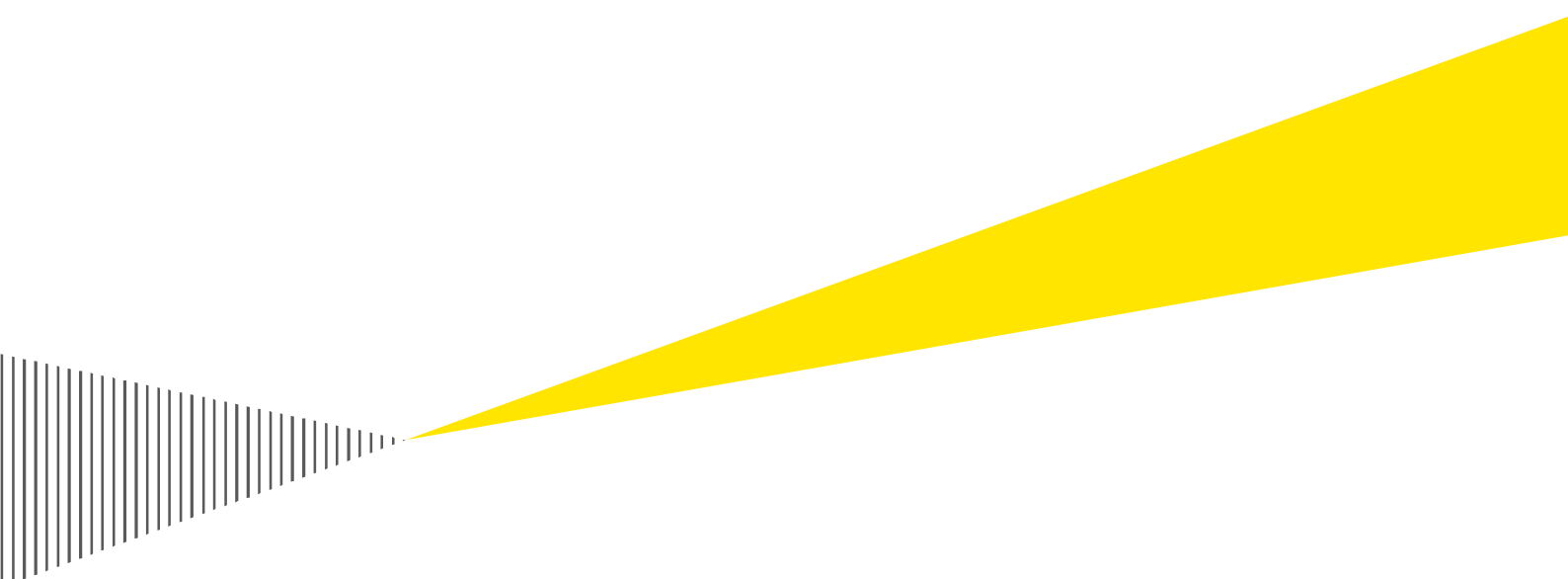


**CARD-Business Development Service Foundation, Inc.**  
*(A Nonstock, Not-for-Profit Organization)*

Parent Company Financial Statements  
December 31, 2014 and 2013

and

Independent Auditors' Report



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working world

## **INDEPENDENT AUDITORS' REPORT**

The Board of Trustees  
CARD-Business Development Service Foundation, Inc.  
(A Nonstock, Not-for-Profit Organization)

### **Report on the Parent Company Financial Statements**

We have audited the accompanying financial statements of CARD-Business Development Service Foundation, Inc. (A Nonstock, Not-for-Profit Organization), which comprise the parent company statements of assets, liabilities and fund balance as at December 31, 2014 and 2013, and the parent company statements of revenue and expenses and changes in fund balance and parent company statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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

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

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



*Opinion*

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of CARD-Business Development Service Foundation, Inc. (A Nonstock, Not-for-Profit Organization) as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.

**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 parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 19 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic parent company financial statements. Such information is the responsibility of the management of CARD-Business Development Service Foundation, Inc. (A Nonstock, Not-for-Profit Organization). The information has been subjected to the auditing procedures applied in our audit of the basic parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Aris C. Malantic

Partner

CPA Certificate No. 90190

SEC Accreditation No. 0326-AR-2 (Group A),

March 15, 2012, valid until April 30, 2015

Tax Identification No. 152-884-691

BIR Accreditation No. 08-001998-54-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 4751296, January 5, 2015, Makati City

March 31, 2015



**CARD-BUSINESS DEVELOPMENT SERVICE FOUNDATION, INC.**  
**(A Nonstock, Not-for-Profit Organization)**

**PARENT COMPANY STATEMENTS OF ASSETS, LIABILITIES  
AND FUND BALANCE**

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	<b>₱2,406,321</b>	₱15,676,160
Financial Asset at Fair Value through Profit or Loss (Notes 5 and 16)	–	1,133,787
Receivables (Note 6)	<b>7,506,533</b>	18,763,499
Other Current Assets (Notes 4, 5, 7)	<b>6,426,053</b>	13,481,520
	<b>16,338,907</b>	49,054,966
<b>Noncurrent Assets</b>		
Receivables (Note 6)	–	113,537
Available-for-Sale Investments (Note 5)	<b>6,842,500</b>	9,592,500
Investment in a Subsidiary (Note 8)	<b>968,750</b>	–
Investments in Associates (Note 8)	<b>28,000,000</b>	28,000,000
Property and Equipment (Note 9)	<b>5,459,079</b>	1,053,036
Retirement Asset (Note 13)	<b>539,278</b>	–
Other Noncurrent Assets (Note 10)	<b>900,000</b>	1,970,413
Total Noncurrent Assets	<b>42,709,607</b>	40,729,486
	<b>₱59,048,514</b>	₱89,784,452
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses (Note 11)	<b>₱16,763,882</b>	₱27,893,696
Project Assistance Payable (Notes 12 and 16)	<b>2,500,000</b>	29,116,857
	<b>19,263,882</b>	57,010,553
<b>Noncurrent Liabilities</b>		
Project Assistance Payable (Notes 12 and 16)	<b>1,250,000</b>	3,750,000
Retirement Liability (Note 13)	–	6,766,481
	<b>1,250,000</b>	10,516,481
	<b>20,513,882</b>	67,527,034
<b>Fund Balance</b>	<b>38,534,632</b>	22,257,418
	<b>₱59,048,514</b>	₱89,784,452

*See accompanying Notes to Financial Statements.*



**CARD-BUSINESS DEVELOPMENT SERVICE FOUNDATION, INC.**  
**(A Nonstock, Not-for-Profit Organization)**

**PARENT COMPANY STATEMENTS OF REVENUE AND EXPENSES  
AND CHANGES IN FUND BALANCE**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Grants (Note 16)	<b>₱41,416,857</b>	₱15,000,000
Dividend income (Note 8)	<b>1,127,750</b>	272,690
Administrative fees (Note 6)	<b>380,752</b>	1,365,930
Project development (Notes 14 and 16)	–	2,500,000
Marketing fees (Notes 7 and 16)	–	7,967,995
Others (Notes 4 and 7)	<b>4,555,382</b>	2,990,513
	<b>47,480,741</b>	30,097,128
<b>EXPENSES</b>		
Project related expenses (Note 14)	<b>24,890,192</b>	18,538,290
Administrative expenses:		
Compensation and employee benefits (Notes 13 and 16)	<b>3,110,743</b>	3,245,200
Actuarial gain (Notes 13 and 14)	<b>(1,936,788)</b>	(499,253)
Mark-to-market loss on FVPL (Notes 5 and 16)	<b>1,133,787</b>	4,454,981
Transportation and travel	<b>638,796</b>	692,978
Program monitoring and evaluation	<b>540,989</b>	478,684
Repairs and maintenance	<b>412,506</b>	259,886
Rental (Notes 14, 15 and 16)	<b>329,175</b>	341,361
Interest (Notes 12, 14 and 16)	<b>316,861</b>	262,155
Management and professional fees	<b>236,742</b>	191,941
Seminars and meetings (Note 16)	<b>230,294</b>	227,364
Training and development	<b>230,588</b>	378,156
Supplies and materials	<b>204,620</b>	526,862
Depreciation (Note 9)	<b>147,265</b>	169,357
Utilities	<b>138,713</b>	135,025
Janitorial, messengerial and security	<b>116,018</b>	89,798
Communication	<b>95,239</b>	88,287
Information technology (Notes 14 and 16)	<b>62,098</b>	17,380
Insurance	<b>44,053</b>	95,529
Miscellaneous	<b>261,636</b>	248,510
	<b>6,313,335</b>	11,404,201
	<b>31,203,527</b>	29,942,491
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>16,277,214</b>	154,637
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>22,257,418</b>	22,102,781
<b>FUND BALANCE AT END OF YEAR</b>	<b>₱38,534,632</b>	₱22,257,418

*See accompanying Notes to Financial Statements.*



**CARD-BUSINESS DEVELOPMENT SERVICE FOUNDATION, INC.**  
**(A Nonstock, Not-for-Profit Organization)**

**PARENT COMPANY STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	<b>₱16,277,214</b>	₱154,637
Adjustments for:		
Grants applied as payment for project assistance payable (Note 17)	<b>(26,616,857)</b>	–
Provision for impairment and credit losses (Note 14)	<b>11,571,356</b>	438,786
Retirement expense (Note 13)	<b>(5,158,419)</b>	153,970
Dividend income	<b>(1,127,750)</b>	(272,690)
Mark-to-market loss on financial asset at FVPL (Note 5)	<b>1,133,787</b>	4,454,981
Interest expense (Notes 12 and 16)	<b>1,131,648</b>	1,310,777
Depreciation (Note 9)	<b>525,945</b>	607,005
Interest income on deposits (Notes 4 and 16)	<b>(141,838)</b>	(426,387)
Operating income before working capital changes	<b>(2,404,914)</b>	6,421,079
Changes in operating assets and liabilities:		
Decrease (increase) in amount of:		
Receivables (Notes 6 and 19)	<b>3,816,128</b>	6,560,730
Other current assets (Note 7)	<b>3,208,899</b>	(350,544)
Increase (decrease) in amount of:		
Accounts payable and accrued expenses (Notes 11 and 17)	<b>(3,379,814)</b>	(1,520,761)
Net cash flows generated from operations	<b>1,240,299</b>	11,110,504
Contributions to retirement asset	<b>(2,147,340)</b>	(2,253,851)
Interest received	<b>141,838</b>	424,866
Net cash flows provided by operating activities	<b>(765,203)</b>	9,281,519
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale investments	<b>(5,000,000)</b>	(127,000)
Property and equipment (Note 9)	<b>(4,931,988)</b>	(370,363)
Investment in a subsidiary (Note 8)	<b>(968,750)</b>	–
Investment in associates	–	(7,000,000)
Other noncurrent assets (Notes 10 and 17)	–	(73,500)
Disposals of:		
Property and equipment (Note 9)	–	435,483
Available-for-sale investments (Notes 8 and 17)	–	92,000
Other noncurrent assets (Notes 10 and 17)	<b>900,000</b>	73,000
Dividend received (Note 8)	<b>1,127,750</b>	272,690
Prepaid subscription (Note 7)	–	(39,000)
Net cash flows used in investing activities	<b>(8,872,988)</b>	(6,736,690)

(Forward)



	<b>Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid (Notes 12 and 16)	<b>(1,131,648)</b>	(1,310,777)
Project assistance paid (Notes 12, 16 and 17)	<b>(2,500,000)</b>	(2,500,000)
Net cash flows used in financing activities	<b>(3,631,648)</b>	(3,810,777)
<b>NET DECREASE IN CASH</b>	<b>(13,269,839)</b>	(1,265,948)
<b>CASH AT BEGINNING OF YEAR</b>	<b>15,676,160</b>	16,942,108
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱2,406,321</b>	₱15,676,160

*See accompanying Notes to Financial Statements.*



**CARD-BUSINESS DEVELOPMENT SERVICE FOUNDATION, INC.**  
**(A Nonstock, Not-for-Profit Organization)**

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**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS**

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**1. General Information**

CARD-Business Development Service Foundation, Inc. (the Organization) is a nonstock, not-for-profit organization incorporated in the Philippines on January 11, 2008. The Organization is a member of the Center for Agriculture and Rural Development - Mutually Reinforcing Institutions (CARD-MRI) Group and was organized primarily to become CARD-MRI's main vehicle in integrating its micro entrepreneur clients into the mainstream economy while being socially-responsible citizens by providing for their holistic range of business and social service needs.

The Organization also aims to build a professional and sustainable business development service that can respond to the needs of CARD micro-entrepreneur clients in promoting, developing and expanding their business activities, and improving their quality of life. These activities include operating as an agent to market the member's products and assisting its members in assessing project feasibilities.

The Organization's principal office is located at 20 M.L. Quezon Street, City Subdivision, San Pablo City, Laguna.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying parent company financial statements have been prepared using the historical cost basis except for financial asset at fair value through profit or loss (FVPL) which is measured at fair value, and are presented in Philippine peso, the Organization's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance

The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Consistency of Presentation

The Organization retains the presentation and classification of items in the parent company financial statements from one period to the next unless it is apparent that another presentation or classification would be more appropriate or when PFRS for SMEs requires a change in presentation.

These financial statements represent the first parent financial statements of the Organization. The performance of the group is presented in the consolidated financial statements.

**Significant Accounting Policies**

Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of recognition*

A financial asset or a financial liability is recognized only when the Organization becomes a party to the contractual provisions of the instrument. Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* is used for recognition and measurement of financial instruments while PFRS for SMEs is used for disclosures.





*Initial recognition of financial instruments*

All financial assets and financial liabilities are initially measured at fair value, which is normally the transaction price. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Organization classifies its financial assets in the following categories: financial assets at FVPL, financial assets that are debt instruments at amortized cost, financial assets that are unquoted equity instruments at cost less impairment, and loan commitments at cost less impairment. Financial liabilities are classified into the following categories: financial liabilities at FVPL and financial liabilities at amortized cost.

Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2014 and 2013, the Organization has no loan commitments at cost less impairment and financial liabilities at FVPL.

*Determination of fair value*

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

*Financial instruments designated at FVPL*

Financial assets and financial liabilities are designated as at FVPL by management on initial recognition when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in fair value are recognized in 'Trading and securities gain - net' in the statement of income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.



*Financial assets that are debt instruments at amortized cost*

This category includes receivables and cash in bank.

After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortization on receivables is included in 'Administrative fees' in the parent company statement of revenue and expenses and changes in fund balance. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' under 'Project related expenses' in the parent company statement of revenue and expenses and changes in fund balance.

*Financial assets that are unquoted equity instruments at cost less impairment*

This category includes equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably.

After initial measurement, these financial assets are subsequently measured at cost less any allowance for impairment losses.

*Financial liabilities at amortized cost*

This category includes accounts payable and project assistance payable, which are not designated as at FVPL and where the substance of the contractual arrangement results in the Organization having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

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 only when:

- the contractual rights to the cash flows from the financial asset have expired or are settled; or
- the Organization transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the Organization, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Organization derecognizes the asset, and recognizes separately any rights and obligations retained or created in the transfer.

If a transfer does not result in derecognition because the Organization has retained significant risks and rewards of ownership of the transferred asset, the Organization continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the Organization recognizes any income on the transferred asset and any expense incurred on the financial liability.



### *Financial liabilities*

A financial liability (or a part of a financial liability) is derecognized only when it is extinguished (i.e., when the obligation specified in the contract is discharged, is cancelled or expires). 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 parent company statement of revenue and expenses and changes in fund balance.

### Impairment of Financial Assets

The Organization assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows.

For instruments measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original EIR. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR determined under the contract.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the Organization would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Reversal of allowance for impairment losses' in the parent company statement of revenue and expenses and changes in fund balance.

### Inventory

Costs of inventory include all costs of purchase and other costs incurred in bringing the inventory to their present location and condition. The Company's inventories are accounted for on a moving average basis. The Organization's inventories are products from its project assistance programs offered to CARD members.

### Equity Investments at Cost

#### *Investment in a Subsidiary*

In the parent company financial statements, investment in a subsidiary is carried at cost, less accumulated impairment in value. Dividends earned on this investment are recognized in the parent company statement of revenue and expenses and changes in fund balance as declared by the respective BOD of the investee.



#### *Investment in Associates*

Associates pertain to all entities over which the Organization has significant influence but not control, generally accompanying a shareholding of between 20.0% and 50.0% of the voting rights. In the parent company financial statements, investments in associates are carried at cost less allowance for impairment losses.

#### Property and Equipment

Land is carried at cost less any impairment in value while depreciable property and equipment, which include transportation equipment and office furniture, fixtures and equipment, is carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including taxes and directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against current operations in the year in which costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life (EUL) of three years for office furniture, fixtures and equipment and transportation equipment.

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from the asset.

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

#### Impairment of Equity Investments at Cost

The Organization assesses impairment on its investments in subsidiaries and associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the factors that the parent company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary operates.

#### Impairment of Property and Equipment

At each reporting date, the Organization assesses whether there is any indication that its property and equipment may be impaired. When an indicator of impairment exists, the Organization makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair



value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against current operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation, in the case of property and equipment) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

#### Fund Balance

Fund balance consists of the amounts contributed by the members of the Organization and all current and prior period results of operations.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Organization and the revenue can be measured reliably. The Organization assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Organization has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before the revenue is recognized:

#### *Grants*

Grants are recognized when there is a reasonable assurance that the Organization 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 parent company statement of assets, liabilities and fund balance, otherwise they are recorded as 'Grants' in the parent company statement of revenue and expenses and changes in fund balance.

#### *Marketing and project development*

Marketing and project development revenues are recognized as they become due and billable.

#### *Administrative fees and other income*

Administrative fees and other income are recognized when earned.

#### Cost and Expense Recognition

Cost and expenses are recognized in the parent company 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.



Cost and expenses are recognized in the parent company 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 parent company statement of assets, liabilities and fund balance as an asset.

#### Retirement Benefits

The Organization is covered by a funded noncontributory defined benefit retirement plan.

The Organization's retirement cost is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the parent company statement of assets, liabilities and fund balance, in respect of defined benefit pension plans, is the present value of the defined benefit obligation less the fair value of plan assets at the reporting date. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses are immediately charged against or credited to income.

#### 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 a 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 a 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).

#### *Organization as lessee*

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 parent company statement of revenue and expenses and changes in fund balance on a straight-line basis over the lease term.



*Organization as lessor*

Leases where the Organization does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rent income. Contingent rents are recognized as revenue in the year in which they are earned.

Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred.

Provisions

Provisions are recognized when: (a) the Company has an obligation at the reporting date as a result of a past event; (b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; and (c) the amount of the obligation can be estimated reliably. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

Contingencies

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

Events After the Reporting Period

Post-year-end events that provide additional information about the Organization's position at reporting date (adjusting events) are reflected in the parent company financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the parent company financial statements, when material.

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**3. Significant Accounting Judgments and Estimates**

Judgments

Management makes judgments in the process of applying the Organization's accounting policies. Judgments that have a significant effect on the reported amounts in the parent company financial statements are discussed below.

*a. Operating leases - Organization as lessee*

The Organization leases the premises it occupies. It has determined that the risks and rewards of ownership of the premises have not been transferred to the Organization.

The carrying values of receivables and the related allowance for credit losses are disclosed in Note 6.



b. *Contingencies*

The amount of probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Organization's defense and is based upon the analysis of potential results.

c. *Going concern*

The Organization's management has made an assessment of the Organization's ability to continue as a going concern and is satisfied that the Organization has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Organization's ability to continue as a going concern. Therefore, the parent company financial statements continue to be prepared on a going concern basis.

Estimates

The key sources of estimation are uncertainties at the reporting date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Credit losses on receivables*

The Organization reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded, the Organization makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the receivables.

The carrying values of the Organization's receivables as at December 31, 2014 and 2013 are disclosed in Note 6.

(b) *Impairment of available-for-sale investments*

The Organization assesses impairment on all of its equity instruments regardless of significance. Impairment of such assets requires estimation since the Organization will approximate the amount that it would receive for the asset if it was to be sold at the reporting date.

The carrying values of the Organization's equity investments at cost as at December 31, 2014 and 2013 are disclosed in Notes 5 and 8. No allowance was recognized on these investments.

(c) *Recoverability of financial assets designated at FVPL*

The Organization determines that recovery of financial assets designated at FVPL is not probable when the following loss events have come to the attention of the holder of the asset:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider
- it has become probable that the debtor will enter bankruptcy or other financial reorganization
- observable data indicating that there has been a measurable decrease in the estimated future cash flows from the financial assets since the initial recognition of those assets,





even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions

The mark-to-market loss on financial assets designated at FVPL as at December 31, 2014 and 2013 are disclosed in Note 5.

*(d) Impairment of property and equipment and inventories*

The Organization assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Organization considers important which could trigger an impairment review include the following:

- significant or prolonged decline in fair value of the asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An assessment is made at each reporting date of whether there is any indication of impairment of an asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or fair value less cost to sell.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory with its selling price less cost to sell. If an item of inventory is impaired, its carrying amount is reduced to selling price less cost to sell and an impairment loss is recognized immediately in the parent statement of revenue and expenses and change in fund balance.

The carrying values of the Organization's inventories, and property and equipment, are disclosed in Notes 7 and 9, respectively.

*(e) Estimated useful lives of property and equipment*

The Organization estimates the useful lives of its property and equipment. This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment. The estimated useful lives of property and equipment are disclosed in Note 2.

*(f) Present value of retirement obligation*

The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The expected rate of return on plan assets was based on the market prices prevailing on the date applicable to the period over which obligation are to be settled.



The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting dates.

The present value of the defined benefit obligation and fair value of plan asset are disclosed in Note 13.

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#### 4. Cash

This account consists of:

	2014	2013
Cash in banks (Note 16)	₱2,366,221	₱15,636,060
Cash on hand	40,100	40,100
	<b>₱2,406,321</b>	<b>₱15,676,160</b>

Cash in banks earn annual interest ranging from 0.3% to 1.5% and from 1.5% to 3.8% in 2014 and 2013, respectively. Interest income amounting to ₱0.1 million and ₱0.4 million in 2014 and 2013, respectively, are included under 'Other income' in the parent company statement of revenue and expenses and changes in fund balance.

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#### 5. Fair Value through Profit or Loss and Available-for-Sale Investments

##### Financial asset at fair value through profit or loss

This pertains to a 5-year 'financial assistance' loan granted in 2010 by the Organization to Microventures, Inc. (MVI), for the development of CARD members under MVI's *Hapinoy* program. The principal, which carries an administrative fee of 10.8% per annum, is payable quarterly over a period of five years with first installment due after the expiration of two-year grace period. The Organization has the option to convert the loan to equity at the second year mark.

Under the memorandum of agreement, MVI has the option to prepay (partially or in full) the outstanding balance subject to a penalty equivalent to 0.5% of the amount prepaid plus the administrative fee due thereon.

Mark-to-market loss on financial asset at FVPL recognized in the parent company statement of revenue and expenses and changes in fund balance amounted to ₱1.1 million and ₱4.5 million in 2014 and 2013, respectively.



Available-for-sale investments

The details of this account follow:

	2014	2013
Rags2Riches	<b>₱5,000,000</b>	₱-
BotiCARD, Inc., 9% shares owned	<b>900,000</b>	900,000
CARD MRI Information Technology, Inc. (CMIT), 8.5% shares owned	<b>750,000</b>	8,500,000
CAMIA, 2.03% shares owned	<b>192,500</b>	192,500
	<b>₱6,842,500</b>	<b>₱9,592,500</b>

On December 1, 2014, the Organization has extended a convertible promissory note to Rags2Riches amounting to ₱5.0 million which bears interest of 5.0% per annum. The promissory note and related interest is payable in shares to be issued by Rags2Riches, where share price and number of shares to be issued will be based on the next equity financing of Rags2Riches. The shares are expected to be delivered on November 30, 2016.

In 2013, the Organization purchased and disposed of from CARD MRI Insurance Agency (CAMIA) shares totaling to 254 shares amounting to ₱0.1 million and 184 shares amounting to ₱92,000, respectively.

These investments are carried at cost less any impairment in value.

Allowance for impairment losses pertains to the 100% allowance on the Organization's investment with MVI. MVI has been continuously incurring inventory losses from its operations.

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**6. Receivables**

This account consists of:

	2014	2013
Receivable from members	<b>₱15,580,355</b>	₱19,035,578
Due from affiliates (Note 16)	<b>3,035,672</b>	1,821,068
Due from subsidiary (Note 16)	<b>2,914,946</b>	-
Other receivables	<b>5,488,930</b>	10,160,408
	<b>27,019,903</b>	31,017,054
Less allowance for impairment losses	<b>19,513,370</b>	12,140,018
Total receivables	<b>₱7,506,533</b>	₱18,877,036
Current portion	<b>₱7,506,533</b>	₱18,763,499
Noncurrent portion	<b>₱-</b>	₱113,537

Receivable from members earn annual nominal administrative fee ranging from 14.0% to 30.0% in 2014 and 2013. Interest income amounting to ₱0.4 million and ₱1.4 million in 2014 and 2013, respectively, are included under 'Administrative fees' in the parent company statement of revenue and expenses and changes in fund balance.

Due from subsidiary represents the amount of transferred goods to MLNI.



Other receivables include receivables from agricultural trading program arising from marketing the processed and unprocessed products of the members of CARD-MRI group amounting to ₱2.5 million and ₱3.2 million as of December 31, 2014 and 2013, respectively. This account also includes accrued interest receivable from financial assistance extended to members amounting to nil and ₱13,819 as at December 31, 2014 and 2013, respectively.

Changes in the allowance for credit losses are as follows:

	2014	2013
Balance at beginning of year	<b>₱12,140,018</b>	₱12,233,979
Provision for credit losses (Note 14)	<b>7,554,375</b>	438,786
Recoveries	<b>(181,023)</b>	(532,747)
Balance at end of year	<b>₱19,513,370</b>	₱12,140,018
Individually impaired	<b>₱19,513,370</b>	₱11,560,621
Collectively impaired	-	579,397
	<b>₱19,513,370</b>	₱12,140,018

## 7. Other Current Assets

This account consists of:

	2014	2013
Inventory	<b>₱5,992,762</b>	₱12,747,500
Prepaid subscription	<b>589,500</b>	539,000
Prepaid expenses	<b>541,147</b>	329,321
Security deposit	-	160,000
	<b>7,123,409</b>	13,775,821
Less allowance for impairment losses		
Balance at beginning of the year	<b>(294,301)</b>	-
Provisions	<b>(3,846,568)</b>	(294,301)
Write off/reversal	<b>3,443,513</b>	□
	<b>(697,356)</b>	(294,301)
	<b>₱6,426,053</b>	₱13,481,520

As of December 31, 2014 and 2013, inventories include solar products, chicks and bamboos from Luntiang Bukid ni Inay Program. As of December 31, 2013, these also include inventories such as muscovado sugars, handicrafts, kawayan products transferred to Mga Likha ni Inay, Inc. (MLNI).

Gain recognized from sale of inventories in 2014 and 2013 amounted to ₱2.2 million and ₱3.0 million, respectively. In 2013, the Organization also recognized gain on sale of marketing materials (recognized under inventory) of ₱8.0 million

Prepaid subscription represents deposit for future stock subscriptions to BotiCARD Inc. and CAMIA amounting to ₱0.5 million and ₱89,500, respectively, as of December 31, 2014 and to CARD Leasing and Finance Corporation (CLFC) and BotiCARD, Inc. amounting to ₱0.5 and ₱39,000, respectively, as of December 31, 2013.

Provision for credit losses in the parent company statement of revenues and expenses and changes in fund balance amounted to ₱3.8 million and ₱0.3 in 2014 and 2013, respectively.



## 8. Equity Investments

This account consists of investments in unquoted common shares of the Organization's affiliates as follows:

	2014	2013
Investment in a subsidiary		
MLNI, 96.8% shares owned	<b>₱968,750</b>	₱-
Investments in associates		
CARD Leasing and Finance Corporation, 40.0% shares owned	<b>28,000,000</b>	28,000,000
Microventures Inc, 30.0% shares owned	<b>4,000,000</b>	4,000,000
	<b>32,000,000</b>	32,000,000
Less allowance for impairment losses	<b>(4,000,000)</b>	(4,000,000)
	<b>₱28,000,000</b>	₱28,000,000

These investments are carried at cost less any impairment in value.

On April 25, 2014, the Organization and various individuals incorporated MLNI to carry the retail business activity previously performed by the Organization. As initial capital, the Organization invested ₱1.0 million. Dividend income received in 2014 and 2013 amounted to ₱1.12 million and ₱0.27, respectively.

## 9. Property and Equipment

The composition of and movements in this account during 2014 and 2013 are as follows:

	2014			Total
	Land	Transportation Equipment	Office Furniture, Fixtures and Equipment	
<b>Cost</b>				
Balance at beginning of year	₱-	₱2,146,051	₱1,575,691	₱3,721,742
Additions	4,800,000	-	131,988	4,931,988
Disposals	-	-	(57,999)	(57,999)
Balance at end of year	4,800,000	2,146,051	1,649,680	8,595,731
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	(1,475,107)	(1,193,599)	(2,668,706)
Depreciation	-	(344,585)	(181,360)	(525,945)
Disposals	-	-	57,999	57,999
Balance at end of year	-	(1,819,692)	(1,316,960)	(3,136,652)
<b>Net Book Value at End of Year</b>	<b>₱4,800,000</b>	<b>₱326,359</b>	<b>₱332,720</b>	<b>₱5,459,079</b>



	<b>2013</b>		
	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
<b>Cost</b>			
Balance at beginning of year	₱2,061,645	₱3,307,794	₱5,369,439
Additions	84,406	285,957	370,363
Disposals	-	(2,018,060)	(2,018,060)
Balance at end of year	2,146,051	1,575,691	3,721,742
<b>Accumulated Depreciation</b>			
Balance at beginning of year	1,052,236	2,592,042	3,644,278
Depreciation (Note 15)	422,871	184,134	607,005
Disposals	-	(1,582,577)	(1,582,577)
Balance at end of year	1,475,107	1,193,599	2,668,706
<b>Net Book Value</b>	<b>₱670,944</b>	<b>₱382,092</b>	<b>₱1,053,036</b>

As of December 31, 2014 and 2013, the cost of fully-depreciated property and equipment still in use amounted to ₱1.2 million and ₱1.6 million, respectively.

Depreciation on property and equipment is included in the following expenses:

	<b>2014</b>	2013
Project related expenses (Note 14)	<b>₱378,680</b>	₱437,648
Administrative expenses	<b>147,265</b>	169,357
	<b>₱525,945</b>	₱607,005

#### 10. Other Noncurrent Assets

The movements of this account are as follows:

	<b>2014</b>	2013
Balance at beginning of the year	<b>₱1,970,413</b>	₱3,736,913
Additions	-	73,500
Disposals	<b>(900,000)</b>	(1,840,000)
Allowance for impairment losses	<b>(170,413)</b>	-
Balance at end of year	<b>₱900,000</b>	₱1,970,413

This account represents properties held by the Organization intended for the benefits of its members as structural model for future socialized housing projects.

The allowance for impairment losses pertains to provision made in 2014 on initial expenses on construction of townhouse in Dolores amounting to ₱0.2 million. The Organization abandoned its plan constructing the townhouses.



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## 11. Accounts Payable and Accrued Expenses

This account consists of:

	2014	2013
Subscription payable (Note 17)	<b>₱13,800,000</b>	₱21,750,000
Accrued expenses	<b>2,244,321</b>	5,605,271
Accounts payable (Note 17)	<b>560,098</b>	434,207
Other payables	<b>159,463</b>	104,218
	<b>₱16,763,882</b>	₱27,893,696

The subscription payable consists of:

	2014	2013
CLFC, 40% shares owned in 2013	<b>₱13,800,000</b>	₱14,000,000
CMIT, 8.5% shares owned in 2010	-	7,750,000
	<b>₱13,800,000</b>	₱21,750,000

Accrued expenses include vacation leave credits, bonuses, professional fees, program monitoring and evaluation, and other expenses (Note 16).

In 2014, the Organization assigned to various individuals its rights and obligations on the subscription for the shares of CMIT resulting in reversal of the subscription payable and related equity investment recognized in 2013.

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## 12. Project Assistance Payable

This account represents the ₱10.0 million and ₱36.6 million loans availed from CARD, Inc. in 2011 and 2008, respectively, for use by the Organization for its expansion program and working capital requirements. The loans are payable within a period of five years and bear an annual interest based on market lending rates. The interest rates applied are 3.0% to 5.0% and 5.0% in 2014 and 2013, respectively. Interest expense recognized amounted to ₱1.1 million and ₱1.3 million in 2014 and 2013, respectively (Note 16).

As at December 31, 2014 and 2013, the Organization's project assistance payable amounted to ₱3.8 million and ₱32.9 million, respectively. The amount payable within 12 months amounted to ₱2.5 million and ₱29.1 million as at December 31, 2014 and 2013, respectively.

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## 13. Retirement Benefits

The Organization, CARD Bank, Inc., CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CAMIA, Inc., CARD MRI Development Institute (CMDI), Inc., CMIT, BotiCARD, Inc., and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the MERP (the Plan) - covering all of their regular employees. The Plan has a projected unit cost format and is financed solely by the Organization and its related parties. The Plan complies with the requirement of Republic Act No. 7641 (The Philippine Retirement Law). The Plan provided lump sum benefits equivalent to at least one half (1/2) month salary for every year of service, a fraction of at least six months being considered as one whole year upon retirement, death, total and permanent disability, involuntary separation (except cause) or



voluntary separation after completion of at least ten years of service with the participating companies. However, starting 2011, the Plan provides lump sum benefits equivalent 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, involuntary separation (except cause) or voluntary separation after completion of at least one year of service with the participating companies.

The principal actuarial assumptions used in the comprehensive actuarial valuation as of December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.5%	6.4%
Future salary increases	7.0%	12.0%

The amounts recognized in the parent company statement of assets, liabilities and fund balance are as follows:

	2014	2013
Present value of defined benefit obligation	₱9,067,336	₱13,905,907
Fair value of plan assets	(9,630,666)	(7,139,426)
Effect of asset ceiling	24,052	-
Net retirement liability (asset)	(₱539,278)	₱6,766,481

The movements in the net retirement liability (asset) are as follows:

	2014	2013
Balance at the beginning of the year	₱6,766,481	₱8,866,362
Actuarial gains*	(6,917,099)	(1,783,048)
Contributions paid (Note 14)	(2,147,340)	(2,253,851)
Retirement expense	1,758,680	1,937,018
	(₱539,278)	₱6,766,481

\* Net of asset ceiling, charged to project related and administrative expenses.

The amounts included in 'Compensation and employee benefits' account in the parent company statement of revenue and expenses and changes in fund balance are as follows:

	2014	2013
Current service cost	₱1,395,500	₱1,309,587
Interest cost	887,197	1,120,520
Interest income	(524,017)	(493,089)
	₱1,758,680	₱1,937,018





The movements in the fair value of plan assets are as follows:

	2014	2013
Balance at beginning of year	₱7,139,426	₱9,206,538
Contributions paid	2,147,340	2,253,851
Interest income	524,017	493,089
Transfer to the plan assets from other MRI entity	154,856	(4,745,206)
Actuarial loss	(180,783)	(53,237)
Benefits paid	(154,190)	(15,609)
	<b>₱9,630,666</b>	<b>₱7,139,426</b>

Transfer from (to) of plan assets represents transfer of obligation and plan assets to the respective CARD MRI entity as a result of movements in employees among the CARD MRI entities. The actual return on plan assets amounted to ₱0.3 million and ₱0.4 million in 2014 and 2013, respectively.

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2014	2013
Cash and cash equivalents	₱3,786,778	₱3,870,283
Investments:		
Debt instruments	5,484,664	2,601,607
Equity instruments	-	44,978
Mutual funds	90,528	98,524
Loan	-	441,771
Other assets	268,696	82,263
	<b>₱9,630,666</b>	<b>₱7,139,426</b>

The movements in the present value of the defined benefit obligation are as follows:

	2014	2013
Balance at beginning of year	₱13,905,907	₱18,072,900
Current service cost	1,395,500	1,309,587
Interest cost	887,197	1,120,520
Transfer to the plan assets from other MRI entity	154,856	(4,745,206)
Benefits paid	(154,190)	(15,609)
Actuarial gain	(7,121,934)	(1,836,285)
	<b>₱9,067,336</b>	<b>₱13,905,907</b>

The management performs an Asset-Liability Matching Study annually. The overall investment policy and strategy of the Organization'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.



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#### 14. Project Related Income and Expenses

The income account consists of income generated from product and project development programs implemented by the Organization for its clients and members. In 2013, the Organization sold its printing press and leasing project developments to CLFC for ₱2.5 million (Note 16).

The expense account consists of:

	2014	2013
Provision for impairment and credit losses (Notes 6, 7 and 10)	<b>₱11,571,356</b>	₱438,786
Compensation and employee benefits (Notes 13 and 16)	<b>7,999,052</b>	8,383,418
Actuarial gain (Note 13)	<b>(4,980,311)</b>	(1,283,795)
Transportation and travel	<b>1,642,618</b>	1,779,611
Program monitoring and evaluation	<b>1,391,113</b>	1,178,200
Repairs and maintenance	<b>1,060,730</b>	668,278
Interest (Notes 12 and 16)	<b>814,787</b>	1,048,622
Rental (Notes 15 and 16)	<b>846,451</b>	877,787
Management and professional fees	<b>608,766</b>	368,562
Training and development	<b>592,940</b>	1,040,263
Seminars and meetings	<b>592,186</b>	584,649
Supplies and materials	<b>526,166</b>	1,354,787
Depreciation (Note 9)	<b>378,680</b>	437,648
Utilities	<b>356,690</b>	347,206
Janitorial, messengerial and security	<b>298,331</b>	230,910
Communication	<b>244,900</b>	227,023
Information technology	<b>159,679</b>	44,691
Insurance	<b>113,279</b>	245,645
Miscellaneous	<b>672,779</b>	565,999
	<b>₱24,890,192</b>	₱18,538,290

Miscellaneous includes renewal of business permits and licenses, supervision and examination.

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#### 15. Lease Contracts

##### As Lessee

The Organization leases premises occupied by its branches, as well as staff houses of its employees. The lease contracts are for one year and are renewable upon mutual agreement between the Organization and the lessors.

The future aggregate minimum lease payments within one year under non-cancelable operating leases are as follows:

	2014	2013
Not later than one year	<b>₱602,759</b>	₱768,421
Later than one year and not later than five years	<b>286,434</b>	219,000
	<b>₱889,193</b>	₱987,421

The total rent expenses recognized in 2014 and 2013 amounted to ₱1.2 million.



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## 16. Related Party Transactions

Related party transactions pertain to transfers of resources, services or obligations between related parties, regardless of whether a price is charged. Related party transactions are recorded upon actual transfer of resources, services or obligations. Related party transactions are reported under 'Receivables' or 'Accounts payable and accrued expenses' accounts in the parent company statement of assets, liabilities and fund balance, as appropriate.

Related parties include trustees, members, officers, employees and entities (affiliates) where trustees, members and officers hold key management positions. Transactions with these related parties include normal banking transactions, interest and non-interest bearing advances or loans, accounts receivable and accounts payable. 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 for SMEs, certain post-employment benefit plans are considered as related parties. MERP is managed by the CARD Employee Multipurpose Cooperative (EMPC). Part of the plan assets are invested in time deposits and special savings accounts with the affiliated banks (Note 13).

### 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 Organization, directly or indirectly. The Organization considers the members of the board of trustees and senior management to constitute key management personnel for purposes of section 33 *Related Party Disclosure* of PFRS for SMEs.

The compensation of key management personnel included under 'Compensation and employee benefits' in the parent company statement of revenue and expenses and changes in fund balance are as follows:

	2014	2013
Short-term employee benefits	<b>₱3,525,155</b>	₱3,240,250
Post-employment benefits	<b>529,432</b>	410,534
	<b>₱4,054,587</b>	₱3,650,784

### Other related party transactions

Transactions between the Organization and its affiliates within the CARD MRI also qualify as related party transactions.



Related party transactions of the Organization by category of related party are presented below:

2014			
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Parent Company Statements of Assets, Liabilities and Fund Balance</b>			
<b>Subsidiary</b>			
Due from subsidiary		<b>₱2,914,946</b>	This pertains to the shared expenses shouldered by the Organization (unimpaired, due and demandable).
Billings	<b>₱4,061,028</b>		
Payments	<b>(1,146,082)</b>		
Due to MLNI		<b>187,611</b>	This pertains to the unremitted collection made on behalf of MLNI (due and demandable)
Billings	<b>1,476,665</b>		
Payments	<b>(1,289,054)</b>		
<b>Affiliates</b>			
Cash in bank		<b>879,469</b>	This pertains to checking and savings account with annual interest rate ranging from 1.0% to 1.5%.
Deposit	<b>36,572,228</b>		
Withdrawal	<b>(44,332,270)</b>		
Accounts payable		<b>109,131</b>	This pertains to shared expenses on utilities and expenses during seminars and meetings
Billings	<b>496,306</b>		
Payments	<b>(439,534)</b>		
Due from affiliates		<b>129,076</b>	This pertains to receivables from sale of solar products on account (unimpaired, due and demandable).
Billings	<b>24,065,679</b>		
Collections	<b>(25,754,053)</b>		
Project assistance payable		<b>3,750,000</b>	This pertains to loans availed from CARD Inc. for the Organization's working capital requirements.
Converted to grants	<b>(26,616,857)</b>		
Payments	<b>(2,500,000)</b>		
<b>Associates</b>			
Accounts payable		-	This pertains to the unpaid shared expenses shouldered by the affiliates.
Billings	<b>369,538</b>		
Payments	<b>(369,538)</b>		
Accounts receivable		-	This pertains to the shared expenses shouldered by the Organization (unimpaired, due and demandable).
Billings	<b>532,884</b>		
Collections	<b>(542,181)</b>		
Subscription payable		<b>13,800,000</b>	This pertains to unpaid subscribed shares from CLFC and CMIT.
Payments	<b>(200,000)</b>		
Assignments	<b>(7,750,000)</b>		
<b>Parent Company Statements of Revenue and Expenses and Changes in Fund Balance</b>			
<b>Affiliates</b>			
Grants	<b>41,416,857</b>		This pertains to grants from CARD Inc. for the Organization's operations. Land donation during the year amounted to ₱4.8 million.
Rent expense	<b>176,960</b>		This pertains to the Organization's lease on its branches and staff houses.
Mark-to-market loss on FVPL investment	<b>1,133,787</b>		This pertains to the decline of fair value of loans to associate classified as financial asset at FVPL.
Interest expense	<b>1,131,648</b>		This pertains to interest expense on project assistance payable which bears an annual interest based on market lending rate.



2013

Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Parent company Statements of Assets, Liabilities and Fund Balance</b>			
<b>Affiliates</b>			
Cash in bank		₱8,639,511	These are checking and savings account with annual interest rate ranging from 1.0% to 1.5%.
Deposit	₱49,707,191		
Interest income	3,581,257		
Withdrawal	(59,023,153)		
Accounts payable		52,359	These are share on payment of utilities, and expenses during seminars and meetings.
Billings	115,015		
Payments	(174,654)		
Due from affiliates		1,817,450	This pertains to receivables from sale of products on account
Billings	41,767,267		
Collections	(46,239,651)		
Project Assistance Payable		32,866,857	Loan availed from CARD Inc. for the Organization's expansion program and working capital requirements.
Payments	2,500,000		
Subscription payable		21,750,000	This pertains in to unpaid subscribed shares in CMIT and CLFC.
<b>Associate</b>			
Accounts Receivable		9,297	Share on payment on telephone bill and various expenses (unimpaired, due and demandable)..
Billings	11,276,991		
Collections	(11,267,694)		
Financial asset at FVPL		1,133,787	This pertains to the decline of fair value of loans to associate classified as financial asset at FVPL
Mark-to-market loss	4,454,981		
<b>Parent company Statements of Revenue and Expenses and Changes in Fund Balance</b>			
<b>Affiliate</b>			
Grants	15,000,000		This pertains to grants from CARD Inc for the Organization's operations.
Rent expense	162,000		This pertains to the Organization's lease on its branches and staff houses.
Marketing fees	614,671		This pertains to income from providing marketing services to CARD MRI group.
Interest expense	1,310,777		Interest expense on project assistance payable which bears an annual interest based on market lending rate
Project development	2,500,000		Income derived from leasing its motor vehicles to CARD MRI group.
Mark-to-market loss	4,454,981		This pertains to the decline of fair value of loans to associate classified as financial asset at FVPL



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### 17. Notes to Statement of Cash Flows

The following is the summary of the noncash activities in 2014 and 2013:

	2014	2013
Noncash investing activities		
Assignment of equity investments at cost	₱7,750,000	₱-
Transfer of prepaid subscription to investment in associates	-	7,000,000
Subscription to CLFC shares on account	-	14,000,000
Sale of other noncurrent assets on account	-	1,767,000
Noncash financing activity		
Project assistance payable converted to grants	26,616,857	

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### 18. Approval for the Release of Financial Statements

The accompanying parent company financial statements were reviewed and approved for release by the Organization's BOT on March 31, 2015.

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### 19. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to the parent company financial statements shall include information on taxes, duties and licenses paid or accrued during the year.

The Organization reported and/or paid the following taxes in 2014:

- a. The components of 'Taxes and licenses' recognized under 'Miscellaneous expenses' in the statement of revenue and expenses and changes in fund balance are as follows:

Business permits and licenses	₱753,151
Community tax certificate	500
	<u>₱753,651</u>

- b. Details of total remittances of withholding taxes as of December 31, 2014 are as follows:

	Total Remittances	Balance at December 31, 2014
Withholding taxes on compensation and benefits	₱553,035	₱148,602
Expanded withholding taxes	131,731	10,861
	<u>₱684,766</u>	<u>₱159,463</u>

### Tax Contingencies

The Organization did not receive any final tax assessments as at December 31, 2014 nor did it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of BIR.

