolfo and Nora Terrado. We also heard from former PEZA Director General Lilia de Lima. While the business sector welcomed the proposed lower corporate tax rates, specific elements of the tax reform law were deemed detrimental to the country's global competitiveness, e.g. planned revocation of previously granted incentives, and the elimination of the tax on gross income earned by locators in PEZA zones.

Our global outlook played out with general meetings on the Economic Payoff from Friendly Relations with China with NEDA Secretary Ernesto Pernia, and on the Belt and Road Initiative with Hong Kong Trade and Development Corp. Chairman Vincent Lo, and a roundtable discussion on President Xi Jinping's visit and President Donald Trump's trade war and Indo-Pacific Strategy. As Secretariat of ABAC Philippines, we supported the council as they held discussions and negotiations in New Zealand, Japan, Taipei, Kuala Lumpur, and Port Moresby.

As an active participant in global competitiveness discussions, we sent representatives to the WEF ASEAN Summit in Hanoi and held a WEF-MBC roundtable on competitiveness and innovation in the Fourth Industrial Revolution in Manila. A leading innovation guru Hitendra Patel was guest speaker in our October membership meeting to raise corporations on the pressing need for continuous innovation.

On the shift to a federal form of government, we again conducted roundtables, issuing one statement on our own and joining other business groups in another. Among our resource persons was Dr. Rosario Manasan of Philippine Institute of Development Studies, who has produced the most-cited

Amid all of this, MBC, as ever, continued to pursue its core social mission. We signed up as UNDP's partner in promoting Sustainable Development Goals (SDGs) to CEOs producing a report on green industries, and helped organize the Global Reporting Initiative Summit. We had a membership meeting on community drug rehabilitation and a roundtable on inclusive business. We took steps to revive Integrity Initiative and organized a series of Integrity Forums funded by the British Embassy. We also partnered with an Australian government-funded project to boost the number of Women in the C-Suite.

All of this -- and all our plans for 2019 and beyond -- was made possible by your continued membership and participation. On behalf of the board, our sincere thanks. Thank you too to all the hard working staff and our partners who have continued to support MBC.

POLICY, PROGRAMS, AND ACTIVITIES

TRAIN-2: CORPORATE TAX REFORM

Corporate tax reform was the most important issue for MBC and the business community in 2018. The comprehensive tax reform plan is known as TRAIN (Tax Reform for Accountability and Inclusivity), so the corporate package is TRAIN-2, following personal income tax reform in 2017. (It is also known as TRABAHO, or Tax Reform for Attracting Better and High-Quality Opportunities.) TRAIN-2 is the closest the government has come to corporate tax reform -- reducing incentives but also cutting the corporate income tax rate -- after almost 20 years of trying.

MBC and other business organizations worked together

and on their own to air their concerns to the government, particularly on the proposed reduction in income tax holidays and cancellation of the alternative tax on gross income earned (GIE).

MBC held two roundtables with Finance Undersecretary Karl Chua. The first, larger session had FINEX and IBPAP as special guests. The second, smaller one was included Trade Undersecretary Perry Rodolfo. Senator Sonny Angara and Rep. Dax Cua, the chairmen of Congress's tax committees, were the guest speakers in our July membership meeting. Former PEZA Director-General Lilia de Lima was the guest speaker in our October membership meeting.





As well, 2018 began with the annual event of the MBC-run Philippine-US Business Council and the Washington D.C.-based US-Philippines Society: a half-day forum focused on tax reforms in the Philippines and the U.S. Speakers included Trade and Industry Secretary Ramon Lopez and Budget Secretary Ben Diokno.

The government is expected to revive TRAIN-2 after the 2019 midterm elections.



FEDERAL GOVERNMENT

MBC and the business sector were concerned about the push to shift to a federal government as much because of the belief that an added layer of government would add to red tape, corruption, the cost of government and taxes, and because the government had no clear proposal, resulting in uncertainty.

In March, the Philippines-US Business Council, which is run by MBC, co-organized a roundtable discussion with the US-ASEAN Business Council, which had a senior business mission in Manila. Guest speaker was Gary Olivari of the Foundation for Economic Freedom.

In May, MBC organized a roundtable with Dr. Rosario Manasan, Senior Fellow in PIDS, and Dr. Romulo Miral, Jr., Director General of the Congressional Policy and Budget Research Department of the House of Representatives. PCCI Chairman George Barcelon was a special guest.

Aided by these discussions, in June, MBC led the drafting of a joint statement that was submitted to Executive and Congressional officials. Joining in the statement were Management Association of the Philippines, Financial Executives Institute of the Philippines, Philippine Chamber of Commerce and Industry, Semiconductor and Electronics Industries of the Philippines Inc., and Cebu Business Council. In August, MBC joined a joint statement where business groups aligned themselves with Cabinet officials who expressed their concerns about the proposed shift.

The government is expected to revive the push to change the form of government after the 2019 midterm elections.

BANGSAMORO

In March, the Office of the Presidential Adviser on the Peace Process (OPAPP) asked MBC to organize a roundtable to boost business community support for the Bangsamoro Organic Law. Joining MBC were representatives of the ARMM Business Council, Metro Batangas Business Club, Cagayan de Oro Chamber of Commerce, Federation of Filipino Chinese Chamber of Commerce and Industry and the Japanese Chamber of Commerce. Joining OPAPP was the Bangsamoro Transition Commission. The law was approved later in 2018.



LABOR

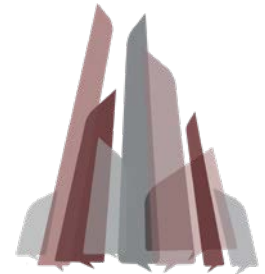
In May, MBC organized a roundtable discussion on labor issues for Vice President Leni Robredo. Joining MBC were representatives of Employers' Confederation of the Philippines and the Federation of Philippine Industries. The discussion focused on employment regulations especially vis-a-vis global competitiveness, digitalization, automation, and the future of work.



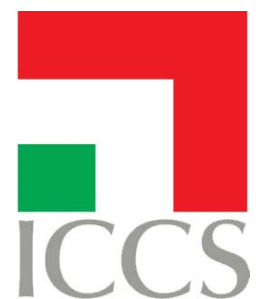
GLOBAL OUTLOOK, GLOBAL



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD



MBC
MAKATI BUSINESS CLUB
THE FORUM FOR CONSTRUCTIVE IDEAS



Italian Chamber
of Commerce
in Singapore

PARTNERS



APEC Business Advisory Council



Australian Government

Department of Foreign Affairs and Trade



Australian Embassy

The Philippines



**British Embassy
Manila**



**US-ASEAN
BUSINESS COUNCIL, INC.**



新加坡中華總商會
Singapore Chinese Chamber of Commerce & Industry

All organizations work with partners.

Because MBC's aspiration – for itself, its members, and the Philippines – is to keep pace with global ideas and developments, this includes global partners like ABAC, WEF, and OECD.

This extends to civic action, which is why MBC was founded. This means local and global partners in social responsibility, sustainable development, inclusive business, and good governance like UNDP and the British and Australian governments.

GLOBAL COMPETITIVENESS

APEC Business Advisory Council (ABAC) Philippines

MBC is the Secretariat of ABAC Philippines. In 2018, ABAC Philippines set four focus areas in consultation with the Department of Trade and Industry: (1) globally competitive MSMEs, (2) infrastructure, (3) services in the global economy, and (4) digital innovation. Work programs are being rolled out in 2019.

ABAC Philippines contributed to ABAC projects on including reports on Enabling MSMEs Across Borders, Human Resources Challenges and Opportunities from Digital Innovation by tapping MBC members and representatives of Philippine business community as respondents and participants in roundtable discussions.

Some of this work was directed to or done in the four ABAC meetings in Auckland, Tokyo, Kuala Lumpur, Port Moresby and a Digital Innovation Forum in Taipei.

World Economic Forum

MBC is WEF's partner in the Executive Outlook Survey that feeds into the WEF Global Competitiveness Report. The 2018 GCR showed the Philippines ranked 56th out of 140 economies as WEF adjusted its criteria to take into account emerging drivers of productivity and long-term growth in the era of the Fourth Industrial Revolution. The local launch was timed with MBC's general membership meeting in October, where former PEZA Director-General Lilia de Lima spoke on Investment Competitiveness.

As part of a growing partnership, MBC endorsed two delegates to attend the WEF-ASEAN Summit in





September in Hanoi.

In December, MBC and WEF organized a roundtable discussion on "Competitiveness and Resiliency in the Fourth Industrial Revolution". Panelists included Masao Takahashi, WEF executive board member.

SUSTAINABILITY AND INCLUSIVITY

United Nations Development Programme (UNDP)

In August, MBC joined UNDP's High-Level Steering Committee to help oversee the preparation of the Better Business, Better World (BBBW) Philippines report, which aims to identify business opportunities resulting from a shift to sustainable practices.

MBC also joined UNDP and PhilDev in the Innovation for Social Impact Accelerator Program, or "ISIP". The

program provides mentorship and helps facilitate investment for 10 social enterprise startups per year.

University of the Philippines/ Rotterdam School Of Management

MBC organized a roundtable meeting on inclusive value chains with Noel de Dios, U.P. economics professor, and Rob van Tulder, founder of the Partnerships Resource Centre and professor at Rotterdam School of Management. The professors run an agriculture-focused inclusive value chain project based out of U.P.

MBC helped organize Global Reporting Initiative's Sustainability Summit in October. This included gathering 30 top CEOs for a breakfast meeting led in part by Roberto de Ocampo, MBC vice chairman and GRI board member. The whole-day summit included

panelists from MBC members including Vice Chairman Jaime Augusto Zobel de Ayala. GRI is a world leader in establishing reporting standards for sustainable practices.

Women In The C-Suite: Philippine Business Coalition For Women Empowerment (PBCWE)

MBC partnered with PBCWE to help increase the number of women C-suite executives starting with a research project that was released in March 2019. MBC also partnered with PBCWE in the Male Champions of Change project. MCC, which originated in Australia, aims to recruit top level male executives to promote policies that help women break the glass ceiling. PBCWE is funded in part by the Australian Department of Foreign Affairs and Trade (DFAT).

GLOBAL TRADE AND INVESTMENT

As part of its global orientation, MBC works to promote trade, investment, and other exchanges with other countries. A lot of this is done with the five business councils MBC serves as the secretariat of: Philippine-US Business Council, Philippine-Singapore Business Council, Philippines-British Business Council, Philippine-France Business Council, Philippine-Malaysia Business Council.

U.S.: Philippine-U.S. Business Council

The annual event with the U.S.-Philippines Society in February 2018, was just the first of the Philippine-U.S. Business Council's activities in 2018.

In July, MBC-run Philippine-U.S. Business Council and the US-ASEAN Business Council organized a roundtable meeting

on Cybersecurity with NY-based McKinsey consultant Andreas Schwarz.

In November, MBC and PUBC helped host delegates of the Filipino Young Leaders Program (FYLPro), which brings 10 young Filipino-American leaders to the Philippines every year. MBC arranged one-on-one orientations for several delegates with MBC members and helped organize a lunch meeting with more MBC and PUBC members. FYLPro was founded by MBC board member and PUBC Chairman Jose L. Cuisia Jr. when he was ambassador to the U.S. (2006-2010).

In December, MBC organized a roundtable discussion: "Business Implications: Xi's visit, Trump's Trade War and the Indo-Pacific Strategy". Guest speaker was

David Day, chairman of Global Risk Mitigation Foundation.

Singapore: Philippine-Singapore Business Council

In July, the Philippines-Singapore Business Council co-hosted a reception for an infrastructure delegation organized by Enterprise Singapore. Keppel Infra and other Singaporean companies met PSBC and MBC members.

In September, PSBC hosted a reception for a delegation from the National University of Singapore Society. Seventeen (17) NUSS delegates met with PSBC and MBC members.

In December, PSBC Chairman, Guillermo D. Luchangco hosted a farewell reception for Ambassador Kok Li Peng.





U.K.: Philippines-British Business Council

In March, PBBC helped organize the “2018 British Business Mission to Iloilo” which brought 15 Philippine and British companies to the southern city.

Australia

The Women in the C-Suite initiative was just one of several Australian government-funded projects MBC partnered in. In May, MBC participated in the Australian Innovation Summit of the Department of Foreign Affairs and Trade (DFAT). The summit showcased Australian innovation relevant to Philippine priorities and growth including fintech, digital health, and edutech. (Key speakers?)

In September, MBC organized a roundtable on “Growth and Collaborative Opportunities in Australian Agriculture”. The Australian Trade and Investment Commission (Aus-trade) presented technology to improve supply chain transparency, improve production efficiency, and meet future demand.



TECHNOLOGY

Aside from the July cybersecurity activity between Philippine-U.S. Business Council and U.S.-ASEAN Business Council, in September, MBC had a partnership with McKinsey, in which several MBC chief technology officers joined a McKinsey roundtable led by Singapore- and London-based consultants, again on cybersecurity.

INTEGRITY INITIATIVE INC.

In 2018, MBC continued to lead the business review of Integrity Initiative Inc. By January 2019, a new board and chairman were elected and, by February, financial filings updated.



MEMBERSHIP, EVENTS, AND FINANCIAL

EVENTS

In 2018, MBC had eight general membership meetings (including two joint membership meetings) and six special meetings (roundtable discussions). That compares with nine general membership meetings (including six joint membership meetings) and four special meetings (including MBC Anniversary Dinner) in 2017.

GMM (6)

DATE	EVENT TITLE	SPEAKER
Mar. 19	Peaceful Anti-Drug Operations, Peaceful Communities	Victor Paterno & Supt. Byron Allatog
Apr. 23	Ready for the Belt & Road Initiative	Vincent Lo
Jun. 19	The New DOT: Good Governance and Business Partnerships	Sec. Bernadette Romulo-Puyat
Jul. 27	TRAIN-2 & Legislative Priorities	Sen. Sonny Angara & Rep. Dax Cua
Oct. 17	Investment Competitiveness	Atty. Lilia De Lima
Nov. 7	Innovate: Don't Wait!	Dr. Hitendra Patel

JMM (2)

DATE	EVENT TITLE	SPEAKER
Feb. 20	PH-US Trade Investment Forum	Sec. Ben Diokno, Sec. Ramon Lopez
Feb. 21	Economic Pay-off from Friendly Relations with China	Sec. Ernesto Pernia

RTD (6)

DATE	RTDs	PARTNER(S)
Mar. 1	USec. Karl Chua on TRAIN 2	
Jul. 16	Prof. de Dios and Van Tulder on Inclusive Business	U.P
Sept. 7	Annika Freyer on Male Champions for Women Empowerment	PBCWE
Sept. 25	Karen Caston on Agribusiness	Australian Embassy
Dec. 12	David Day on Business Implications, Xi's Visit, Trump's Trade War & Indo-Pacific Strategy	
Dec. 14	Competitiveness and Resiliency in the fourth Industrial Revolution	WEF

MEMBERSHIP

In 2018, membership fell to 377 from 388 as 19 new members were outnumbered by resignations and removals (delinquent members). That compares with 21 new members and fewer resignations and removals in 2017.

	2017	2018
New Members	21	19
Resignations	16	21
Removals (Delinquent Members)	16	9
Total Corporate Members (End Year)	388	377

A photograph of three people in business attire reviewing documents at a meeting. A woman on the left is writing in a notebook. A man in the center is looking at a document. A woman on the right is smiling and looking at a document. In the background, a banner reads "H.E. PRESIDENT CORNELL" and "20 OCTOBER PAVILION THE M...".

FINANCIAL

MBC had a P2.1-M deficit for the year from a P9.5-M excess in 2017, when revenue was boosted by P11.9-M of contributions to our 35th anniversary fund-raising project. Minus the fund-raising project, the comparable 2017 result was a P0.9-M surplus.

About P1.1-M of the deficit was due to a non-cash item, depreciation, which has climbed due to our office renovation. Salaries, bonuses, and allowances – our biggest item – was little changed despite a significant amount of retirement and separation expenses.

Cash was P0.6-M in 2018 compared with P6.3-M in 2017. The biggest part of this decline is due to the reclassification of P2.8-M of business council funds as “restricted”. Most of the rest can be attributed to payment of accrued 2017 rent, and retirement and separation expenses, indicating that without these extraordinary items, cash would have been substantially unchanged.

In the reclassification, P2.8-M moved from “cash and cash equivalents” to “restricted assets”. We reclassified these funds because they are contributed to the council, not MBC, by a separate membership or by sponsors. We believe this helps us fulfill our responsibility for these funds, and presents a clear picture of MBC’s finances. We are taking steps to improve our cash position.

For 2019, aside from new members, we are pursuing event sponsorships (which fall under “Advertising”) and will promote APEC Business Travel Card (ABTC) applications, which fall under “Others”.

STAFF

As of end 2018, MBC had 14 regular staff and 1 on contract. That compares with 13 regular employees and 1 on contract in 2017.

BOARD OF TRUSTEES



Chairman
EDGAR O. CHUA
President and CEO
Cavitec Holdings Corporation



Co-Vice Chairman
JAIME AUGUSTO ZOBEL DE AYALA II
Chairman and CEO
Ayala Corporation



Co-Vice Chairman
ROBERTO F. DE OCAMPO
Chairman
Philippine Veterans Bank



Treasurer
RIZALINA G. MANTARING
Chairman
Sun Life Financial Philippine Holding
Company, Inc.



Corporate Secretary
CIRILO P. NOEL
Senior Adviser
St. Luke's Medical Center



JOSE L. CUISIA JR.

Chairman
The Covenant Car Company Inc.
(Chevrolet)



RAMON R. DEL ROSARIO JR.

President and CEO
Philippine Investment
Management, Inc.



DORIS MAGSAYSAY HO

President and CEO
Magsaysay Group of Companies



GUILLERMO D. LUCHANGCO

Chairman
Investment and Capital
Corporation of the Philippines



MANOLITO T. TAYAG

Country Managing Director
Accenture, Inc. (Philippines)



WILFRED STEVEN UYTENGSU JR.

Chairman
Alaska Milk Corporation

MBC STAFF



COCO ALCUAZ
Executive Director



ROXANNE V. LU
Head, Programs and Projects



MICHELLE L. DEE
Head, Membership and Events



JONALYN S. QUESADA
Head, Accounting



LUI N. MAURICIO
Head, Administration



ISABEL A. LOPA
Consultant



FELIX U. ALMONTE



CLINTON A. BALBONTIN



LIZ A. BAUTISTA



NERIE A. BOLLOSA



ANTHONY PATRICK DP. CHUA



GENEVA C. GUYANO



JOHN JOSHUA T. KANGKEN



BIANCA M. MALONZO



MIGUEL C. RIVERA



EFREN M. TABORLONG

FINANCIAL STATEMENTS

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

as at December 31, 2018 and 2017

(All amounts in Philippine Peso)

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	634,116.00	6,335,078.00
Short-term investments	3,653,215.00	3,720,470.00
Restricted assets	69,685,226.00	68,143,431.00
Receivables	3,745,727.00	4,602,584.00
Prepayments and other current assets	9,610,278.00	9,299,833.00
Total current assets	87,328,562.00	92,101,396.00
Non-current asset		
Property and equipment, net	5,990,277.00	5,237,272.00
Total assets	93,318,839.00	97,338,668.00
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Accrued expenses and other liabilities	1,191,235.00	3,718,895.00
Membership Fees collected in advance	6,137,938.00	4,554,708.00
Liability to members	1,350,000.00	1,350,000.00
Income Tax Payable	-	362.00
Total current liabilities	8,679,173.00	9,623,965.00
Non-current liability		
Retirement benefit liability	1,166,919.00	2,677,954.00
Total liabilities	9,846,092.00	12,301,919.00
Fund balances		
Restricted	75,891,368.00	75,354,174.00
Unrestricted	7,581,379.00	9,682,575.00
Total fund balances	83,472,747.00	85,036,749.00
Total liabilities and fund balances	93,318,839.00	97,338,668.00

STATEMENTS OF REVENUES AND EXPENSES

for the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	2018			2017		
	Restricted	Unrestricted	Combined	Restricted	Unrestricted	Combined
Revenues						
Membership fees	716,179	13,750,389	14,466,568	-	16,577,763	16,577,763
Donations and contributions	293,564	628,400	921,964	889,990	11,945,886	12,835,876
Interest income	366,302	19,115	385,417	117,840	84,291	202,131
Admission fees on meetings	-	124,499	124,499		459,784	459,784
Advertising	-	80,000	80,000		324,000	324,000
Others	1,075,080	708,941	1,784,021		3,908,541	3,908,541
	2,451,125	15,311,344	17,762,469	1,007,830	33,300,265	34,308,095
Expenses						-
Salaries, bonuses and allowances	1,394,683	7,683,946	9,078,629	1,262,364	7,674,714	8,937,078
Rent	-	2,038,950	2,038,950		2,290,488	2,290,488
Professional fees	1,001,500	889,429	1,890,929	801,000	674,834	1,475,834
Meetings and conferences	493,838	1,293,371	1,787,209	320,093	3,754,649	4,074,742
Advertising	-	1,250,000	1,250,000		2,298,220	2,298,220
Depreciation	-	1,147,815	1,147,815		313,627	313,627
Travel and transportation	960,913	116,539	1,077,452	600,889	56,490	657,379
Employee benefits	532,636	539,086	1,071,722	165,905	1,950,972	2,116,877
Direct project expenses	481,459	-	481,459	519,944	1,545,627	2,065,571
Utilities	-	417,328	417,328		429,977	429,977
Communications	114,248	260,507	374,755	126,003	407,115	533,118
Repairs & maintenance	-	56,625	56,625		14,767	14,767
Trainings & seminars	-	-	-		115,781	115,781
Others	159,243	1,667,804	1,827,047	429,875	2,160,469	2,590,344
	5,138,520	17,361,400	22,499,920	4,226,073	23,687,730	27,913,803
Other income (expense), net	3,224,589	(51,140)	3,173,449	367,394	(130,779)	236,615
Excess of revenues over expenses before income tax	537,194	(2,101,196)	(1,564,002)	(2,850,849)	9,481,756	6,630,907
Income tax expense	-	-	-	-	-	-
Total of revenues over expenses	537,194	(2,101,196)	(1,564,002)	(2,850,849)	9,481,756	6,630,907

Makati Business Club, Inc.
(A non-stock, non-profit corporation)

Notes to the Financial Statements

As at and for the years ended December 31, 2018 and 2017

(In the notes, all amounts are in Philippine Peso unless otherwise stated)

Note 1 - General information

1.1 Business information

Makati Business Club, Inc. (the “Club”) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 23, 1984 as a non-stock, non-profit corporation. The Club's purpose, among others, is to encourage, foster and stimulate the discussion and exchange of ideas among businessmen, professionals and the citizenry on subjects, issues, or matters of interest or concern to them.

The Club is exempt from the payment of income tax on income related to its operations or activities pursuant to Section 30 (F) of the National Internal Revenue Code (NIRC). No part of the excess of revenue over expenses or assets of the Club shall belong to or inure to the benefit of any member, officer or any specific person. However, any income of whatever kind and character from any of the Club's properties, real or personal, or from any activity conducted for profit, regardless of the disposition, shall be subject to income tax.

The Club is duly accredited by the Philippine Council for Non-Government Organization Certification (PCNC) and renewed its registration as a donee institution with the Bureau of Internal Revenue (BIR) on April 1, 2015 in accordance with the provisions of Revenue Regulation No. 13-98. Donations received shall entitle the donors to full or limited deduction pursuant to Section 34 (H) and exemption from donor's tax pursuant to Section 101 (A) (3) of the National Internal Revenue Code of 1997. The Certificate of Registration shall be valid until February 18, 2018 unless sooner revoked by the BIR or upon withdrawal of the Certificate of Accreditation by PCNC. The Club has paid the renewal fee on August 29, 2018 and is in the process of completing the requirements for renewal as at reporting date.

On July 22, 2013, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Order (RMO) No. 20-2013 (as amended by RMO No. 28-2013 issued on October 29, 2013) prescribing the policies and guidelines in the issuance of tax exemption rulings to qualified non-stock, non-profit corporations and associations under Sec. 30 of the NIRC. RMO No. 20-2013 requires the filing of Application for Tax Exemption/Revalidation with the BIR by these corporations and associations, including those that have been issued tax exemption rulings or certificates prior to June 30, 2012, which will be valid until December 31, 2013 only. The Club's Application for Tax Exemption/Revalidation with the BIR to revalidate its tax exemption status pursuant to RMO No. 20-2013 is still in process.

The Club has its registered office address and principal place of business at 2nd Floor AIM Conference Center, Benavidez corner Trasierra Streets, Legaspi Village, Makati City.

1.2 Approval of financial statements

These financial statements have been reviewed, authorized and approved for issuance by the Club's Board of Trustees on April 1, 2019.

Note 2 - Cash and cash equivalents

Cash and cash equivalents at December 31 consist of:

	2018	2017
Cash on hand	15,000	20,630
Cash in bank	508,445	3,201,410
Short-term placements	110,671	3,113,038
	634,116	6,335,078

Cash in banks earn interest at their respective bank deposit rates.

Cash equivalents pertain to the Club's short-term placements with local banks with original maturity of less than three months. Short-term placements in Peso accounts earn an annual average interest of 1.875% in 2018 (2017 - 1.04%) while US Dollar placements earn interest at 0.50% per annum in 2018 (2017 - 0.65%).

Interest income on bank deposits and placements for the year ended December 31, 2018 amounted to P19,115 (2017 - P84,291).

Note 3 - Short-term investments

Short-term investments at December 31 consist of:

	2018	2017
Philam Bond Fund, Inc.	2,547,306	2,631,718
Philam Dollar Bond Fund	1,105,909	1,088,752
	3,653,215	3,720,470

Fair value changes on the above investments amounted to P67,255 losses in 2018 (2017 - P52,082 gains) (Notes 12 and 13).

Note 4 - Restricted assets

Restricted assets are donations and contributions restricted for specific projects. Disbursements from these funds are restricted to expenditures related to the projects. Income derived from these restricted funds is retained in these funds.

Restricted assets as at December 31 consist of:

	2018	2017
Cash in banks		
Current account	39,434,492	41,369,666
Savings account	28,619,880	25,162,911
	68,054,372	66,532,577
Short-term investments	1,630,854	1,610,854
	69,685,226	68,143,431

Cash in banks earn interest at their respective bank deposit rates. Short-term investments are made at varying periods of up to six months and earn an average interest of 1.375% in 2018 (2017 - 1.040%).

Interest income on restricted cash and short-term investments for the year ended December 31, 2018 amounted to P366,302 (2017 - P117,840).

Unrealized forex exchange gain arising from restricted cash in 2018 amounted to P3,192,456 (2017 - P236,894) (Note 13).

Note 5 - Receivables

Receivables at December 31 consist of:

	2018	2017
Receivables	3,282,041	3,948,443
Advances for liquidation	463,686	654,141
	<u>3,745,727</u>	<u>4,602,584</u>

Receivables pertain mainly to uncollected membership fees, grants, and reimbursable project expenses from donors.

Critical accounting judgment: Impairment of receivables

The Club evaluates its portfolio of receivables on a periodic basis to assess if there are any potential uncollectible receivables. The Club reviews the age and status of receivables, and identifies accounts that are to be provided with allowance or directly written-off.

There was no allowance for doubtful accounts as at December 31, 2018 and 2017. During the year, the Club directly wrote off long-outstanding receivables from members amounting to P501,500 (2017 - P783,333) presented as part of other expenses in the statements of revenues and expenses.

Note 6 - Prepayments and other current assets

Other current assets at December 31 consist of:

	Note	2018	2017
Input VAT		7,499,548	7,224,707
Creditable withholding taxes		1,784,044	1,692,240
Rental deposit	14	245,402	245,402
Prepaid insurance and others		81,284	137,484
		<u>9,610,278</u>	<u>9,299,833</u>

Note 7 - Property and equipment, net

Property and equipment, net at December 31, 2018 consist of:

	Leasehold improvements	Furniture and fixtures	Office equipment	Transportation equipment	Construction in progress	Total
At January 1, 2018						
Cost	153,845	11,054	1,375,720	-	4,677,649	6,218,268
Accumulated depreciation	(56,486)	(11,054)	(913,456)	-	-	(980,996)
Net carrying value	97,359	-	462,264	-	4,677,649	5,237,272
For the year ended December 31, 2018						
Opening net carrying value	97,359	-	462,264	-	4,677,649	5,237,272
Additions	1,389,665	381,717	82,198	1,417,200	-	3,270,780
Disposal						
Cost	-	-	-	(1,417,200)	-	(1,417,200)
Accumulated depreciation	-	-	-	47,240	-	47,240
Reclassification	4,677,649	-	-	-	(4,677,649)	-
Depreciation	(633,414)	(68,750)	(398,411)	(47,240)	-	(1,147,815)
Closing net carrying value	5,531,259	312,967	146,051	-	-	5,990,277
At December 31, 2018						
Cost	6,221,159	392,771	1,457,918	-	-	8,071,848
Accumulated depreciation	(689,900)	(79,804)	(1,311,867)	-	-	(2,081,571)
Net carrying value	5,531,259	312,967	146,051	-	-	5,990,277

On September 7, 2018, the Club sold a transportation equipment with a net carrying value of P1,369,960 to a third party, for a total consideration of P1,350,000.

Critical accounting estimate and assumption: Useful lives of property and equipment

The Club estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives and residual values of property and equipment are reviewed periodically and are adjusted if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors affecting the lives of these assets.

There is no change in the estimated useful lives and residual values of property and equipment as of December 31, 2018 and 2017 based on management's assessment.

Critical accounting judgment: Impairment of non-financial assets

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

Management believes, based on its judgment, that there are no significant events or changes in circumstances which indicate that the carrying amount of its property and equipment may not be recoverable as at reporting dates.

Note 8 - Accrued expenses and other liabilities

Accrued expenses and other liabilities as at December 31 consist of:

	2018	2017
Accrued expenses	1,052,062	3,515,283
Payables to government agencies	139,173	203,612
	1,191,235	3,718,895

Accrued expenses include payables to suppliers of services, communications, printing and photocopying and other unpaid project expenses.

Note 9 - Liability to members; membership fees collected in advance

The BOT in 1988 approved the establishment of the MBC Corporate Fund (the “Fund”) for the purpose of diversifying fund sources to provide steady and long-term financing for the Club's programs and services. The Fund was built around interest-free loans coming from its member companies with no definite terms of repayment. As at December 31, 2018 and 2017, outstanding liability to members amounted to P1,350,000.

To augment the Club’s funding requirements, certain membership fees are collected in advance. These fees collected are reported as revenues in the applicable period. Outstanding balance as at December 31, 2018 amounted to P6,137,938 (2017 - P4,554,708).

Note 10 - Retirement plan

The Club maintains a non-contributory defined benefit retirement plan covering all its regular and full-time employees. The normal retirement age is 60 and early retirement is at age 50 with a minimum of 10 years of credited service. The fund is administered by a trustee who is authorized to invest the fund as it deems proper. The retirement plan is intended to provide benefit payments to employees equivalent to 100% monthly pay for every year of credited service based on the salary at the time of retirement. The pension obligation is determined using the projected unit credit method, under which, the annual normal cost of the retirement is determined as the amount necessary to provide for the portion of the retirement benefit accruing during the year. Contributions and costs are determined in accordance with the actuarial valuation made for the plan. The most recent actuarial report for the year ended December 31, 2018 was dated March 5, 2019.

The retirement benefit obligation recognized in the statement of assets, liabilities and fund balances at December 31 is determined as follows:

	2018	2017
Present value of defined benefit obligation	1,338,551	4,619,025
Fair value of plan assets	(171,632)	(1,941,071)
Retirement benefit liability	1,166,919	2,677,954

The movements in the present value of defined benefit obligation for the years ended December 31 are as follows:

	2018	2017
Beginning of year	4,619,025	4,499,859
Current service cost	668,556	629,737
Interest cost	266,518	241,962
Actuarial gain	(1,956,843)	(752,533)
Benefits paid	(2,258,705)	-
End of year	1,338,551	4,619,025

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

	2018	2017
Beginning of year	1,941,071	444,534
Expected return on plan assets	38,821	8,891
Actuarial loss	(49,555)	(12,354)
Contributions to the fund	500,000	1,500,000
Benefits paid	(2,258,705)	-
End of year	171,632	1,941,071

Actual return on plan assets for the year ended December 31, 2018 amounted to P10,734 (2017 - P3,463).

Retirement plan assets as at December 31 consist of:

Type of instrument	2018		2017	
	Amount	Percentage	Amount	Percentage
Cash and cash equivalents	171,632	100%	443,451	23%
Debt instruments	-	-	1,497,620	77%
	171,632	100%	1,941,071	100%

The defined benefit cost for the years ended December 31 follows:

	2018	2017
Current service cost	668,556	629,737
Interest cost	266,518	241,962
Expected return on plan assets	(38,821)	(8,891)
Net actuarial gain	(1,907,288)	(740,179)
Retirement benefit (income) expense charged to employee benefits	(1,011,035)	122,629

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of the retirement benefits.

The principal annual actuarial assumptions used at December 31 are as follows:

	2018	2017
Discount rate	7.70%	5.77%
Expected rate of return on plan assets	2.00%	2.00%
Future salary increases	4.00%	4.00%

Critical accounting estimates and assumptions: Measurement of retirement benefit obligation

The Club determines the appropriate discount rate at the end of each period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the Club considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement benefits are based in part on current market conditions. Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

Note 11 - Donations and contributions; direct project expenses

Revenues from donations and contributions for the Club's projects for the years ended December 31 follows:

	Donations and contributions	Direct project expenses	Excess (deficiency)
2018			
National Competitiveness Council (NCC)	-	(416,886)	(416,886)
Liveable Cities Challenge	293,564	(64,573)	228,991
	293,564	(481,459)	(187,895)
2017			
National Competitiveness Council (NCC)	866,000	-	866,000
Coalition Against Corruption (CAC) and Bantay.ph	23,990	(94,289)	(70,299)
Integrity Initiative, i3 and IDAR	-	(94,289)	(94,289)
APEC Summit	-	(331,366)	(331,366)
	889,990	(519,944)	370,046

Liveable Cities Challenge, in partnership with the Club, organizes workshops, partnerships, and competitions among Local Government Units (LGUs) to help cities become Liveable Cities through projects in E-governance, basic services, mobility/connectivity, and resilience. This is also to promote liveable, sustainable, competitive cities outside Manila so that businesses and people have more options outside of the usual urban centers.

In 2015, the Philippines hosted the 2015 Asia-Pacific Economic Cooperation (APEC) Summit as organized by APEC Business Advisory Council Philippines (ABAC). On October 1, 2015, the Club entered into a Memorandum of Agreement with ABAC, wherein the Club has agreed to fully support the ABAC Meetings in Manila as well as the temporary ABAC Philippines Secretariat. The Club shall deposit donations and contributions received in a designated APEC bank account and disburse payments due to suppliers and third parties as may be approved by ABAC. As agreed during the Club's Board of Trustees' meeting on January 21, 2016, the remaining APEC funds will be used in relation to projects already identified and endorsed by ABAC and approved by the MBC Board, and for such other subsequent initiatives as contained in ABAC 2015 Report to Economic Leaders.

The Club serves as the secretariat of CAC, an alliance of groups from various sectors of the Philippine society that have committed to fight corruption.

Integrity for Investments Initiative (i3), in partnership with Deloitte Consulting, LLP and USAID, the Club provides technical support to the SEC and the Governance Commission for Government-Owned or Controlled Corporations. The partnership period is from February 20, 2013 to March 31, 2018.

Information Dissemination and Advocacy on the Philippines' Readiness for the ASEAN Economic Community in 2015 and Participation in the Trans-Pacific Partnership (IDAR), in partnership with the Club implemented this one-year project aiming to mainstream the discussion on the ASEAN Economic Community (AEC) and Trans Pacific Partnership (TPP) among stakeholders, especially media and policymakers. By releasing research studies and primers, conducting educational for, and holding dialogues with these groups, the Club aims to share information regarding the nature of these agreements and help pursue the policy and regulatory reforms. The project period is from May 2014 to April 2016.

Note 12 - Other revenues

The components of other revenues for the years ended December 31 are as follows:

	Notes	2018	2017
Publication sales		91,781	126,254
Fair value gains on short-term investments	3	-	52,082
Service fees	11	82,794	-
Miscellaneous		1,609,446	3,730,205
		1,784,021	3,908,541

Service fees pertain to the administrative and services fees received by the Club to cover the expenses they incurred in performing their activities relating to APEC.

Miscellaneous income pertains mainly to sponsorship grants and admission fees received by the Club for various official Club activities.

Note 13 - Other income (expense), net

Other income (expense), net for the years ended December 31 consists of:

	Notes	2018	2017
Foreign exchange gain, net	4	3,260,714	237,115
Fair value losses on short-term investments	3	(67,255)	-
Loss on sale of transportation equipment	7	(19,960)	-
Bank charges		(50)	(500)
		3,173,449	236,615

Note 14 - Leases

In 2007, the Club entered into a lease agreement for its office space with a term of ten (10) years renewable after every year. The lease agreement has a monthly rental fee of P129,039 in 2018 and 2017. Rental deposit amounting to P245,402 as of December 31, 2018 and 2016 as shown in Note 6 pertains to this lease contract. On January 1, 2018, the Club has renewed the lease agreement for a term of another ten (10) years.

The Club entered into three operating lease agreements with a financial institution covering transportation equipment at fixed monthly rentals subject to annual escalation for periods of five years covering December 14, 2012 to December 13, 2017, July 4, 2016 to July 16, 2021, and for a period of three years covering August 5, 2016 to August 15, 2019. In 2018, one of the existing lease agreement has been terminated (July 4, 2016 to July 16, 2021) and the related transportation equipment was purchased and subsequently sold (Note 7).

Total rental payments on the above operating leases amounted to P2,038,950 in 2018 (2017 - P2,290,488).

Note 15 - Income taxes

A reconciliation of the provision for income tax applicable to income before tax computed at the statutory tax rate to the income tax expense at the Club's effective tax rate is summarized below:

	2018	2017
Income tax at statutory income tax rate of 30%	(469,201)	1,989,272
Adjustments for:		
Exempt itemized deductions	5,683,365	8,177,770
Net operating loss carry over (NOLCO)	206,201	28,186
Non-taxable income	(5,304,740)	(10,134,589)
Interest income subjected to final tax	(115,625)	(60,639)
Income tax expense	-	-

Details of NOLCO which could be carried over as a deduction from the Club's future taxable income for the three succeeding taxable years follow:

Year of incurrence	Year of expiry	2018	2017
2014	2017	-	29,001
2016	2019	840,047	840,047
2017	2020	93,954	93,954
2018	2021	687,337	-
		1,621,338	963,002
Expired		-	(29,001)
		1,621,338	934,001
Unrecognized DIT assets at 30%		486,401	280,200

Details of MCIT as at December 31, 2018 and 2017 which could be carried over as a deduction from the Club's future income tax due for the three succeeding taxable years follow:

Year of incurrence	Year of expiry	2018	2017
2015	2018	621	621
2017	2020	362	362
		983	983
Expired		(621)	-
		362	983

Note 16 - Expenses

Expenses for the years ended December 31 are allocated as follows:

	Unrestricted	Restricted	Total
2018			
Direct expenses	14,443,596	5,138,520	19,582,116
Administrative expenses	2,917,804	-	2,917,804
	17,361,400	5,138,520	22,499,920
2017			
Direct expenses	19,229,041	4,226,073	23,455,114
Administrative expenses	4,458,689	-	4,458,689
	23,687,730	4,226,073	27,913,803

The unrestricted expenses incurred by the Club for the years ended December 31, 2018 and 2017 are relating to operations or activities made by the Club for the benefit of its members and to carry out its purpose pursuant to its registration as a Club.

Note 17 - Critical accounting estimates and judgments

Estimates, assumptions and judgments 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.

The Club makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

17.1 Critical accounting estimates and assumptions

17.1.1 Useful lives of property and equipment (Note 7)

17.1.2 Measurement of retirement benefit obligation (Note 10)

17.2 Critical accounting judgments

17.2.1 Impairment of receivables (Note 5)

17.2.2 Impairment of non-financial assets (Note 7)

Note 18 - Summary of significant accounting policies

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

18.1 Basis of preparation

The financial statements of the Club have been prepared in accordance with the Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs) issued by the Financial Reporting Standards Council (FRSC). These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the PFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Club's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 17.

There are no amendments to PFRS for SMEs effective for the financial year beginning on or after January 1, 2018 that are relevant to and have a material impact on the Club's financial statements.

18.2 Fund accounting; Restricted assets

The Club classifies and reports its fund balances as unrestricted fund and restricted fund based on the existence or absence of donor-imposed restrictions.

A donor-imposed restriction limits the use of contributed assets; it specifies a use that is more specific than broad limits resulting from the nature of the organization, the environment in which the Club operates, and the purposes specified in its articles of incorporation or by-laws or comparable documents for an unincorporated association.

The Club distinguishes between contributions received with donor-imposed restrictions and those received without donor-imposed restrictions. A restriction on the Club's use of the assets contributed results either from a donor's explicit stipulation or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. Contributions with donor-imposed restrictions are reported as restricted support; restricted support increases restricted fund balance. Contributions without donor-imposed restrictions are reported as unrestricted support that increases unrestricted fund balance.

Contributions received, regardless of any donor-imposed restrictions, shall be recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions received are measured at their fair values.

Cash or other assets received with a donor-imposed restriction are presented as restricted assets and are not classified with cash or other assets that are unrestricted and available for current use.

The Club recognizes the expiration of a donor-imposed restriction on a contribution in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Upon expiration of the restriction, the related fund balance is reclassified from restricted to unrestricted.

18.3 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial instrument is recognized when the entity becomes a party to its contractual provisions. The Club classifies its financial instruments into the following categories: (a) basic financial instruments; and (b) complex financial instruments. The Club did not hold complex financial instruments.

The Club's basic financial instruments consist of cash, short-term investments, receivables and accrued expenses and other liabilities (except amounts due to government agencies).

Initial measurement

On initial recognition, a basic financial instrument is measured at transaction price (including transaction costs), unless the arrangement is in effect a financing transaction. In this case, it is measured at present value of the future payments discounted using a market rate of interest for a similar debt instrument.

Subsequent measurement

Basic financial instruments are subsequently measured at amortized cost using the effective interest method, except for investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares that are publicly traded whose fair value can otherwise be measured reliably. Such investments are subsequently measured at fair value with changes in fair value recognized in profit or loss.

Impairment of financial instruments measured at cost or amortized cost

At each reporting date, the Club assesses whether there is objective evidence of impairment on any financial assets that are measured at cost or amortized cost. Where there is any objective evidence of impairment, an impairment loss is recognized immediately in profit or loss.

For an instrument measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. Where an asset is measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset in a sale at the reporting date.

Derecognition

An entity only derecognizes a financial asset when:

- The contractual rights to the cash flows from the assets have expired or are settled;
- The entity has transferred to another party substantially all the risks and rewards of ownership relating to the financial asset; or
- The entity has retained some significant risks and rewards but has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the asset is derecognized, and any rights and obligation created or retained are recognized.

Financial liabilities are derecognized only when these are extinguished - that is, when the obligation is discharged, cancelled or has expired.

18.4 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. These are carried in the statement of financial position at face value or nominal amount and earn interest at the prevailing interest rate.

18.5 Short-term investments

Short-term investments, which consist of shares in bond funds, are initially recorded at cost, which generally is measured at the purchase price of the security, or the fair value of the asset given up or the security received in the exchange and other costs directly related to the acquisition, and subsequently measured at fair value, with changes in fair value recognized in profit or loss. Fair value is measured based on the published daily net asset value of the fund, which is the fair market value of the underlying assets of the fund.

18.6 Receivables

Receivables are recognized initially at the transaction price. They are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Club will not be able to collect all amounts due according to the original terms of the receivables.

18.7 Prepayments and other current assets

Prepayments are recognized in the event that payment has been made in advance of obtaining the right of access to goods or receipt of services and measured at nominal amounts. These are derecognized in the statement of assets, liabilities and fund balances as they expire with the passage of time or through use and consumption.

Other assets consisting of rental deposits and creditable withholding taxes are recognized as assets to the extent it is probable that the benefit will flow to the Club. These are derecognized when there is a legally enforceable right to apply the recognized amounts against the related liability within the period prescribed by the relevant tax laws.

Prepayments and other current assets are included in current assets, except when the related goods or services are expected to be received and rendered more than 12 months after the end of the reporting period, in which case, these are then classified as non-current assets.

18.8 Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over the estimated useful lives, as follows:

Leasehold improvements	15 years
Transportation equipment	5 years
Furniture and fixtures	5 years
Transportation equipment	5 years
Office equipment	3 to 5 years

Leasehold improvements are amortized over their estimated useful lives or the lease term, whichever is shorter.

The assets’ residual values and useful lives are reviewed, and adjusted as appropriate if there is an indication that there has been a significant change since the last reporting date and the pattern by which the Club expects to benefit from the asset.

The asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 18.9).

The Club derecognizes the carrying amount of an item of property and equipment upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and related accumulated depreciation and impairment, if any, are removed from the accounts. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are reflected as other operating income or expenses in the statement of revenues and expenses.

18.9 Impairment of non-financial assets

Assets that have definite useful life, such as property and equipment are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Value in use requires the Club to make estimates of future cash flows to be derived from the particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset.

Non-financial assets that are impaired are reviewed for possible reversal of the impairment at the end of each reporting period.

18.10 Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situation in which the applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, subject to certain exceptions. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and for the carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT). A valuation allowance is recognized against deferred income tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit. The Club re-assesses this at each reporting date and adjusts the valuation allowance to reflect the current assessment of future taxable profit.

Deferred income tax liabilities are recognized in full for all temporary differences that are expected to increase taxable profit in the future, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, if any.

Deferred income tax expense or credit is recognized for the changes during the year in the deferred income tax assets and liabilities. Income tax expense includes income tax as currently payable and those deferred because of temporary differences in the financial and tax reporting bases of assets and liabilities and unused tax credits.

Deferred income tax assets and liabilities are derecognized when the related temporary differences are realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity where there is an intention to settle the balances on a net basis.

18.11 Provisions

Provisions are recognized when the Club has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses.

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

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

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

18.12 Revenue and expense recognition

The Club recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow into the Club the collectability of related receivables is reasonably assured and specific criteria have been met. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

Donations and contributions

Donations and contributions are recognized when the donor pledges the expected donation and subsequently pays that amount within a reasonable period of time. Donations and contributions for specific projects received in advance are deferred and held in trust until the project, for which the donations and contributions are intended, commences. The Club distinguishes between contributions received with donor-imposed restrictions and those received without donor-imposed restrictions. See Note 18.2 for the details of the Club's fund accounting policy.

Membership fees

Membership fees are recognized as these become due to the Club, computed at a fixed rate based on membership categories. Membership fees collected in advance are recognized as liability upon receipt of advance payments from members, which are amortized and recorded as membership fees on a monthly basis.

Admission fees on meetings

Admission fees on meetings is recognized when events, conferences and conventions take place and upon receipt of payments from members and guests.

Revenue from advertising

Revenue from advertising is recognized as income when the related materials of advertisers are published.

Publication sales

Publication sales are recognized upon delivery of magazine to subscribers and publication outlets.

Project fees

Project fees are recognized upon rendering of services offered by the Club.

Interest income

Interest income on bank deposits and short-term placements, which is presented net of final taxes withheld by the banks, is recognized in profit or loss on a time-proportion basis using the effective interest method.

Expenses

Expenses are charged to operations as incurred.

18.13 Leases - the Club is the lessee

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified operating leases. Payments received from operating leases are recognized in statements of revenue and expenses on a straight-line basis over the period of the lease.

18.14 Employee benefits

Short-term benefits

The Club recognizes a liability net if amounts already paid and an expense for services rendered by the employees during the reporting period. Short-term benefits given by the Club to its employees include salaries and wages, social security contributions, paid annual vacation and sick leave credits and other non-monetary benefits. Short-term employee benefit obligations are measured on an undiscounted basis.

Retirement benefits

The Club has a funded, non-contributory retirement plan, held in trust by the Club, covering its regular employees. Retirement benefits cost is actuarially determined using the projected-unit credit method. This method takes into account the factors of mortality and salary projection rates. Retirement benefit cost includes current service cost, interest cost, experience adjustments and changes in actuarial assumptions arising from mortality gains and losses, employee turnover and benefit forfeitures. Actuarial gains and losses are recognized as income or expense in the period in which they occur.

18.15 Related party relationship and transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

18.16 Foreign currency transactions and translations

Functional and presentation currency

Functional currency is the currency of the primary economic environment in which the Club operates or in which it primarily generates and expends cash. These financial statements are presented in Philippine Peso, which is the Club's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in revenue and expenses.

18.17 Events after the reporting period

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

Note 19 - Supplementary information required by the Bureau of Internal Revenue (BIR)

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by Philippine Financial Reporting Standards.

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(a) Output value-added tax (VAT)

Output VAT declared for the year ended December 31, 2018 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Sale of services	80,000	9,600
VAT exempt		
Sale of services	5,961,956	-
Zero-rated		
Sale of services	-	-
	6,041,956	9,600

The gross revenues shown above are based on gross receipts of the Club for VAT purposes while the gross revenues in the statement of revenues and expenses are measured in accordance with the policy disclosed in Note 18.12.

(b) Input VAT

Movements in input VAT for the year ended December 31, 2018 are as follows:

Beginning balance	7,224,707
Add: Current year's domestic purchases	284,441
Total input VAT	7,509,148
Less: Application to output VAT	(9,600)
	7,499,548

(c) Importations

The Club did not have any purchases of imported goods subject to custom duties and tariff fees for the year ended December 31, 2018.

(d) Excise tax

The Club has no transactions that are subject to excise tax for the year ended December 31, 2018.

(e) *Documentary stamp tax*

The Club has no transactions that are subject to documentary stamp tax for the year ended December 31, 2018.

(f) *All other local and national taxes*

All other local and national taxes paid for the year ended December 31, 2018 consist of:

Mayor's permit	10,625
Community tax certificates	2,054
Barangay clearance	1,200
Business taxes	500
	<u>14,379</u>

Taxes and licenses are presented as part of other expenses in the statements of revenue over expenses.

(g) *Withholding taxes*

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2018 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	1,555,072	49,057	1,604,129
Expanded withholding tax	267,252	90,116	357,368
	<u>1,822,324</u>	<u>139,173</u>	<u>1,961,497</u>

Accrued withholding taxes are presented under payable to government agencies of accrued expenses and other liabilities (Note 8).

(h) *Tax assessment*

The Club has no outstanding tax assessments as at December 31, 2018.

(i) *Tax cases*

The Club has no pending tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at December 31, 2018.



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