


**INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN**

The Members and the Board of Trustees  
Kasagana-Ka Mutual Benefit Association, Inc.  
#5 Don Francisco St., Don Enrique Heights  
Commonwealth Avenue, Brgy. Holy Spirit, Quezon City

We have audited the financial statements of Kasagana-Ka Mutual Benefit Association, Inc. (A Non-stock, Non-profit Organization) (the Association), for the year ended December 31, 2017 on which we have rendered the attached report dated April 10, 2018.

In compliance with Revenue Regulations No. V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or Board of Trustees of the Association.

**ROXAS CRUZ TAGLE AND CO.**  
**(FORMERLY ALBA ROMEO & CO. CPAs)**



**Leticia C. Tagle**

**Partner**

CPA Certificate No. 0017358

Tax Identification No. 123-048-280

PTR No. 6643556, issued on January 17, 2018, Makati City

BOA/PRC Registration No. 0005, issued on December 1, 2015,  
effective until December 31, 2018

SEC Accreditation No. 1583-A (Individual), Group A, issued on September 6, 2016,  
effective until September 6, 2019

SEC Accreditation No. 0007-FR-4 (Firm), Group A, issued on July 16, 2015,  
effective until July 15, 2018

BIR Accreditation No. 08-001682-6-2018, issued on January 26, 2018,  
effective until January 25, 2021

BSP-Registered as external auditor under Category A- January 5, 2018 to January 5, 2019

Insurance Commission Accreditation No. SP-2017-011R, effective until August 26, 2020

April 10, 2018  
Makati City, Philippines



QUINSAY, RADAM AND CO.

▪ Audit ▪ Tax ▪ Consulting

*"Surpassing  
Expectations"*

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE  
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

**To Management of**

KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC.

*(Non-stock, Not-for-profit Association)*

#5 Don Francisco St., Don Enrique Heights Commonwealth Avenue,  
Brgy. Holy Spirit, Quezon City

We have compiled the accompanying financial statements of KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC. based on information you have provided. These financial statements comprise the statements of financial position as at December 31, 2017 and 2016, statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), Compilation Engagements.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Philippine Financial Reporting Standards. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care. These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

We have not verify the accuracy or completeness of the information you provided to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with Philippine Financial Reporting Standards.

QUINSAY, RADAM AND CO.

TIN 007-894-264-000

BOA Accreditation No. 6006 effective until August 6, 2020

BIR Accreditation No. 08-006419-000-2016 issued on March 21, 2016 effective until March 20, 2019

Bj::

JOSEPH E. QUINSAY

Partner

CPA Certificate No. 118911

PTR No. 5832577 issued on January 4, 2018 at Pasay City

TIN 304-239-540-000

BIR Accreditation No. 08-006419-001-2017 issued on August 7, 2017 effective until August 6, 2020

April 10, 2018

1971 F.B. Harrison St., District 1, Pasay City



KASAGANA-KA  
Mutual Benefit Association, Inc.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**

The management of Kasagana Ka Mutual Benefit Association, Inc. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2017. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the Value-Added Tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the management affirms that the attached audited financial statements for the year ended December 31, 2017 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Association, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Association's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and
- (c) the Association has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

ISABEL ILIW-ILIW  
Chairman of the Board

ISABEL ILIW-ILIW  
President

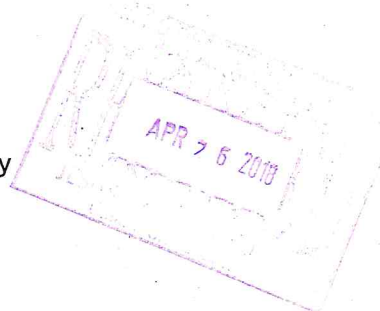
MARISSA LOYOLA  
Treasurer

Signed this 10<sup>th</sup> day of April, 2018



## INDEPENDENT AUDITORS' REPORT

The Members and the Board of Trustees  
Kasagana-Ka Mutual Benefit Association, Inc.  
#5 Don Francisco St., Don Enrique Heights  
Commonwealth Avenue, Brgy. Holy Spirit, Quezon City



### Report on the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Kasagana-Ka Mutual Benefit Association, Inc. (A Non-stock, Non-profit Organization) (the Association), which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (the Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Parent Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Parent Association or to cease operations, or have no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Association's financial preparation process.



### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that include our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit is conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on the Supplementary Information Required by the Bureau of Internal Revenue (BIR)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as disclosed in Note 26 to the financial statements is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**ROXAS CRUZ TAGLE AND CO.**  
**(FORMERLY ALBA ROMEO & CO., CPAs)**



**Leticia C. Tagle**  
**Partner**

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April 10, 2018  
Makati City, Philippines



**KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC.**  
(a Non-stock, Not-for-profit Association)

**STATEMENTS OF FINANCIAL POSITION**  
AS AT DECEMBER 31, 2017 AND 2016

	Note	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	P62,529,821	P56,953,300
Receivables	7	4,860,036	3,828,671
Other current assets	8	218,248	340,429
<b>Total current assets</b>		<b>67,608,105</b>	<b>61,122,400</b>
<b>Noncurrent assets</b>			
Available-for-sale financial assets	9	15,590,740	15,393,796
Held-to-maturity investments	10	86,678,366	86,678,366
Advances to contractor	11	-	1,219,366
Property and equipment, net	12	18,147,794	422,412
Intangible asset	13	1,209,732	-
Other noncurrent assets	14	262,501	253,406
<b>Total noncurrent assets</b>		<b>121,889,133</b>	<b>103,967,346</b>
<b>Total assets</b>		<b>P189,497,238</b>	<b>P165,089,746</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Current liabilities</b>			
Trade and other payables	15	P1,083,773	P947,821
Liability on individual equity value	16	4,064,147	3,922,456
Aggregate reserve for trust liability	16	6,865,887	6,854,684
Basic contingent benefit reserve	16	288,711	200,509
Optional benefit reserve	16	824,479	748,406
Claims payable on basic contingent benefit	17	389,909	486,273
<b>Total current liabilities</b>		<b>13,516,906</b>	<b>13,160,149</b>
<b>Noncurrent liabilities</b>			
Liability on individual equity value	16	68,074,847	63,381,945
Aggregate reserve for trust liability	16	36,198,289	29,275,505
Retirement benefit obligation	20	823,244	588,531
<b>Total noncurrent liabilities</b>		<b>105,096,380</b>	<b>93,245,981</b>
<b>Total liabilities</b>		<b>118,613,286</b>	<b>106,406,130</b>
<b>FUND BALANCE</b>			
Restricted balance	18	35,111,526	22,977,037
Unrestricted balance	18	35,772,426	35,706,579
<b>Total fund balance</b>		<b>70,883,952</b>	<b>58,683,616</b>
<b>Total liabilities and fund balance</b>		<b>P189,497,238</b>	<b>P165,089,746</b>

(The notes on pages 5 to 47 are integral part of these financial statements.)

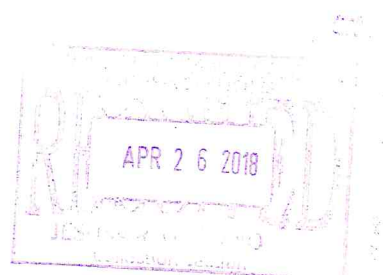


**KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC.**  
(a Non-stock, Not-for-profit Association)

**STATEMENTS OF COMPREHENSIVE INCOME**  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Note	2017	2016
Revenue	21	<u>P41,346,878</u>	<u>P39,770,564</u>
<b>Benefit expenses</b>			
Allocation for liability on individual equity		(12,982,861)	(12,394,537)
Benefit/claims expenses - BLIP		(6,721,911)	(6,951,019)
Benefit/claims expenses - Equity value		(3,744,638)	(3,648,112)
Benefit/claims expenses - CLIP		(1,405,665)	(1,390,000)
Collection fees		(3,872,889)	(1,109,150)
Other expenses for members		(2,121,548)	(866,724)
Increase/decrease in aggregate reserve for trust liability		(786,748)	(657,867)
Increase/decrease in reserve for basic contingent fund		7,423	(253,545)
Increase/decrease in liability on individual equity		8,112,030	8,995,303
Increase/decrease in reserve for optional benefit		(75,514)	15,262
<b>Total benefit expense</b>		<u>(23,592,321)</u>	<u>(18,260,389)</u>
Revenue before operating expense		<u>17,754,557</u>	<u>21,510,175</u>
Operating expenses	22	<u>(8,491,024)</u>	<u>(7,963,418)</u>
Revenue from operations		<u>9,263,533</u>	<u>13,546,757</u>
Finance income	6,9,10	<u>4,691,796</u>	<u>4,420,930</u>
Net revenue		<u>13,955,329</u>	<u>17,967,687</u>
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Unrealized gain (loss) on AFS financial assets	9	196,944	(222,105)
Actuarial gain (loss) on defined benefit obligation	20	(15,988)	78,460
Other comprehensive income (loss) for the year		<u>180,956</u>	<u>(143,645)</u>
<b>Total comprehensive income</b>		<u><u>P14,136,285</u></u>	<u><u>P17,824,042</u></u>

(The notes on pages 5 to 47 are integral part of these financial statements.)



**KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC.**  
(a Non-stock, Not-for-profit Association)

**STATEMENTS OF CHANGES IN FUND BALANCE**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Restricted fund balance (Note 18)	Unrestricted fund balance (Note 18)	Actuarial loss (Note 20)	Unrealized gain on available-for- sale financial assets (Note 9)	Total
Balance at January 1, 2016	20,304,408	21,858,528	(P249,239)	615,901	42,529,598
Decrease in fund balance	(1,670,024)	-	-	-	(1,670,024)
Net income for the year	-	17,967,687	-	-	17,967,687
Other comprehensive income	-	-	78,460	(222,105)	(143,645)
Appropriations	4,342,653	(4,342,653)	-	-	-
Balance at December 31, 2016	22,977,037	35,483,562	(170,779)	393,796	58,683,616
Decrease in fund balance	(1,935,949)	-	-	-	(1,935,949)
Net income for the year	-	13,955,329	-	-	13,955,329
Other comprehensive income	-	-	(15,988)	196,944	180,956
Appropriations	14,070,438	(14,070,438)	-	-	-
Balance at December 31, 2017	P35,111,526	P35,368,453	(P186,767)	P590,740	P70,883,952

(The notes on pages 5 to 47 are integral part of these financial statements.)

KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC.  
(a Non-stock, Not-for-profit Association)

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Note	2017	2016
<b>Cash flows from operating activities</b>			
Net revenue		P13,955,329	P17,967,687
Adjustments for:			
Increase in liability on individual equity value		4,834,593	3,386,792
Increase in aggregate reserve for trust liability		6,933,987	6,064,024
Depreciation	12,22	303,216	327,595
Retirement benefit cost	20,22	218,725	201,048
Amortization	13,22	122,083	-
Finance income	6,9,10	(4,691,796)	(4,420,930)
Gain on sale of equipments	12	-	(3,609)
Operating profit before working capital changes		21,676,137	14,071,791
(Increase) decrease in:			
Receivables		(538,863)	(578,824)
Other current assets		122,181	(167,155)
Increase (decrease) in:			
Trade and other payables		135,952	617,789
Basic contingent benefit reserve		88,202	36,006
Optional benefit reserve		76,073	(15,262)
Claims payable on basic contingent benefit		(96,364)	218,098
Cash generated from operations		21,463,318	14,182,443
Finance income received		4,199,294	3,918,462
Net cash provided by operating activities		25,662,612	18,100,905
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	12	(18,028,598)	(261,908)
Acquisition of intangible asset	13	(112,449)	-
Increase in other noncurrent assets	14	(9,095)	(253,406)
Acquisition of held-to-maturity investment	10	-	(11,000,000)
Advances to contractor	11	-	(1,219,366)
Proceeds from disposal of property and equipment	12	-	6,053
Net cash used in investing activities		(18,150,142)	(12,728,627)
<b>Cash flows from financing activities</b>			
Decrease in fund balance		(1,935,949)	(1,670,024)
Payment of retirement liability	20	-	(160,296)
Net cash used in financing activities		(1,935,949)	(1,830,320)
Net increase in cash and cash equivalents		5,576,521	12,992,774
Cash and cash equivalents			
January 1	6	56,953,300	43,960,526
December 31	6	P62,529,821	P56,953,300
<b>Non-cash transaction</b>			
Reclassification to computer software		P1,219,366	-
Reclassification from advances to contractors		(P1,219,366)	-
Total		P -	P -

(The notes on pages 5 to 47 are integral part of these financial statements.)



**KASAGANA-KA MUTUAL BENEFIT ASSOCIATION, INC.**  
*(a Non-stock, Not-for-profit Association)*

**NOTES TO FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1- GENERAL INFORMATION**

Kasagana-ka Mutual Benefit Association Inc. (the Association) was organized and incorporated under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission (SEC) on June 29, 2006 per SEC Registration Number CN200610153. The Association is primarily engaged to promote the welfare of the poor; to extend financial assistance to its members in the form of death benefit, medical subsidy, pension and loan redemption assistance; and to ensure continued access to benefits and resources by actively involving the members in the direct management of the Association that will include implementation of policies and procedures geared towards sustainability and improved services.

The Association is a non-stock, non-profit entity that no part of the income, which the Association may obtain as an incident to its operations, shall be distributed as dividends to its members, trustees or officers subject to the provisions of the Corporation Code on dissolution. Any profit obtained by the Association as a result of its operations, whenever necessary or proper shall be used for the furtherance of its purpose.

The Association's registered office address, which is also its principal place of business, is located at #5 Don Francisco St., Don Enrique Heights Commonwealth Avenue, Brgy. Holy Spirit, Quezon City.

**1.1 Approval of financial statements**

The financial statements of the Association have been approved and authorized for issuance by the Board of Trustees (BOT) on April 10, 2018. The Association's General Manager, Silvida Antiquera was authorized by the BOT to sign for and on behalf of the BOT, to approve and cause the submission of the audited financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation and accounting policies**

The principal accounting policies applied in the preparation of the Association's financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

*Statement of compliance*

The financial statements of the Association have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council, and adopted by SEC.

The SEC issued a notice on October 11, 2010 allowing SMEs exemption from the mandatory adoption of Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs). Based on the exception criteria that it is a holder of a secondary license issued by regulatory agencies, the Association elected to adopt the full PFRS framework.

### *Basis of measurement and presentation*

The Association's financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value.

### *Functional currency*

The financial statements are prepared in Philippine Peso (P), which is the Association's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise stated.

### *Use of judgments and estimates*

The preparation of the financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Association's management to exercise judgment in applying the Association's accounting policies. The areas where significant judgments and estimates have been made in preparing the Association's financial statements and their effects are disclosed in Note 3.

### *Changes in accounting policies and disclosures*

- a. New standards and amendments issued and effective from January 1, 2017.

The following amendments became mandatory in the current year. The amendments generally require full retrospective application, with some amendments requiring prospective application.

- **Amendments to PAS 7, *Disclosure Initiative*:** The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.
  - **Amendments to PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*:** The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.
- b. New standards, amendments and interpretation existing standards issued but not yet effective and with mandatory adoptions for periods beginning on or after January 1, 2017.

The Association has not applied the following new standards, amendments and interpretations that has been issued but are not yet effective:

- **PFRS 9, *Financial Instruments*.** In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. The final version reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory.

The actual impact of adopting PFRS 9 on the Association's financial statements is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Association holds and the economic conditions at that time, as well as judgments that the Association will make in the future. The new standard will require the Association to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.



- **PFRS 15, *Revenue from Contracts with Customers*.** PFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. PFRS 15 will supersede the current revenue recognition guidance including PAS 18, *Revenue*, PAS 11, *Construction Contracts*, and the related interpretations when it becomes effective. The core principle of PFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the PFRS 15 introduces a five-step model approach to revenue recognition:

- a) Step 1: Identify the contract(s) with a customer
- b) Step 2: identify the performance obligations in the contract
- c) Step 3: Determine the transaction price
- d) Step 4: Allocate the transaction price to the performance obligations in the contract
- e) Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under PFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in PFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by PFRS 15.

In April 2016, the IASB issued clarifications to PFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The new standard allows for a full retrospective application, or prospective application with additional disclosure. PFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Apart from providing more extensive disclosures on the Association's revenue recognition and transactions, the Association does not anticipate a significant impact on the financial statements when PFRS 15 is applied.

- **PFRS 16, *Leases*.** PFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard (finance or operating lease).

PFRS 16 replaces existing leases guidance including PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases - Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply PFRS 15, *Revenue from Contracts with Customers* at or before the initial application of PFRS 16.

The Association's operating leases are low-value and short-term. The Association assesses that the adoption of PFRS 16 will not have a significant impact on the financial statements.

- **Amendments to PFRS 2, *Classification and Measurement of Share-based Payment Transactions*.** The IASB issued amendments to PFRS 2, *Share-based Payment*, that address three main areas:



- a) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- b) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- c) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted.

- **Amendments to PFRS 4, Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts.** The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing PFRS 17, *Insurance Contracts*, which replaces PFRS 4.

The amendments introduce two options for entities issuing insurance contracts: i) a temporary exemption from applying IFRS 9, and ii) an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- **Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Association does not anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

- **Amendments to PAS 40, Transfers of Investment Property.** The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in PAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The Association anticipate that the application of these amendments may have an impact on the financial statements in future periods should there be a change in use of any of its properties.

- **IFRIC 22, *Foreign Currency Transactions and Advance Consideration*.** IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Association does not anticipate that the application of the amendments in the future will have an impact on the financial statements. This is because the Association already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

## **2.2 Current versus noncurrent classification**

The Association presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Association classifies all other liabilities as noncurrent.

## **2.3 Fair value measurement**

The Association measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or



- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Association determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Association has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## **2.4 Financial instruments**

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

### **i. Financial assets**

#### **Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held to maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Association commits to purchase or sell the asset.



## Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

### *(a) Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of comprehensive income.

The Association has financial assets at FVPL as at December 31, 2017 and 2016 (Notes 4 and 9).

### *(b) Loans and receivables*

This category is the most relevant to the Association. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs for loans and in general and administrative expenses for receivables.

The category generally applies to cash and cash equivalents and receivables in the statement of financial position (Note 4).

### *(c) HTM investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Association has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs.

The Association has HTM investments as at December 31, 2017 and 2016 (Notes 4 and 10).

### *(d) AFS investments*

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income and credited in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive income

in finance costs. Interest earned while holding AFS financial investments is reported as finance income using the EIR method.

The Association evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Association is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Association may elect to reclassify these financial assets if the Association has the intent and ability to hold these assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

The Association has AFS financial assets as at December 31, 2017 and 2016 (Notes 4 and 9).

### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- a) the rights to receive cash flows from the asset have expired, or
- b) the Association has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Association has transferred substantially all the risks and rewards of the asset, or (ii) the Association has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Association has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Association continues to recognize the transferred asset to the extent of the Association's continuing involvement. In that case, the Association also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Association has retained.

Continuing involvement that takes the form of guarantee over transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Association could be required to pay.

### **ii. Impairment of financial assets**

The Association assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Further disclosures relating to impairment of financial assets are also provided in Notes 3 and 5.



*(a) Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Association first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Association determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The carrying amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Association. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

*(b) Financial assets carried at cost*

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

*(c) AFS investments*

For AFS financial investments, the Association assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss - is removed from other comprehensive income and recognized in the profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Association evaluates among other factors the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss.



Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

### **iii. Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Association's financial liabilities comprise other financial liabilities, which include accrued expenses and other payables and policy and contract claims payable (Note 4).

#### **Subsequent measurement**

The measurement of financial liabilities depends on their classification as described below:

##### **(a) *Financial liabilities at FVPL***

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Association that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

The Association does not have any liabilities held for trading nor has it designated any financial liability as being at FVPL.

##### **(b) *Other financial liabilities***

This is the category most relevant to the Association. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the profit or loss.

This category generally applies trade and other payables, aggregate reserves and claims payable on basic contingent benefit (Notes 15, 16 and 17).

## **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

### **iv. Classification of financial instruments between debt and equity**

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability is reported as expense or income.

### **v. Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously.

## **2.5 Insurance contracts**

### *Product classification*

Insurance contracts under which the Association (the insurer) has accepted significant insurance risk from another party (the policy holders) by agreeing to compensate the policy holders if a specified uncertain future event (the insured event) adversely affects the policy holder. As a general guideline, the Association determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risks.

Once a contract has been classified as an insurance contract, it remains as insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period, unless all rights and obligations are extinguished or expired.

### *Benefits and claims*

Claims consist of benefits and claims paid to policyholders, which include excess gross benefit claims for unit-link insurance contract. Death claims, surrenders and non life insurance claims are recorded on the basis of notifications received. Maturities are recorded when due.

### *Liability adequacy tests*

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of reinsurance assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities are used. Any deficiency is immediately recognized in the profit or loss.

## **2.6 Cash and cash equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placements and that are subject to an insignificant risk of change in value.



## 2.7 Receivables

Receivables are recognized initially at the transaction price and are subsequently measured at amortized cost using the EIR method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of the receivables.

Other receivables are also measured at initial recognition at transaction price. They are subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Bad debts are written off when identified.

## 2.8 Other current assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statement of comprehensive income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Association's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as noncurrent assets.

Other current assets are recognized when the Association expects to receive future economic benefit from them and the amount can be measured reliably. Other assets are classified in the statement of financial position as current assets when the cost of goods or services related to the assets are expected to be incurred within one year or the Association's normal operating cycle, whichever is longer. Otherwise, other assets are classified as noncurrent assets.

## 2.9 Property and equipment

Property and equipment are initially measured at cost. At the end of each reporting period, items of property and equipment are measured at cost less any subsequent accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Association. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

Depreciation is charged so as to allocate the cost of other assets less their residual values over their estimated useful lives using the straight-line method. Below is the estimated useful lives used for the depreciation of property and equipment:

Property classification	Estimated useful life
Furniture and fixtures	5 years
Office equipment	3 years
Computer equipment	3 years
Leasehold improvement	3 years

Leasehold improvements are amortized over the estimated useful life of the office improvements or the lease term, whichever is shorter.



Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to the profit or loss.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss arising on the disposal or retirement of an asset, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognized in the profit or loss.

## **2.10 Intangible Asset**

Computer software is stated at cost less accumulated amortization and any accumulated impairment losses.

## **2.11 Impairment of non-financial assets**

The carrying amounts of the Association's non-financial assets such as property and equipment are reviewed at each financial reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Association makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset or its cash generating unit's (CGU) fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

Whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in the statement of comprehensive income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. Reversals of impairment are recognized in the profit or loss.

## **2.12 Trade and other payables**

Trade payables are recognized in the period in which the money or services are received or when a legally enforceable claim against the Association is established or when the corresponding assets and expenses are recognized/ incurred.

Accrued expenses and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accrued expenses and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer); otherwise, they are presented as noncurrent liabilities. These are measured initially at fair value and subsequently measured at amortized cost using the EIR method.

Accrued expenses are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with supplier. It is necessary to estimate the amount of accrued expenses, however, the uncertainty is generally much less than for provision.

Other payables pertain to government dues and remittances.

Government dues and remittances include withholding income taxes which represent taxes retained by the Association for an item of income required to be remitted to the BIR within one (1) month. The obligation of the Association to deduct and withhold the taxes arises at the time the income payment is paid or payable, or the income payment is accrued or recorded as an expense or asset, whichever comes first. The term "payable" refers to the date the obligation becomes due, demandable, or legally enforceable.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the EIR method.

### **2.13 Liability for incurred policy benefit**

A liability for incurred policy benefits relating to life insurance contracts in force is accrued when premium revenue is recognized.

The Association's aggregate reserve for life policies, policy and contract claims payable, applicant's deposit and other funds and premium deposit fund are computed annually based on the approved valuation method by the Insurance Commission (IC) and certified to by an independent actuary.

#### *Liability adequacy test*

The Association assesses at each reporting date whether its recognized insurance liabilities are adequate, using the current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognized in profit or loss.

The liability is derecognized when the contract expires, is discharged or is cancelled.

### **2.14 Basic contingent benefit reserves**

Basic contingent benefit reserves represent the total actuarial reserve set-up by the Association pertaining to the basic life benefit that is in force as at the end of the accounting period. It refers to the amount of liability which the Association establishes for a certificate to meet the contractual obligation as it falls due.

### **2.15 Liability on individual fund value**

Upon termination of membership, a member who has been with the Association at least three (3) full years shall be entitled to an equity value equivalent to at least fifty percent (50%) of the total weekly contributions collected from him.

The Association's Board of Trustees shall set up each year sufficient reserves for the payment of claims and other obligations in accordance with actuarial procedures approved by the Insurance Commission. If the reserves become impaired, the Board of Trustees shall require all members' equitable proportion of such indebtedness against the members and draw interest not exceeding five percent (5%) per annum compounded annually.

Withdrawal from the funds of the Association, whether by check or any other instruments, is signed by at least two (2) persons designated by the unanimous vote of the Association's Board of Trustees.



## **2.16 Optional benefit reserve**

Optional benefit reserve represents the total actuarial reserve set up by the Association pertaining to the policies under optional benefit that is in force as at the end of the accounting period. It refers to the amount of liability which the Association establishes for an optional policy to meet the contractual obligation as it falls due.

## **2.17 Claims payable on basic contingent fund**

Claims payable on basic contingent fund represents the sum of the individual claims on membership certificates that are due and have already been approved for payment but, for one reason or another, have not actually been paid. This includes check already issued to beneficiaries but not yet released as of the end of the financial reporting period.

## **2.18 Retirement obligation**

Pursuant to the provision of the Republic Act 7641, all companies are required to provide retirement benefits to all their employees, except when the Association has less than 10 employees. This employment benefit plan is a defined benefit plan because the entity's obligation is to provide specific level of benefit for every year of services.

### **(a) Pension obligations**

A defined contribution plan is a pension plan under which the Association pays fixed contributions into a separate entity. The Association has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability or asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of all related pension obligations.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the profit or loss.



Remeasurements comprising actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The cumulative gains or losses arising from the remeasurements are shown as a separate line item in the statement of financial position as "remeasurement of retirement benefits obligation".

**(b) Profit-sharing and bonuses**

The Association recognizes a liability and expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Association's shareholders after certain adjustments. The Association recognizes a provision where contractually obliged or where there is a practice that has created a constructive obligation.

**2.19 Fund balance**

Fund balance refers to the residual interest in the assets of the Association after deducting all its liabilities. This represents the accumulated earnings of the Association reduced by whatever losses the Association may incur during a certain accounting period.

**2.20 Provisions and contingencies**

Provisions are recognized when: (a) the Association has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost. When the Association expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the profit or loss, net of any reimbursement.

Contingent liabilities are not recognized in the Association's financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the Association's financial statements but disclosed in the notes to Association's financial statements when an inflow of economic benefits is probable.

**2.21 Revenue recognition**

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

The funds of the Association are derived from membership fees, periodic dues, weekly contributions collected from members and income from interest on savings and investments.

Premiums on policies issued directly by the Association are recognized on the effective date of the title policy.

***Contribution and fees***

Members are charged a one-time thirty pesos (P30) application fee for KDCI members and one hundred pesos (P100) for associate members in order to cover the expenses incurred in processing their application. This fee is neither refundable nor included in determining the member's

accumulated and refundable contributions. Membership fees are recognized upon the admission of a qualified member to the Association.

Members are charged twenty pesos (P20) contribution per week for the payment of death and total disability of a member, and death of any member's legal spouse, or any of the members' legitimate and/or legally adopted children in accordance with the Association's table of Life Insurance Benefits. Twenty percent (20%) of the weekly contribution from its members is deducted as General Administrative Funds and any balance is used for payment of mutual benefits.

The contribution may be adjusted by the Board of Trustees as may be necessary to maintain the funds of the Association at a level adequate to meet its benefit obligations or commitments under the plan.

#### *Finance income*

For all financial instruments measured at amortized cost, interest income is recorded using the EIR which is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in "Finance income" in the profit or loss.

#### *Other income*

Income from other sources is recognized when earned.

### **2.22 Benefit and other expense recognition**

Benefit and other expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

### **2.23 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Association does not have any leases under finance lease.

#### *Association as lessee*

Assets held under finance leases are recognized as assets of the Association at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Association's statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Association's general policy on borrowing costs. Contingent rentals are recognized as expense in the period in which they are incurred.



Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized expenses in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## **2.24 Related parties**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled by or under common control with the Association are considered related parties. The key management personnel of the Association are also considered to be related parties.

## **2.25 Income taxes**

The Association is exempted from income tax under Section 30 (c) of the National Internal Revenue Code as a non-stock association organized and operated exclusively for charitable and cultural purposes no part of its net income or asset shall belong to or inure to the benefit of any member, organizer, officer or any specific person. Interest earned from the placement of Association funds are, however, subject to final tax. The interest income shown in the financial statement is net of final tax.

## **2.26 Events after the financial reporting date**

Post year-end events up to the date the financial statements were authorized for issuance that provide additional information about the Association's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

## **NOTE 3 - CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements in conformity with PFRS requires the Association's management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## **3.1 Judgments**

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements.



#### *Determination of functional currency*

The Association has determined that its functional currency is Philippine Peso. The determination of functional currency was based on the primary economic environment in which the Association generates and expends cash.

#### *Classification of financial instruments*

The Association classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or equity. In addition, the Association also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form, and the management's intention and ability to hold the financial instrument to maturity generally governs its classification in the statement of financial position.

The classification of financial assets and liabilities is presented in Note 4.

#### *Determination of fair value of financial instruments*

The Association determines significant components of fair value measurement using verifiable objective evidence (i.e., foreign exchange rates, interest rates, and volatility rates), timing and the amount of changes in fair value would differ if the Association utilized a different valuation methodology. Any changes in fair value of these financial assets and financial liabilities would affect profit and loss and equity.

Fair value of financial assets and liabilities as at December 31, 2017 and 2016 amounted to P169,921,464 and P163,107,539 and P117,687,455 and P105,811,687, respectively, as disclosed in Note 4.

#### **Estimates and assumptions**

##### *Estimation of useful lives of property and equipment*

The Association reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation expense and decrease the related asset accounts. The estimated useful lives of property and equipment are discussed in Note 2.9 to the financial statements, which showed no changes in 2017 and 2016.

The Association has entered into leases with various lessors. Based on the evaluation of the terms and conditions of the arrangements, all the significant risks and benefits of ownership of the properties remain with the lessor. Accordingly, the Association accounted for the leases as operating leases.

##### *Impairment of financial assets*

The Association assesses impairment on financial assets whenever events or changes in circumstances indicate that the carrying amount of financial asset may not be recoverable. The determination of impairment losses for financial assets requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Management believes that the carrying amounts of financial assets approximate their recoverable amounts.

### *Impairment of non-financial assets*

The Association assesses at the end of each reporting date whether there is an indication that the carrying amounts of all non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset's recoverable amount. At the end of each reporting date, the Association assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Management has reviewed the carrying values of the Association's non-financial assets as at December 31, 2017 and 2016 for impairment. Based on the management's assessment, there were no indications that the non-financial assets were impaired, thus no impairment loss was recognized for the years ended December 31, 2017 and 2016.

### *Estimation of liability for retirement benefits*

The determination of the Association's obligation and cost of pension and other pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 2 and include, among others, discount rate and salary increase rate.

In accordance with PFRS, actual results that differ from the assumptions used are accumulated and amortized over future period and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Based on the actuarial valuation, the pension liability amounted to P823,244 and P588,531 as at December 31, 2017 and 2016, respectively (Note 20).

## **NOTE 4 - FINANCIAL INSTRUMENTS**

The following table sets forth the carrying value of financial instruments held by category:

	2017		2016	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents (Note 6)	P62,529,821	P62,529,821	P56,953,300	P56,953,300
Receivables (Note 7)	4,860,036	4,860,036	3,828,671	3,828,671
Rental deposit (Note 14)	100,040	100,040	90,945	90,945
Other funds and deposits (Note 14)	162,461	162,461	162,461	162,461
<i>Available-for-sale financial assets</i> (Note 9)	15,590,740	15,590,740	15,393,796	15,393,796
<i>Held-to-maturity investments</i> (Note 10)	86,678,366	86,678,366	86,678,366	86,678,366
	<b>P169,921,464</b>	<b>P169,921,464</b>	<b>P163,107,539</b>	<b>P163,107,539</b>



**Financial liabilities****Other financial liabilities:**Trade and other payables\*  
(Note 15)**P980,006****P980,006**

P941,909

P941,909

Liability on individual  
equity value (Note 16)**72,138,994****72,138,994**

67,304,401

67,304,401

Aggregate reserve for trust  
liability - RF (Note 16)**43,064,176****43,064,176**

36,130,189

36,130,189

Basic contingent benefit  
reserve (Note 16)**288,711****288,711**

200,509

200,509

Optional benefit reserve  
(Note 16)**824,479****824,479**

748,406

748,406

Claims payable on basic  
contingent benefit (Note  
17)**389,909****389,909**

486,273

486,273

**P117,686,275****P117,686,275****P105,811,687****P105,811,687**

\*Trade and other payables excludes government dues amounting to P103,767 and P5,912 as at December 31, 2017 and 2016, respectively.

The carrying amounts of cash and cash equivalents, receivables, trade and other payables, liability on individual equity value, aggregate reserve for trust liability, basic contingent benefit reserve and claims payable on basic contingent benefit approximate its fair values due to the relatively short-term maturities of the financial instruments.

Items of income, expense, gains or losses recognized from financial instruments are as follows:

	2017	2016
Finance income (Notes 6, 9 and 10)	P4,691,796	P4,420,930
Unrealized gain (loss) on change in fair value of Available-for-sale (Note 9)	196,944	(222,105)
	<b>P4,888,740</b>	<b>P4,198,825</b>

**NOTE 5 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES****General objectives, policies and processes**

The BOT has overall responsibility for the determination of the Association's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Association's finance function. The BOT receives monthly reports from the Association's Finance Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the BOT is to set policies that seek to reduce risk as far as possible without unduly affecting the Association's competitiveness and flexibility.

**Financial risk management objectives and policies**

The Association is exposed to a variety of financial risks, which result from its operating, investing and financing activities. The Association's principal financial instruments comprise of Cash and cash equivalents, receivables, available-for-sale financial assets, held-to-maturity investments, liability on individual equity value, aggregate reserve for trust liability, basic contingent benefit reserve, optional benefit reserve, claims payable on basic contingent benefit and accrued and other payables. The main purpose of these financial instruments is to raise finance for the Association's operations. The Association has various other financial assets and liabilities which arise directly from operations.

Association policies and guidelines cover credit risk, market risk and liquidity risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Association's results and financial position. The Association actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principles.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The receivable balances are monitored on an ongoing basis with the result that the Association's exposure to impairment is not significant.

Member credit risk is managed by managing and analyzing the credit risk for each new member before standard payment and delivery terms and conditions are offered. Outstanding receivables are regularly monitored. The credit quality of the Association's financial assets that are neither past due nor impaired is considered to be good quality and expected to be collectible without incurring any credit losses.

Credit risk from balances with banks is managed by ensuring that the Association's deposit arrangements are with reputable and financially sound counterparties.

The Association's exposure to credit risk arises from default of other counterparties, with a maximum exposure equal to the carrying amounts as follows:

	2017	2016
Cash and cash equivalents* (Note 6)	P62,522,821	P56,946,300
Receivables (Note 7)	4,860,036	3,828,671
Other funds and deposits (Note 14)	162,461	162,461
Rental deposit (Note 14)	100,040	90,945
Available-for-sale financial assets (Note 9)	15,590,740	15,393,796
Held-to-maturity investments (Note 10)	86,678,366	86,678,366
	<u>P169,914,464</u>	<u>P163,100,539</u>

*\*Cash and cash equivalents exclude cash on hand amounting to both P7,000 as at December 31, 2017 and 2016, respectively.*



The following table provides an analysis of the age of the financial assets that are past due but not impaired and those financial assets that are individually determined to be impaired as at the end of the reporting period:

December 31, 2017							
	Total	Neither Impaired nor past due  Current	Past due but not yet impaired				Impaired
			1 to 60 days	61 to 90 days	91 to 120 days	More than 120 days	
Loans and receivables							
Cash and cash equivalents (Note 6)	P62,522,821	P62,522,821	P-	P-	P-	P-	P-
Receivables (Note 7)	4,860,036	3,320,132	1,343,104	196,800	-	-	-
Rental deposit (Note 14)	100,040	100,040	-	-	-	-	-
Other funds and deposits (Note 14)	162,461	162,461	-	-	-	-	-
Available-for-sale financial assets (Note 9)	15,590,740	15,590,740	-	-	-	-	-
Held-to-maturity investments (Note 10)	86,678,366	86,678,366	-	-	-	-	-
	<u>P169,914,464</u>	<u>P168,374,560</u>	<u>P1,343,104</u>	<u>P196,800</u>	<u>P-</u>	<u>P-</u>	<u>P-</u>
December 31, 2016							
	Total	Neither Impaired nor past due  Current	Past due but not yet impaired				Impaired
			1 to 60 days	61 to 90 days	91 to 120 days	More than 120 days	
Loans and receivables							
Cash and cash equivalents (Note 6)	P56,946,300	P56,946,300	P-	P-	P-	P-	P-
Receivables (Note 7)	3,828,671	2,343,667	1,146,011	52,364	286,629	-	-
Rental deposit (Note 14)	90,945	90,945	-	-	-	-	-
Other funds and deposits (Note 14)	162,461	162,461	-	-	-	-	-
Available-for-sale financial assets (Note 9)	15,393,796	15,393,796	-	-	-	-	-
Held-to-maturity investments (Note 10)	86,678,366	86,678,366	-	-	-	-	-
	<u>P163,100,539</u>	<u>P161,615,535</u>	<u>P1,146,011</u>	<u>P52,364</u>	<u>P286,629</u>	<u>P-</u>	<u>P-</u>

The credit quality of the Association's financial assets is evaluated using internal credit rating. Financial assets are considered as high grade if the counter parties are not expected to default in settling their obligations, thus, credit risk exposure is minimal. These counter parties include banks, related parties and members who pay on or before due date.

### *Credit quality per class of financial assets*

The Association's bases in grading its financial assets are as follows:

High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

Standard - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - These are receivables that can be collected provided the Association makes persistent effort to collect them.

The table below shows the credit quality by class of financial assets (gross of allowance for credit losses) of the Association based on their historical experience with the corresponding third parties as of December 31, 2017 and 2016:

		2017						
		Neither Past Due nor Impaired			Past Due but			
		High Grade	Standard Grade	Substandard Grade	Unrated	Not Impaired	Impaired	Total
<b>Loans and receivables</b>								
Cash and cash equivalents (Note 6)	P62,522,821		P-	P-	P-	P-	P-	P62,522,821
Receivables (Note 7)	3,320,132		-	-	-	1,539,904	-	4,860,036
Rental deposit (Note 14)	100,040		-	-	-	-	-	100,040
Other funds and deposits (Note 14)	162,461		-	-	-	-	-	162,461
Available-for-sale financial assets (Note 9)	15,590,740		-	-	-	-	-	15,590,740
Held-to-maturity investments (Note 10)	86,678,366		-	-	-	-	-	86,678,366
	<b>P168,374,560</b>		<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P1,539,904</b>		<b>P169,914,464</b>
		2016						
		Neither Past Due nor Impaired			Past Due but			
		High Grade	Standard Grade	Substandard Grade	Unrated	Not Impaired	Impaired	Total
<b>Loans and receivables</b>								
Cash and cash equivalents (Note 6)	P56,946,300		P-	P-	P-	P-	P-	P56,946,300
Receivables (Note 7)	P2,343,667		-	-	P-	1,485,004	P-	P3,828,671
Rental deposit (Note 14)	90,945		-	-	-	-	-	90,945
Other funds and deposits (Note 14)	162,461		-	-	-	-	-	162,461
Available-for-sale financial assets (Note 9)	15,393,796		-	-	-	-	-	15,393,796
Held-to-maturity investments (Note 10)	86,678,366		-	-	-	-	-	86,678,366
	<b>P161,615,535</b>		<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P1,485,004</b>	<b>P-</b>	<b>P163,100,539</b>

### *Impairment assessment*

Impairment losses are recognized based on the results of specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties. This and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

The Association applied specific (individual) assessment methodology in assessing and measuring impairment.



### *Specific (individual) assessment*

The Association determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining amounts of allowances include payment and collection history, timing of expected cash flows and realizable value of collateral, if any.

The Association sets criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss. Accounts subjected to specific impairment and are found to be impaired shall be excluded from the collective impairment computation.

### *Liquidity risk*

Liquidity risk refers to the risk that the Association will not be able to meet its financial obligations as these fall due and lack of funding to finance its growth and capital expenditures and working capital requirements.

The Association's approach to manage its liquidity profile are to ensure that adequate funding is available at all times; to meet commitments as these arise without incurring unnecessary costs; and to be able to access funding when needed.

The following summarizes the maturity profile of the Association's non-derivative financial liabilities based on contractual undiscounted payments.

	December 31, 2017				Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	
Trade and other payables (Note 15)	P980,006	P-	P-	P-	P980,006
Liability on individual equity value (Note 16)	4,064,147	-	-	-	4,064,147
Aggregate reserve for trust liability (Note 16)	6,865,887	-	-	-	6,865,887
Basic contingent benefit reserve (Note 16)	288,711	-	-	-	288,711
Optional benefit reserve (Note 16)	824,479	-	-	-	824,479
Claims payable on basic contingent benefit (Note 17)	389,909	-	-	-	389,909
	<b>P13,413,139</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P13,413,139</b>

	December 31, 2016				Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	
Trade and other payables (Note 15)	P941,909	P-	P-	P-	P941,909
Liability on individual equity value (Note 16)	3,922,456	-	-	-	3,922,456
Aggregate reserve for trust liability (Note 16)	6,854,684	-	-	-	6,854,684
Basic contingent benefit reserve (Note 16)	200,509	-	-	-	200,509
Optional benefit reserve (Note 16)	748,406	-	-	-	748,406
Claims payable on basic contingent benefit (Note 17)	486,273	-	-	-	486,273
	<b>P10,154,237</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P10,154,237</b>

### *Market risks*

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Association's income or the value of its holdings of financial statements. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Association is subject to various market risks, including risks from changes in interest. There has been no change to the Association's exposure to market risks or the manner in which it manages and measures the risk.

### *Interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

### *Capital risk management*

The primary objective of the Association's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Association's BOT has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Association's external environment and the risks underlying the Association's business operations and industry.

The Association monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is equivalent to total liabilities shown in the statement of financial position. Total equity comprises all components of equity including share capital and related earnings.

	2017	2016
Debt	P118,613,286	P106,406,130
Cash and cash equivalents (Note 6)	(62,529,821)	(56,953,300)
Net Debt	56,083,465	49,452,830
Equity	70,883,952	58,683,616
Net debt to equity ratio	1:0.79	1:0.84

There were no changes in the Association's approach to capital management during the year.

### *Margin of Solvency (MOS)*

The Association is required to maintain at all times an MOS for life insurance business of P500,000 or P2.00 per thousand of the total amount of its insurance in force as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the IC Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As at December 31, 2017 and 2016, the Association's MOS based on its calculations amounted to P170,188,250 and P147,704,483, respectively. The final amount of the MOS can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.



The surplus available for MOS for the Association follows:

	2017	2016
Admitted assets	P187,199,000	P162,488,805
Admitted liabilities	118,613,286	106,406,130
Net worth	<u>P68,584,714</u>	<u>P56,082,675</u>

As at December 31, 2017 and 2016, the estimated non-admitted assets of the Association's life operations, as defined under the Code, which are included in the accompanying statements of financial position follows:

	2017	2016
Software and system development	1,209,732	P1,219,366
Receivables	687,095	559,976
Other current assets	218,248	340,429
Other noncurrent assets	100,039	253,406
Transportation equipment	39,993	134,899
Office furniture and fixture	43,131	92,865
Total non-admitted assets	<u>P2,298,238</u>	<u>P2,600,941</u>

If an insurance Association fails to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such Association until its authority is restored by the IC.

#### *Price risk*

The Association's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally, AFS financial assets. Such investment securities are subject to the price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Association's investments are regulated under the pertinent provisions of Presidential Decree No. 612, otherwise known as The Insurance Code of the Philippines. The Insurance Code generally requires all insurance companies to obtain prior approval of the IC for any and all of their investments. It further requires companies to submit to the IC a monthly report on all investments made during the previous month. The IC reviews the investments and may suggest or require the immediate sale or disposal of investments deemed too risky.

For equity investments, Section 200 of the Insurance Code further provides, among other things that insurance companies may only invest in shares of Philippine corporations which have prior three-year dividend payment record. Moreover, the same section limits exposure to any one institution equal to 10% of an insurer's total admitted assets.

The following table shows the equity impact of reasonable possible change in the fair values of the Association's investments as of December 31, 2017 and 2016 (all other variables held constant), respectively.

	2017		2016	
	Volatility	Effect of Total Comprehensive Income	Volatility	Effect of Total Comprehensive Income
AFS financial assets	1%	11,459	1%	11,314
	-1%	(11,459)	-1%	(11,314)

#### *Guaranty fund*

As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of P5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association's gross premium collections until the guaranty fund reaches 12.5% of the minimum paid up capital for domestic life insurance companies or P125.00 million. As at December 31, 2017 and 2016, the Association has a total of P21,995,687 and P19,975,538 representing guaranty fund which is deposited with the IC.

#### **NOTE 6 - CASH AND CASH EQUIVALENTS**

The account consists of:

	2017	2016
Cash on hand	P7,000	P7,000
Cash in banks	15,214,926	20,707,715
Cash equivalents	47,307,895	36,238,585
	<b>P62,529,821</b>	<b>P56,953,300</b>

Cash and cash equivalents earn interest at the prevailing bank deposit rates. Interest earned in 2017 and 2016 amounted to P194,158 and P130,606, respectively.

#### **NOTE 7 - RECEIVABLES**

The account consists of:

	2017	2016
Unremitted member's contribution dues and fees (Note 19)	P3,176,595	P2,835,175
Unremitted premiums (Note 19)	503,845	433,520
Accrued interest income	492,502	502,468
Receivable KDCI Inc.	290,495	2,681
Advances to employees	152,875	10,000
Due from officers and employees	53,779	44,452
Other receivables	189,945	375
	<b>P4,860,036</b>	<b>P3,828,671</b>

Unremitted members' contributions, dues and fees represents amount collected by partner individual/ institutions on membership certificates but not yet remitted as at the end of the financial reporting period.

Unremitted premium represents gross premiums collected by partner individuals/institutions on all optional policies but not yet remitted as at the end of the financial reporting period.

Based on management's evaluation, the Association's receivables are fully collectible, thus, no allowance for impairment is necessary as at December 31, 2017 and 2016.



**NOTE 8 -OTHER CURRENT ASSETS**

The account consists of:

	<u>2017</u>	<u>2016</u>
Prepaid expenses	P130,532	P102,347
Unused supplies	87,716	238,082
	<u>P218,248</u>	<u>P340,429</u>

**NOTE 9 -AVAILABLE-FOR-SALE FINANCIAL ASSETS**

The account consists of:

	<u>2017</u>		
	No. of Shares	Acquisition Cost	Fair Value
Petron preferred shares series 2A	8,000	P8,000,000	P8,480,000
Save and learned fixed income fund	2,348,914	5,000,000	5,205,193
Sun life prosperity GS fund	1,229,861	2,000,000	1,905,547
		<u>P15,000,000</u>	<u>P15,590,470</u>

	<u>2017</u>		
	No. of Shares	Acquisition Cost	Fair Value
Petron preferred shares series 2A	8,000	P8,000,000	P8,360,000
Save and learned fixed income fund	2,348,914	5,000,000	5,180,765
Sun life prosperity GS fund	1,229,861	2,000,000	1,853,031
		<u>P15,000,000</u>	<u>P15,393,796</u>

Unrealized gain (loss) recognized in the statements of comprehensive income in 2017 and 2016 amounted to P196,944 and (P222,105), respectively.

Interest earned in 2017 and 2016 amounted to P718,335 and P726,801, respectively.

**NOTE 10 -HELD-TO-MATURITY INVESTMENTS**

The account consists of:

	<u>2017</u>	<u>2016</u>
Government security	P66,178,366	P66,178,366
Corporate bond	20,500,000	20,500,000
	<u>P86,678,366</u>	<u>P86,678,366</u>

In 2016, the Association acquired additional investments amounting to P11,000,000.

Interest earned in 2017 and 2016 amounted to P3,779,303 and P3,563,523, respectively. Interest rates on these investments range from 3.25% to 8.125%.

**NOTE 11 - ADVANCES TO CONTRACTOR**

The amount of advances to contractor recognized amounted to nil and P1,129,366 as at December 31, 2017 and 2016, respectively. This pertains to the Association's payment to its contractor for their services to work on an information system for insurance management.

In 2017, the advances to contractor was reclassified to computer software (Note 13).



# NOTE 12 - PROPERTY AND EQUIPMENT, NET

The account consists of:

Cost	Land	Construction in Progress - building	Transportation equipment	Office improvements	Computer equipment	Office furniture and fixture	Total
At January 1, 2016	P-	P-	P849,872	P37,829	463,743	423,295	1,774,739
Additions	-	-	27,750	-	197,095	37,063	261,908
Disposals	-	-	-	-	(30,265)	-	-
At December 31, 2016	-	-	877,622	P37,829	630,573	460,358	2,006,382
Additions	16,267,097	1,596,571	35,000	-	125,290	4,640	18,028,598
Write-offs	-	-	-	(37,829)	(328,018)	(42,272)	(408,119)
At December 31, 2017	16,267,097	1,596,571	912,622	-	427,845	422,726	19,626,861
Accumulated depreciation							
At January 1, 2016	-	-	566,580	34,677	390,127	292,812	1,284,196
Depreciation (Note 22)	-	-	176,141	3,152	73,260	74,862	327,595
Disposals	-	-	-	-	(27,821)	-	(27,821)
At December 31, 2016	-	-	742,721	37,829	435,926	367,494	1,583,970
Depreciation (Note 22)	-	-	129,906	-	118,936	54,374	303,216
Disposals	-	-	-	(37,829)	(328,018)	(42,272)	(408,119)
At December 31, 2017	-	-	872,627	-	226,844	379,596	1,479,067
Net book value							
At December 31, 2017	P16,267,097	P1,596,571	P39,995	P-	P201,001	P43,130	P18,147,794
At December 31, 2016	P-	P134,901	P-	P-	P194,647	P92,864	P422,412

There are neither restrictions on the title on the Association's property and equipment nor any of them are pledged as security for any of its liabilities.

In 2016, the Association sold two of its computer equipment. Proceeds from sale of these assets amounted to P6,053. Gain on sale recognized in the statements of comprehensive income amounted to P3,609.

The Association acquired a lot in 2017. The Association intends to construct a building on this lot, a portion of which will be used as the principal place of business and the rest will be available for lease. The cost of the land amounted to P16,267,097.

The cost of fully depreciated assets still being used in the operation of the Association amounted to P599,096 and P636,925 as at December 31, 2017 and 2016, respectively.

Based on management's assessment, there is no indication of impairment and the carrying amount of property and equipment can be recovered through continuous use in operations.

#### **NOTE 13 - COMPUTER SOFTWARE, NET**

The details of and movements in this account are presented below:

<b>Cost</b>	
January 1, 2016	P-
Additions	-
December 31, 2016	-
Reclassification (Note 11)	1,219,366
Additions	112,449
December 31, 2017	<u>1,331,815</u>
<b>Accumulated amortization</b>	
January 1, 2016	P-
Amortization (Note 22)	-
December 31, 2016	-
Amortization (Note 22)	122,083
December 31, 2017	<u>122,083</u>
<b>Net book value</b>	
December 31, 2017	<u><u>P1,209,732</u></u>
December 31, 2016	<u><u>P-</u></u>

Management believes that there is no indication that an impairment loss has occurred on its computer software as at December 31, 2017.



**NOTE 14 - OTHER NONCURRENT ASSETS**

The account consists of:

	<u>2017</u>	<u>2016</u>
Other funds and deposits	P162,461	P162,461
Rental deposit (Note 23)	100,040	90,945
	<u>P262,501</u>	<u>P253,406</u>

Other funds and deposits pertains to the Association's contribution under Microinsurance MBA Association of the Philippines.

**NOTE 15 - TRADE AND OTHER PAYABLES**

The account consists of:

	<u>2017</u>	<u>2016</u>
Accounts payable	P764,529	P697,328
Accrued expenses	215,477	244,581
Government dues	103,767	5,912
	<u>P1,083,773</u>	<u>P947,821</u>

Accounts payable pertains to collection fees.

Accrued expenses pertain to expenses incurred but not yet paid such as legal and professional fees, and operating cost incurred by the Association.

Other payables pertain to government dues and remittances. Government dues and remittances represent contributions of employees that will be remitted to various government agencies such as SSS, Philhealth and Pag-ibig. It also includes taxes withheld from salaries of employees and income payment to suppliers, which will be remitted in the subsequent month.

**NOTE 16 - AGGREGATE RESERVES**

The account consists of:

	<u>2017</u>	<u>2016</u>
Liability on individual equity value	P72,138,994	P67,304,401
Aggregate reserve for trust liability - Reserved Funds (RF)	43,064,176	36,130,189
Basic contingent benefit reserve	288,711	200,509
Optional benefit reserve	824,479	748,406
	<u>P116,316,360</u>	<u>P104,383,505</u>

	2017	2016
Breakdown:		
Current portion		
Liability on individual equity value	P4,064,147	3,922,456
Aggregate reserve for trust liability - RF	6,865,887	6,854,684
Noncurrent portion		
Liability on individual equity value	68,074,847	63,381,945
Aggregate reserve for trust liability - RF	36,198,289	29,275,505

Liability on individual equity value represents the total amount of obligations set up by the Association on membership certificates pertaining to 50% equity value, as required under the Insurance Code, and any incremental amount declared by the Association.

Aggregate reserve for trust liability is weekly contribution of five pesos, which shall be credited to the fund for the account of the member. The calculations of the aggregate reserves are based on reasonable actuarial assumptions and are in accordance with generally accepted actuarial principles.

#### NOTE 17 - CLAIMS PAYABLE ON BASIC CONTINGENT BENEFIT

The account consists of incurred but not reported claims amounting to P389,909 and P486,273 as at December 31, 2017 and 2016, respectively.

#### NOTE 18 - FUND BALANCE

Fund balance refers to the residual interest in the assets of the Association after deducting all its liabilities. This represents the accumulated earnings of the MBA reduced by whatever losses the Association may incur during a certain accounting period.

	Restricted fund balance	Unrestricted fund balance	Total
Balance at January 1, 2016	P20,304,408	P22,225,190	P42,529,598
Movement during the year	2,672,629	13,481,389	16,154,018
Balance at December 31, 2016	22,977,037	35,706,579	58,683,616
Movement during the year	12,134,489	65,847	12,200,336
Balance at December 31, 2017	P35,111,526	P35,772,426	P70,883,952

Restricted fund is composed of guaranty fund, benefits in kind and other relevant services, enhancement of equity value fund, capacity building, continuing member's education, education and training fund, hospital assistance fund, research and development fund and computer software maintenance. Education and training fund refers to the amount allocated by the Association for education and training of its members, officers and staff. Education and training fund includes the amount of payment to Kasagana-ka Development Center that represents collection fees.

The restricted fund of the Association is composed of the following:

	2017	2016
Guaranty fund	P21,995,687	P19,975,537
Benefits in kind and other relevant services	5,600,000	2,771,500
Enhancement of equity value	2,250,000	-
Capacity building fund	2,000,000	-
Continuing member's education fund	1,650,289	-
Education and training fund	712,884	-
Hospital assistance fund	352,666	-
Research and development	300,000	230,000
Software maintenance	250,000	-
	<u>P35,111,526</u>	<u>P22,977,037</u>

A Mutual Benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Commissioner. Any amount in excess shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. In addition, subject to the approval of the Commissioner, a mutual benefit association may allocate a portion for capacity building and research and development such as developing new products and services, upgrading and improving operating system and equipment and continuing member education.

As at and for the years ended December 31, 2017 and 2016, the Association's excess Unrestricted Fund Balance from twenty percent (20%) of liabilities are as follows:

Unrestricted fund balance	Total liabilities	20% of liabilities	Excess of unrestricted fund balance from 20% of liabilities
As at and for the year ended December 31, 2017			
P35,772,426	P118,613,286	P23,722,657	P12,049,769
As at and for the year ended December 31, 2016			
P35,483,562	P106,388,386	P21,277,677	P14,205,885

#### NOTE 19 - RELATED PARTY TRANSACTIONS

In the normal course of its business, the Association transacts with its related parties. These principally consist of collection of membership and premium contribution and non-interest bearing advances for certain expenses. Other transactions are based on terms agreed to by the parties.

Kabuhayan sa Ganap na Kasarinlan Credit & Savings Cooperative (KCOOP) is a cooperative duly registered under the Cooperative Development Authority on February 2016. It is the fourth organization under the Kasagana- ka Synergizing Organizations. Since the Association was established primarily to answer the member's need for a viable microinsurance program, members of the Association are also members of KCOOP. The Association continues to take advantage of KCOOP's infrastructure to engage its growing membership and collect premium payments.



Name of related party	Relationship	Nature of the related party transaction
Kabuhayan sa Ganap Na Kasarinlan Credit and Savings Cooperative (KCOOP)	KCOOP partner	Funds Assigned for Member's Benefits (Fund Balance Account)

The following summarizes the Association's related party transactions:

<i>Unremitted Contribution Dues and Fees</i>	2016	Additions during the year	Payment / Collections	2017
<b>Affiliate</b>				
KCOOP	P2,835,175	P3,176,595	P2,835,175	P3,176,595

<i>Unremitted Premiums</i>	2016	Additions during the year	Payment / Collections	2017
<b>Affiliate</b>				
KCOOP	P433,520	P503,845	P433,520	P503,845

Details of the Association's related party transactions follow:

- The Association will collect from KCOOP members' contributions on member certificates that will be remitted at the end of the financial reporting period.
- The Association will collect from KCOOP gross premiums on all optional policies that will be remitted at the end of the financial reporting period.

The outstanding balances with related parties as at December 31 are as follows:

	2017	2016	Terms and conditions	Security	Nature of consideration to be provided upon settlement	Details of guarantees given or received	Impairment Loss
Unremitted Contribution Dues and Fees (Note 7)	P3,716,595	P2,835,175	Demandable	Unsecured	Cash	None	None
Unremitted Premiums (Note 7)	503,855	433,520	Demandable	Unsecured	Cash	None	None

## NOTE 20 - RETIREMENT OBLIGATION

The Association has a noncontributory, defined benefit plan covering all its officers and regular employees. Retirement benefits expense recognized in the statement of comprehensive income is computed based on provision of PAS 19 (Amended). The principal actuarial assumptions used to determine the funding of the trust fund is accrued benefit actuarial cost method which take into account the factors of investment, mortality, disability, and salary projection rates.

In 2017, the Association engaged Asian Actuaries, Inc. to prepare an actuarial valuation of the Association's retirement liability. The actuarial report is dated March 19, 2018 covering valuation dates period January 1, 2017 to December 31, 2017. The effects of the valuation are shown below.

The amounts recognized in the statements of financial position are as follows:

	2017	2016
Present value of the obligation	P1,032,991	P1,043,972
Fair value of plan assets	(479,747)	(455,441)
Defined benefit obligation	<u>P823,244</u>	<u>P588,531</u>

The retirement benefit cost recognized in the statements of comprehensive income as follows (Note 22):

	2017	2016
Current service cost	P187,891	P172,939
Interest cost	30,834	28,109
	<u>P218,725</u>	<u>P201,048</u>

a. Reconciliation of defined benefit obligation

The movement in the defined benefit obligation is as follows:

	2017	2016
Present value of the obligation at January 1	<u>P1,043,972</u>	<u>P919,927</u>
Current service cost	187,891	172,939
Interest cost	54,694	47,310
Remeasurements in other comprehensive income		
Loss (gain) in defined benefit obligation from changes in financial assumptions	64,807	(16,052)
Gain in defined benefit obligation due to experience	(48,373)	(80,152)
	<u>259,019</u>	<u>124,045</u>
Present value of the obligation at December 31	<u>P1,302,991</u>	<u>P1,043,972</u>
Fair value of plan assets at January 1	<u>455,441</u>	<u>P293,688</u>
Contributions paid	-	160,296
Expected return	23,860	19,201
Remeasurements in other comprehensive income		
Loss in defined benefit obligation due to experience	446	(17,744)
	<u>24,306</u>	<u>161,753</u>
Fair value of plan assets at December 31	<u>P479,747</u>	<u>P455,441</u>
Present value of the obligation, net at December 31	<u>P823,244</u>	<u>P588,531</u>

b. Remeasurements in other comprehensive income

Remeasurements in other comprehensive income represent actuarial gains and losses which are presented at net of related deferred tax as shown below:

	<u>2017</u>	<u>2016</u>
Actuarial gain (loss) recognized, net	<u>(P15,998)</u>	<u>P78,460</u>

c. Actuarial assumptions

The significant actuarial assumptions were as follows:

The principal assumptions used in determining pension liability of the Association are shown below:

	<u>2017</u>	<u>2016</u>
Discount rate	4.89%	5.24%
Expected rate of salary increases	5%	5%

**NOTE 21 - REVENUE**

The account consists of:

	<u>2017</u>	<u>2016</u>
Gross member's contribution	P33,454,999	P32,004,443
Gross premium	6,947,984	6,297,905
Membership fees	698,190	752,350
Miscellaneous income	245,705	715,866
	<u>P41,346,878</u>	<u>P39,770,564</u>

Miscellaneous income is composed of other income from K-Kalinga and income other than contribution, premiums and membership fees.



## NOTE 22 - OPERATING EXPENSES

The account consists of:

	2017	2016
Salaries, wages and benefits	P3,437,639	P3,157,936
Representation and entertainment	819,541	664,280
Transportation and travel allowance	536,097	620,010
Technical and professional fees	462,682	318,447
Meeting and conferences	425,823	471,949
Rental (Note 23)	424,772	325,799
Office supplies	374,717	369,353
Professional and technical development	339,665	221,959
Depreciation (Note 12)	303,216	327,595
Research and development	237,286	159,649
Retirement benefit cost (Note 20)	218,725	201,048
Meals	207,290	-
MBA Dues	152,184	-
Amortization (Note 13)	122,083	-
Utilities	108,853	98,441
Repairs and maintenance	91,315	100,549
Taxes, licenses and fees	71,475	162,976
Annual general assembly	44,550	329,233
Reinsurance premium	35,050	32,650
Insurance	21,183	25,119
Investment Management Fees	12,000	-
Marketing, advertising and promotions	9,353	199,598
Medicine	3,849	-
Donations and contributions	3,319	34,000
Bank and other charges	1,305	900
Social and community service	-	120,000
Miscellaneous	27,052	21,927
	<u>P8,491,024</u>	<u>P7,963,418</u>

## NOTE 23 - LEASE AGREEMENT

The Association entered into two operating lease agreements for the lease of Units 501 and 504 for the period of two (2) years from February 1, 2016 to January 31, 2018 and from May 1, 2016 to April 30, 2018, respectively. Total monthly rentals of P30,315 for both units shall be paid on the first year of the lease agreement and shall increase to P33,346 on the second year.

Relative to the lease agreements, the Association paid security deposit amounting to P100,040 and P90,945 as at December 31, 2017 and 2016, respectively (Note 14).

Rent expense recognized in 2017 and 2016 amounted to P424,772 and P325,799, respectively (Note 22).

The future lease payments under the operating lease will be as follows:

	2017	2016
Not later than one year	P89,523	P381,969
Later than one year and not later than two years	-	89,523
	<u>P89,523</u>	<u>P471,492</u>

#### NOTE 24 - INCOME TAX EXEMPTION

The Association is exempted from income tax under Section 30 (c) of the National Internal Revenue Code as a non-stock association organized and operated exclusively for charitable and cultural purposes and no part of its net income or asset shall belong to or inure to the benefit of any member, organizer, officer or any specific person. Interest earned from the placement of Association funds are, however, subject to final tax. The interest income shown in the financial statement is net of final tax.

#### NOTE 25 - RECLASSIFICATION

Certain account reclassification was made to conform to 2017 financial statements presentation. The effects of the reclassifications relative to 2016 financial statements are summarized below:

Account	Before reclassification	Reclassification	After reclassification
Monitoring	P129,345	(a)(P129,345)	P-
Transportation and travel allowance	490,665	(a)129,345	620,010

a) To reclassify monitoring expense to transportation and travel allowance.

The reclassification has no effect on the reported total expenses or net assets for the period reported. Accordingly, the management did not present a statement of financial position at the beginning of the earliest comparative period.

#### NOTE 26 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

##### A. REVENUE REGULATIONS (RR) NO. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 which prescribes additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. Under the said RR, companies are required to disclose, in addition to the disclosures mandated under PFRS and such other standards and/or conventions that may heretofore be adopted, in the Notes to the Financial Statements, information on taxes, duties and license fees paid or accrued during the taxable year. In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

1. The amount of VAT output tax declared during the year and the account title and amount/s upon which the same was based

The Association's revenues were not subject to Value Added Tax for years ended December 31, 2017 and 2016.

2. The amount of VAT Input taxes claimed

The Association's revenues were not subject to Value Added Tax for years ended December 31, 2017 and 2016.

3. The landed costs of imports and the amount of custom duties and tariff fees paid or accrued thereon

The Association did not have any importations in 2017 and 2016 that would require for the payment of customs duties and tariff fees.

4. The amount of excise taxes classified per major product category

The Association did not have any transactions in 2017 and 2016 which are subject to excise tax.

5. Documentary stamp tax (DST)

The Association did not have any transactions in 2017 and 2016 which are subject to documentary stamp tax.

6. Taxes and licenses

a. Local

Duties and taxes	P8,076
Business Permit	11,423
Others	51,976
	<u>P71,475</u>

7. Withholding taxes

The amount of withholding taxes paid/accrued for the year amounted to:

a. Withholding tax on salaries	<u>P375,551</u>
--------------------------------	-----------------

8. Periods covered and amounts of deficiency tax assessments, whether protested or not

The Association has not yet received a final assessment notice from the Regional Office covering the taxable year December 31, 2016 amounting to NIL, inclusive of penalties, for deficiency income/VAT/Percentage/withholding tax, which has been protested/agreed upon.

Tax cases, and amounts involved, under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR

The Association has no RATE case under preliminary investigation of the Dept. of Justice (DOJ) involving deficiency income tax for taxable year 2016 amount to NIL.



## B. REVENUE REGULATIONS NO. 19-2011

RR No. 19-2011 was issued on December 9, 2011 to prescribe the new BIR forms that will be used for Income Tax filing covering and starting with Calendar Year 2011, and to modify Revenue Memorandum Circular No. 57-2011. Pursuant to Section 244 in relation to Sections 6(H), 51(A)(1), and 51(A)(2) of the National Internal Revenue Code of 1997 (Tax Code), as amended, these Regulations prescribed to revise BIR Form Nos. 1700, 1701 and 1702 to reflect the changes in information requested from the said BIR Forms and to enable the said forms to be read by an Optical Character Reader. Under the Guidelines and Instructions of BIR Form No. 1702 - Page 4, the following schedules are prescribed under existing revenue issuances which must form part of the Notes to the Audited Financial Statements:

### 1. Revenue

	Exempt	Regular rate
Gross Member's Contribution	P34,454,999	P-
Gross Premium	6,947,984	-
Membership Fees	698,190	-
Miscellaneous Income	245,705	-
	<u>P41,346,878</u>	<u>-</u>

### 2. Benefit expense

	Exempt	Regular rate
Benefit/claims expenses - BLIP	P6,721,911	P-
Benefit/claims expenses - CLIP	1,405,665	-
Benefit/claims expenses - Equity value	3,744,638	-
Allocation for liability on individual equity	12,982,861	-
Increase/(decrease) in reserve for basic contingent fund	(7,423)	-
Increase/(decrease) in reserve for optional benefit	75,514	-
Increase/(decrease) in liability on individual equity	(8,112,030)	-
Increase/(decrease) in aggregate reserve for trust liability	786,748	-
Other expenses for members	2,121,548	-
Collection fees	3,872,889	-
Total benefit expense	<u>P23,592,321</u>	<u>P-</u>

The Association does not have expenses arising from revenue subject to regular rate tax.

### 3. Non-Operating and Taxable Other Income

The Association did not have any other income in 2017 and 2016 which are subject to tax.

### 4. Taxes and licenses

#### a. Local

Duties and taxes	P8,076
Business Permit	11,423
Others	51,976
	<u>P71,475</u>

## 5. Operating expenses

Salaries, wages and benefits	P3,437,639
Representation and entertainment	819,541
Technical and professional fees	462,682
Meeting and conferences	425,823
Rental	424,772
Office supplies	374,717
Professional and technical development	339,665
Transportation and travel allowance	536,097
Depreciation	303,216
Research and development	237,286
Retirement benefit cost	218,725
Meals	207,290
MBA Dues	152,184
Amortization	122,083
Utilities	108,853
Repairs and maintenance	91,315
Taxes, licenses and fees	71,475
Annual general assembly	44,550
Reinsurance premium	35,050
Insurance	21,183
Investment Management Fees	12,000
Marketing, advertising and promotions	9,353
Medicine	3,849
Donations and contributions	3,319
Bank and other charges	1,305
Social and community service	-
Miscellaneous	27,052
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