

HOLY CROSS SAVINGS AND CREDIT COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019 AND 2018

1. GENERAL INFORMATION

The Holy Cross Savings and Credit Cooperative is a primary cooperative duly registered with the Cooperative Development Authority pursuant to R.A. No. 6938 with its former name as “Parish of the Holy Cross Credit Cooperative” under Registration/ Confirmation No Q-121-0215 on December 21, 1992. A new Certificate of Registration with No. 9520-16002450 was issued on November 12, 2009 by the Authority in compliance with the requirements of Article 144 of RA 9520 otherwise known as the “Philippine Cooperative Code of 2008”. It was established for the primary purpose of encouraging thrift and savings, creating funds and granting loans to members for productive purposes, educational and providential goods and services, and to engage in other services such as product distributorship and any other services useful to the members.

The Bureau of Internal Revenue approved the renewal of the Cooperative’s Certificate of Tax Exemption with registration No. Coop-0000042-17-RR-5-RDO-024 on April 21, 2017 that entitles the Cooperative to tax exemptions and incentives provided under Art. 60 of RA 9520 like payment of income tax and value added tax on CDA registered operations, donor’s tax and other taxes subject to certain provisions.

The Cooperative’s principal office is located at T. Bugallon St., Gen.T.de Leon, Valenzuela City. The Cooperative recruits its members within the City of Valenzuela and anywhere in Luzon Island. It operates business in Metro Manila, Region I, II, III, IV, & V. At present, the Cooperative has five (5) branches located in Malinta, Punturin and Malanday, Mindanao Avenue and Cabangan. The Cooperative operates with 61 regular management and staff.

The accompanying consolidated financial statements of the Cooperative were authorized for issue by the Board of Directors on February 21, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation of Financial Statements

a. Statement of Compliance

The consolidated financial statements of the Cooperative have been prepared in accordance with Philippine Financial Reporting Framework for Cooperatives which became effective for annual reporting period beginning on or before January 1, 2016, and in adherence to cooperative laws, issued policies, rules and regulations and cooperative principles and practices whenever applicable.

b. Functional Currency

The financial statements are presented in Philippine Peso which is the Cooperative’s functional and presentation currency.

Cash and cash equivalents

Cash includes cash on hand and in banks held to meet short-term cash commitments rather than for investment or other purposes. Cash equivalents are short-term, highly liquid

investments that are readily convertible to known amounts of cash and with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Assets

Financial assets are recognized in the Cooperative's financial statements when the Cooperative becomes a party to the contractual provisions of the instruments. Transaction costs are included in the initial measurement of all financial assets. The Cooperative's financial assets include cash, loans and receivables and financial assets at cost.

De-recognition of financial assets occurs when the rights to receive cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Cooperative provides money or services directly to a member debtor with no intention of trading the receivables. Included in this category are those arising from direct loans to members and all receivables from members and other entities. The carrying amount of the asset shall be reduced either directly or through the use of allowance account. The amount of the loss shall be recognized in profit or loss. Interest income on these loans are recognized only upon collection.

Allowance for Probable Losses

Allowance for probable losses is maintained at a level considered adequate to provide for potential losses on loans and other resources. The allowance is increased by provision charged to operations and reduced by net write-offs and reversals. The level of allowance is set up at the higher of the amount determined based on management's evaluation of potential losses after consideration of prevailing and anticipated economic conditions, and the required allowance by the Cooperative Development Authority based on its Portfolio-at-risk.

Other Current Assets

Other current assets consist of prepaid expenses and the cost of supplies at hand at the end of the year. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Held to Maturity Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Cooperative has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss. As of December 31, 2019 and 2018, the Cooperative has financial assets designated as Held to Maturity investments in the amount of 114,536,094.98 and 112,536,094.98, respectively.

Investment in Non-marketable Equity Securities (INMES)

Investment in non-marketable equity securities (INMES) refers to equity instruments that do not have a quoted market price in an active market, of which fair market value cannot be reliably measured but is carried at cost.

Property and Equipment

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

Except for Land and Construction in progress, depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	5-10 years
Building improvements	5-25 years
Leasehold improvements	3-5 years
Office furniture & fixtures	5 years
Transportation equipment	5-10 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each Statement of Financial Condition date. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Operations in the year the item is derecognized.

Investment Property

Investment property, carried at cost less accumulated depreciation and any impairment in value, is property (i.e., land, building and land improvements) held either to earn rental income or for capital appreciation or for both, but not used in the production or supply of goods or services or for administrative purposes. Depreciation is computed on the straight-line basis over the estimated useful lives of the investment property of 10 to 50 years.

An investment property's carrying amount is written down immediately to its recoverable amount if the property's carrying amount is greater than its estimated recoverable amount. An item of investment property, including the related accumulated depreciation, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Operations in the year the item is derecognized.

Real and Other Properties Owned and Acquired (ROPA)

Assets acquired in settlement of loans are stated at outstanding balance at the time of the acquisition of the property. Upon disposal of the property, the difference between the sale or recovered amount and the outstanding loan balance will be taken up as income or loss in the Statement of Operations.

Other Non-Current Assets

Other non-current assets consists of computerization costs, other funds and deposits, rental deposits and miscellaneous assets.

Financial Liabilities

The Cooperative's financial liabilities pertain to members' deposits, trade and other payables, as well as interest on share capital and patronage refund payable to the Cooperative's members. These financial liabilities are recognized at nominal value. Interest on share capital and Patronage Refund Payable are recognized as financial liabilities based on Cooperative's by-laws and cooperative laws and regulations. Financial liabilities are derecognized from the statement of financial condition only when the obligations are extinguished either through discharge, cancellation or expiration.

Deposit Liabilities

These are interest bearing deposits made by the members that can be withdrawn anytime at the option of the depositor member.

Due to Union/Federation

This is the liability of the Cooperative to a federation or union to which the cooperative is a member in compliance with Section 87 of the Cooperative Code of the Philippines which is one half of the amount set aside by the cooperative for education and training fund.

Income Taxes

The Cooperative Code states that a cooperative transacting business only with its members is exempt from all government taxes because of its tax-exempt nature. However, should the cooperative exceed the limits as set forth in the Cooperative Code, it will adopt the accounting standards for income taxes.

Income and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Cooperative and the revenue can be reliably measured. 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. Also, due to cash-based income distribution scheme of a cooperative as well as the inherent limitations of small-scale countryside credit cooperatives, it cannot adopt the effective interest method in recognizing interest income on loans receivables.

Cost and expenses are recognized in the statement of operations upon receipt of goods and utilization of the service or at the date they are incurred.

Employee Benefits

Short-term Benefits - Wages, salaries and bonuses are recognized as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

Post-employment Defined Benefit Plan - A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The legal obligation for any benefits from this kind of post-employment plan remains with the Cooperative, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Cooperative's post-employment defined benefit plan covers all regular full-time employees.

Defined Contribution Plan - A defined contribution plan under which the Cooperative pays fixed contributions into an independent entity such as Social Security System (SSS), Philhealth and Pag-ibig. The Cooperative has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

Accounts Peculiar to Cooperatives

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

Assets

Cash in Cooperative Federation – refers to money deposited in federations which are unrestricted and readily available when needed. These are treated as cash and other cash equivalents.

Other Funds and Deposits – refers to restricted funds set aside for funding of reserves (statutory and other reserves) established by the cooperative recorded at cost.

Liabilities

Patronage Refund Payable – is the liability of the Cooperative to its members and patrons for patronage refund, which can be determined only at the end of the calendar year.

Interest on Share Capital Payable - refers to liability of the cooperative to its members for interest on share capital, which can be determined only at the end of calendar year.

Due to Union/Federation (CETF) – is an amount set aside for the education and training fund of an apex organization, which is 50% of the amount allocated, by the cooperative in accordance with the provision of the cooperative's by-laws and the cooperative code. The apex organization may either be a federation or union of which the cooperative is a member.

Statutory funds

The Cooperative's by laws explicitly provides the manner of distribution of the net surplus to statutory funds. These mandatory funds are established in accordance with Art. 86 and 87 of the Cooperative Code as follows:

Reserve Fund – this refers to the amount set aside annually for the stability of the Cooperative and to meet net losses in its operations. It is equivalent to at least 15% of net surplus. A corresponding fund is set up in the form of time deposit with local banks and government securities. Only the amount in excess of the paid up share capital may be used for the expansion and authorized investment of the cooperative as provided for in its by-laws.

Cooperative Education & Training Fund – this refers to the amount retained by the cooperative for education and training of its members, officers and staff out of mandatory allocation as stipulated in the cooperative's by-laws, which is 3% of net surplus. The Cooperative distributes the fund equally to its own education and training activities and to the federation or union where the cooperative is affiliated.

Community Development Fund - this refers to the fund set aside from the net surplus which should not be less than 3% for projects and/or activities that will benefit the community where the cooperative operates.

Optional Fund – this refers to the fund set aside from net surplus for future acquisition of land, building, and equipment which shall be 4% of the net surplus.

Expenses

General Assembly Meeting – expenses incurred in the conduct of regular/special general assembly.

Members' Benefit – all expenses incurred for the benefit of the members.

Affiliation Fee - amount incurred to cover membership or registration fees and annual dues to a federation or union.

Other Items

Optional Fund Subsidy – refers to an amount deducted from Optional Fund to subsidize depreciation of property and equipment funded by Optional Fund.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Cooperative's financial statements in accordance with Philippine Financial Reporting Framework for Cooperatives requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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 circumstances. Actual results may ultimately differ from these estimates.

Critical Management Judgments in Applying Accounting Policies

In the process of applying the Cooperative's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

a. Determination of Functional Currency

The Cooperative has determined that its functional currency is the Philippine peso, which is the currency of the primary environment in which the Cooperative operates.

b. Distinction Between Investment Properties and Owner-managed Properties

The Cooperative determines whether a property qualifies as an investment property. In making its judgment, the Cooperative considers whether the property generates cash flows largely independent of the other assets held by the Cooperative. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its operations.

Some properties comprise a portion that is held to earn rental and another portion that is held for use for administrative purposes. If these portions can be sold separately or leased out separately under finance lease the Cooperative accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. The Cooperative considers each property separately in making its judgment.

c. Distinction between Operating and Finance Leases

The Cooperative has entered into various lease agreements as lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Based on management judgment, current lease arrangements were determined to be operating leases.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next reporting period.

a. Impairment of Loan and Other Receivables

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Cooperative evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Cooperative's relationship with the members, the members' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

b. Estimation of Useful Lives of Property and Equipment and Investment Property

The Cooperative estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment property would increase recorded operating expenses and decrease non-current assets.

The carrying amounts of property and equipment and investment property are analyzed in Notes 10 and 11, respectively.

Provision for Probable losses on loans

Provision is made for specific and groups of accounts, where objective evidence of impairment exists. The Cooperative evaluates these accounts for receivables based on available facts and circumstances, including, but not limited to the length of the Cooperative's relationship with members, the members' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. Provision for probable losses on loans is maintained at a level considered adequate to provide for potentially uncollectible accounts. Provision for Probable losses on loan amounted to 116,008,306.53 and 97,964,163.31 as of the end of 2019 and 2018, respectively. There were no bad debts written off in the year 2019 and 2018.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Cooperative is exposed to certain financial risks which arise in the normal course of the cooperative business activities. In seeking to manage risk, the cooperative define an objective or a set of objectives in deciding how and when to manage and what to do about risk. A common goal for cooperative is to increase shareholder value through increasing the present value of its future expected cash flows. In normal circumstances, in pursuing the goal of increased shareholder value, cooperative are likely to evaluate risk management decisions on the basis of two criteria: the cost of reducing risk and the cost of setting risk levels at an acceptable level – that is, in line with the particular risk appetite or risk tolerance. The cooperative evaluates risk on the basis of cost–benefit criteria. The cooperative risk management is coordinated with the Board of Directors, and focuses on actively securing the Cooperative’s short to medium-term cash flows by minimizing the exposure to financial risks.

The financial risks to which the Cooperative is exposed to, are described below:

Foreign Exchange Risk

The Cooperative has bank deposits denominated in foreign currencies. The Cooperative does not perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end because the management believes that foreign exchange risks are not material.

Credit Risks

Generally, the maximum credit risk of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial condition. The Cooperative’s financial assets are summarized below:

	2019	2018
Cash and cash equivalents	508,501,920.94	443,757,816.97
Loans and receivables, net	868,410,507.26	771,819,512.62
	1,376,912,428.20	1,215,577,329.59

The age of financial assets that are past due but not impaired as of December 31, 2019 and 2018 are as follows:

	2019	2018
Past due - one (1) month	11,069,016.50	7,577,012.40
- two (2) - twelve (12) months	95,456,919.26	117,989,079.95
- over twelve (12) months	135,100,773.32	94,842,845.25
Total Past Due	241,626,709.08	220,408,937.60

The Cooperative’s loans and receivables are actively monitored to avoid significant concentration of credit risk. The Cooperative’s policy is to deal only with credit worthy members/counterparties. The Cooperative’s management considers that all above financial assets that are not impaired or past due for each balance sheet dates are of good quality. With respect to loan and other receivables, the Cooperative is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar

characteristics. Based on historical information about members default rates management consider the credit quality of loan receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents, money market funds, debentures and derivative financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity Risks

Liquidity or funding risk is the risk that an entity will incur difficulty in raising to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their values; or counterparty failing on repayment of contractual obligations, or inability to generate cash flows as anticipated. As at December 31, 2019 and 2018, the Cooperative's maximum liquidity risk is the carrying amount of total current liabilities which amounted to 1,056,722,774.32 in 2019 and 956,389,067.95 in 2018. The maximum liquidity risks for noncurrent liabilities with maturities of one to five (1-5) years amounted to the carrying amount of 5,022,779.33 in 2019 and 3,297,161.74 in 2018.

The Cooperative manages its liquidity needs by deposit liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly. The Cooperative maintains cash to meet its liquidity requirements for up to a 60-day period.

5. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Cash in banks	173,198,288.54	183,495,221.82
Cash on hand	5,490,781.20	7,265,735.16
Revolving fund	325,000.00	335,000.00
Petty cash fund	36,000.00	41,000.00
Ticketing fund	22,969.56	16,049.45
Kaya Settlement fund	59,872.36	-
Short term investments	329,369,009.28	252,604,810.54
	508,501,920.94	443,757,816.97

Cash represents cash on hand and deposits in several local and commercial banks in terms of savings and current accounts that earn interest at the rate of 0.50% per annum.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. This represents deposits to various commercial banks and financial institutions in the form of time deposits. The maturity of these investments ranges from 30 to 60 days and with interest rates of 3% to 6.5% per annum.

6. LOANS and RECEIVABLES, net

This account consists of members' loans classified as follows:

	2019	2018
Back to back loan	98,918,358.77	95,340,553.96
Providential Loan	1,396,009.45	129,260.12
Unsecured Loan	34,860,536.64	43,093,943.92
Secured Loan	809,583,542.19	690,714,418.89
Business Assistance Loan	4,697,009.18	12,310,999.57
Others	30,594,631.19	21,904,497.85
Total Loans Receivable Gross	980,050,087.42	863,493,674.31
Less: Allowance for Probable losses on	(116,008,306.53)	(97,964,163.31)
Unearned Interests	(2,960,162.85)	(2,268,309.79)
Total Loans Receivable, net	861,081,618.04	763,261,201.21
Other current receivables	7,328,889.22	8,558,311.41
Total Loans and Receivables, net	868,410,507.26	771,819,512.62

Aging of Loans Receivables:

	2019	2018
Current	738,423,378.34	643,084,736.71
Past due - one (1) month	11,069,016.50	7,577,012.40
- two (2) - twelve (12) months	95,456,919.26	117,989,079.95
- over twelve (12) months	135,100,773.32	94,842,845.25
Total	980,050,087.42	863,493,674.31

Movement of Allowance for Probable Losses on Loans

	2019	2018
Beginning Balance	97,964,163.31	85,154,553.10
Add: Provision for the year	17,080,800.00	11,950,000.00
Adjustments	963,343.22	859,610.21
Ending Balance	116,008,306.53	97,964,163.31

The total loans receivables of the Cooperative amounted to 980,050,087.42 in the year 2019 and 863,493,674.31 in the year 2018, which includes unearned interests amounting to 2,960,162.85 and 2,268,309.79 in the years 2019 and 2018, respectively. Total amount of allowance for probable losses on loans as of December 31, 2019 and 2018 amounted to 116,008,306.53 and 97,964,163.31, respectively. Of the total past due accounts, management notes that 92.47% of its loan portfolio is fully secured either by collaterals such as land titles, members' deposits and share capital and only 7.53% is not secured.

DOSRI Accounts:

As of December 31, 2019 and 2018, the DOSRI accounts are as follows:

	2019	2018
Board of Directors & Officers	32,803,707.08	19,606,631.71
Management Staff	10,093,966.68	9,457,365.35
Total	42,897,673.76	29,063,997.06

Other Current Receivables

This account consists of the following:

	2019	2018
Accounts Receivables-Foreclosed Accounts	4,820,586.36	4,359,040.53
Other Receivables	2,508,302.86	4,199,270.88
Total	7,328,889.22	8,558,311.41

Management considers the carrying amounts of these receivables to be a reasonable approximation of their fair values.

7. OTHER CURRENT ASSETS

This account consists of the following:

	2019	2018
Prepaid Expenses	962,925.36	552,347.95
Unused Supplies	1,208,845.35	1,179,503.26
Total	2,171,770.71	1,731,851.21

These accounts are stated at cost.

8. HELD TO MATURITY – INVESTMENTS

This account consists of investment in financial institutions held to maturity:

	2019	2018
Phil Am Life NCMF Philippines, Inc.	18,194,115.90	18,194,115.90
Sun Life Asset Management Co.	16,470,340.71	16,470,340.71
PNB - Fixed Rate Bond	5,000,000.00	5,000,000.00
Philippine Axa Life	9,000,000.00	9,000,000.00
Metro Bank Money Market/RTB	24,055,243.47	24,055,243.47
DBP-Government Securities & RTB	39,816,394.90	39,816,394.90
Climbs Investment Mgt Advisory Corp.	2,000,000.00	-
Total HTM – Investments, Gross	114,536,094.98	112,536,094.98

There is no objective evidence that the investment has been impaired, the management did not recognize any impairment.

9. INVESTMENTS IN NON-MARKETABLE EQUITY SECURITIES, net

This account consists of investments to various Cooperatives which are as follows:

Investments – Cooperatives	2019	2018
Climbs Life and General Insurance Coop	16,830,991.55	16,559,614.55
National Capital Region League of PFCCO	5,173,049.04	4,882,079.44
CODIS Federation of Cooperatives	2,000,000.00	2,000,000.00
Phil. Resort, Travel and Educ Service Corp.	1,950,000.00	1,950,000.00
Metro South Cooperative Bank	1,591,000.00	1,591,000.00
Credit Information System	1,000,000.00	1,000,000.00
Valenzuela Federation of Credit Coop	-	134,204.97
Philippine Cooperative Center	131,714.69	120,194.35
Total	28,676,755.28	28,237,093.31
Less: Allowance for probable loss	(1,000,000.00)	-
Total Investments in Non-Marketable Equity Sec., net	27,676,755.28	28,237,093.31

Investments are initially valued at transaction price and fair valuation is subsequently measured. Investment in non-publicly traded securities is valued at cost and market valuation is regularly monitored.

10. PROPERTY AND EQUIPMENT, net

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2019 and 2018 are shown below:

	Land & Imprvmt	Building & Imprvmt	Office Imprvmt	Office Equip, Fur & Fix	Transpo. Eqpmt	Leasehold Imprvmt	Construction in progress	Total
Cost 12/31/2019	70,324,401.50	19,263,151.08	4,621,483.53	11,873,563.24	7,368,149.72	9,300.00	1,346,030.00	114,806,079.07
Accum. Depreciation	-	14,035,733.67	4,159,335.20	8,552,929.46	3,644,990.39	-	-	30,392,988.72
Net Book Value 12/31/2019	<u>70,324,401.50</u>	<u>5,227,417.41</u>	<u>462,148.33</u>	<u>3,320,633.78</u>	<u>3,723,159.33</u>	<u>9,300.00</u>	<u>1,346,030.00</u>	<u>84,413,090.35</u>
Net Book Value - 12/31/2018	70,324,401.50	6,309,117.47	929,056.68	2,379,164.45	2,603,985.38	12,900.00	141,530.00	82,700,155.48
Additions	-	-	-	1,716,941.13	1,577,699.00	-	1,204,500.00	4,499,140.13
Adjustments	-	-	-	180,320.42	-	-	-	180,320.42
Disposal	-	-	-	(3,482.34)	-	(3,600.00)	-	(7,082.34)
Depreciation / Amortization	-	(1,081,700.06)	(466,908.35)	(952,309.88)	(458,525.05)	-	-	(2,959,443.34)
Net Book Value - 12/31/2019	<u>70,324,401.50</u>	<u>5,227,417.41</u>	<u>462,148.33</u>	<u>3,320,633.78</u>	<u>3,723,159.33</u>	<u>9,300.00</u>	<u>1,346,030.00</u>	<u>84,413,090.35</u>
	Land & Imprvmt	Building & Imprvmt	Office Imprvmt	Office Equip, Fur & Fix	Transpo. Eqpmt	Leasehold Imprvmt	Construction in progress	Total
Cost 12/31/2018	70,324,401.50	19,263,151.08	4,645,283.53	14,075,528.24	6,603,185.03	16,500.00	141,530.00	115,069,579.38
Accum. Depreciation	-	12,954,033.61	3,716,226.85	11,696,363.79	3,999,199.65	3,600.00	-	32,369,423.90
Net Book Value 12/31/2018	<u>70,324,401.50</u>	<u>6,309,117.47</u>	<u>929,056.68</u>	<u>2,379,164.45</u>	<u>2,603,985.38</u>	<u>12,900.00</u>	<u>141,530.00</u>	<u>82,700,155.48</u>
Net Book Value - 12/31/2017	70,078,844.00	7,407,174.63	1,393,585.03	1,842,262.32	1,708,459.64	23,975.00	-	82,454,300.62
Additions	245,557.50	-	-	1,280,179.19	1,242,998.75	-	141,530.00	2,910,265.44
Adjustments	-	-	-	(5,070.39)	-	(7,475.00)	-	(12,545.39)
Disposal	-	(15,192.16)	-	(7,676.64)	-	-	-	(22,868.80)
Depreciation / Amortization	-	(1,082,865.00)	(464,528.35)	(730,530.03)	(347,473.01)	(3,600.00)	-	(2,628,996.39)
Net Book Value - 12/31/2018	<u>70,324,401.50</u>	<u>6,309,117.47</u>	<u>929,056.68</u>	<u>2,379,164.45</u>	<u>2,603,985.38</u>	<u>12,900.00</u>	<u>141,530.00</u>	<u>82,700,155.48</u>

11. INVESTMENT PROPERTY, net

The Cooperative's investment property pertains to the portion of land and building held for lease and memorial lots held for loan. The gross carrying amounts and accumulated depreciation of investment property are shown below:

	Land	Building	Memorial Lot	Total
Cost 12/31/2019	8,010,000.00	20,800,466.21	-	28,810,466.21
Accum. Depreciation	-	4,220,886.73	-	4,220,886.73
Net Book Value - 12/31/2019	<u>8,010,000.00</u>	<u>16,579,579.48</u>	<u>-</u>	<u>24,589,579.48</u>

Net Book Value - 12/31/2018	8,010,000.00	17,619,602.80	95,094.08	25,724,696.88
Additions	-	-	-	-
Disposal	-	-	(95,094.08)	(95,094.08)
Depreciation / Amortization	-	(1,040,023.32)	-	(1,040,023.32)
Net Book Value - 12/31/2019	8,010,000.00	16,579,579.48	-	24,589,579.48

	Land	Building	Memorial Lot	Total
Cost 12/31/2018	8,010,000.00	20,800,466.21	95,094.08	28,905,560.29
Accum. Depreciation	-	3,180,863.41	-	3,180,863.41
Net Book Value 12/31/2018	8,010,000.00	17,619,602.80	95,094.08	25,724,696.88

Net Book Value 12/31/2017	8,010,000.00	17,619,602.80	95,094.08	25,724,696.88
Additions	-	-	-	-
Disposal	-	-	-	-
Depreciation / Amortization	-	-	-	-
Net Book Value -12/31/2018	8,010,000.00	17,619,602.80	95,094.08	25,724,696.88

12. REAL AND OTHER PROPERTIES ACQUIRED (ROPA)

In the ordinary course of granting loans, the Cooperative accepts real and other properties used as collaterals to secure their loans. This account consists of acquired properties by the Cooperative in settlement of loans and receivables through foreclosure and for any other reasons. Total amount of acquired real and other properties amounted to 18,858,624.82 and 19,225,757.50 for year 2019 and 2018, respectively.

13. OTHER-NON CURRENT ASSETS

This account consists of:

	2019	2018
Computerization cost, net	227,490.90	683,738.73
Other Funds and Deposits	47,246,884.03	41,484,393.30
Rental deposits and other non current assets	3,912,394.70	911,187.23
Total	51,386,769.63	43,079,319.26

Other Funds and Deposits consist of deposits to various commercial banks and financial institution in the form of time deposits and placements to fund the Cooperative's Reserve Fund in compliance to cooperative laws and regulations.

14. DEPOSIT LIABILITIES

This account consists of the following:

	2019	2018
Savings Deposits	441,692,594.41	380,145,500.11
Pension Savings Deposits	76,090,317.98	68,832,668.79
Koop Paluwagan	260,527,012.04	243,016,431.24
Time Deposits	164,421,933.60	165,385,415.57
Laboratory Coop	53,750,461.83	46,941,691.15
Total Deposit Liabilities	996,482,319.86	904,321,706.86

These deposit liabilities earn interests with rates as follows:

Regular deposits	0.75% p.a.	Time deposits – below 1M	1.00% p.a.
Pension Savings	3.25% p.a.	Time deposits – above 1M	1.25% p.a.
Koop Paluwagan	2.25% p.a.		

15. RETIREMENT FUND PAYABLE

Under Republic Act No. 7641, all organizations with ten (10) or more are required to provide a minimum retirement benefits to qualified retiring employees. The cooperative retirement plan is a non-contributory and of the defined benefit type which provides a retirement benefit equivalent to one hundred percent (100%) of the plan salary for every year of credited service. The cooperative provides for the estimated retirement benefits based on actuarial valuation made by the insurance provider. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The retirement fund payable as of December 31, 2019 and 2018 amounted to 3,735,643.20 and 1,670,822.31, respectively.

16. OTHER CURRENT LIABILITIES

The details of this account are shown below:

	2019	2018
Accrued Expenses Payable	2,062,146.06	1,529,866.50
Accounts Payable – Others	9,906,009.42	14,562,617.92
Other Payable	1,080,706.62	984,357.78
SSS/Pag-ibig Loan Payable	82,442.00	67,596.00
Withholding Tax Payable	(2,551.04)	(30,551.29)
SSS/ECC/Philhealth & Pag-ibig Payable	66,672.44	57,441.03
Unrealized Gain on sale of investment property	765,528.83	929,935.83
Total	13,960,954.33	18,101,263.77

17. OTHER NON-CURRENT LIABILITIES

This account pertains to annual insurance premium of 600.00 paid by a full pledged member, the amount being set aside as mortuary fund. As of December 31, 2019 and 2018, other non-current liabilities amounted to 5,022,779.33 and 3,297,161.74 respectively.

18. SHARE CAPITAL

The breakdown of this account is as follows:

	Authorized P100/par value	Paid-Up Share Capital No. of Shares	Amount	Treasury Shares	Total Share Capital
Common	800,000,000.00	4,968,912	496,891,200.00	(11,922,000.00)	484,969,200.00
Preferred A	72,500,000.00	579,465	57,946,500.00	(1,576,600.00)	56,369,900.00
Preferred B	20,000,000.00	45,734	4,573,400.00	-	4,573,400.00
Total	892,500,000.00	5,594,111	559,411,100.00	(13,498,600.00)	545,912,500.00

The authorized share capital of the Cooperative is 892,500,000, divided into 8,925,000 shares with par value of 100.00 per share, of which 800,000,000 is for common shares and 72,500,000 of Preferred A and 20,000,000 for Preferred B shares. The total subscribed shares amounted to 154,048,800 as of December 31, 2018 remains the same as of December 31, 2019.

Common shares is open to all natural persons who are Filipino citizen of legal age and with initial share capital of 5,000.00.

Preferred shares A shall be issued to all natural persons who are Filipino senior-citizen and with share capital less than 5,000.00.

Preferred shares B shall be issued to all natural persons who are Filipino citizen with a minimum share capital of 200.00.

19. STATUTORY FUNDS

The movement of this account is presented below:

	Beg. Balance	Usage	Provision	End Balance
General Reserve Fund	46,828,997.23		8,301,307.50	55,130,304.73
Education & Training Fund	633,240.69	(633,240.69)	830,130.75	830,130.75
Community Dev. Fund	4,233,060.56	(817,513.12)	1,660,261.50	5,075,808.94
Optional Fund	15,514,952.21	(1,713,536.66)	2,213,682.00	16,015,097.55
Total	67,210,250.69	(3,164,290.47)	13,005,381.75	77,051,341.97

20. REVALUATION SURPLUS

As of December 31, 2019, the Cooperative has Unrealized Gains on Property Valuation of Land located at Gen. T de Leon and Malinta, Valenzuela City with a total amount of 15,835,717.83. This was made by an independent appraiser.

21. INCOME FROM CREDIT OPERATIONS

This account consists of the following:

	2019	2018
Interest Income on Loans	90,411,314.07	84,803,296.63
Service/Filing/Inspection/Collection fees	10,972,897.91	10,738,699.11
Fines, Penalties and Surcharges	4,476,677.58	3,586,525.24
Total	105,860,889.56	99,128,520.98

22. OTHER INCOME

The details of this account is as follows:

	2019	2018
Interest Income on Investments/Deposits	20,531,461.66	8,571,545.43
Membership Fees	411,680.00	443,730.00
Miscellaneous income	6,172,209.57	4,804,124.26
Total	27,115,351.23	13,819,399.69

23. FINANCING COSTS

Finance cost pertains to interest expense on deposits liabilities. The interests paid and accrue to members' deposits amounts to 13,253,116.91 in year 2019 and 12,886,943.93 in year 2018. Interest rate varies ranging from 0.75% to 3.25% depending on the type of deposits.

24. ADMINISTRATIVE COSTS

The details of this account is as follows:

	2019	2018
Provision for Probable Losses on Loans	17,080,800.00	11,950,000.00
Salaries and Wages	14,773,951.73	14,176,169.92
Officers and Employees Benefits	7,618,079.88	7,541,072.90
Depreciation and Amortization	4,675,611.40	4,287,946.83
General Assembly	4,217,593.59	3,963,660.11
Retirement Benefits Expense	3,200,000.00	2,200,000.00
Travel and Transportation	2,262,781.59	2,292,286.41
Light, Water and Power	1,983,524.94	2,099,269.95
General Support Services	1,937,364.30	1,929,184.88
SSS, PHIC & HDMF Contributions	1,300,437.45	1,218,889.96
Provision for Probable Loss on Investments	1,000,000.00	-
Office Supplies	1,018,741.85	874,529.91
Rental	1,348,105.37	1,311,403.99
Promotional Expense	918,255.50	1,574,242.00
Collection Expense	720,554.64	627,648.89
Repairs and Maintenance	650,776.83	1,438,265.41
Communication	633,582.99	609,487.03
Officers' Honorarium and Allowances	447,600.00	250,100.00
Insurance Expense	441,566.34	444,942.36
Professional Fees	351,021.37	516,780.11
Members' Benefits Expense	154,102.85	327,588.30
Representation and Entertainment	144,636.21	173,778.00
Gas, Oil and Lubricants	139,680.31	139,085.21
Training expense	99,992.03	173,887.47
Meetings and Conferences	97,728.00	65,187.49
Affiliation Fee	42,000.00	3,993.00
Taxes and Licenses	25,697.50	26,044.86
Periodicals, Magazine and Subscriptions	4,340.00	4,360.00
Miscellaneous Expense	4,202.84	-
Total Administrative Costs	67,292,729.51	60,219,804.99

Salaries and Employees' Benefits - Expenses recognized for salaries and employees' short term benefits amounted to 23,692,469.06.

Post-employment Defined Benefit Plan - The Cooperative's employee retirement plan is non-contributory and of the defined benefit type which provides a retirement benefit equivalent to one hundred percent (100%) of Plan Salary for every year of credited service. Benefits are paid in a lump sum upon retirement in accordance with the terms of the Plan. The normal retirement age is 60 with a minimum of 20 years of credited service. The plan

also provides for an early retirement age of 55 but also with a minimum of 20 years of credited service. There was no curtailment or settlement recognized for the financial year ended December 31, 2019 and 2018. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

25. OTHER ITEMS

The details of this account is as follows:

	2019	2018
Gain on sale, net	1,332,323.93	1,290,621.99
Optional Subsidy Fund	1,713,536.66	1,714,528.35
Loss on Investment - VAFEMCO	(134,204.97)	-
Net Loss of Plaridel branch	-	(630,276.32)
OTHER INCOME (EXPENSE)	2,911,655.62	2,374,874.02

26. ALLOCATION AND DISTRIBUTION OF NET SURPLUS

The Cooperative's article and by-laws explicitly provides that its net surplus at the end of the calendar year shall be distributed in the following manner:

- a. At least fifteen (15%) percent shall be set aside as General Reserve Fund. This is created to provide for the stability of the cooperative and to absorb losses in its business operation.
- b. Three (3%) percent of the net surplus shall be set aside for cooperative education and training fund. 50% of this shall be utilized by the Cooperative for its own education and training activities while the other 50% shall be credited to cooperative education and training fund of the Apex organization of which the cooperative is a member.
- c. Four (4%) percent of net surplus is distributed to Optional fund. The fund shall be used for acquisition Land, Building and equipment and/or replacement fund for Property and Equipment. .
- d. Three (3%) is distributed for the Community Development Fund of the Cooperative. The Fund shall be used for projects or activities that will benefit the community where the cooperative operates.
- e. The remaining net surplus shall be distributed to members in a form of interest on share capital and patronage refund. As prescribed under IRR No. 9520, Rule 10 Section 14, the amount allocated for patronage refund shall not be less than 30% of the net surplus, provided that it shall not be more than twice the rate of interest on share capital. Hence, the Board approved for the remaining net surplus to be distributed as follows: 75% for interest on share capital and 25% for patronage refund.

The net surplus for distribution for the years 2019 and 2018 are shown below:

	2019	2018
General Reserve Fund	8,301,307.50	6,332,406.87
Education and Training Fund -Local	830,130.75	633,240.69
Due to Union/Federation	830,130.75	633,240.69
Community Development Fund	1,660,261.50	1,266,481.37
Optional Fund	2,213,682.00	1,688,641.83
Interest on Share Capital	31,129,903.12	23,746,525.74
Patronage Refund	10,376,634.37	7,915,508.58
NET SURPLUS AS DISTRIBUTED	55,342,049.99	42,216,045.77

27. SEGMENTAL OPERATIONS

The Cooperative segmental income and expenses in 2019 are as follows:

	Revenue	Expenses	Other Items	Net Surplus
Head Office	99,610,129.87	53,407,636.30	1,661,655.62	47,864,149.19
Malinta	14,160,333.89	10,127,164.26	1,250,000.00	5,283,169.63
Punturin	9,418,729.47	7,539,872.05	-	1,878,857.42
Mindanao	3,649,058.98	3,344,998.58	-	304,060.40
Malanday	2,040,458.95	2,123,592.18	-	(83,133.23)
Caloocan	2,530,547.25	2,259,947.38	-	270,599.87
Cabangan	1,566,982.38	1,742,635.67	-	(175,653.29)
Total	132,976,240.79	80,545,846.42	2,911,655.62	55,342,049.99

28. CONTINGENCIES AND COMMITMENTS

Contingencies

During the course of regular business, the Cooperative is involved with various legal cases upon default of payment of members, however none of which in the opinion of management and its legal counsel, is expected to have material adverse effect on the cooperative's financial condition. The management incurred minimal litigation expenses that were charged to current operations.

Lease Commitments

The Cooperative has entered into a lease contract for the office of its branches with one to five years contract with private individuals which may be extended for further term or shorter at the option of the parties and the rate will be based on the prevailing rate subject to the mutual agreement. The future minimum rent expense payments are estimated based on the lease contract agreement in the amount of 662,043.18 in the year 2020.

29. RELATED PARTY TRANSACTIONS

The related party transactions made by the Cooperative for the year ended December 31, 2019 is with regards to loans and transactions of directors, officers, staffs and related interest (DOSRI). Under the Cooperative policy which is in line with the Articles of RA 9520 known as the Philippine Cooperative Code of 2008, these loans and other transactions are made substantially with the same ceilings and terms of agreements as with other members of the cooperative under the cooperative by-laws. The total loan receivables of DOSRI for 2019 and 2018 amounted to 42,897,673.76 and 29,063,997.06, respectively. The DOSRI accounts are regularly monitored and reviewed by the board.

30. EVENTS AFTER THE REPORTING DATE

There were no events after reporting date that would require disclosure or adjustments on the consolidated financial statements.

31. TAXES

The Cooperative was duly registered with the Cooperative Development Authority (CDA) pursuant to RA No. 9520 and with Certificate of Registration dated November 19, 2009. The Cooperative has Certificate of Tax Exemption dated April 21, 2017, valid until April 21, 2022.

As cooperative dealing with both members with accumulated reserves and undivided net savings of more than ten (10) million, the cooperative is entitled to the tax exemption and incentives under Section 61 of RA No. 9520 as implemented by Sect. 7 of the Joint Rules and Regulations, implementing Art. 60, 61 and 144 of RA 9520 and circularized by the Revenue Memorandum Circular No. 012-10 dated February 11, 2010, as follows:

- a. Exemption from Income Tax on income from CDA registered operations;
- b. Exemption from Value Added tax on CDA registered sales or transactions;'
- c. Exemption from Percentage Tax;
- d. Exemption from Donor's Tax on donations to duly accredited charitable, research and educational institution and reinvestment to socio-economics projects within the area of operation of the cooperative;
- e. Exemption from Excise Tax which it is directly liable;
- f. 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. All payments for documentary stamp tax - REM (Real Estate Mortgage) are paid directly by the member-borrowers;
- g. Exemption from Annual registration Fee of P500.00;
- h. Exemption from all taxes on transactions with insurance companies and banks including but not limited to 20% final income tax on interest deposit and 7.5% final income tax on interest derived from a depository bank under the expanded foreign currency deposit system.

32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under Philippine Financial Reporting Framework for Cooperatives.

Requirements under Revenue Regulations (RR) 15-2010:

The information on taxes, licenses and permit fees paid or accrued during the year required under RR15-2010 issued on November 25, 2010 are as follows:

- (1) Output VAT
The cooperative is exempt from filing and paying of Value Added Tax.
- (2) Input VAT
Since the cooperative is exempt from value added tax there is no recognition of VAT input.
- (3) Landed cost, custom duties, tariff fees, and excise tax
The Cooperative has no transaction which was subjected to custom duties, tariff fees

and excise tax for the taxable year 2019.

(4) Taxes and licenses

The details of taxes and licenses and permit fees for the year ended December 31, 2019 are as follows:

Business & local taxes	18,109.38
Barangay Clearance	1,550.00
Car Registration	6,038.12
Total	25,697.50

(5) Withholding Taxes

The details of withholding taxes for the taxable year ended December 31, 2019 are shown below:

	Tax Base	Tax Withheld
Compensation	14,773,951.73	277,706.11
Honorarium	447,600.00	22,380.00
Professional Fee	351,021.37	17,551.07
Rental	1,348,105.37	67,405.24
General Support Services	2,880,778.05	45,577.92
Total	19,801,456.52	430,620.34

There were no transactions that were subjected to final withholding tax.

(6) Tax Cases and Tax Assessments

The Cooperative has no tax case and or any deficiency tax assessment during the year.

Requirements under Revenue Regulations No. 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions and other significant tax information, to be disclosed on the notes to financial statements. The Cooperative revenues and non-operating income are exempt from income taxes.

33. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2018 financial statements were reclassified to conform to 2019 financial statement presentation of accounts.

