

CARD Employees Multi-Purpose Cooperative

Financial Statements

As at and for the year ended December 31, 2019

**(With comparative figures as at and for the year ended
December 31, 2018)**

Independent Auditor's Report

To the Board of Directors and Members of
CARD Employees Multi-Purpose Cooperative
20 M.L. Quezon Street, City Subdivision
San Pablo City, Laguna

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CARD Employees Multi-Purpose Cooperative (the "Cooperative") as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with the Philippine Financial Reporting Framework for Cooperatives.

What we have audited

The financial statements of the Cooperative comprise:

- the statement of financial position as at December 31, 2019;
- the statement of operations for the year ended December 31, 2019;
- the statement of changes in equity for the year ended December 31, 2019;
- the statement of cash flows for the year ended December 31, 2019;
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSA). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Cooperative 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.



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Other Matter

The financial statements of the Cooperative as at and for the year ended December 31, 2018, presented for comparative purposes, were audited by another auditor who expressed an unmodified opinion on those statements in an audit report dated March 15, 2019.

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 Philippine Financial Reporting Framework for Cooperatives, 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 to assessing the Cooperative'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 Cooperative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Cooperative'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 PSA 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.

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As part of an audit in accordance with PSA, 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 Cooperative'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 Cooperative'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 Cooperative 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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To the Board of Directors and Members of
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Report on the Bureau of Internal Revenue Requirement

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under Revenue Regulations 15-2010 in Note 21 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read "Zaldy D. Aguirre", with a long, sweeping underline that extends to the left and then curves back up towards the signature.

Zaldy D. Aguirre
Partner

CPA Cert No. 105660

P.T.R. No. 0024447, issued on January 7, 2020, Makati City

SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

CDA A.N. 104-AF, issued on April 15, 2018; effective until April 14, 2021

TIN 221-755-698

BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 25, 2020



Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Members of
CARD Employees Multi-Purpose Cooperative
20 M.L. Quezon Street, City Subdivision
San Pablo City, Laguna

None of the partners of the firm has any financial interest in CARD Employees Multi-Purpose Cooperative or any family relationships with its president, manager, or principal members.

The supplementary information on taxes and licenses is presented in Note 21 to the financial statements.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner

CPA Cert No. 105660

P.T.R. No. 0024447, issued on January 7, 2020, Makati City

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Makati City
June 25, 2020



Statement of Representation

The Chairman
Cooperative Development Authority
Regional Office

In connection with our examination of the financial statements of CARD Employees Multi-Purpose Cooperative (the "Cooperative") as at and for the year ended December 31, 2019 that are herewith submitted to the Cooperative Development Authority, we hereby represent the following:

1. That said financial statements herewith were prepared and presented in accordance with the Philippine Financial Reporting Framework as prescribed by the Cooperative Development Authority (CDA);
2. That, in the conduct of our audit, we adhered to the Philippine Standards on Auditing;
3. That we are qualified as provided for in Section 14 of the Code of Professional Ethics for Certified Public Accountants and Article 81 of Republic Act No. 9520 (Cooperative Code of the Philippines);
4. That we are fully aware of our responsibility as independent auditors for the audit certificate issued and attached to the financial statements and the sanctions to be bestowed on us for any misrepresentations that we may have willingly or unwillingly committed;
5. That we, nor any member of our immediate family, do not have any direct or indirect financial interest with the Cooperative;
6. That none of us is an employee of the Cooperative Development Authority nor have we engaged an employee of the Cooperative Development Authority in the course of our audit; and
7. That we made this representation in our capacity as auditors of the Cooperative.

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Isla Lipana & Co.

Statement of Representation

The Chairman
CARD Employees Multi-Purpose Cooperative
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It is however understood that our accountability is based on matter within the normal coverage of an audit conducted in accordance with the Philippine Standards on Auditing.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read "Zaldy D. Aguirre", written over a horizontal line.

Zaldy D. Aguirre
Partner

CPA Cert No. 105660

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BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
June 25, 2020

CARD Employees Multi-Purpose Cooperative

Statement of Financial Position
As at December 31, 2019
(With comparative figures for the year ended December 31, 2018)
(All amounts in Philippine Peso)

	Notes	2019	2018
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	2	44,893,742	44,118,070
Loans and receivables, net	3	706,191,098	542,554,680
Other current assets	8	3,913,070	96,237
Total current assets		754,997,910	586,768,987
NON-CURRENT ASSETS			
Equity investments at cost	4	117,508,150	98,395,650
Investment in associate	5	200,090,100	187,554,500
Investment properties, net	6	21,827,910	11,188,446
Property and equipment, net	7	1,326,600	1,485,775
Retirement asset	14	4,287,857	3,415,904
Other non-current assets	8	63,256,215	79,958,336
Total non-current assets		408,296,832	381,998,611
Total assets		1,163,294,742	968,767,598
<u>L I A B I L I T I E S A N D M E M B E R ' S E Q U I T Y</u>			
CURRENT LIABILITIES			
Loans payable	11	12,500,000	27,500,000
Accounts and other payables	9	14,648,879	5,469,969
Accrued expenses	10	1,546,722	1,920,151
Other current liabilities	12	137,579,920	120,229,109
Total current liabilities		166,275,521	155,119,229
NON-CURRENT LIABILITIES			
Loans payable	11	25,400,000	12,500,000
Other non-current liabilities	12	5,337,500	5,963,200
Total non-current liabilities		30,737,500	18,463,200
Total liabilities		197,013,021	173,582,429
MEMBER'S EQUITY			
Common shares	13	833,465,400	600,000,000
Preferred shares	13	11,111,100	7,979,929
Deposit for share capital subscription		-	84,613,228
Statutory funds	13	121,705,221	102,592,012
Total member's equity		966,281,721	795,185,169
Total liabilities and member's equity		1,163,294,742	968,767,598

(The notes on pages 1 to 28 are an integral part of these financial statements.)

CARD Employees Multi-Purpose Cooperative

Statement of Operations
For the year ended December 31, 2019
(With comparative figures for the year ended December 31, 2018)
(All amounts in Philippine Peso)

	Notes	2019	2018
INTEREST INCOME	2,3,8	79,059,048	58,577,242
FINANCE COST	11	(4,327,466)	(1,572,282)
NET INTEREST INCOME		74,731,582	57,004,960
OTHER INCOME	15	99,731,257	97,615,944
ADMINISTRATIVE EXPENSES	16	(18,086,909)	(17,004,844)
NET SURPLUS FOR THE YEAR		156,375,930	137,616,060
NET SURPLUS ALLOCATION:	12		
Interest on share capital and patronage refund		121,973,226	107,340,526
General reserve fund		15,637,593	13,761,606
Optional fund		10,946,315	9,633,124
Community development fund		4,691,278	4,128,482
Cooperative education and training fund		3,127,518	2,752,322
		156,375,930	137,616,060

(The notes on pages 1 to 28 are an integral part of these financial statements.)

CARD Employees Multi-Purpose Cooperative

Statement of Changes in Equity For the year ended December 31, 2019 (With comparative figures for the year ended December 31, 2018) (All amounts in Philippine Peso)

	Notes	Common shares (Note 13)	Preferred shares (Note 13)	Deposit for share capital subscription (Note 13)	Statutory funds (Note 13)	Undivided net surplus	Total
Balances at January 1, 2018		552,205,099	6,624,838	-	74,424,470	-	633,254,407
Contribution of members		36,996,133	895,929	-	-	-	37,892,062
Refund of share capital		(25,320,150)	-	-	-	-	(25,320,150)
Deposit for share capital subscription		-	-	84,613,228	-	-	84,613,228
Net surplus for the year		-	-	-	-	137,616,060	137,616,060
		563,881,082	7,520,767	84,613,228	74,424,470	137,616,060	868,055,607
Distribution from interest on share and patronage refund	12	36,118,918	459,162	-	-	-	36,578,080
Appropriation on distribution from undivided net surplus	12,13	-	-	-	30,275,534	(137,616,060)	(107,340,526)
Due to union/federation	12	-	-	-	(1,376,161)	-	(1,376,161)
Utilization of funds	13	-	-	-	(731,831)	-	(731,831)
Balances at December 31, 2018		600,000,000	7,979,929	84,613,228	102,592,012	-	795,185,169
Contribution of members		161,662,461	3,131,171	-	-	-	164,793,632
Refund of share capital		(51,402,455)	-	-	-	-	(51,402,455)
Transfers to share capital subscription from deposit		84,613,228	-	(84,613,228)	-	-	-
Net surplus for the year		-	-	-	-	156,375,930	156,375,930
		794,873,234	11,111,100	-	102,592,012	156,375,930	1,064,952,276
Distribution from interest on share and patronage refund	12	38,592,166	-	-	-	-	38,592,166
Appropriation on distribution from undivided net surplus	12,13	-	-	-	34,402,704	(156,375,930)	(121,973,226)
Due to union/federation	12	-	-	-	(1,563,759)	-	(1,563,759)
Utilization of funds	13	-	-	-	(13,725,736)	-	(13,725,736)
Balances at December 31, 2019		833,465,400	11,111,100	-	121,705,221	-	966,281,721

(The notes on pages 1 to 28 are an integral part of these financial statements.)

CARD Employees Multi-Purpose Cooperative

Statement of Cash Flows
For the year ended December 31, 2019
(With comparative figures for the year ended December 31, 2018)
(All amounts in Philippine Peso)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year		156,375,930	137,616,060
Adjustments for:			
Dividend income	4,5,15	(84,756,920)	(85,408,872)
Interest income from credit operations	3	(74,601,065)	(56,905,988)
Provision for credit and impairment losses	3,616	4,523,224	2,878,020
Interest income	15	(4,457,983)	(1,671,254)
Interest expense	11	4,327,466	1,572,282
Depreciation and amortization	6,7,8,16	571,679	667,174
Loss on sale of investment property		246,396	-
Retirement expense, net of contributions	14	(861,952)	114,988
Net deficit before changes in working capital		(1,366,775)	(1,137,590)
Increase in:			
Loans and receivables		(168,159,642)	(154,980,643)
Other current assets		(3,816,833)	(21,270)
Increase (decrease) in:			
Accounts payable and other payables		9,178,910	790,682
Accrued expenses		(119,548)	417,782
Other current liabilities		(67,594,006)	(65,730,956)
Net cash used in operations		(229,144,344)	(220,661,995)
Interest income received		79,059,048	58,577,242
Interest expense paid		(4,581,284)	(1,138,155)
Contributions to the retirement fund		(10,001)	-
Net cash flows used in operating activities		(154,676,581)	(163,222,908)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received	4,5	84,756,920	85,408,872
Placement of fund deposits	8	(138,218,115)	(77,692,437)
Withdrawal of fund deposits	8	154,920,236	35,728,576
Sale of investment property		1,270,000	-
Acquisition of:			
Financial assets at cost	4	(19,112,500)	(5,374,250)
Investment in associate		(12,535,600)	-
Investment properties	6	(12,297,301)	-
Property and equipment	7	(265,257)	(110,495)
Computer software and licenses	8	(5,806)	-
Net cash flows provided by investing activities		58,512,577	37,960,266

(forward)

CARD Employees Multi-Purpose Cooperative

Statement of Cash Flows
For the year ended December 31, 2019
(With comparative figures for the year ended December 31, 2018)
(All amounts in Philippine Peso)

	Notes	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposit for share capital subscription	13	-	84,613,228
Contributions of members		164,793,568	37,892,062
Refund of share capital		(51,402,455)	(25,320,150)
Proceeds from borrowings	11	85,000,000	55,000,000
Settlements of:			
Loans payable	11	(87,100,000)	(16,333,333)
Subscription payable	12	(625,700)	(11,706,300)
Utilization of statutory funds	13	(13,725,737)	(731,831)
Net cash provided by financing activities		96,939,676	123,413,676
NET INCREASE IN CASH		775,672	(1,848,966)
CASH			
January 1		44,118,070	45,967,036
December 31		44,893,742	44,118,070

(The notes on pages 1 to 28 are an integral part of these financial statements.)

CARD Employees Multi-Purpose Cooperative

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(With comparative figures and notes as at and for the year ended December 31, 2018)

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

1 General information

CARD Employees Multi-Purpose Cooperative (the “Cooperative”), with registration number 9520-4008972, was registered with the Cooperative Development Authority (CDA) on May 11, 2004 with the following purposes:

- a. to encourage thrift and savings mobilization among the members;
- b. to generate funds and extend credit to the members for productive and provident purposes;
- c. to administer the retirement funds of Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD-MRI) employees;
- d. to administer or manage the health insurance of the members;
- e. to provide goods and services and other requirements to the members;
- f. to promote and advance the economic, social and educational status of the members;
- g. to coordinate and facilitate the activities of the Cooperative;
- h. to advocate for the cause of the Cooperative movement;
- i. to ensure the viability of the Cooperative through the utilization of new technologies;
- j. to advocate for the cause of the Cooperative movement;
- k. to invest in shares of stock, bonds, time deposits, land or such other projects as the Board of Directors may determine to be advisable or proper in order to improve the earning base of the Cooperative thereby making more benefits available to its members; and
- l. to undertake any and all other activities for the effective and efficient implementation of the
- m. provisions of the Cooperative Code.

The Cooperative was issued with new Certificate of Registration under Article 144 of Republic Act (RA) 9520, otherwise known as the Philippine Cooperative Code of 2008, on March 4, 2010. The operation of the Cooperative is funded through the share capital which is subsequently redeployed as loans to members. The Cooperative shall operate within the areas where the institutions under Center for Agriculture and Rural Development Mutually Reinforcing Institutions operate.

Net surplus during the year is allocated and distributed to the members of the Cooperative after setting aside the amounts for statutory reserves. Reserve requirements are further discussed in Note 13.

As set forth in Article 61 of RA 6938, *An Act to Ordain a Cooperative Code of the Philippines*, duly registered cooperatives under this code which do not transact any business with non-members or the general public shall not be subject to any government taxes or fees imposed under the Internal Revenue Laws and other tax laws. The Cooperative was granted a certificate of tax exemption on December 19, 2017 which shall be valid for five years, until December 19, 2022, unless sooner revoked by the Bureau of Internal Revenue (BIR) for violation of any provision of the Joint Revenue Regulations, the terms and conditions indicated in the certificate or upon withdrawal of the Certificate of Registration by the CDA.

As a Cooperative transacting with its members only, the Cooperative is entitled to the following tax exemptions and incentives provided for under Article 60 of Republic Act No. 9520, as implemented by Section 7 of the Joint Rules and Regulations implementing Article 60, 61 and 144 of Republic Act No. 9520:

1. Exemption from income tax on income from CDA-registered operations;
2. Exemption from value-added tax on CDA-registered sales or transactions;
3. Exemption from other percentage tax;
4. Exemption from donor's tax on donations to duly accredited charitable, research and educational institutions and reinvestment to socio-economic projects within the area of operation of the Cooperative;
5. Exemption from excise tax for which it is directly liable;
6. Exemption from documentary stamp tax: Provided, however, that the other party to the taxable document/transaction who is not exempt shall be the one directly liable for the tax;
7. Exemption from payment of annual registration fee of five hundred pesos (500); and
8. Exemption from all taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest on deposits and 7.50% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system.

The Cooperative's registered office address is at 20 M.L. Quezon Street, City Subdivision, San Pablo City, Laguna, Philippines.

These financial statements were approved and authorized for issuance by the BOD, on March 30, 2020. There are no material events that occurred subsequent to March 30, 2020 until June 25, 2020.

2 Cash and cash equivalents

This account as at December 31 consists of:

	Note	2019	2018
Petty cash fund		107,058	10,000
Checks and other cash items		47,048	98,408
Cash in banks	17		
Demand deposit		8,678,696	22,586,828
Savings deposit		34,153,242	18,664,690
Time deposit		1,907,698	2,758,144
		44,893,742	44,118,070

Demand and savings deposits bear annual interest rates ranging from 0.25% to 2.0% (2018 - 0.25% to 1.50%). Time deposit placements with a related party, with a term of less than three months, bear interest rate of 2.5% and 4.0% in 2019 (2018 - 3.50% and 3.00%) (Note 17).

Interest income earned from cash and cash equivalents amounted to P442,401 in 2019 (2018 - P332,160) (Note 15).

3 Loans and receivables, net

This account as at December 31 consists of:

	Note	2019	2018
Loans receivable		723,954,079	555,889,264
Other receivables	17	257,102	162,275
		724,211,181	556,051,539
Allowance for credit losses		(18,020,083)	(13,496,859)
		706,191,098	542,554,680

Loans receivable pertains to loans offered to members of the Cooperative that earn effective interest ranging from 1.67% to 18.75% in 2019 and 2018, respectively.

In 2018, the Cooperative launched a non-interest bearing loan product, Pocket Loan with P3,000 loanable amount. The term of the loan is three (3) months.

Other receivables pertain to non-interest bearing receivables from members extended by the Cooperative to provide medical assistance to members.

As at December 31, the breakdown of loans as to secured and unsecured follows:

	2019		2018	
	Amount	%	Amount	%
Secured	-	-	-	-
Unsecured	723,954,079	100.00	555,889,264	100.00
	723,954,079	100.00	555,889,264	100.00

Loans receivable includes past due accounts for more than one year and loans to resigned members amounting to P3.6 million in 2019 (2018 - P2.43 million). These loans are fully provided with allowance.

As at December 31, 2019 and 2018, changes in the allowance for credit losses follow:

	Note	2019	2018
Balance at beginning of the year		13,496,859	10,618,839
Provision during the year	16	4,523,224	2,878,020
Balance at the end of year		18,020,083	13,496,859
Individually impaired		3,613,441	2,427,626
Collectively impaired		14,406,642	11,069,233
		18,020,083	13,496,859
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses		3,613,441	2,427,626

Interest income earned from loans receivable recognized as 'Interest income from credit operations' in statement of operations amounting to P74.60 million in 2019 (2018 - P56.91 million).

4 Equity investments at cost

This account as at December 31 consists of investments in the following companies:

	% of ownership	2019	% of ownership	2018
CARD MRI Property Holdings, Inc. (CMPHI)	10.00%	32,500,100	10.00%	22,500,100
CARD Bank, Inc. (CARD Bank)	6.02%	26,469,800	6.02%	26,469,800
CARD MRIT, Inc. (CMIT)	10.00%	19,800,000	10.00%	19,800,000
Rizal Bank, Inc. (RBI)	3.00%	13,387,500	3.00%	7,875,000
CARD Leasing & Finance Corp (CLFC)	13.00%	11,111,750	13.00%	11,111,750
CARD MRI Holdings, Inc. (CMHI)	5.00%	6,250,000	5.00%	6,250,000
CARD MRI Astro Laboratories Inc.	12.00%	3,600,000	-	-
CARD - MRI Insurance Agency (CAMIA)	5.16%	2,614,000	5.16%	2,614,000
BotiCARD, Inc. (BotiCARD)	3.46%	1,775,000	3.46%	1,775,000
		117,508,150		98,395,650

The above equity investments are carried at cost less any impairment in value, due to absence of a reliable basis for fair value. The Cooperative intends to hold these investments for the long term.

Dividend income from financial assets at cost in 2019 amounted to P39.10 million (2018 - P40.95 million) (Note 15).

5 Investment in associate

As at December 31, 2019 the Cooperative owns equivalent to 29.62% (2018 - 29.62 %) in CARD SME, a thrift bank that offers working capital financing to businesses engaged in agricultural services, industry and housing; and provides diversified financial and allied services for its chosen market and constituents especially for small and medium enterprises, microfinance and individuals.

CARD SME's principal place of business is located at 120 M. Paulino Street cor. Burgos Street, San Pablo City, Laguna.

The investment is accounted for using the cost method. The Cooperative earned dividend income from its investment in associate amounting to P45.66 million in 2019 (2018 - P44.45 million).

6 Investment properties, net

This account as at December 31 consists of:

2019	Note	Land	Buildings	Total
Cost				
January 1, 2019		9,641,615	2,051,686	11,693,301
Additions/Acquisitions		12,297,301	-	12,297,301
Disposals		(603,500)	(1,274,556)	(1,878,056)
Accumulated depreciation				
January 1, 2019		-	290,656	290,656
Depreciation	16	-	141,441	141,441
Disposals		-	(244,290)	(244,290)
At December 31, 2019		-	187,807	187,807
Allowance for impairment losses		-	96,829	96,829
Net book value		21,335,416	492,494	21,827,910

2018	Note	Land	Buildings	Total
Cost				
At January 1, 2018		9,641,615	2,051,686	11,693,301
Accumulated depreciation				
January 1, 2018		-	85,487	85,487
Depreciation	16	-	205,169	205,169
At December 31, 2018		-	290,656	290,656
Allowance for impairment losses		-	214,199	214,199
Net book value		9,641,615	1,546,831	11,188,446

In 2019, the Cooperative disposed certain house and lots in Bella Vita, Laguna with proceeds amounting to P1.27 million resulting to a loss of P0.25 million.

7 Property and equipment, net

This account as at December 31 consists of:

2019	Land	Land improvements	Buildings and improvements	Furniture, fixtures and equipment	Total
Cost					
January 1, 2019	770,869	673,047	1,137,836	783,395	3,365,147
Additions	-	-	215,807	49,450	265,257
Disposals	-	-	-	(256,885)	(256,885)
At December 31, 2019	770,869	673,047	1,353,643	575,960	3,373,519
Accumulated depreciation					
January 1, 2019	-	468,887	699,973	710,512	1,879,372
Depreciation	-	204,158	168,745	51,529	424,432
Disposals	-	-	-	(256,885)	(256,885)
At December 31, 2019	-	673,045	868,718	505,156	2,046,919
Net book value	770,869	2	484,925	70,804	1,326,600

2018	Land	Land improvements	Buildings and improvements	Furniture, fixtures and equipment	Total
Cost					
January 1, 2018	770,869	673,047	1,037,836	772,900	3,254,652
Additions	-	-	100,000	10,495	110,495
At December 31, 2018	770,869	673,047	1,137,836	783,395	3,365,147
Accumulated depreciation					
January 1, 2018	-	252,871	577,312	590,851	1,421,034
Depreciation	-	216,016	122,661	119,661	458,338
At December 31, 2018	-	468,887	699,973	710,512	1,879,372
Net book value	770,869	204,160	437,863	72,883	1,485,775

8 Other assets

This account as at December 31 consists of:

	2019	2018
Current		
Deposit for share capital subscription	3,772,500	-
Prepaid expenses	140,570	96,237
	3,913,070	96,237
Non-current		
Restricted funds	63,256,215	79,958,336
	67,169,285	80,054,573

On March 31, 2019, the Cooperative made advance payments for the subscription of 37,725 share of common stocks of CARD Bank Inc. with par value of P100.

Restricted funds arise from annual allocation of net income as prescribed by the CDA. The funds are in the form of time deposits with banks that bear interest ranging from 1.50% to 4.00% (2018 - 1.50% to 4.00%). Interest income earned from these deposits amounted to P4.02 million in 2019 (2018 - P1.34 million) (Note 15).

9 Accounts and other payable

This account as at December 31 consists of:

	2019	2018
Emergency fund payable	819,447	2,356,681
Health premium fund payable	12,179,476	2,114,665
Withholding tax payable	35,836	174,618
Others	1,614,120	824,005
	14,648,879	5,469,969

Health premium and emergency fund payable pertains to amount set by the Cooperative as payment to the hospitalization, medical and calamity expenses of the members.

Others consist of unpaid insurance claims and the Cooperative's share in expenses paid for by a related party such as meetings and seminars.

10 Accrued expenses

This account as at December 31 consists of:

	Note	2019	2018
Professional fees		490,966	503,286
Employee benefits		832,091	599,319
Interest on borrowings	11	180,308	434,127
Taxes and licenses		-	339,860
Others		43,357	43,559
		1,546,722	1,920,151

Others pertain to accruals for transportation expenses, salaries and wages, and communications, supplies, insurance and utilities.

11 Loans payable

This account as at December 31 consists of:

	Interest rate	Maturity date	2019	2018
Land Bank of the Philippines (LBP)	4.30%	1/20/2020	12,500,000	40,000,000
Related party	6.00%	3/28/2024	25,400,000	-
			37,900,000	40,000,000

	2019	2018
Current	12,500,000	27,500,000
Non-current	25,400,000	12,500,000
	37,900,000	40,000,000

Movement in the account as follows:

	2019	2018
January 1	40,000,000	1,333,333
Availments	85,000,000	55,000,000
Repayments	(87,100,000)	(16,333,333)
December 31	37,900,000	40,000,000

All of the above borrowings are unsecured. Interest expense recognized from these loans amounted to P4.33 million in 2019 (2018 – P1.57 million).

12 Other liabilities

This account as at December 31 consists of:

	2019	2018
Current		
Interest on share and patronage refund	124,600,759	108,918,131
Due to Union/Federation	1,563,759	1,376,161
Others	11,415,402	9,934,817
	137,579,920	120,229,109
Non-current		
Subscriptions payable	5,337,500	5,963,200
	142,917,420	126,192,309

Interest on share and patronage refund pertains to amounts payable to the members of Cooperative as a return for their capital contribution and may be claimed depending on the net surplus for the year. The amount declared as interest is based on the net surplus that the Cooperative earned during the previous year. Each member will receive an interest equal to the proportion of their individual patronage. The distribution made for the year (from the previous year's appropriation on distribution from undivided net surplus) is done in two dividend forms: cash dividend and share dividend on a 50:50 basis.

The movements in the account follow:

	2019	2018
January 1	108,918,131	103,124,218
Share in undivided net surplus	121,973,226	107,340,526
Cash distribution	(67,698,432)	(64,968,533)
Distribution to share capital		
Common shares	(38,592,166)	(36,118,918)
Preferred shares	-	(459,162)
December 31	124,600,759	108,918,131

Due to Union/Federation pertains to accumulated amounts set aside to be remitted to the union or federation where the Cooperative is a member. This corresponds to 50.00% of the total annual allocation for Cooperative Education & Training Fund (CETF).

The movements in the account follow:

	Note	2019	2018
January 1		1,376,161	1,301,219
Share on CETF	13	1,563,759	1,376,161
Payment to union/federation		(1,376,161)	(1,301,219)
December 31		1,563,759	1,376,161

Details of the subscription payable as at December 31 follows:

	2019	2018
CMHI	4,687,500	4,687,500
BotiCARD	650,000	650,000
CMIT	-	617,700
CAMIA	-	8,000
	5,337,500	5,963,200

13 Member's equity

Share capital

As at December 31, 2019 and 2018, the Cooperative's capital shares consist of:

	2019		2018	
	Number of shares	Amount	Number of shares	Amount
Authorized				
Common shares (at 100 par)	12,500,000	1,250,000,000	6,500,000	650,000,000
Preferred shares (at 100 par)	300,000	30,000,000	300,000	30,000,000
Issued, paid and outstanding				
Common shares (at 100 par)	8,334,654	833,465,400	6,000,000	600,000,000
Preferred shares (at 100 par)	111,111	11,111,100	79,799	7,979,900

The movements in common and preferred shares follow:

	2019		2018	
	Common	Preferred	Common	Preferred
Issued and outstanding at beginning of year	6,000,000	79,799	5,522,051	66,248
Issued	2,848,679	31,312	731,151	13,551
Redeemed	(514,025)	-	(253,202)	-
Issued and outstanding at end of year	8,334,654	111,111	6,000,000	79,799

The Cooperative's preferred shares have no voting rights and may be owned or subscribed by members of the Cooperative.

Deposit for share capital subscription

In 2018, the BOD of the Cooperative approved the increase of authorized common shares from P6,500,000,000 to P12,500,000. The same was approved by the CDA on 2019. The deposit for future share capital recorded in 2018 amounting to P 84,613,228 were issued in 2019.

Deposit for share capital subscription is Classified under equity in accordance with the Standard Chart of Accounts prescribed by the CDA per Memorandum Circular No. 2016-06.

Capital management

The Cooperative's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the Cooperative are exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic balance sheet and revenue account, are reported to the Cooperative's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Regulatory matters

The operation of the Cooperative is also subject to the regulatory requirements of CDA. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

Statutory funds

The Cooperative provides the minimum mandatory reserve requirements set forth in Chapter 10, Section 87 of Republic Act 6938 entitled "An Act to Ordain a Cooperative Code of the Philippines", which include the 10.00% general reserves fund, 3.00% community development fund, 2.00% CETF and 7.00% optional fund.

The movements in the account as at December 31 follow:

2019	General reserve fund	Community development fund	Cooperative education and training fund	Optional fund	Total
Balance at beginning of year	54,614,470	14,843,248	2,899,007	30,235,287	102,592,012
Appropriation from undivided net surplus	15,637,593	4,691,278	3,127,519	10,946,315	34,402,704
Due to union/federation (Note 12)	-	-	(1,563,759)	-	(1,563,759)
Utilization of funds	-	(13,351,024)	(374,713)	-	(13,725,736)
Balance at end of year	70,252,063	6,183,502	4,088,054	41,181,602	121,705,221

2018	General reserve fund	Community development fund	Cooperative education and training fund	Optional fund	Total
Balance at beginning of year	40,852,864	10,818,766	2,150,677	20,602,163	74,424,470
Appropriation from undivided net surplus	13,761,606	4,128,482	2,752,322	9,633,124	30,275,534
Due to union/federation (Note 12)	-	-	(1,376,161)	-	(1,376,161)
Utilization of funds	-	(104,000)	(627,831)	-	(731,831)
Balance at end of year	54,614,470	14,843,248	2,899,007	30,235,287	102,592,012

14 Retirement benefits

The Cooperative, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Rural Bank, Inc. (CBI), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), Rizal Bank, Inc. (RBI), CARD, Inc. and Mga Lilkha ni Inay Inc. (MLNI), maintain a funded and formal non-contributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (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. MERP is valued using the projected unit cost method and is financed solely by the Cooperative and its related parties.

MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641 (Retirement Law). 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.

Hybrid Plan provides a retirement benefit equal to 100% of the member's employer accumulated value (the Cooperative'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 amounts of retirement asset recognized in the statement of financial position as at December 31 follow:

	2019	2018
Fair value of plan assets	11,243,992	10,750,245
Present value of retirement obligation	(4,313,695)	(3,767,851)
Effects of asset ceiling	(2,642,440)	(3,566,490)
Net retirement asset	4,287,857	3,415,904

The movements in the fair value of plan assets for the year ended December 31 follow:

	2019	2018
Balance at beginning of year	10,750,245	9,316,477
PVO transfer	-	949,130
Interest income	828,154	568,988
Contributions	10,001	362,795
Return on plan assets	(344,408)	(224,540)
Benefits paid	-	(222,605)
Balance at end of year	11,243,992	10,750,245

The movements in the present value of obligation (PVO) assets for the year ended December 31 follow:

	2019	2018
Balance at beginning of year	(3,767,851)	(3,299,802)
PVO transfer	-	(949,130)
Actuarial gains	(427)	681,500
Current service cost	(255,292)	(232,625)
Benefits paid	-	222,605
Interest cost	(290,125)	(190,399)
Balance at end of year	(4,313,695)	(3,767,851)

The composition of retirement as reported under 'Salaries, wages and other benefits' in "Administrative expense" (Note 16) in statement of operations for the year ended December 31 follow:

	2019	2018
Interest income on plan assets	(828,154)	(568,988)
Current service cost	255,292	232,625
Interest expense on retirement obligation	290,125	190,399
Interest on the effect of the asset ceiling	274,620	143,430
	(8,117)	(2,534)

Components of remeasurement gains (losses) for the year ended December 31 follow:

	2019	2018
Changes in the asset ceiling	1,198,670	(937,277)
Actuarial gains (losses) due to changes:		
Financial assumptions	(818,910)	856,604
Experience	874,361	(187,549)
Demographic assumptions	(55,878)	12,445
Return on plan assets	(344,408)	(224,540)
	853,835	(480,317)

Total retirement expense for the year ended December 31, 2019 related to Hybrid Plan amounted to P8,117 (2018 - 2,795).

The maximum economic benefit of plan assets available is a combination of expected refunds from the plan and reductions in future contributions.

The fair values of plan assets as at December 31 follows:

	2019	2018
Government securities	148,421	5,145,067
Cash and cash equivalents	9,161,605	4,775,259
Other assets	314,832	593,414
Other bonds	255,238	236,505
Loans receivable	1,299,805	-
Mutual funds	64,091	-
Fair value of plan assets	11,243,992	10,750,245

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. Mutual fund, loans and other assets are unrated.

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

The overall investment policy and strategy of the Cooperative'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:

The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax as reported in the statement of comprehensive income as at December 31 follows:

	2019	2018
Discount rates	5.54%	7.70%
Future salary increases	5.00%	5.00%

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

	2019		2018	
% change in assumption	+1.00%	-1.00%	+1.00%	-1.00%
Discount rates	(412,757)	484,062	(352,975)	411,122
Salary rates	481,785	(418,399)	418,253	(364,593)

The Cooperative plans to contribute P18,000 to the defined benefit retirement plan in 2020.

The average duration of the defined benefit obligation at the end of the reporting period is 10.4 years.

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

	2019	2018
Less than 1 year	227,434	198,677
More than 1 year to 5 years	1,225,935	1,046,015
More than 5 years to 10 years	2,490,422	3,606,821
More than 10 years to 15 years	2,702,186	2,505,628
More than 15 years to 20 years	4,818,870	4,894,129
More than 20 years to 25 years	1,785,378	2,762,198

15 Other income

This account as at December 31 consists of:

	Notes	2019	2018
Dividend income from investments from:			
Equity investments at cost	4,17	39,100,849	40,958,319
Investment in associate	5,17	45,656,071	44,450,553
Membership and administrative fee		14,352,446	11,745,413
Miscellaneous income	8,18	621,891	461,659
		99,731,257	97,615,944

16 Administrative expenses

This account as at December 31 consists of:

	Notes	2019	2018
Salaries, wages and other benefits	14	6,064,708	6,751,848
Provisions for credit and impairment losses	3,6	4,523,224	2,878,020
General support services	5,17	3,097,383	2,705,333
Travel and transportation		1,124,478	1,364,150
Meetings and conferences		632,001	333,419
Depreciation and amortization	6,7,8	571,679	667,174
Professional and consultancy fees		554,720	558,591
Office supplies		431,886	480,311
Rentals		233,873	231,357
Insurance		186,282	232,834
Communication		118,265	106,070
Power, light and water	8	96,726	92,738
Taxes, fees and charges		20,823	358,615
Miscellaneous	8	430,861	244,384
		18,086,909	17,004,844

Miscellaneous includes bank charges, repair and maintenance and others.

17 Related party transaction

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Cooperative's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- post-employment benefit plans for the benefit of the Cooperative's employees, and
- entities under common significant influence (CARD-MRI entities).

The Cooperative has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Remunerations of directors and other key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Cooperative, directly or indirectly. The Cooperative considers the members of the board of directors and senior management to constitute key management personnel for purposes of PAS 24, *Related Party Disclosure*.

The compensation of key management personnel included under “Salaries, wages and other benefits” (Note 16) for the year ended December 31 follows:

	2019	2018
Short-term employee benefits	1,095,163	1,085,108
Post-employment benefits	2,166,874	1,292,774
	<u>3,262,037</u>	<u>2,377,882</u>

Other related party transactions

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

Cash and cash equivalents, loans and other receivable and trade and other payables

The table below shows the cash and cash equivalents, accounts receivable and accounts payable held by the Cooperative for key management personnel, associates and affiliates as at and for the year ended December 31:

Category			2019	
	Notes	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Associate:				
Cash and cash equivalents	2		2,826,505	This pertains to savings and time deposit accounts with CARD SME with annual interest rates from 1.5% to 4.0%.
Deposits		122,763,646		
Withdrawals		128,791,854		
Interest income		138,928		This pertains to interest earned from savings and time deposits with CARD SME.
Billings		24,165		
Payments		24,165		
Receivable from associate	3		-	This pertains to CARD SME's share of expenses still payable to the Cooperative included in "Other current receivables".
Billings		18,500		
Payments		18,500		
Other related parties:				
Cash and cash equivalents	2		10,116,257	This pertains to the savings, checking and time deposit accounts maintained with CARD Bank with annual interest rates from 1.5% to 4.0%.
Deposits		559,820,420		
Withdrawals		576,891,683		
Interest income		268,489		This pertains to interest earned from savings and time deposits with CARD Bank.
Payable to related party	9		939,241	This pertains to the Cooperative's share of expenses still payable to CARD, Inc. and CARD MBA included in "Other accounts payable".
Billings		12,387,043		
Payments		12,302,464		
Receivable from a related party	3		23,085	This pertains to the CARD Bank and CLFC's share of expenses still payable to the Cooperative which are unimpaired, due and demandable, and receivables for common shares issued for the employees of an associate included in "Other current receivables".
Billings		1,301,710		
Payments		1,388,746		

Category	2018			
	Notes	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Associate:				
Cash and cash equivalents	2		8,854,713	This pertains to savings and time deposit accounts with CARD SME with annual interest rates from 0.25% to 1.5%.
Deposits		83,448,647		
Withdrawals		77,660,260		
Interest income		70,920	-	This pertains to interest earned from savings and time deposits with CARD SME.
Payable to associate	9		-	This pertains to the Cooperative's share of expenses still payable to CARD SME included in "Other accounts payable".
Billings		16,029		
Payments		92,029		
Receivable from associate	3		-	This pertains to CARD SME's share of expenses still payable to the Cooperative included in "Other current receivables".
Billings		1,775		
Payments		4,595		
Other related parties:				
Cash and cash equivalents	2		21,819,986	This pertains to the savings, checking and time deposit accounts maintained with CARD Bank with annual interest rates from 3.00% to 3.75%.
Deposits		518,739,709		
Withdrawals		514,940,679		
Interest income		215,593	855,682	This pertains to interest earned from savings and time deposits with CARD Bank.
Payable to a related party	9		110,122	This pertains to the Cooperative's share of expenses still payable to CARD, Inc. and CARD MBA included in "Other accounts payable".
Billings		855,422		
Payments		969,296		
Receivable from a related party	3			This pertains to the CARD, Inc. and CARD MBA's share of expenses still payable to the Cooperative which are unimpaired, due and demandable, and receivables for common shares issued for the employees of an associate included in "Other current receivables".
Billings		120,090		
Payments		16,594		

Investment related transactions with related parties are disclosed in Notes 4 and 5.

18 Lease contracts

As a lessor

In 2018, the Cooperative entered into renewable Operating lease agreements with CLFC for one year without escalation rate.

Operating lease income recognized in 2019 and 2018 under 'Other income' amounted to P0.12 million for each year (Note 15).

The future aggregate minimum lease receivables under operating lease in 2019 within one year and beyond one year but not more than five years amounted to P0.12 million (P0.02 million).

As a lessee

The Cooperative leases its computer units and server from CLFC. The lease commenced in 2018, with the lease terms of eighteen (18) months for computers and twenty-four (24) months for the server. Leased items shall be surrendered to the lessor after the termination of the lease agreement.

Operating lease expense recognized in 2019 under 'Rentals' in Administrative Cost amounted to P233,873 (2018 - P231,357) (Note 16).

19 Significant accounting judgments and estimates

The preparation of the financial statements in compliance with PFRF for Cooperatives requires the Cooperative to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities.

Future events may occur which will cause the assumptions 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.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting judgement - Impairment of investment in associate

Investment in associate is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that the Organization's investment in associate is impaired, management considers both external and internal sources of information such as significant changes with adverse effect on the associate that have taken place during the period, or will take place in the near future such as plans to discontinue or restructure the operation of the associate, the carrying amount of the net assets of the associate is more than its market capitalization, or there is continuing operating losses and decline in cash flows from the operating activities of the associate.

Critical accounting judgement - Impairment of equity investments at cost

In case of unquoted equity investments classified as 'Equity investments at cost', the amount of the impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

20 Summary of significant accounting policies

20.1 Basis of preparation

The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso, the Cooperative's functional currency.

20.2 Statement of compliance

On September 16, 2015, the CDA issued Memorandum Circular No. 2015-06 also known as the Philippine Financial Reporting Framework (PFRF) for Cooperatives which specifically provides for treatment of certain accounts which are unique only to Cooperatives and such peculiarities are in accord with universally-accepted cooperative principles. The revised Framework was adopted by the Cooperative on January 1, 2016, the effective date of PFRF for Cooperatives.

Where PFRF for Cooperatives do not specifically address accounting for a certain transaction, events or conditions, the Cooperative considers the requirements and guidance in Philippine Financial Reporting Standard (PFRS) or PFRS for Small and Medium Enterprises (PFRS for SMEs).

The financial statements of the Cooperative have been prepared in accordance with PFRF for Cooperatives prescribed by the CDA.

20.3 Accounts peculiar to Cooperatives

The following accounts are peculiar to the Cooperative due to its nature as well as adherence to Cooperative laws, issued policies, rules and regulations, as well as cooperative principles and practices:

- Interest on share capital and patronage
- Due to union/federation
- Statutory funds
- Income taxes - the Cooperative Code states that a cooperative transacting business only with its members is exempt from all government taxes, and therefore cannot apply the PAS for income taxes because of its tax - exempt nature.

For cooperatives transacting business with both members and non-members with accumulated reserves and undivided net savings of not more than ten million pesos (P10.00 million), they shall be exempt from all national, city, provincial, municipal or barangay taxes of whatever name and nature. Should a cooperative exceed the limit set forth, it shall be imposed taxes and fees based on the provisions as indicated in Article 61 of the Cooperative Code; consequently, it will adopt the accounting standards for income taxes as stated in PAS 12, *Income taxes*.

In 2019 and 2018, the Cooperative only transacted business with its members.

- Presentation of withdrawable common and preferred shares as equity.

20.4 Presentation of financial statements

The Cooperative presents its statement of financial position broadly in order of liquidity. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of operations unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Cooperative.

20.5 Current versus non-current classifications

The Cooperative presents assets and liabilities in the statement of financial position based on current and non-current 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 equivalents 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 non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Cooperative classifies all other liabilities as non-current.

20.6 Cash and cash equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of placements and that are subject to insignificant risk of change in value. Checks and other cash items are composed of undeposited checks.

20.7 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

20.7.1 Date of recognition

Purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Generally, settlement date is the date on which the transaction is settled by delivery of the assets that are subject of the agreement. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Cooperative, and (b) the recognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Cooperative. Loans and receivables are recognized when cash is received by the Cooperative or advanced to the borrowers.

20.7.2 Initial recognition of financial instruments

The Cooperative shall recognize a financial asset or a financial liability only when the cooperative becomes a party to the contractual provisions of the instrument. When a financial asset or financial liability is recognized initially; a cooperative shall measure it at the transaction price unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the Cooperative shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

20.7.3 Subsequent measurement

At the end of each reporting period, the Cooperative shall measure financial instruments as follows, without any deduction for transaction costs the Cooperative may incur on sale or other disposal:

- Debt instruments shall be measured at amortized cost using the effective or straight line interest amortization method.
- Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e., net of impairment unless the arrangement constitutes, in effect, a financial transaction). If the arrangement constitutes a financing transaction, the cooperative shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.
- Investments in publicly-traded securities shall be measured at fair value with changes in fair value recognized in profit or loss.
- Investments in non-publicly-traded securities (Note 4) shall be measured at cost less impairment.

20.7.4 Derecognition of financial instruments

Financial asset

The Cooperative shall derecognize a financial asset only when:

- (a) the contractual rights to the cash flows from the financial asset expire or are settled, or
- (b) the Cooperative transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or
- (c) the Cooperative, 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 cooperative shall:
 - i. derecognize the asset; and
 - ii. recognize separately any rights and obligations retained or created in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognized and derecognized in accordance with this paragraph shall be recognized in profit or loss in the period of the transfer.

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

If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or re-pledge the collateral and on whether the transferor has defaulted.

The transferor and transferee shall account for the collateral as follows:

- (a) If the transferee has the right by contract or custom to sell or re-pledge the collateral, the transferor shall reclassify that asset in its statement of financial condition (e.g., as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.
- (b) If the transferee sells collateral pledged to it, it shall recognize the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.
- (c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognize the collateral, and the transferee shall recognize the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognize its obligation to return the collateral.
- (d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognize the collateral as an asset.

Financial liability

A cooperative shall derecognize a financial liability (or a part of a financial liability) only when it is extinguished (i.e. when the obligation specified in the contract is discharged, is cancelled or expires).

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Cooperative intends to either settle on a net basis or to realize the asset and the liability simultaneously. This is not generally the case with master-netting agreements and the related assets and liabilities are presented gross in the statement of financial condition.

Income and expense are not offset in the statement of operations unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Cooperative.

As at December 31, 2019 and 2018, no financial assets and liabilities were offset.

Impairment of financial assets

The Cooperative assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. 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, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

Loans to members not paid in installment due date are considered as portfolio-at-risk (PAR). The CDA prescribes loss rates to be applied to PAR on the basis of the following:

	%
Past due for 360 days and above	100.00%
Past due 30 days but less than 360 days	35.00%

Equity investments at cost

In case of unquoted equity investments classified as 'Equity investments at cost', the amount of the impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

20.8 Investment in associates

Associates pertain to all entities over which the Cooperative has 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 Cooperative's investments in associate is accounted for using the cost method of accounting per guidelines set by the CDA. In the absence of published price quotation, the Cooperative measures investment in associate at cost less any accumulated impairment losses recognized. An impairment loss occurs when the carrying amount of the investment in associate exceeds its recoverable amount and is recognized in the statement of operations. Dividends received and other distributions from the associate is recognized as 'Dividend income' in the statement of operations.

20.9 Property and equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is stated at cost less any impairment in value. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. All other repair and maintenance expenses are charged to current operation as incurred.

Depreciation commences once the assets are available for use, it is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets.

The EULs of the depreciable assets are as follows:

	No. of years
Land improvements	3
Building	10
Building improvements	3
Furniture, fixtures and equipment	3

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

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 included in the statement of operations in the year the asset is derecognized.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized under 'Provision for credit and impairment losses" in the statement of operations.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against statement of operations.

20.10 Investment properties

Investment properties refers to cost of properties or a portion there of that generate income or capital appreciation or both, not used in production of goods, supply or services, nor for administrative purposes or sale in the ordinary course of business are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Investment property is derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of operations in the period of retirement or disposal, Expenditures incurred after the investment property has been put into operations, such as repairs and maintenance costs, are charged against income in the year in which the costs are incurred.

Transfers are made to investment property when, and only when, there is a change in use or purpose, evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

20.11 Computerization cost

Computerization cost pertains to the software purchased by the Cooperative recognized at cost.

Computerization cost is amortized over three (3) years and assessed for impairment whenever there is an indication that the software may be impaired. The amortization period and method for software with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on computerization cost is recognized as 'Depreciation and amortization' in the statement of operations.

20.12 Impairment of non-financial asset

The Cooperative assesses the impairment of its property and equipment, investment properties, investment in associate, and computerization cost, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the Cooperative considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

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

Cooperative 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 Cooperative 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.

20.13 Equity

Share capital

Share capital refers to the unit of capital stated in common or preferred share issued by the Cooperative, subscribed and paid by its members. This is measured at par for all shares issued.

Minimum share capital subscription

A member shall subscribe at least three thousand pesos (P3,000.00) and pay for the value under the terms and conditions prescribed in the Membership and Subscription Agreement.

Deposit for share capital subscription

Deposit for share capital subscription represents payments made on subscription of shares which cannot be directly credited to 'Common shares' or 'Preferred shares' pending application for increase in authorized capital shares with CDA. Deposit for share capital subscription is classified under equity per guidelines set by the CDA.

Statutory funds

Statutory funds are mandatory funds set up in accordance with Article 86 of RA 9520 which include general reserve fund, cooperative education and training fund, community development fund and optional fund.

General reserve fund

10.00% shall be set aside for the reserve fund. The reserve fund shall be used for the stability of the Cooperative and to meet net losses in its operations. The general assembly may decrease the amount allocated to the reserve fund when it has already exceeded the authorized share capital. Any sum recovered on items previously charged to the reserve fund shall be credited to such fund.

Cooperative education and training fund

1.00% shall be set aside for Cooperative Education and Training Fund (CETF). The fund shall provide for the training and development and similar other activities geared towards the growth of the Cooperative. Half of the amounts allocated to the education and training fund annually under this subsection maybe remitted to a union or federation chosen by the Cooperative of which it is a member.

Community development fund

3.00% shall be set aside for Community Development Fund. The fund shall provide for the projects and activities that will benefit the community where the Cooperative operates.

Optional fund

7.00% shall be set aside for Optional Fund for land and building fund, and such other developmental purposes as may be identified by the Cooperative as approved by the general assembly.

20.14 Share capital transactions

The Cooperative accumulates share capital from contribution of members and share of the shareholders from the undivided net surplus. The shares are redeemable upon termination of membership of the member.

Refund of paid-up share capital

A member whose membership is terminated shall be entitled to a refund of his/her share capital contribution and all other interests in the Cooperative less outstanding loan obligations and other financial accountabilities. However, such refund shall not be made if upon payment, the value of the assets of the Cooperative would be less than the aggregate amount of its debts and liabilities exclusive of his/her share capital contribution. In which case, the terminated member shall continue to be entitled to the interest of his/her share capital contributions, patronage refund and the use of the services of the Cooperative until such time that all his/her interests in the Cooperative shall have been duly paid. Upon the acceptance of his/her withdrawal or approval of his/her termination, however, he/she loses his/her right to attend, participate and vote in any meeting of the BOD or the general assembly.

Members' shares are classified as equity if the Cooperative has an unconditional right to refuse redemption of the members' shares.

Interest in share capital and patronage

Interest on share capital and patronage are recognized as liability and pertains to interest on share capital and for patronage refund due to members of the Cooperatives, which are determined based on distributable earnings at each end of the reporting date.

Due to union/federation

All amount set aside for the education and training fund recognized as liability, which is 50.00% of the amount allocated for the CETF.

20.15 Income and expenses

Income and expenses in the statement of operations are recognized in the books using the modified accrual basis of accounting.

20.16 Revenue recognition

As a rule, cooperatives adopt the accrual basis of accounting. However, for credit and other cooperatives, recognition of revenues is on a modified accrual basis; i.e., interest income, fines, penalties and surcharges shall be recognized when earned and actually collected. This is because only interest income, fines, penalties and surcharges on loans receivable that has been realized (i.e., earned and collected) shall be the basis of the income available for distribution to its members through interest on share capital and patronage refund.

Interest income

Interest income is recognized when earned and collected.

Dividend income

Dividend is recognized when received.

Membership and administrative fee

Membership and administrative fees pertain to membership fees and income from handling the health fund of CARD-MRI employees which are collected and recognized upon receipt of cash.

Miscellaneous income

Miscellaneous income consists of income that does not come from the main operations of the Cooperative and does not fall to any of the income accounts and is recognized when earned.

20.17 Costs and expenses

Costs and expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Cooperative. Costs and expenses are recognized when incurred.

20.18 Leases

As a lessee

Leases in which the lessor retains substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease payments are recognized by the Cooperative as an expense under 'Miscellaneous expense' in the statement of operations on a straight-line basis over the lease term.

As a lessor

Leases in which the Cooperative does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue under 'Miscellaneous income' in the statement of operations in the period in which they are earned.

20.19 Retirement benefits

The Cooperative is covered by a funded, non-contributory defined benefit retirement plan.

The Cooperative'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.

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 operations.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. 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.

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 the statement of operations in the period in which they arise.

20.20 Provisions

Provisions are recognized when the Cooperative has a present obligation (legal or constructive) as a result of a past event and 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. Where the Cooperative 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 operations, 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 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 the passage of time is recognized as an 'Interest expense' in the statement of operations.

20.21 Contingent liabilities and contingent assets

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 but are disclosed in the financial statements when an inflow of economic benefits is probable.

20.22 Events after the reporting date

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

21 Supplementary information required by the Bureau of Internal Revenue (BIR)

On November 25, 2010, BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Cooperative also reported and/or paid the following types of taxes for the year:

(i) *Taxes and licenses*

Taxes and licenses of the Cooperative consist of:

	Amount
Local taxes	3,628
Government licenses	4,407
Others	12,788
	20,823

(ii) *Withholding taxes*

Details of total remittances of withholding taxes are as follows:

	Paid	Accrued	Total
Expanded withholding taxes	204,270	15,983	220,253
Withholding taxes on compensation and benefits	131,439	19,853	151,292
	335,709	35,836	371,545

(iii) *Tax assessment and cases*

The Cooperative received a tax assessment in 2019. The Cooperative is waiting for the preliminary assessment notice from the BIR.