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

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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A member firm of Ernst & Young Global Limited

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
CARD-MRI Development Institute, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of CARD-MRI Development Institute, Inc. (A Nonstock, Not-for-Profit Association), which comprise the statements of assets, liabilities and fund balance as at December 31, 2014 and 2013, and the statements of revenues and expenses and changes in fund balance and 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 financial statements in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

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March 21, 2015

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

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash in banks (Notes 4 and 13)	**₱57,593,905**	₱36,060,496
Receivables (Note 5)	**5,813,823**	8,622,345
Other current assets (Note 6)	**1,139,426**	917,257
Total Current Assets	**64,547,154**	45,600,098
Noncurrent Assets		
Property and equipment (Note 7)	**50,895,174**	46,210,629
Equity investment at cost (Note 13)	**4,373,900**	4,373,900
Software license (Note 8)	**156,545**	180,933
Retirement asset (Note 12)	**5,317,605**	–
Total Noncurrent Assets	**60,743,224**	50,765,462
	₱125,290,378	₱96,365,560
LIABILITIES AND FUND BALANCE		
Current Liability		
Accounts payable and accrued expenses (Note 9)	**₱13,083,066**	₱10,257,689
Noncurrent Liability		
Retirement liability (Note 12)	–	1,601,488
	13,083,066	11,859,177
Fund Balance		
General fund	**5,000,000**	5,000,000
Accumulated excess of revenue over expenses	**107,207,312**	79,506,383
	112,207,312	84,506,383
	₱125,290,378	₱96,365,560

See accompanying Notes to Financial Statements.

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

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE

	Years Ended December 31	
	2014	2013
REVENUE		
Seminars and trainings (Note 13)	**₱106,417,348**	₱73,768,307
Facilities fee (Note 13)	**831,885**	1,392,002
Dividend Income (Note 13)	**787,302**	1,293,562
Interest income (Notes 4 and 13)	**694,907**	648,083
Other income	**606,130**	44,719
Donations and contributions	**–**	1,002,500
	109,337,572	78,149,173
EXPENSES		
Cost of seminars, trainings and other programs (Note 10)	**71,669,294**	52,430,090
Administrative:		
Remeasurement loss (gain) on retirement plan (Note 12)	**(7,250,046)**	1,523,041
Compensation and employee benefits (Notes 12 and 13)	**3,499,694**	2,255,359
Management and professional fees	**2,593,810**	1,257,490
Transportation and travel	**2,496,218**	1,695,299
Program monitoring and meetings	**2,182,340**	989,854
Representation	**1,568,583**	1,162,542
Staff training and development	**1,213,184**	–
Depreciation and amortization expense (Notes 7 and 8)	**721,747**	785,492
Insurance	**675,307**	1,454,528
Taxes and licenses	**564,042**	475,419
Information technology	**431,760**	32,772
Utilities	**342,027**	316,434
Janitorial, messengerial, and security	**340,219**	291,044
Supplies and materials	**199,475**	167,433
Communication and postage	**167,614**	180,671
Provision for doubtful accounts (Note 5)	**121,397**	507,183
Repairs and maintenance	**56,441**	127,799
Miscellaneous	**43,537**	193,323
	9,967,349	13,415,683
	81,636,643	65,845,773
EXCESS OF REVENUE OVER EXPENSES	**27,700,929**	12,303,400
FUND BALANCE AT BEGINNING OF YEAR	**84,506,383**	72,202,983
FUND BALANCE AT END OF YEAR	**₱112,207,312**	₱84,506,383

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	**27,700,929**	₱12,303,400
Adjustments for:		
Depreciation and amortization expense (Notes 7 and 8)	**7,791,308**	6,933,802
Remeasurement loss (gain) on retirement plan (Note 12)	**(7,250,046)**	1,523,041
Retirement expense (Note 12)	**1,742,883**	1,589,133
Provision for doubtful accounts (Note 5)	**121,397**	507,183
Dividend income	**(787,302)**	(1,293,562)
Interest income	**(694,907)**	(648,083)
Unrealized foreign exchange loss (gain)	**(384,133)**	82,509
Operating income before working capital changes	**28,240,129**	20,914,914
Changes in operating assets and liabilities:		
Decrease (increase) in amount of:		
Receivables	**2,675,163**	(3,351,927)
Other current assets	**(222,169)**	(435,769)
Increase (decrease) in amount of:		
Accounts payable and accrued expenses	**2,825,377**	5,850,944
Net cash generated from operations	**33,518,500**	22,978,162
Contributions to retirement fund (Note 12)	**(1,411,930)**	(3,913,982)
Dividends received	**787,302**	1,293,562
Interest received	**706,869**	643,375
Net cash provided by operating activities	**33,600,741**	21,001,117
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Note 7)	**(12,436,536)**	(8,714,307)
Acquisition of software license (Note 8)	**(14,929)**	(184,000)
Net cash used in investing activities	**(12,451,465)**	(8,898,307)
NET INCREASE IN CASH IN BANKS	**21,533,409**	12,185,319
EFFECTS OF EXCHANGE RATE CHANGES ON CASH IN BANK	**384,133**	(82,509)
CASH IN BANKS AT BEGINNING OF YEAR	**36,060,496**	23,957,686
CASH IN BANKS AT END OF YEAR	**₱57,593,905**	₱36,060,496

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. General Information

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

Being a nonstock and nonprofit educational institution, the Association falls under Section 30 (h) of the Tax Reform Act of 1997 and as such, income from activities in pursuit of the purpose for which the Association was organized is exempt from income tax. The Association renewed its Philippine Council for NGO Certification (PCNC) accreditation on June 6, 2012 and had been granted a five-year certification for donee institution status.

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

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

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine peso, the Association's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The Association's financial statements have been prepared in accordance with the Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Significant Accounting Policies

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition
A financial asset or a financial liability is recognized only when the Association becomes a party to the contractual provisions of the instrument.

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 liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Association classifies its financial assets in the following categories: financial assets at FVPL, financial assets that are debt instruments atamortized cost, financial assets that are 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 measured 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 Association has no loan commitments at cost less impairment and financial liabilities at FVPL.

Financial assets that are debt instruments at amortized cost
This category includes cash in banks and receivables.

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. The amortization on receivables is included in 'Interest income' in the statement of revenue and expenses and changes in fund balance. The losses arising from impairment are recognized in 'Provision for doubtful accounts'.

Financial assets that are 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 which are not designated at FVPL and where the substance of the contractual arrangement results in the Association 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 effective interest rate.

<u>Classification of Financial Instruments between Debt and Equity</u>
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Association; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Association does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset is derecognized only when:

1. the contractual rights to the cash flows from the financial asset have expired or are settled; or
2. the Association transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
3. the Association, 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 Association 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 Association has retained significant risks and rewards of ownership of the transferred asset, the Association 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 Association 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 statement of revenue and expenses and changes in fund balance.

Impairment of Financial Assets

The Association 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 effective interest rate. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate 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 Association would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the Association reverses the previously recognized impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognized. The Association recognizes the amount of the reversal in the statement of revenue and expenses and changes in fund balance immediately.

Property and Equipment
Depreciable property and equipment, which includes land improvements, training facilities, office furniture, fixtures and equipment, transportation equipment, and leasehold improvements, 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 non-refundable taxes and directly attributable costs of bringing the assets 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 such 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. For property and equipment being constructed by an external contractor, costs are capitalized based on the percentage of completion of the project.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Training facilities	3 to 10 years
Office furniture, fixtures and equipment and transportation equipment	3 to 5 years
Land improvements	3 years
Leasehold improvements	3 years or term of the lease whichever is shorter

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.

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

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

Impairment of Property and Equipment and Software License
An assessment is made at each reporting date to determine whether there is any indication of impairment of any long-lived assets 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 as the higher of the asset's value in use or its fair value less cost to sell.

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) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Accounts Payable and Accrued Expense
Accounts payable and accrued expenses are basic financial liabilities which are measured initially at the transaction price and carried at amortized cost.

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

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

Revenue Recognition
Revenue is recognized to the extent it is probable that the economic benefits will flow to the Association and that the revenue can be measured reliably. The following specific recognition criteria must be met before revenue is recognized:

Seminar and training fees
Seminar and training fees are recognized when seminars and trainings have been conducted and completed. Tuition fees included in this amount are recognized over the service period.

Donations and contributions
Donations and contributions are recognized when there is actual transfer of assets from the donor in case of unconditional grants, or when conditions are met in case of conditional grants.

Interest income
Interest income from cash in banks is recognized on a time proportion basis as it accrues using the effective interest method.

Facilities fee
Facilities fee is recognized based on the terms of agreement.

Dividend Income
Income from stocks investment is recognized when earned.

Other income
Income from other sources is recognized when earned.

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

Costs and expenses are recognized in statement of revenues 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 statements of financial position as an asset.

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

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
a. There is change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is substantial change to the asset.

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

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

Retirement Benefits
The Association is covered by a funded noncontributory defined benefit retirement plan.

The Association'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 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. Remeasurement gains or losses are immediately charged against or credited to current operations under 'Remeasurement gain or loss on retirement plan' for actuarial gain and under 'Retirement expense'.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where 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.

Contingencies
Contingent liabilities are not recognized in the 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 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 Association's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

3. **Significant Accounting Judgments and Estimates**

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

a. *Operating leases*
The Association has entered into commercial property leases wherein it has determined that all the significant risks and rewards of ownership of these properties are retained by the lessor. In determining whether or not there is indication of operating lease treatment, the Association considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and bearer of executory costs, among others.

b. *Foreign currency translation*

The Association conducts transactions in foreign currency. The Association maintains two US Dollar Bank accounts for international clients paying in US dollar. In accounting for dollar denominated transactions, the Association does not recognize realized gain/loss from settlement of receivables. Net income or loss is reflected through the translation of cash in bank - dollar account at year-end.

c. *Contingencies*

The amount of probable costs for the resolution of possible claims has been developed in consultation with CARD MRI in-house legal counsel handling the Association's defense and is based upon the analysis of potential results. No provisions for contingencies were provided as at December 31, 2014 and 2013.

d. *Going concern*

The Association's management has made an assessment of the Association's ability to continue as a going concern and is satisfied that the Association 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 Association's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates

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

a. *Impairment of trade receivables*

The Association assesses its receivables for impairment at each reporting date. In determining whether a credit loss should be recorded in the statement of revenues and expenses and changes in fund balance, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from its receivable. This evidence may include observable data indicating that there has been an adverse change in the payment status of its debtors.

The carrying values of receivables and the related allowance for doubtful accounts are disclosed in Note 5.

b. *Impairment of property and equipment*

The Association assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Association 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 acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Association recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use or its fair value less costs to sell. Recoverable amounts are estimated for individual assets.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Association is required to make estimates and assumptions that can materially affect the financial statements. Impairment loss was recognized in 2014 and 2013. The carrying value of property and equipment is disclosed in Note 7.

c. *Impairment of equity investment at cost*

The Association treats equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying values of equity investment at cost are disclosed in Note 13. There is no allowance for impairment losses on equity investments as at December 31, 2014 and 2013.

d. *Estimated useful lives of property and equipment*

The Association 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 to the financial statements.

e. *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 that date applicable to the period over which obligation is 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 the reporting dates.

The present value of the defined benefit obligation is disclosed in Note 12.

4. Cash in Banks

This account consists of:

	2014	2013
Time deposits	**₱23,237,323**	₱22,645,720
Demand deposits	**19,210,738**	6,107,405
Savings deposits	**15,145,844**	7,307,371
	₱57,593,905	₱36,060,496

Demand and savings deposits earn interest at the respective bank deposit rates.

Time deposits have maturities of less than three months with annual interest rates ranging between 2.0% to 4.0% and 3.5% to 4.5% in 2014 and 2013, respectively.

Interest income earned on the Association's cash in banks amounted to ₱0.7 million and ₱0.6 million in 2014 and 2013, respectively.

5. Receivables

This account consists of:

	2014	2013
Receivable from related parties (Note 13)	**₱6,138,096**	₱7,537,321
Receivable from trainees and participants	**548,086**	570,451
Interest receivable	**46,591**	58,553
Receivable from contractor	**11,205**	1,247,200
Notes receivable	–	46,904
	6,743,978	9,460,429
Less allowance for doubtful accounts	**930,155**	838,084
Total receivables	**₱5,813,823**	₱8,622,345

Receivable from contractor pertains to excess of billings over the contract costs incurred in construction in progress (Note 7).

Changes in the allowance for doubtful accounts are as follows:

	2014	2013
Balance at beginning of year	**₱838,084**	₱1,038,206
Provision during the year	**121,397**	507,183
Written off accounts	**(29,326)**	(707,305)
Balance at end of year	**₱930,155**	₱838,084

Trade and other receivables are assessed collectively for impairment purposes.

6. **Other Current Assets**

This account consists of:

	2014	2013
Prepaid expenses	**₱886,713**	₱833,850
Supplies inventory	**252,713**	83,407
	₱1,139,426	₱917,257

Prepaid expenses include prepayments for insurance, supplies and other expenses. Supplies inventory includes souvenir items distributed to trainees.

7. Property and Equipment

The composition of and movements in this account follow:

2014

	Land	Land Improvement	Training Facilities	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvement	Construction in Progress	Total
Cost								
Balance at beginning of year	**₱6,958,588**	**₱520,708**	**₱47,273,418**	**₱8,922,318**	**₱4,267,722**	**₱896,828**	**₱2,051,276**	**₱70,890,858**
Additions	**1,500,000**	**119,457**	**2,235,421**	**1,363,642**	**892,755**	**697,966**	**5,627,295**	**12,436,536**
Disposals	–	–	**(15,500)**	**(1,287,044)**	**(1,029,000)**	–	–	**(2,331,544)**
Reclassifications	–	**3,117,440**	**4,037,018**	**(184,000)**	–	–	**(6,970,458)**	–
Balance at end of year	**8,458,588**	**3,757,605**	**53,530,357**	**8,814,916**	**4,131,477**	**1,594,794**	**708,113**	**80,995,850**
Accumulated depreciation								
Balance at beginning of year	–	**433,845**	**13,668,466**	**6,447,057**	**3,234,033**	**896,828**	–	**24,680,229**
Depreciation	–	**80,758**	**5,587,627**	**1,422,296**	**661,310**	–	–	**7,751,991**
Disposal	–	–	**(15,500)**	**(1,287,044)**	**(1,029,000)**	–	–	**(2,331,544)**
Balance at end of year	–	**514,603**	**19,240,593**	**6,582,309**	**2,866,343**	**896,828**	–	**30,100,676**
Net book value	**₱8,458,588**	**₱3,243,002**	**₱34,289,764**	**₱2,232,607**	**₱1,265,134**	**₱697,966**	**₱708,113**	**₱50,895,174**

2013

	Land	Land Improvement	Training Facilities	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvement	Construction in Progress	Total
Cost								
Balance at beginning of year	₱6,958,588	₱520,708	₱41,364,754	₱7,256,470	₱4,267,722	₱896,828	₱911,481	₱62,176,551
Additions	–	–	4,966,241	1,696,790	–	–	2,051,276	8,714,307
Reclassifications	–	–	942,423	(30,942)	–	–	(911,481)	–
Balance at end of year	6,958,588	520,708	47,273,418	8,922,318	4,267,722	896,828	2,051,276	70,890,858
Accumulated depreciation								
Balance at beginning of year	–	379,044	9,074,742	5,166,336	2,481,663	647,709	–	17,749,494
Depreciation	–	54,801	4,593,724	1,280,721	752,370	249,119	–	6,930,735
Balance at end of year	–	433,845	13,668,466	6,447,057	3,234,033	896,828	–	24,680,229
Net book value	₱6,958,588	₱86,863	₱33,604,952	₱2,475,261	₱1,033,689	₱–	₱2,051,276	₱46,210,629

The breakdown of depreciation expense on property and equipment follows:

	2014	2013
Cost of seminars, trainings, and other programs (Note 10)	**₱7,039,444**	₱6,146,010
Administrative	**712,547**	784,725
	₱7,751,991	₱6,930,735

Construction in progress represents costs recognized by the Association for the construction project for building improvements (Note 5).

As at December 31, 2014 and 2013, the total original cost of fully-depreciated assets still in use amounted to ₱8.1 million and ₱8.0 million, respectively.

8. Software License

The composition of and movements in the account follow:

	2014	2013
Cost		
Balance at beginning of year	**₱184,000**	₱–
Additions	**14,929**	184,000
Balance at end of year	**198,929**	184,000
Accumulated Amortization		
Balance at beginning of year	**3,067**	–
Amortization	**39,317**	3,067
Balance at end of year	**42,384**	3,067
Net Book Value	**₱156,545**	₱180,933

The breakdown of amortization expense on software license follows:

	2014	2013
Cost of seminars, trainings, and other programs (Note 10)*	**₱30,117**	₱2,300
Administrative	**9,200**	767
	₱39,317	₱3,067

**Presented under 'Information technology' expense*

9. Accounts Payable and Accrued Expenses

This account consists of:

		2013
Accrued expenses	**₱5,753,737**	₱3,819,523
Accounts payable (Note 13)	**4,927,392**	879,499
Unearned tuition fee	**2,152,031**	1,436,156
Withholding tax payable	**193,406**	359,747
Funds held in trust (Note 13)	**56,500**	3,762,764
	₱13,083,066	₱10,257,689

Accrued expenses include accrual for vacation leave credits, cash gifts, 13th and 14th month pay, and other expenses.

Funds held in trust include donations received by the Association on behalf of CARD, Inc. for the Zero Dropout Education Scheme (ZeDrES). Total donations for ZeDrES received in 2014 by the Association amounted to ₱1.0 million. The fund also includes ₱50.0 thousand donations received by the Association for the University of the Philippines (UP) Educational Loan Fund. As per memorandum of understanding, the Association shall use funds to provide educational assistance to students enrolled in any degree offered by UP. The disbursements made out of the fund in 2014 and the outstanding balance as of December 31, 2014 amounted to ₱4.8 million and ₱0.1 million, respectively.

10. Cost of Seminars, Trainings and Other Programs

This account consists of:

	2014	2013
Meals of trainees	**₱21,366,102**	₱16,696,044
Compensation and employee benefits (Notes 12 and 13)	**10,662,450**	8,664,048
Room accommodation and function hall	**8,898,073**	6,301,294
Depreciation (Note 7)	**7,039,444**	6,146,010
Transportation and travel	**7,648,172**	4,395,777
Supplies and materials	**6,139,782**	3,088,238
Janitorial, messengerial and security	**2,495,713**	1,963,410
Repairs and maintenance	**2,129,595**	896,547
Utilities	**1,698,781**	1,410,238
Honorarium to resource persons	**963,005**	–
Information technology (Note 8)	**609,096**	97,887
Office rental (Note 11 and 13)	**504,421**	180,000
Representation expense	**383,712**	610,441
Management and professional fees	**–**	1,320,969
Miscellaneous	**1,130,948**	659,187
	₱71,669,294	₱52,430,090

Miscellaneous includes communication and postage, periodicals and magazines, library expenses and other program-related costs.

11. Lease Contracts - Lessee

As of December 31, 2014, the Association has three outstanding lease contracts for the lease of two commercial buildings from CARD Inc., both of which have lease terms of three years until November 16, 2016, and one commercial building from CARD Bank Inc., with lease term of five years starting from June 1, 2014 until May 31, 2019. The lease of properties is renewable upon mutual agreement between the Association and the lessor.

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

	2014	2013
Not later than one year	**₱504,421**	₱180,000
Later than one year and not later than five years	**1,354,821**	345,000
	₱1,859,242	₱525,000

Lease payments recognized under 'Office rental' amounted to ₱0.5 million and ₱0.2 million in 2014 and 2013, respectively.

12. Retirement Benefits

The Association, CARD SME Bank, Inc. (CSMEB), CARD Mutual Benefit Association (MBA), Inc., CARD Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., CARD MRI Information Technology, Inc. (CMIT), BotiCARD, Inc., and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan, the CARD MRI Multi-Employer Retirement Plan (MERP), covering all of their regular employees. The MERP has a projected unit cost format and is financed solely by the Association and its related parties. MERP complies with the requirement of Republic Act No. 7641 (The Philippine Retirement Law). The MERP provides lump sum benefits equivalent to 120.0% 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 early retirement after completion of at least one year of service with the participating companies.

The cost of defined benefit 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 the following:

	2014	2013
Discount rates	**4.46%**	6.38%
Future salary increases	**7.00%**	12.00%

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

	2014	2013
Present value of defined benefit obligation	**₱10,506,701**	₱16,491,326
Fair value of plan assets	**(16,715,666)**	(14,889,838)
Effect of asset ceiling	**891,360**	−
Retirement liability (asset)	**(₱5,317,605)**	₱1,601,488

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

	2014	2013
Current service cost	**₱1,685,038**	₱1,581,300
Interest cost	**1,052,147**	759,990
Actual return on plan assets	**(994,302)**	(752,157)
Retirement expense	**1,742,883**	1,589,133
Remeasurement loss (gain) recognized during the year	**(7,250,046)**	1,523,041
	(₱5,507,163)	₱3,112,174

The movements in the net retirement liability (asset) follow:

	2014	2013
Balance at beginning of year	**₱1,601,488**	₱2,403,296
Contributions paid	**(1,411,930)**	(3,913,982)
Retirement expense (income)	**(5,507,163)**	3,112,174
Balance at end of year	**(₱5,317,605)**	₱1,601,488

The movements in the present value of pension obligation follow:

	2014	2013
Balance at beginning of year	**₱16,491,326**	₱12,257,900
Actuarial loss (gain)	**(8,699,547)**	1,252,191
Current service cost	**1,685,038**	1,581,300
Interest cost	**1,052,147**	759,990
Benefits paid	**(78,938)**	(100,149)
Transfers to the plan	**56,675**	740,094
Balance at end of year	**₱10,506,701**	₱16,491,326

The movements in the fair value of plan assets follow:

	2014	2013
Balance at beginning of year	**₱14,889,838**	₱9,854,604
Contributions paid by employer	**1,411,930**	3,913,982
Interest income	**994,302**	752,157
Transfers to the plan	**56,675**	740,094
Benefits paid	**(78,938)**	(100,149)
Return on plan assets (excluding amount included in net interest)	**(558,141)**	(270,850)
Balance at end of year	**₱16,715,666**	₱14,889,838

The Association plans to contribute ₱1.4 million to the defined benefit retirement plan in 2015.

The fair value of plan assets by each class as at the end of the reporting period are as follow:

	2014	2013
Debt instruments - Government bonds	**₱7,667,476**	₱5,425,857
Cash and cash equivalents (Note 13)	**6,572,600**	8,071,781
Loans	**1,852,096**	920,192
Equity instruments	**157,127**	93,806
Mutual funds	–	205,480
Other assets	**466,367**	172,722
	₱16,715,666	₱14,889,838

Included in the fund assets are transactions with the Association such as time deposits, investment in subordinated debts and investment in shares of stock.

The plan assets have diverse investments and do not have any concentration risk.

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

The average duration of the defined benefit obligation at the end of the reporting period is 33.7 years.

13. **Related Party Transactions**

In the ordinary course of business, the Association transacts with related parties. Related parties include trustees, members, officers, employees and entities (affiliates) where trustees, members and officers hold key management positions. Transactions with 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. CARD MRI's Multi-Employer Retirement Plan (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 12).

Remunerations of Trustees and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Association, directly or indirectly. The Association considers the members of the board of trustees and senior management to constitute key management personnel for purposes of Section 33 of PFRS for SMEs.

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

	2014	2013
Post-employment benefits	**₱439,334**	₱1,477,296
Short-term employee benefits	**968,490**	863,678
	₱1,407,824	₱2,842,223

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

Related party transactions and balances as at and for the years ended December 31, 2014 and 2013 are as follows:

		December 31, 2014	
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Other related parties			
Cash in bank		**₱46,960,405**	Checking, savings and time deposit accounts with annual interest rate ranging from 1.5% to 4.5%
Deposits	**₱93,162,708**		
Withdrawals	**(78,134,276)**		
Equity investment at cost	–	**4,373,900**	Investments in equity securities with 4.08% ownership.
Accounts receivable		**6,138,097**	For training fees, seminars and meetings and share of expenses
Billings	**106,757,596**		
Collections	**(108,160,956)**		
Accounts payable		**421,570**	Share of expenses and office rental
Billings	**2,969,557**		
Payments	**(2,651,930)**		
Funds held in trust		**6,500**	Funds received by the Association in behalf of CARD, Inc. for ZeDrES program
Receipts	**1,020,000**		
Disbursements	**4,544,764**		
Seminars and trainings	**104,316,241**		Income derived from providing seminars and trainings to CARD MRI group and the related affiliates
Facilities fee	**470,987**		Income derived from the use of facilities to CARD MRI group and external parties for various events
Dividend income	**787,302**		Income derived from the Association's investment in equity shares of CMIT
Interest income	**767,342**		Income from savings and current account
Rent expense	**504,423**		The Organization leases premises occupied by its branches. Rent expense is recorded under 'Office rental' (Note 10)

Category	Amount/ Volume	December 31, 2013 Outstanding Balance	Nature, Terms and Conditions
Other related parties			
Cash in bank		₱31,932,973	Checking, savings and time deposit accounts with annual interest rate ranging from 1.5% to 4.5%
Deposits	₱72,947,854		
Withdrawals	(60,381,356)		
Equity investment at cost	–	4,373,900	Investments in equity securities with 4.08% ownership.
Accounts receivable		7,541,457	For training fees, seminars and meetings and share of expenses
Billings	94,067,549		
Collections	(92,631,839)		
Accounts payable		103,943	Share of expenses and office rental
Billings	914,244		
Payments	(1,191,065)		
Funds held in trust		3,531,264	Funds received by the Association in behalf of CARD, Inc. for ZeDrES program
Seminars and trainings	₱70,722,185		Income derived from providing seminars and trainings to CARD MRI group and the related affiliates
Facilities fee	1,086,118		Income derived from the use of facilities to CARD MRI group and external parties for various events
Dividend income	1,293,562		Income derived from the Association's investment in equity shares of CMIT
Interest income	564,118		Income from savings and current account
Rent expense	180,000		The Organization leases premises occupied by its branches. Rent expense is recorded under 'Office rental' (Note 10)

14. Approval for the Release of Financial Statements

The accompanying financial statements of the Association were authorized for issue by the BOT on March 21, 2015.

15. Supplementary Information under RR 15-2010

The Association reported and/or paid the following types of taxes in 2014:

Taxes and Licenses

Taxes and licenses in 2014 recorded as 'Taxes and licenses' presented under 'Administrative expenses' in the statements of revenues and expenses and changes in fund balance consist of:

Real property tax	₱355,420
Transfer taxes	110,416
Business permits and licenses	58,672
Building permit	33,194
Other taxes	200
Community tax certificate	5,140
(forward)	
Annual registration	1,000
	₱564,042

Withholding Taxes
The following withholding taxes are categorized into:

	Paid during the year	Accrued at year-end
Withholding tax on compensation	₱784,707	₱135,028
Expanded withholding tax	411,237	58,378
	₱1,195,944	₱193,406

Tax Contingencies
The Association did not receive any final tax assessment in 2014 nor did it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of the Bureau of Internal Revenue.