# CARD-MRI Development Institute, Inc.

*(A Nonstock, Not-for-Profit Association)*

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

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# INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
CARD-MRI Development Institute, Inc.
(A Nonstock, Not-for-Profit Association)

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of CARD-MRI Development Institute, Inc. (A Nonstock, Not-for-Profit Association) (the Association), which comprise the statements of assets, liabilities and fund balance as at December 31, 2018 and 2017, and the statements of revenue and expense, statements of comprehensive income and changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD-MRI Development Institute, Inc. (A Nonstock, Not-for-Profit Association). The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

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PTR No. 6621226, January 9, 2018, Makati City

April 9, 2019

## CARD-MRI DEVELOPMENT INSTITUTE, INC.
**(A Nonstock, Not-for-Profit Association)**

# STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

| | December 31 | | January 1 |
|---|---|---|---|
| | **2018** | 2017 (As restated- Note 2) | 2017 (As restated- Note 2) |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash in banks (Notes 6 and 19) | **₱65,589,364** | ₱70,732,607 | ₱53,199,025 |
| Investments at Amortized Cost (Notes 7 and 19) | **208,548,009** | 137,861,521 | 59,275,897 |
| Receivables (Notes 8 and 19) | **58,141,485** | 9,357,818 | 3,538,740 |
| Other current assets (Note 9 and 19) | **5,011,740** | 2,650,646 | 1,067,763 |
| | **337,290,598** | 220,602,592 | 117,081,425 |
| **Noncurrent Assets** | | | |
| Investments at Amortized Cost (Notes 7 and 19) | **30,000,000** | 30,000,000 | – |
| Financial Assets at Fair Value Through Other Comprehensive Income (Note 7 and 19) | **8,660,322** | 9,097,712 | 9,097,712 |
| Investments in associates (Note 10 and 19) | **475,999** | 217,179 | – |
| Property and equipment (Note 11) | **119,097,327** | 99,410,165 | 92,661,991 |
| Software costs (Note 12) | **3,266,785** | 511,699 | 8,001,384 |
| Retirement asset (Note 18) | **11,045,205** | 10,280,397 | 672,255 |
| Other noncurrent assets (Note 17) | **3,392,718** | 1,974,682 | 825,663 |
| | **175,938,356** | 151,491,834 | 111,259,005 |
| **TOTAL ASSETS** | **₱513,228,954** | ₱372,094,426 | ₱228,340,430 |
| | | | |
| **LIABILITIES AND FUND BALANCE** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued expenses (Note 13 and 19) | **₱18,238,240** | ₱14,313,915 | ₱8,420,769 |
| Lease liability (Note 17 and 19) | **373,735** | 1,908,598 | 2,474,740 |
| | **18,611,975** | 16,222,513 | 10,895,509 |
| **Noncurrent Liabilities** | | | |
| Accounts payable and accrued expenses (Note 13 and 19) | **110,069,544** | 75,084,384 | 5,661,487 |
| Lease liability (Note 17 and 19) | **–** | 419,551 | 1,805,047 |
| | **110,069,544** | 75,503,935 | 7,466,534 |
| | **128,681,519** | 91,726,448 | 18,362,043 |
| **Fund Balance** | | | |
| General fund | **333,327,389** | 252,448,729 | 198,044,376 |
| Restricted fund | **36,320,754** | 13,727,724 | – |
| Remeasurement gains on retirement plan (Note 18) | **10,612,870** | 9,467,713 | 7,210,199 |
| Net unrealized gains on financial assets at fair value through other comprehensive income (Note 7) | **4,286,422** | 4,723,812 | 4,723,812 |
| | **384,547,435** | 280,367,978 | 209,978,387 |
| **TOTAL LIABILITIES AND FUND BALANCE** | **₱513,228,954** | ₱372,094,426 | ₱228,340,430 |

*See accompanying Notes to Financial Statements.*

**CARD-MRI DEVELOPMENT INSTITUTE, INC.**
**(A Nonstock, Not-for-Profit Association)**

## STATEMENTS OF REVENUE AND EXPENSE

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 (As restated- Note 2) |
| **REVENUE** | | |
| Seminars and trainings (Note 19) | **₱245,246,515** | ₱222,778,414 |
| Donations and contributions (Note 19) | **35,000,000** | 5,000,000 |
| Tuition fees and other school fees | **36,158,178** | 19,778,761 |
| Interest income (Notes 6, 7 and 19) | **7,599,352** | 2,738,639 |
| Dividend income (Notes 7 and 19) | **2,051,053** | 1,093,475 |
| Facilities fee (Note 19) | **698,323** | 743,907 |
| Others | **554,043** | 756,054 |
| | **327,307,464** | 252,889,250 |
| **EXPENSES** | | |
| Cost of seminars, trainings and other programs (Note 14) | **147,830,029** | 134,712,068 |
| Senior high school expenses (Note 15) | **28,784,203** | 11,208,076 |
| Tertiary expenses (Note 16) | **16,999,089** | 8,695,482 |
| Administrative: | | |
| Program monitoring and meetings | **7,009,729** | 6,341,151 |
| Compensation and employee benefits (Notes 18 and 19) | **5,834,942** | 4,337,181 |
| Staff training and development | **5,201,455** | 8,510,597 |
| Transportation and travel | **4,028,886** | 3,581,852 |
| Management and professional fees | **2,153,241** | 1,734,645 |
| Supplies and materials | **944,778** | 587,812 |
| Janitorial, messengerial, and security | **852,625** | 582,100 |
| Information technology | **883,502** | 465,599 |
| Depreciation expense (Note 11) | **769,514** | 928,693 |
| Utilities | **580,694** | 376,328 |
| Taxes and licenses | **554,155** | 460,124 |
| Repairs and maintenance | **257,540** | 386,425 |
| Communication and postage | **251,909** | 285,317 |
| Insurance | **179,843** | 375,532 |
| Representation | **125,220** | 150,496 |
| Provision for credit losses (Note 8) | **79,588** | 554,344 |
| Miscellaneous | **514,832** | 483,351 |
| | **30,222,453** | 30,141,547 |
| | **223,835,774** | 184,757,173 |
| **EXCESS OF REVENUE OVER EXPENSES** | **₱103,471,690** | ₱68,132,077 |

*See accompanying Notes to Financial Statements.*

**CARD-MRI DEVELOPMENT INSTITUTE, INC.**
**(A Nonstock, Not-for-Profit Association)**

## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 (As restated- Note 2) |
| **EXCESS OF REVENUE OVER EXPENSES** | **₱103,471,690** | ₱68,132,077 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Item that may not be reclassified to the statement of revenue and expenses: | | |
| Remeasurement gain on retirement plan (Note 18) | **1,145,157** | 2,257,514 |
| Changes in net unrealized gain financial assets at other comprehensive income (Note 7) | **(437,390)** | – |
| **TOTAL COMPREHENSIVE INCOME** | **₱104,179,457** | ₱70,389,591 |

*See accompanying Notes to Financial Statements.*

## CARD-MRI DEVELOPMENT INSTITUTE, INC.
**(A Nonstock, Not-for-Profit Association)**

## STATEMENTS OF CHANGES IN FUND BALANCE

| | General Fund | Temporarily Restricted Fund | Remeasurement Gains on Retirement Plan (Note 18) | Net Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income (Note 7) | Total |
|---|---|---|---|---|---|
| **Balances at January 1, 2018 as previously reported** | **₱262,440,176** | **₱13,727,724** | **₱–** | **₱4,723,812** | **₱280,891,712** |
| Effect of initial application of full PFRS (Note 2) | **(9,991,447)** | **–** | **9,467,713** | **–** | **(523,734)** |
| **Balances at January 1, 2018 as restated** | **252,448,729** | **13,727,724** | **9,467,713** | **4,723,812** | **280,367,978** |
| Appropriations during the year | **(22,593,030)** | **22,593,030** | **–** | **–** | **–** |
| Total comprehensive income (loss) for the year | **103,471,690** | **–** | **1,145,157** | **(437,390)** | **104,179,457** |
| **Balance at December 31, 2018** | **₱343,327,389** | **₱36,320,754** | **₱10,612,870** | **₱4,286,422** | **₱384,547,435** |
| | | | | | |
| **Balances at January 1, 2017 as previously reported** | ₱205,254,575 | ₱– | ₱– | ₱– | ₱205,254,575 |
| Effect of initial application of full PFRS (Note 2) | (7,210,199) | – | 7,210,199 | 4,723,812 | 4,723,812 |
| **Balances at January 1, 2017, as restated** | 198,044,376 | – | 7,210,199 | ₱4,723,812 | 209,978,387 |
| Appropriations during the year | (13,727,724) | 13,727,724 | – | – | – |
| Total comprehensive income for the year | 68,132,077 | – | 2,257,514 | – | 70,389,591 |
| **Balance at December 31, 2017** | ₱252,448,729 | ₱13,727,724 | ₱9,467,713 | ₱4,723,812 | ₱280,367,978 |

*See accompanying Notes to Financial Statements*

# CARD-MRI DEVELOPMENT INSTITUTE, INC.
**(A Nonstock, Not-for-Profit Association)**

## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 (As restated-Note 2) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Excess of revenue over expenses | **₱103,471,690** | ₱68,132,077 |
| Adjustments for: | | |
| Depreciation and amortization expense (Notes 11 and 12) | **19,135,799** | 17,103,499 |
| Interest income (Note 7) | **(7,599,352)** | (2,738,639) |
| Dividend income (Note 7) | **(2,051,053)** | (1,093,475) |
| Interest expense | **790,302** | 523,102 |
| Retirement expense (Note 18) | **483,235** | 609,717 |
| Share in net income of associates (Note 10) | **(258,820)** | (17,179) |
| Provision for doubtful accounts (Note 8) | **79,588** | 554,344 |
| Loss on disposal of transportation equipment | **3,600** | 23,589 |
| Unrealized foreign exchange gain | – | (357,446) |
| Operating income before working capital changes | **114,054,989** | 82,739,589 |
| Changes in operating assets and liabilities: | – | – |
| Increase in the amounts of: | – | – |
| Receivables | **(46,826,313)** | (5,929,176) |
| Other current assets | **(3,779,130)** | (1,786,505) |
| Accounts payable and accrued expenses | **38,863,669** | 75,316,043 |
| Net cash generated from operations | **102,313,215** | 150,339,951 |
| Interest received | **5,562,411** | 2,294,395 |
| Dividends received | **2,051,053** | 1,093,475 |
| Interest paid | **(790,302)** | (523,102) |
| Contributions to retirement fund (Note 18) | **(102,886)** | (631,216) |
| Net cash provided by operating activities | **109,033,491** | 152,573,503 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payments for: | | |
| Purchase on short-term investments | **(208,548,009)** | (78,585,624) |
| Acquisitions of property and equipment (Notes 11) | **(38,394,641)** | (23,617,486) |
| Acquisitions of software license (Note 12) | **(3,187,007)** | (43,600) |
| Placement on long-term investment | – | (30,000,000) |
| Acquisitions of investments in associates (Note 10) | – | (200,000) |
| Security deposits | – | (1,149,019) |
| Proceeds from: | | |
| Maturity of short-term investments | **137,861,521** | – |
| Disposal of transportation equipment | – | 150,000 |
| Net cash used in investing activities | **(112,268,136)** | (133,445,729) |
| **CASH FLOWS FROM FINANCING ACTIVITY** | | |
| Payments of finance lease | **(1,908,598)** | (1,951,638) |
| **NET INCREASE IN CASH IN BANKS** | **(5,143,243)** | 17,176,136 |
| **EFFECTS OF EXCHANGE RATE CHANGES ON CASH IN BANKS** | – | 357,446 |
| **CASH IN BANKS AT BEGINNING OF YEAR** | **70,732,607** | 53,199,025 |
| **CASH IN BANKS AT END OF YEAR** | **₱65,589,364** | ₱70,732,607 |

*See accompanying Notes to Financial Statements.*

# NOTES TO FINANCIAL STATEMENTS

## 1. General Information

CARD-MRI Development Institute, Inc. (the Association), is a nonstock, not-for-profit association incorporated in the Philippines on April 21, 2005. The Association was organized to provide courses of study in microfinance development (non-degree technical courses) or other similar courses subject to the laws of the Philippines.

The Association's permit to operate as a tertiary education was granted by the Commission on Higher Education (CHED) on May 28, 2015. It started to operate as a tertiary education institute offering Bachelor of Science in Entrepreneurship with specialization in Microfinance on July 22, 2015.

The Association started to offer Senior High School; Accountancy, Business and Management and Information and Communication Technology strands in June 2016.

Being a nonstock and not-for-profit educational institution, the Association falls under Section 30 (h) of the Tax Reform Act of 1997 and as such, income from activities in pursuit of the purpose for which the Association was organized is exempt from income tax. The Association renewed its Philippine Council for NGO Certification accreditation on August 4, 2017 and had been granted a five-year certification for donee institution status.

The Association is a member of Center for Agriculture and Rural Development (CARD) Mutually Reinforcing Institutions (MRI).

The Association's principal office is located at Brgy. Tranca, Bay, Laguna.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for fair value through profit or loss (FVPL) and financial assets through other comprehensive income (FVOCI), which are all carried at fair value. The financial statements are presented in Philippine Peso (₱), the functional currency of the Association and all values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The Association's financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

These financial statements for the year ended December 31, 2018 are the first financial statements the Association has prepared in accordance with PFRS having exceeded the quantitative thresholds set by the Securities and Exchange Commission for financial statements prepared under Philippine Financial Reporting Standards for Small and Medium Enterprises (PFRS for SMEs). For all periods up to and including the year ended December 31, 2017, the Association prepared its financial statements in accordance with PFRS for SMEs.

Accordingly, the Association has prepared financial statements that comply with PFRS applicable as at December 31, 2018, together with the comparative period data for the year ended December 31, 2017, as described in the summary of significant accounting policies. In preparing the financial statements, the Association's opening statement of financial position was prepared as at January 1, 2017, the Association's date of transition to PFRS. This note explains the principal adjustments made by the Association in restating its PFRS for SMEs financial statements, including the statement of financial position as at January 1, 2017 and the financial statements for the year ended December 31, 2018.

| | December 31, 2017 | | |
|---|---|---|---|
| | PFRS for SMEs | Effect of transition | Full PFRS |
| **STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE** | | | |
| Equity investments at cost | ₱9,097,712 | (₱9,097,712) | ₱– |
| Financial Assets at FVOCI | – | 9,097,712 | 9,097,712 |
| Receivables | 9,881,552 | (523,734) | 9,357,818 |
| General fund | 262,440,176 | (9,991,447) | 252,448,729 |
| Remeasurement gains on retirement plan | – | 9,467,713 | 9,467,713 |

| | For the year ended December 31, 2017 | | |
|---|---|---|---|
| | **PFRS for SMEs** | **Effect of transition** | **Full PFRS** |
| **STATEMENTS OF COMPREHENSIVE INCOME** | | | |
| *Statement of Revenue and expense* | | | |
| Provision for doubtful accounts | ₱30,610 | (₱523,734) | ₱554,344 |
| Remeasurement gain on retirement plan | (2,257,514) | 2,257,514 | – |
| Excess of revenue over expenses | 70,913,325 | (2,781,248) | 68,132,077 |
| Items that do not recycle to profit or loss in subsequent periods: | | | |
| Remeasurement gain on retirement plan | – | 2,257,514 | 2,257,514 |
| Other comprehensive income | – | 2,257,514 | 2,257,514 |
| Total comprehensive income | ₱70,913,325 | (₱523,734) | ₱70,389,591 |

| | January 1, 2017 | | |
|---|---|---|---|
| | PFRS for SMEs | Effect of transition | Full PFRS |
| **STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE** | | | |
| Equity investments at cost | ₱4,373,900 | (₱4,373,900) | ₱– |
| Financial Assets at FVOCI | – | 9,097,712 | 9,097,712 |
| Net unrealized gains (losses) on financial assets at FVOCI | – | 4,723,812 | 4,723,812 |
| General fund | 5,000,000 | 193,044,376 | 198,044,376 |
| Accumulated excess revenue over expenses | 200,254,575 | (200,254,575) | – |
| Remeasurement gain on retirement plan | – | 7,210,199 | 7,210,199 |

Exemptions applied

PFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under PFRS.

The Association has applied the following exemptions:

- Property and equipment, were carried in the statement of financial position prepared in accordance with PFRS for SME on the basis of valuations performed on January 1, 2017. The Association has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.
- The Association has applied the transitional provision in IFRIC 4, *Determining whether an Arrangement Contains a Lease* and has assessed all arrangements based upon the conditions in place as at the date of transition.

Notes to reconciliation of Fund Balance as at January 1 and December 31, 2017 and total comprehensive income for the year ended December 31, 2017

- Remeasurement gains and losses on retirement plan
  Under the PFRS for SMEs, all changes in fair value of plan assets are recorded in statement of revenue and expenses, whereas under PFRS it is recorded in other comprehensive income.

- Financial Instruments
  The Association has applied PFRS 9 on its first-time adoption of full PFRS, with the initial application date of January 1, 2017 and adjusting the comparative information for the period beginning January 1, 2017.

  *Classification and measurement*
  The assessment of the Association's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The Association continues measuring at amortized cost all financial assets and liabilities previously held at amortized cost under PFRS for SMEs. Moreover, the Association made an irrevocable designation to classify its unquoted equity shares, which is not held for trading, as financial asset at FVOCI. The FVOCI for equities

category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss. PFRS 9 requires FVOCI financial assets to be measured at fair value. As of transition date, the fair value of these assets is ₱9.1 and their previous PFRS carrying amount was ₱4.4 million. The ₱4.7 million difference between the instruments' fair value and PFRS for SME carrying amount has been recognized as a separate component of fund balance in the net unrealized gains on financial assets at FVOCI.

*Impairment*
The adoption of PFRS 9 has changed the Association's accounting for impairment losses for financial assets by replacing PFRS for SME's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss. The adoption of PFRS 9 decreased the Association's Fund Balance as of December 31, 2017 amounting to ₱0.5 million for its recognition of ECL for its receivables.

- Statement of cash flows
  The transition from PFRS for SME to PFRS has not had a material impact on the statement of cash flows.

**Significant Accounting Policies**

Current versus Noncurrent Classification
The Association presents assets and liabilities in the statements of assets, liabilities and fund balance based on current/noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:
- Expected to be settled in normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- Not subject to unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Associaton determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period (see Note 4).

Management determines the policies and procedures for recurring fair value measurement.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Association's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Association has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above (see Note 5).

Cash in Banks
Cash in banks represent demand, savings and time deposits that earn interest at the respective bank deposit rates.

Short-term Investments
Short-term investments represent time deposits with tenor of three (3) to twelve (12) months from date of acquisition to date of maturity.

Long-term Investments
Long-term investments represent time deposits with tenor of more than twelve (12) months from date of acquisition. The Association's long-term investment includes time deposit with tenor of five (5) years.

Financial Instruments - Initial Recognition and Subsequent Measurement
*Date of recognition*
Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized in the statement of assets, liabilities and fund balance when the Association becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

*'Day 1' difference*
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the 'Day 1' difference amount.

*Initial recognition and measurement of financial instruments*
All financial instruments are initially recognized at transaction price (including transaction costs except in the initial measurement of financial instruments at FVPL. The Association classifies its financial assets as financial assets at FVPL, FVOCI, financial assets at amortized cost (AC) while financial liabilities are classified as financial liabilities measured at FVPL and financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Association may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Association determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Association's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Association assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test or SPPI test.

The Association has no financial instruments at FVPL as at December 31, 2018 and 2017 and January 1, 2017.

*Financial assets at amortized cost and financial liabilities measured at amortized cost*
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

Financial assets instruments that meet the conditions above are measured at amortized cost using the effective interest method. For financial assets measured at amortized cost, impairment is assessed at every reporting period.

The Association's financial assets at amortized cost are presented in the statement of assets, liabilities and fund balance as cash and cash equivalents, short term and long term investments, 'Receivables' and certain accounts under other assets

Classified under financial liabilities measured at amortized cost are the Company's 'Accrued expenses' and 'Accounts payable' accounts in the statement of financial position.

*Financial assets at FVOCI - equity investments*
At initial recognition, the Association can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Association for trading. The Association has designated its unquoted equity instruments as at FVOCI on initial application of PFRS 9 as these are not held for trading purposes.

These financial assets are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. When the asset is disposed of, the cumulative gain or loss previously recognized in the net losses on investment securities account is not reclassified to profit or loss, but is reclassified directly to 'Fund Balance' account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Dividend income' account.

Derecognition of Financial Assets and Liabilities
*Financial assets*
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired;
- the Association 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 Association has transferred its rights 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 the risk and rewards of the asset but has transferred the control over the asset.

Where the Association has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Association's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Association could be required to pay.

*Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Impairment of Financial Assets
The Association recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Association applies a simplified approach in calculating ECLs. Therefore, the Association does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Association has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

However, in certain cases, the Association may also consider a financial asset to be in default when internal or external information indicates that the Association is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Association. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Investments in Associates
An associate is an entity over which the Association has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Association's investment in associates is accounted for using the equity method.

Under the equity method, investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Association's share of net assets of the associate since the acquisition date. Distributions received from an associate reduce the carrying amount of the investment. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of income reflects the Association's share of the results of operations of the associate. Any change in OCI of the associate is presented as part of the Association's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Association and associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Association. The associate's accounting policies conform to those used by the Association for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Association measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in statement of income.

Property and Equipment

Land is carried at cost less any impairment in value while depreciable property and equipment, such as land improvement, training facilities, office furniture, fixtures, and equipment and library books, transportation equipment, and leasehold improvement, are stated at cost less accumulated depreciation, and any impairment in value.

Such cost includes the cost of replacing part of the property and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance cost.

For property and equipment being constructed by an external contractor, costs are capitalized based on the percentage of completion of the project.

Depreciation and amortization commences once the property and equipment are available for use and is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets, except for leasehold improvements which are amortized over the shorter of the EUL of the improvements or the terms of the related leases. The EUL of the depreciable assets are as follows:

| | Years |
|---|---|
| Land improvement | 3 |
| Training facilities | 3 to 10 |
| Office furniture, fixtures, equipment and library books and transportation equipment | 3 to 5 |
| Leasehold improvement | 3 or term of the lease, whichever is shorter |

The EUL, residual value, and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any resulting gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the statement of revenue and expenses and changes in fund balance.

Software Costs

Software costs include costs incurred in obtaining license for the software purchased and used by the Association. The amortization of software costs is on a straight-line basis over a period of five (5) years and is recorded under 'Depreciation and amortization expense' account.

Impairment of Nonfinancial Assets
The Association assesses the impairment of its property and equipment and software cost, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the Association considers important which could trigger an impairment review include the following:

- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

The Association recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs.

*Recoverable amount*
The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of an individual asset to an asset should be read as references also to an asset's cash-generating unit.

It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

*Reversal of impairment*
The Association shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the Association shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on the recoverable amount of that individual asset, or the recoverable amount of the cash-generating unit to which the asset belongs.

Fund Balance
Fund balance consists of the amounts contributed by the members of the Board of Trustees (BOT) of the Association and all current and prior period results of operations.

*Restricted funds*
The Association's BOT has restricted twenty percent of its general fund as follows: two (2.0%) for scholarships, three (3.0%) for information technology development and fifteen (15.0%) for fixed asset acquisition for future expansion.

*Accumulated excess of revenue over expenses*
Accumulated excess of revenue over expenses represents the cumulative balance of periodic net income or loss.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Association expects to be entitled in exchange for those services.

The Association assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Association has concluded that it is the principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Seminars and trainings fees*
Seminars and trainings fees are recognized when seminars and trainings have been conducted and completed.

*Tuition fees and other school fees*
Income from payment of tuition fee and miscellaneous fees are recognized over the service period. Tuition fees collected during the year that are applicable in subsequent years are deferred and shown as unearned tuition fee under 'Accounts payable and accrued expenses' in the statement of assets, liabilities and fund balance.

*Interest income*
Interest income on deposits in banks is recognized as interest accrues, taking into account the effective yield of the asset.

*Donations and contributions*
Grants are recognized when there is a reasonable assurance that the Association will comply with the conditions attached to them, and that the grants will be received. Grants received for a specific purpose or with condition are initially recognized as a liability shown as funds held in trust under 'Accounts payable and accrued expenses' in the statement of assets, liabilities and fund balance otherwise they are recorded as 'Donations and contributions' in the statement of revenue and expenses and changes in fund balance.

*Dividend income*
Income from equity investments is recognized when the Association's right to receive is established.

Cost and Expense Recognition
Costs and expenses are recognized in statement of revenue and expenses and changes in fund balance when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs and expenses are recognized in statement of revenue and expenses and changes in fund balance:

- On the basis of a direct association between the 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 expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of assets, liabilities and fund balance as an asset.

Foreign Currency Transactions
Foreign currency-denominated monetary assets and monetary liabilities are translated into Philippine peso equivalents based on the Philippine Dealing System (PDS) closing rate prevailing at the end of the year and foreign currency-denominated income and expenses at the PDS weighted average rate prevailing on transaction date. Foreign exchange gains or losses from foreign currency translations

and revaluation of foreign currency-denominated monetary assets and monetary liabilities are credited to or charged against current operations.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) above, and at the date of renewal or extension period for scenario (b).

*Association as lessee*

Operating Leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of revenue and expenses and changes in fund balance on a straight-line basis over the lease term.

Finance Leases

The Association recognize its rights of use and obligations under finance leases as assets and liabilities in its statement of assets, liabilities and fund balance at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.

Payments for finance lease liability are apportioned between interest expense and reduction of outstanding liability.

Retirement Benefits

The Association operates a defined benefit retirement plan and hybrid retirement plan which require contribution to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expenses in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of revenue and expenses and changes in fund balance.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the statement of excess of revenue over expenses in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Association, nor can they be paid directly to the Association. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Provisions and Contingencies

Provisions are recognized when the Association has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Association expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of revenue and expenses and changes in fund balance, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to time value of money is recognized as 'Interest expense' in the statement of revenue and expenses and changes in fund balance.

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

Events after the Reporting Period

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

Standards Issued but Not Yet Effective
Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

*Effective beginning on or after January 1, 2019*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
    - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
    - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
    - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

    Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

    Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

    The Association is currently assessing the impact of these amendments.

*Effective beginning on or after January 1, 2020*
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

*Effective beginning on or after January 1, 2021*
- PFRS 17, *Insurance Contracts*

*Deferred effectivity*
- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

## 3. Significant Accounting Estimates

The preparation of the Association's financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, fund balance, revenue, expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates

*(a) Impairment of receivables*

The Association uses a provision matrix to calculate ECLs for financial assets. The provision matrix is initially based on the Association's historical observed default rates.

The Association will adjust the historical credit loss experience with forward-looking information, if any. For instance, if forecast economic conditions (i.e., consumer price index) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industry, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

The carrying amount of receivables as of December 31, 2018 and 2017 are disclosed in Note 8.

*(a) Present value of retirement asset*

The determination of the Association's retirement cost is dependent on certain assumptions used by the actuary in calculating such amount. Those assumptions are described in Note 18 to the financial statements and include, among others, discount rate, future salary increase and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Association's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As at December 31, 2018 and 2017, the carrying values of retirement asset of the Association are disclosed in Note 18.

## 4. Fair Value Measurement

The methods and assumptions used by the Association in estimating the fair values of its assets and liabilities are:

*Cash, receivables, short term investments, receivables, refundable deposits, and financial liabilities at amortized cost* - The carrying amounts approximate their carrying values due to their short-term maturities of these instruments. Management believes that the effect of discounting cash flows from these instruments using the prevailing market rates is not significant

*Long term investments* – Long term investments amounting to ₱30.0 million as of December 31, 2018 and 2017, has fair value of ₱22.9 million and ₱23.8 million as of December 31, 2018 and 2017. Fair values are estimated using the discounted value of the future cash flows using the prevailing market rates for similar types of instruments. The credit spread used as significant unobservable input to compute for the fair value of long-term loans investments under Level 3 fair value hierarchy is 7.0% and 4.7% in 2018 and 2017, respectively.

*Equity securities* – Equity securities with cost amounting to ₱4.4 million as of December 31, 2018 and 2017, has fair value of ₱8.6 million and ₱9.1 million as of December 31, 2018 and 2017, respectively. Fair values are estimated using capital asset pricing model to compute for the fair value under Level 3 fair value hierarchy using weighted average cost of capital rate of 11.50% for 2018 and 2017

## 5. Financial Instruments and Financial Risk Management Objectives and Policies

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

- Credit risk
- Liquidity risk
- Market risk

In line with the Center for Agricultural and Rural Development Mutually Reinforcing Institutions' (CARD MRI) mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", risk management framework of the Association involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks.

The BOT is responsible for monitoring the Company's implementation of risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Association. Risk Management of the Association is strengthened in conjunction with the Internal Audit (IA) functions of CARD MRI Group. IA undertakes both regular audit examination and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOT.

Credit Risk
Credit risk is the risk of financial loss to the Association if the counterparty to a financial instrument fails to meet its contractual obligations. The Association manages credit risk by assessing the creditworthiness of its counterparties. The Association continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date or in the future.

*Maximum exposure to credit risk*
The maximum exposure of the Association's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes. The Association holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2018 and 2017.

*Credit Concentration*
Concentration arise when a number of counterparties are engage in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. As at December 31, 2018 and 2017, the Association's cash in banks and receivables are concentrated to financial intermediaries and customers, respectively.

*Credit quality per class of financial assets*
The credit quality of financial assets is monitored and managed based on the credit standing and history.

High grade - These are bank deposits and receivables which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.

Standard grade - These are bank deposits and receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

Further, the financial assets are also grouped according to stage whose description is explained as follows:

*Stage 1* - those that are considered current and up to 90 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

*Stage 2* - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 90 days past due but does not demonstrate objective evidence of impairment as of reporting date.

*Stage 3* - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The following tables illustrate the association's credit exposures from its receivables.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | ECL Staging | | | | | |
| | Stage 1 | Stage 3 | | Stage 1 | Stage 3 | |
| | Non-default | Defaulted | Total | Non-default | Defaulted | Total |
| Neither past due nor impaired | | | | | | |
| High grade | **₱48,033,455** | **₱–** | **₱48,033,455** | ₱8,952,837 | ₱– | ₱8,952,837 |
| Standard grade | **10,263,872** | **–** | **10,263,872** | 450,769 | – | 450,769 |
| Past due but not impaired | **–** | **415,452** | **415,452** | – | 441,423 | 441,423 |
| Past due and impaired | **–** | **748,823** | **748,823** | – | 753,318 | 753,318 |
| **Gross carrying amount** | **₱58,297,327** | **₱1,164,275** | **₱59,461,062** | ₱9,403,606 | ₱1,194,741 | ₱10,598,347 |

As at December 31, 2018 and 2017, Association's receivables that are past due for more than 1 year are considered impaired. Following use of a simplified ECL, given receivables are short term in nature, non-defaulted accounts are computed with lifetime ECL.

Liquidity Risk

Liquidity risk is the risk arising from potential inability to meet obligations when they become due at a reasonable cost and timely manner. To ensure sufficient liquidity, the Association sets aside funds to pay currently maturing obligations which are placed in credible banks. Monitoring of daily cash position is being done to guide the management in making sure that sufficient liquidity is maintained. The Treasury Committee of CARD MRI reviews monthly the liquidity position of the Association.

The table below summarize the maturity profile of the financial instruments of the Association based on undiscounted cash flows as at December 31, 2018 and 2017:

| **2018** | **On demand** | **Within 1 Year** | **More than 1 Year** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | **₱65,753,337** | **₱–** | **₱–** | **₱65,753,337** |
| Investments at Amortized Cost | **–** | **214,804,449** | **31,500,000** | **246,304,449** |
| Financial Assets at FVOCI | **–** | **–** | **8,660,322** | **8,660,322** |
| Receivables: | | | | |
| Students | **12,306,636** | **–** | **–** | **12,306,636** |
| Trainees and participants | **961,717** | **342,297** | **748,823** | **2,052,837** |
| Related parties | **42,287,310** | **3,180** | **69,975** | **42,360,465** |
| | **121,309,000** | **215,149,926** | **40,979,120** | **377,438,046** |
| Accounts payable and accrued expenses: | | | | |
| Accrued expenses | **8,073,365** | **–** | **–** | **8,073,365** |
| Accounts payable | **9,145,867** | **–** | **–** | **9,145,867** |
| Funds held in trust | **–** | **109,898,441** | **–** | **109,898,441** |
| | **17,219,232** | **109,898,441** | **–** | **127,117,673** |
| | **₱104,089,768** | **₱105,251,485** | **40,979,120** | **₱250,320,373** |

| 2017 | On demand | Within 1 Year | More than 1 Year | Total |
|---|---|---|---|---|
| Cash and cash equivalents | ₱70,909,439 | ₱– | ₱– | ₱70,909,439 |
| Investments at Amortized Cost | – | 141,997,367 | 31,500,000 | 173,497,367 |
| Financial Assets at FVOCI | – | – | 9,097,712 | 9,097,712 |
| Receivables: | | | 217,179 | 217,179 |
| Students | 7,742,967 | – | 3,900 | 7,746,867 |
| Trainees and participants | 352,498 | 28,941 | 749,418 | 1,130,857 |
| Related parties | 603,417 | 15,443 | 397,039 | 1,015,899 |
| | 79,608,321 | 142,041,751 | 41,965,248 | 263,615,320 |
| Accounts payable and accrued expenses: | | | | |
| Accrued expenses | 5,918,788 | – | – | 5,918,788 |
| Accounts payable | 2,655,878 | 749,967 | – | 3,405,845 |
| Funds held in trust | – | 74,462,530 | – | 5,029,619 |
| | 8,574,666 | 75,212,497 | – | 14,354,252 |
| | ₱71,033,655 | ₱66,829,252 | ₱41,568,209 | ₱179,828,157 |

Market Risk

Market risk is the risk of loss of future earnings, of fair value or future cash flows of a financial instrument. The Association has no significant exposure to interest rate risk as interest bearing financial instruments carry fixed interest rates and foreign currency risk since exposure to foreign currency denominated assets and liabilities is very minimal.

*Equity price risk*

Equity price risk is the risk that the fair value of equity securities will fluctuate as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Association's FVOCI investments.

The table below demonstrates the sensitivity, to a reasonably possible change in weighted cost of capital with all other variables held constant, of the Association's other comprehensive income through the impact on unrealized gain/loss on financial asset at FVOCI.

| | Change in weighted cost of capital (in basis points) | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **10bp rise** | **(10bp fall)** | 10bp rise | (10bp fall) |
| Change in equity | **₱86,603** | **(₱86,603)** | ₱90,977 | (₱90,977) |

## 6. Cash in Banks

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Demand deposits | **₱28,030,595** | ₱39,408,245 |
| Savings deposits | **62,630,769** | 31,324,362 |
| | **₱65,589,364** | ₱70,732,607 |

Cash in banks represent current and savings accounts which earn interest at an annual rate ranging from 1.0% to 1.50% in 2018 and 2017.

## 7. Investment Securities

Financial Assets at Amortized Cost

| | December 31 | | January 1 |
|---|---|---|---|
| | **2018** | 2017 (As restated in Note 2) | 2017 (As restated in Note 2) |
| Short term investments | **₱208,548,009** | ₱137,861,521 | ₱59,275,897 |
| Long term investments | **30,000,000** | 30,000,000 | – |
| | **₱238,548,009** | ₱167,861,521 | ₱59,275,897 |

*Short-term investments*
Short-term investments represent time deposits which have maturity of more than three (3) months to one (1) year and with annual interest rates ranging from 3.0% to 4.3% and 3.0% to 5.0% in 2018 and 2017, respectively.

Interest earned on short-term investments amounted to ₱6.1 million and ₱2.7 million in 2018 and 2017, respectively.

*Long-term investments*
Long-term investment represent time deposit amounting to ₱30.0 million placed under Rizal Bank, Inc. (RBI) which have maturity of five (5) years with annual interest rate of 5.0% in 2018 and 2017 (see Note 19).

Financial Investment at Fair Value through Other Comprehensive Income

This represents the Association's 4.0% ownership interest in CARD MRI Information Technology (CMIT). As at December 31, 2018 and 2017, net unrealized gains in FVOCI investment of the association amounted to ₱4.3 and ₱4.7 million, respectively.

The Association received dividends from CMIT amounting to ₱2.1and ₱1.1 million, in 2018 and 2017, respectively.

## 8. Receivables

This account consists of:

| | December 31 | | January 1 |
|---|---|---|---|
| | **2018** | 2017 (As restated in Note 2) | 2017 (As restated in Note 2) |
| Receivables from related parties (Note 9) | **₱42,360,464** | ₱1,015,899 | ₱331,989 |
| Receivables from students | **12,306,636** | 7,746,867 | 2,569,828 |
| Interest receivable | **2,741,665** | 704,724 | 260,480 |
| Receivables from trainees and participants | **2,052,837** | 1,130,857 | 1,051,423 |
| Receivable from contractor | **–** | – | 11,205 |
| | **59,461,602** | 10,598,347 | 4,224,925 |
| Less allowance for credit losses | **1,320,117** | 1,240,529 | 686,185 |
| | **₱58,141,485** | ₱9,357,818 | ₱3,538,740 |

Changes in the allowance for credit losses follow:

| | **December 31** | | January 1 |
|---|---|---|---|
| | **2018** | 2017 (As restated in Note 2) | 2017 (As restated in Note 2) |
| Balance at beginning of year | **₱1,240,529** | ₱686,185 | ₱504,479 |
| Provision for credit losses | **79,588** | 554,344 | 181,706 |
| Balance at end of year | **₱1,320,117** | ₱1,240,529 | ₱686,185 |

## 9. Other Current Assets

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Prepaid subscription | **₱4,237,700** | ₱2,186,900 |
| Supplies inventory | **501,115** | 281,677 |
| Prepaid expenses | **272,925** | 182,069 |
| | **₱5,011,740** | ₱2,650,646 |

Prepaid subscription includes the prepayment for the subscription on the increase of capital stock of CARD MRI Information Technology (CMIT) (see Note 19). Prepaid expenses include prepayments for insurance and other expenses.

## 10. **Investment in Associates**

Investments in Associates
The composition and movements in this account in 2017 follows:

| | **Percentage of ownership** | **2018** | 2017 |
|---|---|---|---|
| **Acquisition cost** | | | |
| CARD MRI Publishing House Inc. (CMPHI) | **20%** | **₱100,000** | ₱100,000 |
| CARD MRI Hijos Tours Inc. (CMHTI) | **20%** | **100,000** | 100,000 |
| | | **200,000** | 200,000 |

| | **2018** | 2017 |
|---|---|---|
| **Accumulated equity in net income:** | | |
| Balance beginning of year | **17,179** | – |
| Share in net income | **258,820** | 17,179 |
| Balance at end of year | **275,999** | 17,179 |
| | **₱475,999** | ₱217,179 |

The following table illustrates the summarized financial information in the statements of financial position, statements of comprehensive income of CMPHI and CMHTI (amounts in millions):

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **CMPHI** | **CMHTI** | CMPHI | CMHTI |
| Assets | **₱2,911,999** | **₱1,763,508** | ₱859,136 | ₱784,362 |
| Liabilities | **1,105,855** | **553,809** | 306,930 | 250,597 |
| Net Assets | **1,806,144** | **1,209,699** | 552,206 | 533,765 |
| Revenue | **9,199,864** | **3,429,440** | 659,870 | 700,050 |
| Net Income | **1,253,938** | **75,950** | 52,171 | 33,730 |

## 11. Property and Equipment

The compositions of and movements in this account follow:

**2018**

| | Land | Land Improvement | Training Facilities | Office Furniture, Fixtures, Equipment and Library Books | Transportation Equipment | Leasehold Improvement | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at beginning of year | ₱17,672,319 | ₱9,208,205 | ₱100,431,700 | ₱22,142,899 | ₱1,367,498 | ₱1,949,016 | ₱14,456,363 | ₱167,228,000 |
| Additions | 13,420,143 | 184,453 | 1,848,864 | 4,205,452 | – | – | 18,735,729 | 38,394,641 |
| Disposal | – | – | (84,000) | (1,176,777) | – | – | – | (1,260,777) |
| Reclassifications (Note 7) | – | – | 12,694,326 | – | – | – | (12,694,326) | – |
| Balance at end of year | 31,096,962 | 9,388,158 | 114,890,890 | 25,171,574 | 1,367,498 | 1,949,016 | 20,497,766 | 204,361,864 |
| **Accumulated Depreciation** | | | | | | | | |
| Balance at beginning of year | – | 5,432,095 | 44,949,805 | 14,575,917 | 1,367,400 | 1,492,619 | – | 67,817,836 |
| Depreciation | – | 1,658,897 | 12,233,787 | 4,635,829 | – | 175,365 | – | 18,703,878 |
| Disposal | – | – | (83,900) | (1,173,277) | – | – | – | (1,257,177) |
| Balance at end of year | – | 7,090,992 | 57,099,692 | 18,038,469 | 1,367,400 | 1,667,983 | – | 85,264,537 |
| **Net Book Value** | ₱31,096,961 | ₱2,297,166 | ₱57,791,194 | ₱7,133,106 | ₱100 | ₱281,033 | ₱20,497,767 | ₱119,097,327 |

2017

| | Land | Land Improvement | Training Facilities | Office Furniture, Fixtures, Equipment and Library Books | Transportation Equipment | Leasehold Improvement | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| Balance at beginning of year | ₱16,065,119 | ₱6,723,103 | ₱79,389,634 | ₱18,171,195 | ₱4,131,477 | ₱1,949,016 | ₱19,741,329 | ₱146,170,873 |
| Additions | 1,607,200 | 747,496 | 2,031,408 | 3,768,084 | – | – | 15,463,298 | 23,617,486 |
| Disposal | – | – | – | – | (2,763,979) | – | – | (2,763,979) |
| Reclassifications (Note 7) | – | 1,737,606 | 19,010,658 | 203,620 | – | – | (20,748,264) | 203,620 |
| Balance at end of year | 17,672,319 | 9,208,205 | 100,431,700 | 22,142,899 | 1,367,498 | 1,949,016 | 14,456,363 | 167,228,000 |
| Accumulated Depreciation | | | | | | | | |
| Balance at beginning of year | – | 2,995,923 | 35,141,602 | 10,255,185 | 3,833,891 | 1,282,281 | – | 53,508,882 |
| Depreciation | – | 2,309,335 | 9,935,040 | 4,320,733 | 123,897 | 210,338 | – | 16,899,343 |
| Disposal | – | – | – | – | (2,590,390) | – | – | (2,590,390) |
| Balance at end of year | – | 5,305,258 | 45,076,642 | 14,575,918 | 1,367,398 | 1,492,619 | – | 67,817,835 |
| Net Book Value | ₱17,672,319 | ₱3,902,947 | ₱ 55,355,058 | ₱7,566,981 | ₱100 | ₱456,397 | ₱14,456,363 | ₱99,410,165 |

Depreciation expense on property and equipment are presented under the following expense categories:

| | 2018 | 2017 |
|---|---|---|
| Cost of seminars, trainings and other programs (Note 14) | **₱9,378,330** | ₱11,661,052 |
| Senior high school (Note 15) | **5,164,766** | 963,240 |
| Tertiary (Note 16) | **3,391,268** | 3,346,358 |
| Administrative | **769,514** | 928,693 |
| | **₱18,703,878** | ₱16,899,343 |

Construction in progress represents costs recognized by the Association on building improvement and construction of a new building.

As at December 31, 2018 and 2017, the total cost of fully depreciated assets still in use amounted to ₱16.0 million and ₱17.2 million, respectively.

Reclassifications include transfers from supplies inventory under 'Other current assets' to 'office furniture, fixture, equipment and library books'.

## 12. Software Costs

The movements in this account follow:

| | 2018 | 2017 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | **₱882,719** | ₱839,119 |
| Additions | **3,187,007** | 43,600 |
| Balance at end of year | **4,069,726** | 882,719 |
| **Accumulated Amortization** | | |
| Balance at beginning of year | **371,020** | 166,864 |
| Amortization | **431,921** | 204,156 |
| Balance at end of year | **802,941** | 371,020 |
| **Net Book Value** | **₱3,266,785** | ₱511,699 |

The breakdown of amortization expense on software costs follows:

| | 2018 | 2017 |
|---|---|---|
| Cost of seminars, trainings and other programs (Note 14) | **₱334,468** | ₱112,988 |
| Senior High School (Note 15) | **81,179** | 81,968 |
| Tertiary (Note 16) | **16,274** | 9,200 |
| | **₱431,921** | ₱204,156 |

## 13. **Accounts Payable and Accrued Expenses**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| **Current** | | |
| Accounts payable (Note 18) | **₱9,145,867** | ₱3,405,845 |
| Accrued expenses | **8,073,364** | 5,918,788 |
| Unearned tuition fee | **450,751** | 4,407,765 |
| Withholding tax payable | **568,258** | 581,517 |
| | **18,238,240** | 14,313,915 |
| **Non-Current** | | |
| Funds held in trust (Note 18) | **109,898,441** | 74,462,530 |
| Unearned tuition fee | **171,103** | 621,854 |
| | **110,069,544** | 75,084,384 |
| | **₱128,307,784** | ₱89,398,299 |

Accounts payable include the Association's payable to its affiliates, contractors and government and advances from customers.

Accrued expenses include accrual for vacation leave credits, cash gifts, 13th month pay, and other expenses.

Funds held in trust include donations received by the Association on behalf of CARD, Inc. for the Zero Dropout Education Scheme (ZeDrES). Total donations for ZeDrES received by the Association amounted to ₱5.8 million in 2017; most of which were distributed to the borrowers.

The Association also received ₱60.8 million and ₱67.3 million for the BS Scholarship Fund of CARD Bank, Inc. (CBI) and CARD, Inc. in 2018 and 2017, respectively. Disbursement to the fund during the year amounted to ₱35.4 million.

## 14. **Cost of Seminars, Trainings and Other Programs**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Meals of trainees | **₱54,226,955** | ₱49,122,588 |
| Room accommodation and function hall | **29,856,974** | 28,348,482 |
| Compensation and employee benefits (Notes 18 and 19) | **19,022,134** | 15,759,311 |
| Depreciation (Note 11) | **9,378,330** | 11,661,052 |
| Transportation and travel | **7,130,540** | 6,118,924 |
| Supplies and materials | **6,283,186** | 7,557,986 |
| Janitorial, messengerial and security | **4,421,229** | 3,834,708 |
| Utilities | **3,195,191** | 2,921,131 |
| Information technology | **4,795,724** | 1,910,047 |
| Repairs and maintenance | **2,141,547** | 1,275,651 |

(Forward)

| | 2018 | 2017 |
|---|---|---|
| Office rental (Note 17) | **₱1,597,607** | ₱1,187,309 |
| Honorarium to resource persons | **1,310,611** | 1,322,782 |
| Laundry and ironing | **839,916** | 775,385 |
| Interest expense | **790,302** | 523,100 |
| Communication and postage | **698,729** | 419,513 |
| Amortization (Note 12) | **334,468** | 112,988 |
| Representation | **208,730** | ₱550,790 |
| Library books | **49,641** | 23,471 |
| Miscellaneous | **1,548,215** | 1,399,838 |
| | **₱147,830,029** | ₱134,712,068 |

Miscellaneous expenses include periodicals and magazines, insurance expense and other program-related costs.

15. **Senior High School Expenses**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Compensation and employee benefits (Notes 18 and 19) | **₱8,486,400** | ₱4,032,557 |
| Staff training and development and meetings | **5,792,249** | 1,433,169 |
| Depreciation (Note 11) | **5,164,766** | 963,240 |
| Transportation and travel | **2,679,383** | 1,228,506 |
| Supplies and materials | **1,645,102** | 858,948 |
| Janitorial, messengerial, security | **1,036,111** | 602,648 |
| Information technology | **1,026,101** | 448,500 |
| Utilities | **995,079** | 399,532 |
| Advertising and publicity | **362,617** | 198,900 |
| Management and professional fees | **277,206** | 307,726 |
| Repairs and maintenance | **228,226** | 308,951 |
| Communication and postage | **152,907** | 55,220 |
| Taxes and licenses | **151,229** | 15,000 |
| Representation | **117,490** | 158,580 |
| Amortization (Note 12) | **81,179** | 81,968 |
| Library books (Note 11) | **52,481** | 13,100 |
| Miscellaneous | **535,677** | 183,499 |
| | **₱28,784,203** | ₱11,208,076 |

## 16. **Tertiary Expenses**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Compensation and employee benefits (Notes 18 and 19) | **₱4,314,520** | ₱1,539,922 |
| Depreciation (Note 11) | **3,391,268** | 3,346,358 |
| Staff training and development and meetings | **2,516,068** | 117,155 |
| Transportation and travel | **1,843,344** | 719,339 |
| Supplies and materials | **1,271,739** | 362,790 |
| Janitorial, messengerial, security | **839,358** | 514,453 |
| Utilities | **721,027** | 343,521 |
| Management and professional fees | **495,242** | 740,628 |
| Taxes and licenses | **285,274** | 344,147 |
| Information technology | **279,048** | 55,230 |
| Advertising and publicity | **261,384** | 123,570 |
| Repairs and maintenance | **163,129** | 148,846 |
| Representation | **141,800** | 82,757 |
| Library books | **95,425** | 2,500 |
| Communication and postage | **62,788** | 5,709 |
| Amortization (Note 12) | **16,274** | 81,968 |
| Miscellaneous | **301,401** | 166,589 |
| | **₱16,999,089** | ₱8,695,482 |

## 17. **Lease Contracts**

Operating Lease Agreement
The Association has two (2) outstanding lease contract for the lease of one commercial building from CARD, Inc., with lease term of three (3) years until November 15, 2019, and one commercial building from CBI, with lease term of five (5) years starting from June 1, 2014 until May 31, 2019. The lease of properties is renewable upon mutual agreement between the Association and the lessor.

Future aggregate minimum lease payments under non-cancellable operating leases follow:

| | 2018 | 2017 |
|---|---|---|
| Not later than one year | **₱711,586** | ₱646,503 |
| Later than one year and not later than five years | **102,269** | 339,996 |
| | **₱813,855** | ₱986,499 |

Lease payments recognized under ‘Office rental’ amounted to ₱1.5 million and ₱1.2 million in 2018 and 2017, respectively (see Note 15).

Finance Lease Agreement
The Association entered into lease agreements with Responsible Investments for Solidarity and Empowerment (RISE) Financing Company, Inc. covering equipment and furniture and fixtures for a period of three (3) years with acquisition cost amounting to ₱1.1 million in 2016. The lease agreements provide implicit interest rates ranging from 1.4% to 1.8% annually.

Future aggregate minimum lease payments are as follows:

| | **2018** | | |
|---|---|---|---|
| | **Not later than one year** | **Later than one year and less than five years** | **Total** |
| Principal payments | **₱373,735** | **₱–** | **₱373,735** |
| Finance charge | **8,930** | **–** | **8,930** |
| Minimum lease payments | **₱382,665** | **₱–** | **₱382,665** |

| | 2017 | | |
|---|---|---|---|
| | Not later than one year | Later than one year and less than five years | Total |
| Principal payments | ₱1,908,598 | ₱419,551 | ₱2,328,149 |
| Finance charge | 227,490 | 8,930 | 236,420 |
| Minimum lease payments | ₱2,136,088 | ₱428,481 | ₱2,564,569 |

Interest expense recognized on the finance leases amounted to ₱0.2 million and ₱0.5 million in 2018 and 2017, respectively.

Security deposits required by the lease agreements amounting to ₱3.4 million and ₱2.0 million as at December 31, 2018 and 2017, respectively, are included in the "Other noncurrent assets".

## 18. Retirement Benefits

The Association, Rizal Bank, Inc., CARD Bank, Inc, CARD Mutual Benefit Association, Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency, Inc., CARD Business Development Service Foundation, Inc., BotiCARD, Inc., CARD Employees Multi-Purpose Cooperative, Responsible for Investments and Solidarity Empowerment Financing Company, Inc., CARD MRI Information Technology, Inc., CARD, Inc., Mga Likha ni Inay, Inc. and other related parties maintain a funded and formal noncontributory defined benefit retirement plan – a multi-employer retirement plan (MERP or the Plan) – with CARD MERP covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. The Plan is valued using the projected unit cost method and is financed solely by the Association and its related parties.

MERP is valued using the projected unit cost method and is financed solely by the Association and its related parties. MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

In addition to the Association's defined benefit retirement plan, the Association also operates defined contribution plan referred to as "Hybrid Plan" which provides a retirement benefit equal to 100% of the member's employer accumulated value (the Association's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the member's employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

The Association has 17 employees which are part of Hybrid Plan as at December 31, 2018.

The date of the latest actuarial valuation report for MERP and Hybrid Plan is December 31, 2018.

The amounts recognized in the statement of assets, liabilities and fund balance follow:

| | **2018** | 2017 (As restated Note 2) |
|---|---|---|
| Present value of defined benefit obligation | **(₱13,525,619)** | (₱14,564,970) |
| Fair value of plan assets | **32,831,605** | 28,534,622 |
| Effect of asset ceiling | **(8,260,781)** | (3,689,255) |
| Retirement asset | **₱11,045,205** | ₱10,280,397 |

The amounts included in the statements of revenue and expenses and changes in fund balance follow:

| | **2018** | 2017 (As restated Note 2) |
|---|---|---|
| Current service cost | **₱1,170,039** | ₱1,211,390 |
| Interest income on plan assets | **(1,740,073)** | (1,464,933) |
| Interest on the effect of asset ceiling | **212,870** | 121,663 |
| Interest expense on defined benefit obligation | **840,399** | 741,597 |
| Retirement expense | **₱483,235** | ₱609,717 |

The movements in the net retirement asset follow:

| | **2018** | 2017 (As restated Note 2) |
|---|---|---|
| Balance at beginning of year | **₱10,280,397** | ₱8,001,384 |
| Contributions paid | **102,886** | 631,216 |
| Retirement expense | **483,235** | 609,717 |
| Remeasurement gain recognized during the year | **(1,145,157)** | (2,257,514) |
| Balance at end of year | **₱11,045,205** | ₱10,280,397 |

The movements in the present value of pension obligation follow:

| | 2018 | 2017 (As restated Note 2) |
|---|---|---|
| Balance at beginning of year | **₱14,564,970** | ₱12,655,246 |
| Actuarial gain | **(6,192,160)** | (3,944,175) |
| Transfers to the plan | **3,930,887** | 3,921,302 |
| Current service cost | **1,170,039** | 1,211,390 |
| Interest cost | **840,399** | 741,597 |
| Benefits paid | **(788,516)** | (20,390) |
| Balance at end of year | **₱13,525,619** | ₱14,564,970 |

The movements in the fair value of plan assets follow:

| | 2018 | 2017 (As restated Note 2) |
|---|---|---|
| Balance at beginning of year | **₱28,534,622** | ₱22,732,787 |
| PVO transfer | **3,930,887** | 3,921,302 |
| Interest income | **1,740,073** | 1,464,933 |
| Contributions paid by employer | **102,886** | 631,216 |
| Benefits paid | **(788,516)** | (20,390) |
| Return on plan assets | **(688,347)** | (195,226) |
| Balance at end of year | **₱32,831,605** | ₱28,534,622 |

Remeasurement gain or loss on retirement plan follows:

| | 2018 | 2017 (As restated Note 2) |
|---|---|---|
| Actuarial gain | **(₱6,192,160)** | (₱3,944,175) |
| Remeasurement gain on plan assets | **688,347** | 1,491,435 |
| Effect of asset ceiling | **4,358,656** | 195,226 |
| | **(₱1,145,157)** | (₱2,257,514) |

The fair value of plan assets, gross of effect of asset ceiling, by each class as at the reporting date is as follows:

| | 2018 | 2017 (As restated Note 2) |
|---|---|---|
| Cash and cash equivalents | **₱14,583,799** | ₱11,759,118 |
| Debt instruments – Government securities | **16,435,501** | 14,487,028 |
| Loan receivables | – | 1,255,523 |
| Other assets | **1,812,305** | 1,032,953 |
| | **₱32,831,605** | ₱28,534,622 |

All plan assets do not have quoted prices in an active market except for government securities. Cash and cash equivalents are deposited in reputable financial institutions and related parties and are deemed to be standard grade. Investment in equity securities, loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk other than those in government bonds which are of low risk.

The overall investment policy and strategy of the Association's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

| | **2018** | 2017 |
|---|---|---|
| Discount rates | | |
| January 1 | **5.77%** | 5.86% |
| December 31 | **7.70%** | 5.77% |
| Future salary increases | **5.00%** | 5.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **+1.0%** | **-1.0%** | +1.0% | -1.0% |
| Discount rate | **(₱1,306,107)** | **₱1,526,894** | (₱1,721,990) | ₱2,066,527 |
| Salary rate | **1,553,430** | **(1,349,017)** | 1,908,605 | (1,629,410) |

The Association plans to contribute ₱2.7 million to the defined benefit retirement plan in 2019. As at December 31, 2018, the average duration of defined benefit obligations is 13.0 years.

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

| | **2018** | 2017 |
|---|---|---|
| Less than 1 year | **₱739,592** | ₱416,674 |
| More than 1 year to 5 years | **4,246,187** | 2,839,334 |
| More than 5 years to 10 years | **7,820,400** | 4,338,721 |
| | **₱12,806,179** | ₱7,594,729 |

## 19. Related Party Transactions

In the ordinary course of business, the Association transacts with related parties. Related parties include trustees, members, officers, employees and entities (affiliates) where trustees, members and officers hold key management positions. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest, as those prevailing at the time for comparable transactions with other parties. These transactions are made substantially on the same terms as other individuals and business of comparable risks and are generally settled in cash.

Transactions with retirement plans
Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2005.

Remunerations of Trustees and other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Association, directly or indirectly. The Association considers the members of the board of trustees and senior management to constitute key management personnel for purposes of PAS 24, Related Party Disclosure.

The compensation of key management personnel included under 'Compensation and employee benefits' in the statements of revenue and expenses are as follows:

| | **2018** | 2017 |
|---|---|---|
| Short-term employee benefits | **₱13,755,960** | ₱2,422,861 |
| Post-employment benefits | **102,923** | 1,315,271 |
| | **₱13,858,883** | ₱3,738,132 |

Other related party transactions
Transactions between the Association and its key management personnel meet the definition of related party transactions. Transactions between the Association and its affiliates within the CARD MRI, also qualify as related party transactions.

Related party transactions and balances as at and for the years ended December 31, 2018 and 2017 are as follows:

| | | **December 31, 2018** | |
|---|---|---|---|
| **Category** | **Amount/ Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| **Other related parties** | | | |
| Cash in bank and short-term investments | | **₱274,137,373** | Checking, savings and time deposit accounts with annual interest rate ranging from 1.0% to 4.3% |
| Deposits | **₱367,235,370** | | |
| Withdrawals | **(273,365,119)** | | |
| Interest income | **7,289,111** | | From savings and time deposit |
| Long-term investment | | **30,000,000** | Time deposit account in RBI with annual interest rate of 5.0% |
| Interest income | **1,500,000** | | |
| Equity investments | | **9,136,321** | Investments in CMIT with 4.08% ownership and investments in CMPHI and CMHTI with 20.0% ownership each. |

(Forward)

| | | December 31, 2018 | |
|---|---|---|---|
| **Category** | **Amount/ Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| Accounts receivable | **₱** | **₱42,360,464** | For training fees, seminars and meetings and share of expenses |
| Billings | **289,585,863** | | |
| Collections | **(286,247,600)** | | |
| Donation | **38,006,302** | | Represents collectibles from approved donation |
| Accounts payable | | **716,196** | Share of expenses |
| Billings | **8,659,859** | | |
| Payments | **(8,035,183)** | | |
| Funds held in trust | | **109,898,441** | Funds received by the Association in behalf of CARD, Inc. and CBI for the ZeDres and BS Scholarship programs and funds received for the BS Scholarship of CBI and CARD, Inc. |
| Receipts | **61,013,260** | | |
| Disbursements | **(25,577,349)** | | |
| Lease liability | **(1,954,414)** | **373,735** | Lease of equipment and furniture and fixture from RISE |
| Seminars and trainings | **245,246,515** | | Income derived from providing seminars and trainings to CARD MRI group and the related affiliates |
| Facilities fee | **950,247** | | Income derived from the use of facilities to CARD MRI group and external parties for various events |
| Dividend income | **2,051,053** | | Income derived from the Association's investment in FVOCI |
| Donations and contributions | **35,000,000** | | Funds received by the Association for the support of the social development program |
| Rent expense | **713,715** | | The Association leases premises occupied by its branches. Rent expense is recorded under 'Office rental' (see Note 16) |
| Contributions | **102,886** | | Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 17) |

| | | December 31, 2017 | |
|---|---|---|---|
| Category | Amount/ Volume | Outstanding Balance | Nature, Terms and Conditions |
| Other related parties | | | |
| Cash in bank | ₱ | ₱172,978,011 | Checking, savings and time deposit accounts with annual interest rate ranging from 1.0% to 4.3% |
| Deposits | 506,707,646 | | |
| Withdrawals | (411,733,177) | | |
| Interest income | 2,720,226 | | From savings and time deposit |
| Long-term investment | | 30,000,000 | Time deposit account in RBI with annual interest rate of 5.0% |
| Interest income | 8,333 | | |
| Equity investment | | 9,097,712 | Investments in CMIT with 4.08% ownership and investments in CMPHI and CMHTI with 20.0% ownership each. |
| Acquisition of shares | 200,000 | | Investments in CMPHI and CMHTI with 20.0% ownership each. |
| Accounts receivable | | 1,015,899 | For training fees, seminars and meetings and share of expenses |
| Billings | 265,723,341 | | |
| Collections | (265,039,431) | | |
| Accounts payable | | 91,519 | Share of expenses |
| Billings | 11,554,237 | | |
| Payments | (11,493,466) | | |
| Funds held in trust | | 74,462,530 | Funds received by the Association in behalf of CARD, Inc. and CBI for the ZeDres and BS Scholarship programs and funds received for the BS Scholarship of CBI and CARD, Inc. |
| Receipts | 73,100,092 | | |
| Disbursements | (8,925,616) | | |
| Lease liability | | 2,328,149 | Lease of equipment and furniture and fixture from RISE |
| Seminars and trainings | 222,798,414 | | Income derived from providing seminars and trainings to CARD MRI group and the related affiliates |
| Facilities fee | 743,907 | | Income derived from the use of facilities to CARD MRI group and external parties for various events |

(Forward)

| | December 31, 2017 | | |
|---|---|---|---|
| Category | Amount/ Volume | Outstanding Balance | Nature, Terms and Conditions |
| Dividend income | ₱1,093,475 | ₱ | Income derived from the Association's investment in equity shares |
| Donations and contributions | 5,000,000 | | Funds received by the Association for the expenses of BS Scholarship |
| Rent expense | 1,187,309 | | The Association leases premises occupied by its branches. Rent expense is recorded under 'Office rental' (see Note 16) |
| Contributions | ₱631,216 | ₱ | Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 17) |

20. **Notes to Statements of Cash Flows**

Noncash activities of the Association consist of the following:

| | **2018** | 2017 |
|---|---|---|
| **Noncash operating activities:** | | |
| Remeasurement gain on retirement plan | **₱1,145,157** | ₱2,257,514 |
| Reclassification of other asset to property and equipment | – | 203,622 |
| Fair value gains (losses) on financial assets at FVOCI (Note 7) | **(437,390)** | 4,723,812 |

21. **Approval of the Release of the Financial Statements**

The accompanying financial statements of the Association were authorized for issue by the BOT on April 9, 2019.

22. **Supplementary Information under RR 15-2010**

The Association reported and/or paid the following types of taxes in 2018:

Taxes and Licenses

Taxes and licenses in 2018 recorded as 'Taxes and licenses' in the statements of revenue and expenses and changes in fund balance consist of:

| | |
|---|---|
| Real property tax | ₱504,703 |
| Business permits and licenses | 179,748 |
| Community tax certificate | 6,672 |
| Annual registration | 1,000 |
| Others | 298,535 |
| | ₱990,658 |

Withholding Taxes
The following withholding taxes are categorized into:

| | Paid | Payable |
|---|---|---|
| Withholding tax on compensation | ₱853,806 | ₱222,952 |
| Expanded withholding tax | 2,616,661 | 345,306 |
| | ₱3,470,467 | ₱568,258 |

Tax Contingencies
The Association has no pending tax cases or assessments as at December 31, 2018.