

CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Nonprofit Organization)

Financial Statements
December 31, 2005 and 2004

and

Report of Independent Auditors





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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Board of Trustees
Center for Agriculture and Rural Development (CARD), Inc.
20 M.L. Quezon Street, City Subdivision
San Pablo City, Laguna

We have audited the accompanying statements of assets, liabilities and fund balance of Center for Agriculture and Rural Development (CARD), Inc. (the Organization), a nonstock, nonprofit organization as of December 31, 2005 and 2004, and the related statements of revenues and expenses, changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center for Agriculture and Rural Development, Inc. as of December 31, 2005 and 2004, and its revenue and expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-A
Tax Identification No. 152-884-691
PTR No. 4180848, January 2, 2006, Makati City

April 15, 2006



Report of Independent Auditors

The Board of Trustees
Center for Agriculture and Rural Development (CARD), Inc.

We have audited the accompanying statements of assets, liabilities and fund balance of Center for Agriculture and Rural Development (CARD), Inc. (the Organization), a nonstock, nonprofit organization as of December 31, 2005 and 2004, and the related statements of revenues and expenses, changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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**CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.**

(A Nonstock, Nonprofit Organization)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

	December 31	
	2005	2004 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 6)	₱91,654,612	₱41,602,480
Short-term Investments (Note 7)	–	23,541,564
Held-to-Maturity Investments (Note 10)	5,000,000	–
Receivables		
Receivables from Members - net (Note 8)	433,542,187	368,751,680
Other Receivables (Note 9)	13,968,585	22,292,469
Other Current Assets	4,287,086	1,924,147
Total Current Assets	548,452,470	458,112,340
Noncurrent Assets		
Available-for-Sale Investments (Note 10)	13,949,600	–
Investment in Bonds and Other Debt Instruments (Note 10)	–	8,000,000
Investment in an Associate (Note 11)	24,859,580	34,317,101
Property and Equipment - net (Note 12)	43,129,392	44,114,335
Investment Properties - net (Note 13)	27,885,532	29,392,388
Other Noncurrent Assets	18,236,334	4,775,800
Total Noncurrent Assets	128,060,438	120,599,624
	₱676,512,908	₱578,711,964
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts Payable and Accrued Expenses (Note 14)	₱29,917,443	₱43,422,266
Current Portion of Project Assistance Payable (Note 15)	20,000,110	23,271,000
Due to Members (Note 16)	186,849,969	125,750,438
Total Current Liabilities	236,767,522	192,443,704
Noncurrent Liabilities		
Noncurrent Portion of Project Assistance Payable (Note 15)	140,133,671	119,652,051
Total Liabilities	376,901,193	312,095,755
FUND BALANCE (Note 17)	299,611,715	266,616,209
	₱676,512,908	₱578,711,964

See accompanying Notes to Financial Statements.



**CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.**
(A Nonstock, Nonprofit Organization)

STATEMENTS OF REVENUE AND EXPENSES

	Years Ended December 31	
	2005	2004 (As restated- Note 2)
REVENUE		
Project related revenue (Note 8)	₱188,076,271	₱146,659,323
Grants	17,850,678	28,778,060
Others (Note 19)	37,315,271	17,443,537
	243,242,220	192,880,920
EXPENSES		
Project related expenses	172,192,708	120,483,661
Grants and donations	8,837,550	–
Scholarship	2,702,597	254,413
Training	2,591,559	4,136,646
Research	1,229,388	1,955,876
Technology development cost	1,030,716	–
Others (Note 19)	15,919,338	9,514,522
	204,503,856	136,345,118
EXCESS OF REVENUE OVER EXPENSES	₱38,738,364	₱56,535,802

See accompanying Notes to Financial Statements.



**CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.**
(A Nonstock, Nonprofit Organization)

STATEMENTS OF CHANGES IN FUND BALANCE

	Years Ended December 31	
	2005	2004
FUND BALANCE AT BEGINNING OF YEAR		
Balance at beginning of year, as previously reported	₱261,840,409	₱210,080,407
Effect of change in accounting for employee benefits - Philippine Accounting Standard (PAS) 19 (Note 2)	4,775,800	-
Balance at beginning of year, as restated	266,616,209	210,080,407
Cumulative effect of change in accounting for financial instruments - PAS 39 (Note 2)	(5,742,858)	-
Balance at beginning of year, as adjusted	260,873,351	210,080,407
EXCESS OF REVENUE OVER EXPENSES	38,738,364	56,535,802
FUND BALANCE AT END OF YEAR	₱299,611,715	₱266,616,209

See accompanying Notes to Financial Statements.



**CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.**
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STATEMENT OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	₱38,738,364	₱56,535,802
Adjustments for:		
Interest expense	12,883,050	16,105,044
Provision for impairment losses	9,292,625	4,410,480
Depreciation and amortization (Notes 12 and 13)	8,233,642	9,565,898
Equity in net earnings of CARD Bank (Notes 11 and 19)	(3,658,379)	(2,847,776)
Interest income (Note 19)	(3,356,614)	(2,362,985)
Unrealized foreign currency gain - net	–	(1,161,736)
Operating income before working capital changes	62,132,688	80,244,727
Changes in operating assets and liabilities:		
Increase in the amounts of:		
Receivables	(71,502,106)	(20,615,513)
Other current assets	(2,362,939)	(782,263)
Increase (decrease) in the amounts of:		
Accounts payable and accrued expenses	13,504,823	(18,750,617)
Due to members	61,099,531	29,706,490
Net cash generated from operations	35,862,351	69,802,824
Interest income received	854,538	1,735,589
Interest expense paid	(11,963,464)	(17,896,573)
Net cash provided by operating activities	24,753,425	53,641,840
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investments	–	(22,914,168)
Investment in shares of stock	–	(5,000,000)
Property and equipment	(8,023,893)	(4,723,876)
Investment properties	(298,844)	(2,981,033)
Proceeds from maturity of short-term investments	26,043,640	–
Proceeds from sale of property and equipment	2,580,894	3,003,202
Decrease (increase) in the amounts of:		
AFS investments	(13,949,600)	–
Investment in an associate	11,752,600	–
HTM investments	3,000,000	–
Other noncurrent assets	(13,460,534)	(4,775,800)
Dividends received	1,363,300	2,363,586
Net cash provided by (used in) investing activities	9,007,563	(35,028,089)

(Forward)



	Years Ended December 31	
		2004
		(As restated -
	2005	Note 2)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from (settlement of) project assistance payable	₱16,291,144	(₱131,201,164)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	-	1,161,736
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,052,132	(111,425,677)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	41,602,480	153,028,157
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱91,654,612	₱41,602,480

See accompanying Notes to Financial Statements.



**CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.**
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NOTES TO FINANCIAL STATEMENTS

1. Organizational Information

Center for Agriculture and Rural Development (CARD), Inc. (the Organization), a nonstock, nonprofit organization, was incorporated in the Philippines on October 14, 1986. The Organization holds a 39.17% in 2005 (40.12% in 2004) interest in CARD Bank, Inc., A Microfinance-Oriented Rural Bank (CARD Bank).

The Organization was registered with the Securities and Exchange Commission (SEC) on March 6, 1987 primarily to undertake, directly finance and assist research and development work and/or economic evaluation for the development and improvement of the quality of life of people in underdeveloped and depressed areas. Being not organized for profit and since no part of its net income inures to the benefit of any private individual or member, the Organization falls under Section 30 (e) of the Tax Reform Act of 1997 and as such, income from activities in pursuit of the purpose for which the Organization was organized in exempt from income tax.

The registered office of the Organization is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. There are 127 and 86 branches in 2005 and 2004, respectively.

The accompanying comparative financial statements of the Organization were authorized for issue by the Organization's Board of Trustees on April 15, 2006.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The Organization's financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines (Philippine GAAP) as set forth in Philippine Financial Reporting Standards (PFRS) using the historical cost convention. These are the first annual financial statements of the Organization prepared in compliance with PFRS.

The Organization applied PFRS 1, *First-Time Adoption of Philippine Financial Reporting Standards* in preparing the accompanying financial statements, with January 1, 2004 as the date of transition. PFRS 1 requires an entity to comply with PFRS effective at the reporting date for its first PFRS financial statements. In particular, PFRS 1 requires an entity to do the following in the opening PFRS statement of assets, liabilities and fund balance that it prepares as a starting point for its accounting under PFRS: (a) recognize all assets and liabilities whose recognition is required by PFRS; (b) not recognize items as assets and liabilities if PFRS do not permit such recognition; (c) reclassify items that it recognized under previous generally accepted accounting principles (GAAP) as one type of asset, liability or component of fund balance, but are a different type of asset, liability or component of fund balance under PFRS; and (d) apply PFRS in measuring all recognized assets and liabilities. New disclosure requirements were included as a result of the adoption of the new standard.



The Organization has prepared its opening PFRS statement of assets, liabilities and fund balance as of January 1, 2004. The Organization's PFRS adoption date is January 1, 2005.

The adoption of PFRS resulted in certain changes in the Organization's previous accounting policies (referred in the following tables and explanations as "previous GAAP"). The comparative figures for the 2004 financial statements were restated to reflect the changes in policies except those relating to the financial instruments. The organization elected to apply the following optional exceptions to full retrospective application:

Restatement of comparative financial information for Philippine Accounting Standard (PAS) 32 and PAS 39.

The Organization applied previous GAAP rules to financial assets and financial liabilities for the comparative information for 2004.

Designation of financial assets and financial liabilities exemption

The Organization reclassified various securities as available-for-sale (AFS) investments and held-to-maturity (HTM) investments. The adjustments relating to PAS 32 and PAS 39 at the opening statement of assets, liabilities and fund balance date of January 1, 2005, the PAS 32 and PAS 39 transition date are discussed below in the Reconciliation of financial position.

In addition, the Organization elected to apply the mandatory exemption from full retrospective application on derecognition of financial assets and liabilities. Financial assets and liabilities derecognized before January 1, 2004 will not be re-recognized under PFRS. The application of the exemption from restating comparatives for PAS 32 and PAS 39 means that the Organization recognized from January 1, 2005 any financial assets and financial liabilities derecognized since January 1, 2004 that does not meet the PAS 39 derecognition criteria. Management did not choose to apply the PAS 39 derecognition criteria to an earlier date.

Changes in Accounting Policies

On January 1, 2005, the following new accounting standards became effective and were adopted by the Organization:

- PAS 19, *Employee Benefits*, provides for the accounting for long-term and other employee benefits. The standard requires the projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires the Organization to determine the present value of defined benefit obligations and fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the statement of assets, liabilities and fund balance date.

The adoption of this standard resulted in the recognition of a net retirement plan asset amounting to ₱4.8 million as of December 31, 2004. Net income in 2004 increased by the same amount. Transition asset is the fair value of plan assets minus the present value of the defined benefit obligation at the time of adoption, minus any past service cost that should be recognized in later periods and unrecognized plan assets determined under the asset ceiling test. The asset ceiling test requires a defined benefit asset to be measured at the lower of the amount of the transition asset and the total of any cumulative unrecognized net actuarial losses



and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Actuarial assumptions used were annual salary rate increase of 10%, expected return on plan assets of 8% and discount rate of 12%.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Organization's financial instruments, whether recognized or unrecognized in the financial statements. In accordance with this standard, new disclosures were included in the financial statements, where applicable.
- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring the Organization's financial assets and financial liabilities. PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. The Organization has reviewed all its outstanding contracts entered into as of January 1 and December 31, 2005 to ascertain if there are derivatives embedded in those contracts. As of said dates, the Organization does not have material embedded and freestanding derivatives. Under PAS 39, in determining whether a financial asset is impaired, reference is made to quoted market rates; in the absence of such quoted market rates, the discounted cash flow method is to be used.

Prior to January 1, 2005, the adequacy of allowance for probable losses and uncollectible receivables from members and other receivables was determined based on management criteria. The effect of adopting PAS 39 provisions on impairment of receivables from members was to decrease fund balance as of January 1, 2005 by ₱5.7 million.

As allowed by the Philippine SEC. The cumulative effect of adopting these standards was charged against fund balance as of January 1, 2005.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and the related disclosure requirements. This standard permits the Organization to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of revenue and expenses. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. The adoption of this standard resulted in the reclassification of property and equipment to investment properties with net book value of ₱28.1 million (Note 2) on January 1, 2004.



In addition, the Organization also adopted the following revised standards in its annual financial statements ending December 31, 2005:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or non-current; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of revenue and expenses; and specifies the disclosures about key sources of estimation uncertainty and judgments management has made in the process of applying the Organization's accounting policies.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omissions or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.
- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the statement of assets, liabilities and fund balance date.
- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.
- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and the disclosure requirements for related parties and related party transactions. It also requires disclosure of the compensation of key management personnel by benefit types.
- PAS 36, *Impairment of Assets*, requires the annual impairment test of intangible asset with an indefinite useful life or intangible asset not yet available for use and goodwill acquired in a business combination, whether or not there is an indication of impairment.
- PAS 38, *Intangible Assets*, requires the assessment of the useful life of intangible assets at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has to be amortized over its useful life. Amortization years and methods for intangible assets with finite useful lives are reviewed annually or when an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Organization. However, intangibles with indefinite useful lives are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.



The effect of adopting the foregoing revised standards did not result in any material adjustment on the financial statements. Also, in compliance with these standards, new disclosures were included in the financial statements, where applicable.

The Organization did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures* - The revised disclosures from the amendments will be included in the Organization's financial statements when the amendments are adopted in 2006.
- PFRS 7, *Financial Instruments - Disclosures* - The revised disclosures on financial instruments provided by this standard will be included in the Organization's financial statements when the standard is adopted in 2007.

Reconciliation of financial position of the Organization follows:

Account Description	Item	December 31, 2004 (End of last period presented under previous GAAP)			January 1, 2004 (date of transition)		
		Previous GAAP	Effect of Transition to PFRS	PFRS	Previous GAAP	Effect of Transition to PFRS	PFRS
Current Assets							
Cash and Cash Equivalents		₱41,602,480	₱-	₱41,602,480	₱153,028,157	₱-	₱153,028,157
Short-term Investment		23,541,564	-	23,541,564	-	-	-
Receivables from Members - net		368,751,680	-	368,751,680	326,160,815	-	326,160,815
Other Receivables - net		22,292,469	-	22,292,469	48,678,301	-	48,678,311
Other Current Assets		1,924,147	-	1,924,147	1,141,884	-	1,141,884
Total Current Assets		458,112,340	-	458,112,340	529,009,157	-	529,009,157
Noncurrent Assets							
Investments in Bonds and Other Debt Instruments (IBODI)		8,000,000	-	8,000,000	8,000,000	-	8,000,000
Investment in an Associate		34,317,101	-	34,317,101	28,832,911	-	28,832,911
Property and Equipment - net	a	73,506,723	(29,392,388)	44,114,335	78,370,914	(28,117,504)	50,253,410
Investment Properties - net	a	-	29,392,388	29,392,388	-	28,117,504	28,117,504
Other Noncurrent Asset	b	-	4,775,800	4,775,800	-	-	-
Total Noncurrent Assets		115,823,824	4,775,800	120,599,624	115,203,825	-	115,203,825
		₱573,936,164	4,775,800	₱578,711,964	₱644,212,982	₱-	₱644,212,982
Liabilities and Fund Balance							
Current Liabilities							
Accounts Payable and Accrued Expenses		₱43,422,266	₱	₱43,422,266	₱62,172,883	₱-	₱62,172,883
Current Portion of Project Payable		23,271,000	-	23,271,000	58,135,951	-	58,135,951
Due to Members		125,750,438	-	125,750,438	96,043,948	-	96,043,948
Total Current Liabilities		192,443,704	-	192,443,704	216,352,782	-	216,352,782
Noncurrent Liabilities							
Noncurrent Portion of Project Assistance Payable		119,652,051	-	119,652,051	217,779,793	-	217,779,793
Total Noncurrent Liabilities		312,095,755	-	312,095,755	434,132,575	-	434,132,575
Fund Balance	b	261,840,409	4,775,800	266,616,209	210,080,407	-	210,080,407
		₱573,936,164	₱4,775,800	₱578,711,964	₱644,212,982	₱-	₱644,212,982



Notes to the reconciliation of statements of assets, liabilities and fund balance as of December 31 and January 1, 2004 and statements of revenue and expenses for December 31, 2004 follow:

- a. This adjustment represents reclassification of certain items of property and equipment (land and building and improvements) to investment properties with net book value of ₱29.4 million and ₱28.1 million as of December 31 and January 1, 2004, respectively.
- b. This adjustment pertains to recognition of net retirement asset in compliance with PAS 19. Such adjustment also decreased Salaries and wages and increased Excess of revenue over expenses by the same amount.

Account Description	Item	PFRS December 31, 2004	Effect of Adoption of PAS 32 and PAS 39	PFRS January 1, 2005
Current Assets				
Cash and Cash Equivalents		₱41,602,480	₱-	₱41,602,480
Short-term Investment		23,541,564	-	23,541,564
Receivables from Members - net	c	368,751,680	(5,742,858)	363,008,822
Other Receivables - net		22,292,469	-	22,292,469
Other Current Assets		1,924,147	-	1,924,147
Total Current Assets		458,112,340	(5,742,858)	452,369,482
Noncurrent Assets				
AFS Investments	d	-	11,752,600	11,752,600
HTM Investments	d	-	8,000,000	8,000,000
Investments in Bonds and Other Debt Instruments (IBODI)	d	8,000,000	(8,000,000)	-
Investment in Shares of Stocks	d	34,317,101	(11,752,600)	22,564,501
Property and Equipment		44,114,335	-	44,114,335
Investment Properties		29,392,388	-	29,392,388
Other Noncurrent Asset		4,775,800	-	4,775,800
Total Noncurrent Assets		120,599,624	-	120,599,624
		₱578,711,964	(₱5,742,858)	₱572,969,106
Liabilities and Fund Balance				
Current Liabilities				
Accounts Payable and Accrued Expenses		₱43,422,266	₱-	₱43,422,266
Current Portion of Project Payable		23,271,000	-	23,271,000
Due to Members		125,750,438	-	125,750,438
Total Current Liabilities		192,443,704	-	192,443,704
Noncurrent Liabilities				
Noncurrent Portion of Project Assistance Payable		119,652,051	-	119,652,051
Total Noncurrent Liabilities		312,095,755	-	312,095,755
Fund Balance				
	c	266,616,209	(5,742,858)	260,873,351
		₱578,711,964	(₱5,742,858)	₱572,969,106

- c. The adjustment pertains to additional provision for impairment losses on Receivables from Members as a result of adoption of PAS 39.



- d. These adjustments pertain to reclassification of accounts from their former classification under previous GAAP to conform with their respective classifications under PAS 39.

Investments and Other Financial Assets

All financial assets, including investment securities and receivables, are initially recognized at fair value. Except for financial assets at fair value through profit and loss (FVPL), the initial measurement of financial assets includes transaction costs. Effective January 1, 2005, the Organization classifies its financial assets in the following categories: AFS investments, HTM investments and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

a) AFS Investments

AFS investments include financial assets not quoted in an active market when purchased and held indefinitely, but which the Organization anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading. AFS investments are carried at fair market value. The effective yield component of AFS debt securities are reported in the statements of revenue and expenses. The unrealized gains and losses arising from the fair valuation of AFS investments, net of tax are excluded from the reported revenue and reported as a separate component of fund balance in the statements of assets, liabilities and fund balance until the investment is derecognized or until the investment is determined to be impaired at which time the net unrealized gain or loss previously reported in fund balance is included in the statements of revenue and expenses.

AFS investments include other investments, which consists of unquoted equity investments where the Organization's ownership interest is less than 20% or where control is likely to be temporary are initially recognized at cost, being the fair value of the investment at the time of acquisition or purchase, and including acquisition charges associated with the investment. Such investments are carried at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

b) HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Organization's management has the positive intention and ability to hold to maturity. These securities are carried at amortized cost using the effective interest rate method less any allowance for impairment losses. Realized gain or loss is recognized in the statements of revenue and expenses when the investments are derecognized or impaired and through the amortization process.

c) Receivables

Receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Organization has no intention of trading. These are carried at amortized cost using the effective interest rate method less allowance for impairment losses. Gains and losses are recognized in the statements of revenue and expenses when the receivables are derecognized or impaired and through the amortization process.



Prior to January 1, 2005, investments and other financial assets were accounted for as follows:

Investments in Shares of Stock

Investment in shares of stock of CARD Bank, which is considered as associate, in which the Organization has significant influence and which is neither a subsidiary nor a joint venture of the Organization is accounted for under the equity method of accounting. Such investment in associate is carried in the statement of assets, liabilities and fund balance at cost plus post-acquisition changes in the Organization's share of net assets of the associate, less any impairment in value.

The Organization's other investment in shares of stock are carried at cost, less any impairment in value.

- Investments in common shares - these investments are accounted for at cost plus the organization's equity in net earnings and other changes in its share in net assets of the investee from date of acquisition, less any impairment in value.
- Investment in preferred shares and other investments - these investments are carried at cost.

Receivables from Members

Project and members assistance receivables are stated at the outstanding principal balance, reduced by allowance for probable losses and revenue collected in advance.

Allowance for Probable Losses

Allowance for probable losses is determined based on management's evaluation of the collectibility of the receivables from members, after consideration of the age of accounts, prevailing and anticipated economic conditions, collection and credit experience with specific accounts and financial capabilities of guarantors.

Allowance on other risk assets is maintained at a level considered adequate to provide for potential uncollectibility of other risk assets. Management evaluates the level of this allowance based on the factors that affect the realizability of the accounts. A review of age and status of these accounts, designed to identify the accounts requiring allowance for probable losses, is made by the management on a continuing basis.

The allowance for probable losses is established through provisions for probable losses charged to current operations. Receivables are written off against the allowance when management believes that the collectibility of the principal is unlikely.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization, and impairment in value.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred.



In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statements of revenue and expenses.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

The annual depreciation rates are as follows:

Furniture, fixtures and equipment	20% - 50%
Transportation equipment	20%
Leasehold rights and improvements	5% - 20%

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statements of revenue and expenses (see accounting policy on Impairment of Assets).

Investment Properties

Investment properties are carried at cost less accumulated depreciation and any impairment in value. The initial cost of investment properties includes transaction costs representing nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Organization.

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

Depreciation on buildings is calculated on a straight-line basis over the estimated useful life of 10-25 years from the time of acquisition of the investment properties.



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

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Organization as an owner-occupied property becomes an investment property, the Organization accounts for such property in accordance with the policy stated under Property and Equipment up to the date of change in use.

Impairment of Assets

An assessment is made at each statement of assets, liabilities and fund balance date to determine whether there is objective evidence that a specific financial or non-financial asset may be impaired. If such evidence exists, impairment loss is recognized in the statements of revenue and expenses.

Impairment of financial assets

Impairment is determined as follows:

- (a) For assets carried at amortized cost, impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate;
- (b) For assets carried at cost, impairment 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.

The Organization first assesses whether objective evidence of impairment exists individually. If no objective evidence of impairment is determined to exist 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 the collective assessment of impairment. The carrying amount of the asset is reduced through allowance for impairment losses account and the amount of the loss is recognized in the statements of revenue and expenses.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., asset type, collateral type, past due status based on account balances net flow rates and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.



When a receivable or an investment security other than an equity security is uncollectible, it is written off against the related allowance for impairment losses. Such receivable or investment security is written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of provision for impairment losses presented in the statements of revenue and expenses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statements of revenue and expenses.

When AFS equity instrument is impaired, impairment losses are reversed through the statements of revenue and expenses.

Impairment of non-financial assets

An impairment loss is recognized by a charge against current operations for the excess of the carrying amount of an asset over its recoverable amount. An asset's recoverable amount is the higher of the asset's value in use or its net selling price. An impairment loss is charged against operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed by a credit to current operations (unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset) to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years.

Derecognition of Financial Instruments

Financial Asset

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

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

Where the Organization has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Organization's continuing involvement in the asset.



Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Provisions and Contingencies

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of revenues embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of revenues embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Revenue Recognition

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

Grants

Grants received for a specific purpose are initially recognized as a liability to the donors, otherwise, these grants are recorded in the books as income upon receipt. Unutilized grants are shown as Funds Held-in Trust under Accounts Payable and Accrued Expenses account in the statement of assets, liabilities and fund balance.

Revenue from Project and Member Assistance Receivables

Revenue from project and member assistance receivables represents recovery of project and member financial assistance costs which are recognized when deemed collectible. Revenue collected in advance are recognized as revenue over the term of the receivables when the corresponding receivables are deemed collectible.

Interest Income

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on the asset.

Service Charges, Fees and Commissions

Receivables from members commitment fees are recognized over the term of the credit lines granted to each borrower. Service charges are amortized over the term of the loans using the effective interest method. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility.

Commissions are accrued when earned.



Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred.

Foreign Exchange Transactions and Translations

Foreign currency assets and liabilities are stated at the Philippine Dealing System weighted average rate (PDSWAR) at the end of the year while foreign currency income and expenses are translated at PDSWAR at transaction dates. Foreign exchange gains or losses arising from foreign currency transactions and revaluation adjustments of foreign currency-denominated assets and liabilities are credited to or charged against current operations.

Retirement Cost

The Organization is covered by a noncontributory defined benefit retirement plan.

The Organization's retirement cost is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The asset recognized in the statements of assets, liabilities and fund balance, in respect of defined benefit pension plans (Note 18), is the fair value of the plan assets at the statements of assets, liabilities and fund balance date less the present value of defined benefit obligation, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is the present value of any units of future benefits credited to employees for services in periods prior to the commencement or subsequent amendment of the plan. This is recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortized on a straight-line basis over the vesting period.

Operating Leases

Operating lease income and expense are recognized in the statements of revenue and expenses on a straight-line basis over the lease term.

Cash and Cash Equivalents

Cash and cash equivalents include cash and other cash items and cash in banks with original maturities of three months or less from dates of placements and that are subject to insignificant risk of change in value.



Subsequent Events

Post-year-end events that provide additional information about the Organization's position at the statement of assets, liabilities and fund balance date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with Philippine GAAP requires the Organization to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) *Impairment losses of receivables*

The Organization reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Organization makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

As of December 31, 2005, and 2004, allowance for impairment losses on receivables of the Organization amounted to ₱22.3 million and ₱14.7 million, respectively.

(b) *HTM investments*

The Organization follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Organization evaluates its intention and ability to hold such investments to maturity. If the Organization fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS. The investments would therefore be measured at fair value and not at amortized cost.



(c) *Impairment of AFS equity investments*

The Organization determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Organization evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(d) *Present value of retirement obligation*

The assumed discount rates were determined using market yields on Philippine government bonds with terms consistent with the currency and term of retirement obligation as at the beginning of the year.

(e) *Operating Leases*

The Organization leases out its investment property portfolio on operating leases since all the significant risks and rewards of ownership of these properties are retained by the Organization.

4. **Fair Value Measurement**

The methods and assumptions used by the Organization in estimating the fair value of the financial instruments are:

Cash and cash equivalents - Fair values approximate carrying amounts.

Receivables - Fair values approximate carrying amounts.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values are based on quoted prices published in markets.

Short-term investments - Fair values approximate carrying amounts.

Liabilities - Fair values are estimated using the discounted cash flow methodology using the Organization's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.



5. Financial Instruments Risk Position

- a. *Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items*
In line with the Organization's mission of "providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families".

In microfinance program, the field operations staffs are provided with thorough skills training for the effective and efficient service delivery. Operations manual is a reference for every operations staff. The manual is tailored fit for the microfinance program clients and is being updated as new policies and procedures have been finalized and approved by the board based on the clients and staff satisfaction survey, staff and management program review and planning meetings and workshops. A codified signing authority is in placed for every level of receivables processing and approval. Receivables are guaranteed by specific co-maker from the center and co-borrower from family member.

The Organization also provides credit with education program, opportunity of the clients to continue sending their children to school through the scholarships program and support innovative community projects.

Research team is continuously conducting market research as a tool for the updating and developing of loans products responsive to the needs and demands of the existing and potentials clients.

Intensive management monitoring of the program and regular internal audit are being conducted. Identified existing and potentials irregularities are acted upon immediately. Submitted reports to the Board of Trustee during the regular board meeting.

- b. *Interest Rate Risk*

The Organization's total receivable from members is set at fixed rate of 20% and 30% per annum nominal rate. The shortest term of loan is 6 months while the longest term is 1 year.

The Organization pays interest to the creditors at 2% to 13% per annum which is payable from 2 to 5 years.

In order to manage its interest, the Organization places its excess funds in high yield investments and other short-term time deposits.

The Organization follows the effective interest rate in compliance to PAS 39.



The following table provides for the average effective interest rates by period of maturity or repricing of the Organization as of December 31, 2005:

	Less than 3 months	3 months to 1 year	Greater than 1 year
Peso			
Assets			
Cash in banks	6.15%	5.40%	-%
HTM investments	-	10.00	-
Receivables	-	46.00	-
Liabilities			
Project assistance payable	8.11	13.85	11.57
Foreign Currency			
Assets			
Cash in banks	2.09%	2.63%	-%
Liabilities			
Project assistance payable	2.00	2.00	2.00

The following table sets forth the asset-liability gap position of the Organization as of December 31, 2005:

	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 Months	Greater than 1 year	Total
Assets						
Total receivables	₱131,681,259	₱177,567,476	₱104,401,065	₱69,252,124	₱-	₱482,901,924
Total investments	-	-	-	5,000,000	38,809,180	43,809,180
Placements with other banks	85,816,825	2,140,687	3,470,199	-	-	91,427,711
Fixed assets	-	-	-	-	71,014,924	71,014,924
Other assets	7,513,588	7,611,967	-	2,532,022	4,865,843	22,523,420
Total assets	225,011,672	187,320,130	107,871,264	76,784,146	114,689,947	711,677,159
Liabilities						
Project Assistance payable	-	9,101,952	2,636,691	8,261,467	140,133,671	160,133,781
Other liabilities	98,371,268	91,121,912	-	-	27,274,232	216,767,412
Total liabilities	98,371,268	100,223,864	2,636,691	8,261,467	167,407,903	376,901,193
Asset-liability gap	₱126,640,404	₱87,096,266	₱105,234,573	₱68,522,679	(₱52,717,956)	₱334,775,966

6. Cash and Cash Equivalents

This account consists of:

	2005	2004
Cash on hand and in banks	₱23,856,418	₱13,915,570
Time deposits	67,798,194	27,686,910
	₱91,654,612	₱41,602,480



Time deposits earn interest ranging from 1.00% to 2.25% in 2005 and from 1.00% to 2.38% in 2004.

7. Short-term Investments

Short-term investments represent dollar time deposits which earn interest ranging from 2.00% to 7.50% in 2005 and 2.00% to 2.13% in 2004.

8. Receivables from Members

This account consists of:

	2005	2004
Project assistance receivables	₱364,999,653	₱291,477,584
Member assistance receivables	103,876,253	99,826,513
	468,875,906	391,304,097
Allowance for impairment losses	(22,336,947)	(14,674,938)
Unearned revenue	(12,996,772)	(7,877,479)
	₱433,542,187	₱368,751,680

As of December 31, 2005 and 2004, repayable project assistance receivables with carrying values of ₱30.0 million and ₱5.0 million, respectively are used as collateral for interest-bearing borrowings with equivalent outstanding balances as of those dates (Note 15). Assistance receivables granted to members are partially secured by Members' fund (Note 16).

Receivables from members include past due receivables amounting to ₱16.1 million and ₱14.2 million in 2005 and 2004, respectively.

9. Other Receivables

This account consists of the following:

	2005	2004
Accrued administrative fee receivable	₱7,275,688	₱4,773,612
Receivables from officers and employees (Note 21)	781,129	881,349
Due from CARD Bank (Note 21)	-	14,195,754
Others	5,969,201	2,549,473
	14,026,018	22,400,188
Allowance for uncollectible accounts	(57,433)	(107,719)
	₱13,968,585	₱22,292,469



10. Investment Securities

AFS investments consist of the following in 2005:

Investment in preferred stocks of CARD Bank	₱10,752,600
Investment in shares of stocks of:	
Catholic Relief Services	2,641,000
Others	556,000
	₱13,949,600

HTM investments represent investments in retail treasury bonds amounting to ₱5.0 million and ₱8.0 million as of December 31, 2005 and 2004, respectively. The carrying value of the investment in bonds approximates its market value.

11. Investment in an Associate

This account consists of investment in shares of stock and investment in bonds. Investment in shares of stock consists of:

	2005	2004
At equity (common stock):		
CARD Bank - 39.17% owned in 2005 and 40.12% in 2004 (166,330 shares in 2005 and 2004)		
Acquisition cost:		
Balance at beginning of year	₱12,591,000	₱7,591,000
Acquisition during the year	-	5,000,000
Balance at end of year	12,591,000	12,591,000
Accumulated equity in net earnings:		
Balance at beginning of year	9,973,501	9,489,311
Equity in net earnings (Note 19)	3,658,379	2,847,776
Dividends received	(1,363,300)	(2,363,586)
Balance at end of year	12,268,580	9,973,501
	24,859,580	22,564,501
At cost:		
Investment in preferred stock of CARD Bank	-	10,752,600
Investment in shares of stocks of		
Catholic Relief Services	-	1,000,000
	₱24,859,580	₱34,317,101

Equity in net earnings of CARD Bank is included as part of Other Revenues account in the statements of revenue and expenses (Note 19).



12. Property and Equipment

The composition of and movements in this account follow:

	Land	Building and Improvements	Furniture and Equipment	Transportation Equipment	Construction In Progress	Total
Cost						
Balance at beginning of year	₱22,007,199	₱20,229,769	₱9,271,998	₱13,890,062	₱1,168,842	₱66,567,870
Additions	–	1,821,738	2,645,533	3,556,622	–	8,023,893
Disposals/transfers	–	(509,000)	(4,432,947)	(3,172,117)	(1,168,842)	(9,282,906)
Balance at end of year	22,007,199	21,542,507	7,484,584	14,274,567	–	65,308,857
Accumulated depreciation and amortization						
Balance at beginning of year	–	7,940,964	6,746,535	7,766,036	–	22,453,535
Depreciation and amortization	–	1,223,943	1,531,481	3,672,518	–	6,427,942
Disposals/transfers	–	(504,005)	(4,102,309)	(2,095,698)	–	(6,702,012)
Balance at end of year	–	8,660,902	4,175,707	9,342,856	–	22,179,465
Net book value as of						
December 31, 2005	₱22,007,199	₱12,881,605	₱3,308,877	₱4,931,711	₱–	₱43,129,392
Net book value as of						
December 31, 2004	₱22,007,199	₱12,288,805	₱2,525,463	₱6,124,026	₱1,168,842	₱44,114,335

Land with carrying value of ₱9.5 million as of December 31, 2005 and 2004 partly secures interest-bearing Project Assistance Payable amounting to ₱43.0 million and ₱52.5 million as of December 31, 2005 and 2004, respectively (Note 15).

13. Investment Properties

The composition of and movements in this account follow:

	2005			2004 Total
	Land	Building and Improvements	Total	
Cost				
Balance at beginning of year	₱16,327,507	₱17,581,581	₱33,909,088	₱30,928,056
Additions	–	298,844	298,844	2,981,032
Balance at end of year	16,327,507	17,880,425	34,207,932	33,909,088
Accumulated depreciation and amortization				
Balance at beginning of year	–	4,516,700	4,516,700	2,810,552
Depreciation and Amortization	–	1,805,700	1,805,700	1,706,148
Balance at end of year	–	6,322,400	6,322,400	4,516,700
Net book value at end of year	₱16,327,507	₱11,558,025	₱27,885,532	₱29,392,388



14. Accounts Payable and Accrued Expenses

This account consists of:

	2005	2004
Funds held in-trust	₱13,086,258	₱11,480,163
Accounts payable	9,496,758	8,026,899
Accrued expenses	7,334,427	23,915,204
	₱29,917,443	₱43,422,266

Funds held in-trust represents grants that are allocated for a specific purpose which will be returned to the donor by the Organization if the specific purpose is not complied with.

15. Project Assistance Payable

This account consists of:

	2005	2004
Current		
Oikocredit	₱15,500,000	₱13,500,000
Grameen Trust	2,590,000	3,140,000
People's Credit and Finance Corporation (PCFC)	1,910,110	6,631,000
	20,000,110	23,271,000
Noncurrent		
Grameen Foundation	38,381,726	38,381,726
Cordaid	37,661,045	25,177,388
Development Bank of the Philippines (DBP)	30,000,000	-
Oikocredit	27,500,000	39,000,000
Grameen Trust	6,590,900	9,420,899
PCFC	-	7,672,038
	140,133,671	119,652,051
	₱160,133,781	₱142,923,051

The Oikocredit project assistance payable are partly secured by the Organization's land (Note 12) while the DBP and PCFC project assistance payable are secured by the Organization's receivables from members amounting to ₱30.0 million and ₱5.0 million as of December 31, 2005 and 2004, respectively (Note 8).

Financing obtained from creditors are used to fund the Organization's project assistance receivables. Annual interest rates on these loans range from 2.00% (developmental rate) to 12.64% in 2005 and 2.00% (developmental rate) to 12.40% in 2004 and are payable in various annual, semi-annual and quarterly installment until 2010.



The maturities of noncurrent interest bearing loans as of December 31, 2005 and 2004 are as follows:

	2005	2004
Between 2 years and 3 years	₱108,561,797	₱47,472,641
Beyond 3 years but not more than five years	31,571,874	72,179,410
	₱140,133,671	₱119,652,051

16. Due to Members

This account is composed of the following:

	2005	2004
Members' fund	₱186,848,441	₱125,744,030
Others	1,528	6,408
	₱186,849,969	₱125,750,438

Members' fund represents aggregate contribution of members for capital build-up purposes which then serve as partial security for repayable project assistance receivables granted to them. The members' fund is built up through weekly members' contribution of ₱40 per week in 2005 and ₱20 per week in 2004 (Note 8).

17. Fund Balance

This account represents the accumulated excess of revenues over expenses for the current and prior years.

18. Employee Benefits

The Organization, CARD Bank and CARD MBAI maintain a funded and formal noncontributory retirement plan - the Multi-Employer Retirement Plan of CARD Bank (Multi-Employer Plan) - covering all of regular employees. The plan has a projected unit cost format and is financed solely by the Organization and two other related companies. The plan complies with the requirement of Republic Act No. 7641 (Retirement Law) and provides lump sum benefits upon retirement, death, total and permanent disability, involuntary separation (except cause) or voluntary separation after completion of at least ten years of service with the participating companies.

The principal actuarial assumptions used in determining retirement liability for the Organization's retirement plan are shown below:

Discount rate	12%
Expected rate of return on assets	8%
Future salary increases	10%



The amounts recognized in the statements of assets, liabilities and fund balance are as follows:

	2005	2004
Fair value of plan assets	₱37,574,900	₱30,367,700
Present value of unfunded obligation	12,449,600	9,674,900
	25,125,300	20,692,800
Unrecognized actuarial gains (losses)	(522,300)	1,009,400
Unrecognized fair value of plan assets due to assets ceiling test	(20,524,800)	(16,926,400)
Net retirement asset	₱4,078,200	₱4,775,800

The movements in the net retirement plan asset follow:

	2005	2004
Balance, January 1	₱21,702,200	₱—
Retirement income (expense)	(345,300)	12,059,400
Actual contributions	3,246,100	9,642,800
	24,603,000	21,702,200
Unrecognized fair value of plan assets due to assets ceiling test	(20,524,800)	(16,926,400)
Balance, December 31	₱4,078,200	₱4,775,800

The movements in the fair value of plan assets recognized follow:

	2005	2004
Balance, January 1	₱30,367,700	₱19,919,200
Expected return	3,961,100	805,700
Contribution paid by employer	3,246,100	9,642,800
Balance, December 31	₱37,574,900	₱30,367,700

19. Other Revenues and Other Administrative Expenses

These accounts are composed of the following:

	2005	2004
Other revenues:		
Rent (Note 21)	₱3,660,000	₱3,717,500
Equity in net earnings of CARD Bank (Note 11)	3,658,379	2,847,776
Interest (Notes 6 and 7)	3,356,614	2,362,985
Training and management fees	3,168,993	3,287,508
Dividend income	860,208	860,808
Miscellaneous	22,611,077	4,366,960
	37,315,271	17,443,537

(Forward)



	2005	2004
Other expenses:		
Staff training and development	₱9,258,075	₱2,695,535
Depreciation and amortization	3,194,115	2,305,160
Transportation and travel	1,084,335	1,340,064
Program monitoring and evaluation	1,040,860	1,484,624
Salaries, wages and employee benefits (Note 18)	524,777	188,930
Management and other professional fees	209,000	663,086
Supplies and materials	137,608	123,380
Communication and postage	113,272	62,585
Representation	108,781	230,549
Insurance	101,027	225,330
Repairs and maintenance	38,902	72,556
Taxes and licenses	15,451	42,274
Miscellaneous	93,135	80,449
	₱15,919,338	₱9,514,522

20. Commitments and Contingencies

There are commitments, guarantees and contingent liabilities that arise in the normal course of the Organization's operations which are not reflected in the accompanying financial statements. As of December 31, 2005, management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Organization's financial statements.

Depreciation and amortization on property and equipment and investment property totaling ₱8,233,642 in 2005 and ₱ 9,565,898 in 2004 are divided in the following expenses:

	2005	2004
Project related expenses	₱3,718,282	₱5,082,177
Training	1,179,798	2,132,506
Research	99,055	39,833
Scholarship	24,848	6,222
Technology development cost	17,544	-
Other expenses	3,194,115	2,305,160
	₱8,233,642	₱9,565,898



21. Related Party Transactions

In the normal course of business, the Organization has transactions with certain related parties described below:

a. Lease of Property

The Organization leases to CARD Bank office spaces for CARD Bank's head office and branch operations. Revenue from these leases, which represent reimbursement of the Organization's depreciation and other expenses, amounted to ₱3.7 million for the years ended December 31, 2005 and 2004, are included as part of Other Revenues in the statements of revenue and expenses (Note 19). There are no outstanding receivables arising from these lease agreements as of December 31, 2005 and 2004.

b. Project assistance receivables guaranteed by CARD Mutual Benefit Association, Inc. (CARD MBAI).

All the members of the Organization automatically become a member of CARD MBAI. Every week, members are required to pay ₱10 which the Organization collects on behalf of CARD MBAI. The liability of the Organization arises from the collections of the weekly contribution less the certain cost reimbursement fee and any claims paid to members on behalf of CARD MBAI. The reimbursable cost is based on total collections of ₱10 plus a certain percentage of the total loans releases per month (1.50% and 0.80% for loans with maturity of 1 year and of 6 months, respectively).

The short-term employee benefit of key management personnel of the Organization amounted to ₱4.3 million in 2005 and ₱2.6 million in 2004. As of December 31, 2005 and 2004, post retirement benefit of the key management personnel amounted to ₱5.2 million and ₱4.0 million, respectively.

