

**HOLY CROSS SAVINGS AND CREDIT COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
AS OF DECEMBER 31, 2021 AND 2020

**1. COOPERATIVE INFORMATION**

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*The Holy Cross Savings and Credit Cooperative* was established and registered as Cooperative pursuant to Republic Act 6938 and 6939 with its former name as “Parish of the Holy Cross Credit Cooperative” under Registration and 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.

On April 21, 2017, the Bureau of Internal Revenue has approved the Certificate of Tax Exemption for Cooperative, with registration No. Coop-0000042-17-RR-5-RDO-024 which is valid until April 17, 2022. This 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 four (4) branches, Malinta, Punturin, Malanday, and Mindanao Avenue. The operations of the Mindanao Avenue branch are conducted temporarily at the Head Office. The Cooperative operates with 52 regular management and staff.

The accompanying consolidated financial statements of Cooperative were authorized for issue by the Board of Directors on April 7, 2022.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 with Philippine Financial Reporting Standards*

The consolidated financial statements of the Cooperative have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy and Cooperative Development Authority.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*b. Functional and Presentation Currency*

These financial statements are presented in Philippine peso, the Cooperative’s functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Cooperative are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Cooperative operates.

### ***Adoption of New and Amended to PFRS***

#### *a. Effective in the year 2021 that are Relevant to the Cooperative*

For the year 2021, the Cooperative adopted for the first time the following amendments and interpretations to PFRS that are relevant to the Cooperative and effective for financial statements for the annual period beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements And Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 16 (Amendments)	:	Leases – Corona Virus Disease 2019 (COVID-19) - Related Rent Concessions
PAS 16 (Amendments)	:	Property, Plant and Equipment - Proceeds Intended Use
PAS 37 (Amendments),	:	Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract

Discussed below is the relevant information about these amended standards:

- i. *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

The application of the revised conceptual framework had no significant impact on the Cooperative's financial statements.

- ii. PAS 1 (Amendments), *Presentation of Financial Statements and PAS 8 (Amendments), Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material.* The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition and clarifying the

assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's circumstances). The definition of material in PAS 8 has been accordingly replaced by a reference to the new definition in PAS 1. In addition, an amendment has also been made in other standards that contain a definition of material or refer to the term 'material' to ensure consistency. The amendment has no material impact on the Cooperative's financial statements.

iii. PFRS 16 (Amendments), *Leases – COVID-19 Related Rent Concessions*. The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID 19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID 19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID 19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting years beginning on or after June 1, 2020. Early adoption is permitted.

The Cooperative adopted the amendments beginning October 1, 2020 and the amendments have no material impact on the financial statements.

iv. PAS 16 (Amendments) : *Property, Plant and Equipment - Proceeds Before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

i. PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation

charge for an item of property, plant and equipment used in fulfilling the contract).

#### ***Cash and cash equivalents***

Cash include 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 Instruments***

##### ***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. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular sales and purchases of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

The financial instruments of the Cooperative are as follows:

##### ***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 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 companies. Loan and other receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

De-recognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

##### ***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.

##### ***Unearned Interest and Discounts***

Unearned Interest and Discounts represent interest income from loans already received but not yet earned. They are presented as a deduction from Loans Receivable in order to determine the net amortized cost.

***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.

***Financial Liabilities***

The Cooperative's financial liabilities pertain to 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 Coop laws and regulations. Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

***Prepayments and Other Current Assets***

Prepayments and other current assets pertain to other resources controlled by the Cooperative as a result of past events. 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.

***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 comprehensive income in the year the item is derecognized.

***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 income 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 position 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 comprehensive income in the year the item is derecognized.

#### ***Leases - Cooperative as a Lessor***

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease.

The Cooperative determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### ***Impairment of Non-financial Assets***

The Cooperative's property and equipment and investment property are subject to impairment testing. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset or cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro-rata to the other assets in the cash-generating unit.

#### ***Employee Benefits***

The Cooperative provides short term benefits and post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

##### **a. 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.

##### **b. 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. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

c. **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.

**Provisions**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties associated with the present obligation.

**Account Peculiar to Cooperatives:**

The following accounts are peculiar to a Cooperative due to its nature as well as adherence to Cooperative Law, issued policies, rules and regulations as well as cooperative principle 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 funds set aside for funding of reserves (Statutory and Other Reserves) established by cooperatives such as General Reserved Fund, Education and Training Fund, Due to Union/Federation, Community Development Fund, and Optional Fund.

**Liabilities:**

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

*Interest on Share Capital Payable*- refer 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 account 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. The fund is set up in 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.

*Coop. Education & Training Fund* – this account 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 other organization.

*Community Development fund*- this accounts 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 account refers to 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.

***Income Taxes***

The Cooperative Code states that a cooperative transacting business only with its members is exempt from all government taxes, and therefore cannot apply the PAS for income taxes because of its tax-exempt nature. However, should the cooperative exceed the limits as set forth in the cooperative code, it will adopt the accounting standards for income taxes as stated in the PAS 12.

***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 the basis of income or revenue. 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. The Cooperative recognized revenues on cash basis transactions.

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.

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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The preparation of the Cooperative's financial statements in accordance with CDA & PFRS 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. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. 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 a 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. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management judgment, current lease arrangements were determined to be operating leases.

d. *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of relevant provisions and disclosures of contingencies are discussed in Notes 6.

***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 adjustment 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 7.

b. *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made as well as the factors that affect the realizable value of inventories.

c. *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.

Depreciation 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

The carrying amounts of property and equipment and investment property are analyzed in Notes 11 and 12, respectively.

d. *Fair Value Measurement for Property and Equipment and Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 12 to the financial statements is determined by the Cooperative using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Cooperative uses assumptions that are mainly based on closed to market conditions existing at the end of each reporting period. The principal assumptions underlying management's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield rate and actual transactions by the Cooperative and those reported by the market.

***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. Allowance for Probable losses on loan amounted to ₱145,501,903.52 and ₱128,639,929.42 as of end of 2021 and 2020, respectively. There is no bad debt written off for both year 2021 and 2020.

#### **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 defines 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 is 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 financial instruments – bank deposits denominated in foreign currencies. The Cooperative performs foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end, if any. The Cooperative does not have financial instruments subject to floating interest rate. As such, 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:

	2021	2020
Cash and cash equivalents	₱386,950,526.50	₱237,175,876.64
Short Term Investment	311,252,847.73	299,576,678.57
Loans Receivables - net	780,800,297.74	844,736,713.64
<b>Total</b>	<b>₱1,479,003,671.97</b>	<b>₱1,381,489,268.85</b>

The age of financial assets that are past due but not impaired as of December 31, 2021 and 2020 are as follows:

	2021	2020
Past due - one (1) month	₱10,605,617.85	₱2,544,826.59
- two (2) - twelve (12) months	91,915,898.87	51,633,246.98
- over twelve (12) months	193,436,140.29	143,513,033.63
<b>Total</b>	<b>₱295,957,657.01</b>	<b>₱197,691,107.20</b>

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, 2021 and 2020, the Cooperative's maximum liquidity risk is the carrying amount of total current liabilities which amounted to ₱1,141,306,143.44 in 2021 and ₱1,059,021,444.83 in 2020. And the maximum liquidity risks for noncurrent liabilities with

maturities of one to five (1-5) years amounted to the carrying amount of ₱9,984,581.52 in 2021 and ₱6,331,234.90 in 2020.

The Cooperative's 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:

	2021	2020
Cash in Bank	₱382,772,975.00	₱231,203,890.84
Cash on Hand	3,610,141.56	5,399,412.54
Revolving Fund	310,000.00	310,000.00
Petty Cash Fund	26,000.00	26,000.00
Ticketing Fund	31,409.94	36,573.26
KAYA Settlement Fund	200,000.00	200,000.00
Time Deposit	311,252,847.73	299,575,678.57
<b>Total</b>	<b>₱698,203,374.23</b>	<b>₱536,751,555.21</b>

The cash and cash equivalents represent cash and deposits with several local and commercial banks in terms of savings account, current account that earn interest at the rate of 0.25% and time deposits of 1% per annum. The short-term investments to various commercial banks and financial institution in a form of time deposits matures of these investments ranging from 30 to 60 days and with interest rates 3% p.a.

## 6. LOANS RECEIVABLES, (net)

This account consists of members' loans classified into as follows:

	2021	2020
Back to back loan	₱114,214,230.71	₱113,837,241.42
Providential Loan	84,442.76	56,548,457.44
Unsecured Loan	28,400,163.23	23,190,324.48
Secured Loan	754,646,835.55	758,157,177.57
Business Assistance Loan	4,700,497.61	9,572,411.85
Others	31,398,460.35	15,037,319.21
<b>Total Loans Receivables</b>	<b>933,444,630.21</b>	<b>976,342,931.97</b>
Less: Allowance for Probable losses on Loans	145,501,903.52	128,639,929.42
Unearned Interests	7,142,428.95	2,966,288.91
<b>Loans Receivables, net</b>	<b>780,800,297.74</b>	<b>844,736,713.64</b>
Add: Other Current Receivables	6,208,419.20	9,916,863.08
<b>Total Loans and Receivables, net</b>	<b>₱787,008,716.94</b>	<b>₱854,653,576.72</b>

### Aging of Loans Receivables:

	2021	2020
Current	₱637,486,973.20	₱778,651,824.77
Past due - one (1) month	10,605,617.85	2,544,826.59
- two (2) - twelve (12) months	91,915,898.87	51,633,246.98
- over twelve (12) months	193,436,140.29	143,513,033.63
<b>Total</b>	<b>₱933,444,630.21</b>	<b>₱976,342,931.97</b>

**Movement of Probable Losses on Loans:**

	2021	2020
Beginning Balance	₱128,639,929.42	₱116,008,306.53
Add: Provision for the year	16,201,000.00	12,029,200.00
Adjustments	660,974.10	602,422.89
Ending Balance	₱145,501,903.52	₱128,639,929.42

The total loans receivables amount to ₱933,444,630.21 in year 2021 and ₱976,342,931.97 in year 2020, which includes unearned interest amounting to ₱7,142,428.95 and ₱2,966,288.91 for year 2021 and 2020, respectively.

Provision for probable losses on loan amounts to ₱145,501,903.52 and ₱128,639,929.42 in years 2021 and 2020, respectively. The management notes that 92.47% of its loan portfolio is fully secured either by land title, members deposit and share capital. Of the total past due amount of ₱295,957,657.01, 93.27% of that is secured by a collateral which means only ₱19,917,950.32, 6.73% is not secured. The amount of allowance for probable losses on loans is ₱145,501,903.52, as of December 31, 2021.

However as per standard the cooperative should provide 100% provision for loan probable loss accounts with more than twelve (12) months past due and 35% of accounts for one (1) to twelve (12) months past due. The Financial Reporting Standards applicable to Cooperatives in the Philippines recognized the Unearned Interest Income, interest already earned but not yet received, must be presented as a contra asset account to conform with IAS 39, 46. IAS 39, 36 measures the loans receivables at its net carrying value or amortized cost.

**DOSRI Accounts:**

As of December 31, 2021 and 2020 the DOSRI accounts are as follows:

	2021	2020
Board of Directors & Officers	₱29,624,003.49	₱31,456,374.13
Management Staff	14,113,793.05	11,414,159.77
Total	₱43,737,796.54	₱42,870,533.90

**7. OTHER CURRENT RECEIVABLES**

This account consists of the following:

	2021	2020
Accounts Receivables-Foreclosed Accounts	₱2,979,327.00	₱6,679,120.31
Other Current Receivables	3,229,092.20	3,237,742.77
Total	₱6,208,419.20	₱9,916,863.08

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

## 8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2021 and 2020 are shown below:

	Cost 12/31/2021	Accum. Depreciation	Net Book Value 12/31/2021
Land & Improvement	₱89,287,679.50	-	₱89,287,679.50
Building & Improvement	20,664,190.58	15,585,095.67	5,079,094.91
Office Improvement	4,621,483.53	4,621,411.53	72.00
Office Equip, Fur & Fix	11,875,402.32	9,224,670.16	2,650,732.16
Transpo. Equipment	6,410,021.95	3,787,975.62	2,622,046.33
Leasehold Improvement	-	-	-
Construction in progress	1,346,030.00	-	1,346,030.00
<b>Total</b>	<b>₱134,204,807.88</b>	<b>33,219,152.98</b>	<b>₱100,985,654.90</b>

	NBV 12/31/2020	Additions	Disposal	Depreciation / Amortization	NBV12/31/2021
Land & Improvements	70,324,401.50	18,963,278.00	-	-	89,287,679.50
Bldg & Improvements	4,156,671.09	1,401,039.00	-	478,615.68	5,079,094.91
Office Improvements	72	-	-	-	72
Office Fur & Equip.	3,548,866.54	261,930.50	32,043.50	1,128,021.38	2,650,732.16
Transportation Equip.	3,172,602.83	-	-	550,556.50	2,622,046.33
Construction-in-progress	1,346,030.00	-	-	-	1,346,030.00
<b>Total</b>	<b>82,548,643.96</b>	<b>20,626,247.00</b>	<b>32,042.50</b>	<b>2,157,193.56</b>	<b>100,985,654.90</b>

	Cost 12/31/2020	Accum. Depreciation	Net Book Value 12/31/2020
Land & Improvement	70,324,401.50	-	70,324,401.50
Building & Improvement	19,263,151.08	15,106,479.99	4,156,671.09
Office Improvement	4,621,483.53	4,621,411.53	72.00
Office Equip, Fur & Fix	11,893,500.82	8,344,634.28	3,548,866.54
Transpo. Equipment	6,410,021.95	3,237,419.12	3,172,602.83
Leasehold Improvement	-	-	-
Construction in progress	1,346,030.00	-	1,346,030.00
<b>Total</b>	<b>113,858,588.88</b>	<b>31,309,944.92</b>	<b>82,548,643.96</b>

	NBV 12/31/2019	Additions	Disposal	Depreciation / Amortization	NBV12/31/2020
Land & Imprv.	70,324,401.50	-	-	-	70,324,401.50
Bldg & Imprv	5,227,417.41	-	-	1,070,746.32	4,156,671.09
Office Imprv.	462,148.33	-	-	462,076.33	72.00
Office Equip, Fur & Fix	3,320,633.78	1,396,371.00	1.01	1,168,137.23	3,548,866.54
Transpo. Equip.	3,723,159.33	-	-	550,556.50	3,172,602.83
Leasehold Improvement	9,300.00	-	9,300.00	-	-
Construction in progress	1,346,030.00	-	-	-	1,346,030.00
<b>Total</b>	<b>84,413,090.35</b>	<b>1,396,371.00</b>	<b>9,301.01</b>	<b>3,251,516.38</b>	<b>82,548,643.96</b>

**9. REAL AND OTHER PROPERTIES ACQUIRED (ROPA)**

In the ordinary course of granting loan, 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 ₱27,218,010.81 and ₱18,911,922.26 for years 2021 and 2020, respectively.

**10. HELD TO MATURITY – INVESTMENTS**

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

	2021	2020
DBP-Government Securities	₱39,816,394.9	₱54,816,394.9
Metro Bank Money Market Fund	24,179,415.79	24,055,243.47
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
Chinabank RTB	15,041,653.11	-
CLIMBS - COL Financial and Mutual Fund	12,000,000.00	12,000,000.00
Philippine Axa Life	9,000,000.00	9,000,000.00
PNB - Fixed rate bond	5,000,000.00	5,000,000.00
Security Bank Equity Investment	5,000,000.00	5,000,000.00
Total	₱144,701,920.41	₱144,536,094.98

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

**11. INVESTMENT IN NON-MARKETABLE EQUITY SECURITIES**

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

	2021	2020
Climbs Life and General Insurance Cooperative	₱11,337,213.92	₱6,912,866.08
Phil. Resort, Travel and Education 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
National Capital Region League of PFCCO	676,237.34	671,237.34
CLIFSA	500,000.00	-
Philippine Cooperative Center	153,712.00	133,712.00
CODIS Federation of Cooperatives	-	2,000,000.00
Total	17,208,163.26	14,258,815.42
Less: Allowance for Probable Loss on Investment	5,500,000.00	3,000,000.00
Total Investments in Non-Marketable Equity Securities	₱11,708,163.26	₱11,258,815.42

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.

**12. INVESTMENT PROPERTY**

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

	Land	Building	Total
Cost 12/31/2021	₱8,010,000.00	₱20,800,466.21	₱28,810,466.21
Accum. Depreciation	-	6,300,933.36	6,300,933.36
Net Book Value 12/31/2021	₱8,010,000.00	₱14,499,532.85	₱22,509,532.85
Net Book Value -1/1/2020	₱8,010,000.00	₱15,539,556.16	₱23,549,556.16
Depreciation / Amortization		(1,040,023.31)	(1,040,023.31)
Net Book Value -12/31/2021	₱8,010,000.00	₱14,499,532.85	₱22,509,532.85
Cost 12/31/2020	₱8,010,000.00	₱20,800,466.21	₱28,810,466.21
Accum. Depreciation	-	5,260,910.05	5,260,910.05
Net Book Value 12/31/2020	₱8,010,000.00	₱15,539,556.16	₱23,549,556.16
Net Book Value -12/31/2019	₱8,010,000.00	₱16,579,579.48	₱24,589,579.48
Depreciation / Amortization	-	(1,040,023.32)	(1,040,023.32)
Net Book Value -12/31/2020	₱8,010,000.00	₱15,539,556.16	₱23,549,556.16

### 13. OTHER NON CURRENT ASSETS

This account consists of:

	2021	2020
Computerization cost, net	98,992.26	193,239.92
Other Funds and Deposits	67,190,392.70	62,390,091.37
Rental deposits and other non-current assets	3,672,491.89	3,716,021.62
Total Other Non-current assets	70,961,876.85	66,299,352.91

Other Funds and Deposits consists of deposits to various commercial banks and financial institution in a form of time deposits and placements for future funding of the statutory and other reserves in compliance to cooperative laws and regulations.

### 14. DEPOSIT LIABILITIES

This account consists of the following:

	2021	2020
Savings Deposits	₱500,987,697.70	₱460,797,365.72
Pension Savings Deposits	69,842,109.11	66,964,828.81
Koop Paluwagan	292,518,496.44	277,149,167.34
Time Deposits	165,626,705.49	162,831,553.39
Laboratory Coop	58,837,525.22	55,381,685.84
Total Deposit Liabilities	₱1,087,812,533.96	₱1,023,124,601.10

Interest on Deposits Liabilities on Coop Paluwagan is 1.5%, Pension Savings earn 2.50% and time deposit earns 0.75% per annum.

## 15. OTHER CURRENT LIABILITIES

The details of this account are shown below:

	2021	2020
Account Payable – Others	₱4,533,324.40	₱4,795,491.48
Other Payable	2,701,121.73	1,303,560.17
Accrued Expenses Payable	1,437,568.76	1,067,743.73
Unrealized Gain on sale of investment property	1,184,829.72	622,233.92
Housing Deposits Payable	556,500.00	-
SSS/ECC/Philhealth & Pagibig Payable	72,941.14	71,799.83
SSS/Pagibig Loan Payable	68,738.01	84,631.45
Withholding Tax Payable	37,503.63	6,796.28
Rental Deposits Payable	-	532,737.00
<b>Total</b>	<b>₱10,592,527.39</b>	<b>₱8,484,993.86</b>

## 16. 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 payable as of December 31, 2021 and 2020 amounts to ₱5,236,194.65 and ₱4,457,730.77, respectively.

## 17. OTHER NONCURRENT LIABILITIES

This account pertains to annual insurance premium of ₱600.00 paid by a full pledge member, the amount being set aside as mortuary fund. As of December 31, 2021 and 2020, other non-current liability amounts to ₱5,748,386.87 and ₱1,873,504.13 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	6,234,187.00	623,418,700.00	31,301,700.00	592,117,000.00
Preferred A	72,500,000.00	148,761.00	14,876,100.00	2,286,300.00	12,589,800.00
Preferred B	20,000,000.00	46,180.00	4,618,000.00	-	4,618,000.00
<b>Total</b>	<b>892,500,000.00</b>	<b>6,429,128.00</b>	<b>642,822,800.00</b>	<b>33,588,000.00</b>	<b>609,324,800.00</b>

The authorized share capital of the Cooperative is ₱892,500,000.00, divided into 8,925,000 shares with par value of ₱100.00 per share, of which ₱800,000,000.00 is for common shares and ₱72,500,000.00 of Preferred A and ₱20,000,000.00 for Preferred B shares.

**Common shares** are 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	₱60,383,030.30	-	8,083,341.25	₱68,466,371.55
Education & Training Fund	1,223,472.21	(446,159.60)	808,334.12	1,585,646.73
Community Dev. Fund	4,419,035.97	(1,057,444.93)	1,616,668.25	4,978,259.29
Optional Fund	12,567,348.04	(1,250,000.00)	2,155,557.67	13,472,905.71
<b>Total</b>	<b>₱78,592,886.52</b>	<b>(2,753,604.53)</b>	<b>12,663,901.29</b>	<b>₱88,503,183.28</b>

## 20. REVALUATION SURPLUS

As of December 31, 2021, the Cooperative has Unrealized Gains on Property Valuation of Land located at Gen. T. de Leon and Malinta, Valenzuela City to a total amount of ₱15,835,717.83. This was made by an independent appraiser.

## 21. INCOME FROM CREDIT OPERATION

This account consists of the following:

	2021	2020
Interest Income on Loans	₱100,684,841.99	₱80,475,127.36
Service/Filing/Inspection/Collection fees	7,386,918.41	7,130,515.08
Fines, Penalties and Surcharges	4,921,583.22	2,549,035.59
<b>Total</b>	<b>₱112,993,343.62</b>	<b>₱90,154,678.03</b>

## 22. OTHER INCOME

The detail of this account is as follows:

	2021	2020
Interest Income on Investments/Deposits	₱8,118,379.42	₱10,657,673.38
Membership Fees	276,010.00	241,100.00
Miscellaneous income	5,442,944.15	4,381,478.97
<b>Total</b>	<b>₱13,837,333.57</b>	<b>₱15,280,252.35</b>

## 23. FINANCING COSTS

Finance cost pertains to interest expense on deposits liabilities. The interests paid and accrued to members' deposits amounts to ₱11,588,441.92 in year 2021 and ₱13,108,471.46 in year 2020. Interest rate on varies from the rate of 0.5% to 2.5% depending upon the type of deposits.

## 24. ADMINISTRATIVE EXPENSES

The detail of this account is as follows:

	2021	2020
Provision for Probable Losses on Loans	₱16,201,000.00	₱12,029,200.00
Salaries and Wages	15,450,010.76	14,247,904.38
Officers and Employees Benefits	5,203,684.87	7,759,150.65
General Assembly	4,515,196.70	1,062,144.30
Depreciation and Amortization	3,291,464.54	4,407,391.89
Travel and Transportation	2,675,740.02	2,274,461.64
Provision for Loss on Investments	2,500,000.00	2,000,000.00
Retirement Benefits Expense	2,200,000.00	2,200,000.00
General Support Services	1,743,108.31	1,893,883.85
Light, Water and Power	1,577,497.16	1,488,123.07
SSS, PHIC & HDMF Contributions	1,452,579.10	1,377,780.39
Contingency Fund	1,000,000.00	-
Office Supplies	978,780.19	816,003.92
Repairs and Maintenance	756,457.29	445,660.48
Rental	561,812.06	989,902.74
Officers' Honorarium and Allowances	548,000.00	486,000.00
Communication	541,965.69	456,028.22
Insurance Expense	447,879.42	448,181.21
Professional Fees	427,828.95	278,947.37
Collection Expense	361,692.64	225,833.76
Advertising and Promotion	269,800.00	373,765.00
Representation and Entertainment	140,392.95	155,074.88
Social & Community Service Expenses	111,000.00	-
Meetings and Conferences	88,009.76	70,529.31
Taxes and Licenses	82,134.61	248,241.81
Gas, Oil and Lubricants	72,951.65	101,526.94
Affiliation Fee	61,000.00	2,000.00
Miscellaneous Expense	21,024.95	-
Members' Benefits Expense	18,460.00	4,707,302.00
<b>Total Administrative expenses</b>	<b>₱63,299,471.62</b>	<b>₱60,545,037.81</b>

## 25. EMPLOYEE BENEFITS

*Salaries and Employees' Benefits* - Expenses recognized for salaries and employees' benefits short term amounts to ₱20,653,695.63.

*Post-employment Defined Benefit Plan* - Characteristics of the 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 20 years of credited service. There was no curtailment or settlement recognized for the financial year ended December 31, 2021 and 2020. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2021 and 2020.

## 26. OTHER ITEMS

The detail of this account is as follows:

	2021	2020
Gain on Sale on Property & Equipment	₱7,000.00	₱3,000.00
Gain on sale - Investment Property	136,967.84	143,294.91
Gain on Sale - ROPA	241,941.54	938,378.14
Rent of Property - ROPA	794,800.00	440,000.00
Optional Fund Subsidy	1,250,000.00	1,712,076.33
Loss on Investment	(484,531.35)	-
<b>Total</b>	<b>₱1,946,178.03</b>	<b>₱3,236,749.38</b>

## 27. 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:

- 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.
- 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.
- 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.
- 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.
- 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 2021 and 2020 are shown below:

	2021	2020
General Reserve Fund	₱8,083,341.25	₱5,252,725.57
Education and Training Fund -Local	808,334.12	525,272.56
Due to Union/Federation	808,334.12	525,272.56
Community Development Fund	1,616,668.25	1,050,545.11
Optional Fund	2,155,557.67	1,400,726.82
Interest on Share Capital	30,312,529.70	20,222,993.46
Patronage Refund	10,104,176.57	6,040,634.41
<b>NET SURPLUS AS DISTRIBUTED</b>	<b>₱53,888,941.68</b>	<b>₱35,018,170.49</b>

## 28. SEGMENTAL OPERATIONS

The Cooperative segmental income and expenses in 2021 are as follows:

	Revenue	Expenses	Other Items	Net Surplus
Head Office	₱95,107,980.23	₱53,401,678.90	₱83,436.49	₱41,789,737.82
Malinta	18,692,655.45	10,684,442.07	1,701,941.54	9,710,154.92
Punturin	8,581,076.76	6,482,142.94	100,800.00	2,199,733.82

Mindanao	2,719,752.20	2,625,579.61	60,000.00	154,172.59
Malanday	1,729,212.55	1,694,070.02	-	35,142.53
<b>Total</b>	<b>₱126,830,677.19</b>	<b>₱74,887,913.54</b>	<b>₱1,946,178.03</b>	<b>₱53,888,941.68</b>

## 29. 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 position.

### Lease Commitments

The Cooperative has entered into a lease contract for the office of its branches with on to five years contract with private individuals which may be extended for further term or shorter at option of the parties and the rate will be based on the prevailing rate subject to the mutual agreement. The total amount of net expense. The future minimum rent expense payments are estimated based on the lease contract agreement which will amount to ₱437,785.32 in year 2022 only.

## 30. RELATED PARTY TRANSACTIONS

The related party transactions made by the Cooperative for the year ended December 31, 2021 is with regards to loans and transactions of directors, officers, staffs and related interest (DOSRI). Under the Cooperative policy which is line with the Articles under RA 9520 the Philippine Cooperative Code of 2008 these loans and other transactions are made substantially with the same ceilings and term of agreements as with other members of the cooperative under the cooperative by-laws. The total loan receivables from DOSRI accounts for 2021 and 2020 amount to ₱43,737,796.54 and ₱42,870,533.90, respectively. The DOSRI accounts are regularly monitored and reviewed by the board.

## 31. EVENTS AFTER THE REPORTING DATE

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

## 32. TAXES

The Cooperative has been 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.

### **33. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR**

Presented below is the supplementary information which is required by the 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 PFRS.

#### **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 paying and filing Value Added Tax.
- (2) Input VAT  
Since cooperative are 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 2021.
- (4) Taxes and licenses  
The details of taxes and licenses and permit fees for the year ended December 31, 2021 are as follows:

Business & local taxes	₱73,866.49
Barangay Clearance	1,200.00
Car Registration	7,068.12
<b>Total</b>	<b>82,134.61</b>

- (5) Withholding Taxes

The details of total withholding taxes for the taxable year ended December 31, 2021 are shown below:

	Tax Base	Tax withheld
Compensation	₱15,450,010.76	₱290,368.47
Honorarium	548,000.00	27,400.00
Professional Fee	427,828.95	21,391.45
Rental	561,812.06	28,090.60
General Support	2,871,146.28	57,422.94
	<b>₱19,858,798.05</b>	<b>₱424,673.46</b>

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 statement. The Cooperative revenues and non-operating income are exempt from income taxes.

**34. RECLASSIFICATION OF ACCOUNTS**

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Certain accounts in the 2020 financial statements were classified to conform to 2021 financial statement presentation of accounts.

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