

***Institute of Corporate
Directors, Inc.***
(A non-stock, non-profit association)

Financial Statements

As at and for the years ended December 31, 2020 and 2019



Independent Auditor's Report

To the Board of Trustees and Members of
Institute of Corporate Directors, Inc.
14/F Trident Tower, 312 Sen. Gil Puyat Ave., Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Institute of Corporate Directors, Inc. (the "Association") as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small Entities (PFRS for SE).

What we have audited

The financial statements of the Association comprise:

- the statements of assets, liabilities and fund balances as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of changes in fund balances for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (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.

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

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

In preparing the financial statements, management is responsible for assessing the 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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting 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 includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, 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.



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- 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 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 Bureau of Internal Revenue (BIR) Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BIR Revenue Regulations Nos. 15-2010 and 34-2020 in Note 19 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 of the Association. The information has been subjected to the auditing procedures applied in our audits 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.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read 'C. de Guzman', is written over the printed name.

Carlos Federico C. de Guzman
Partner

CPA Cert. No. 110973

P.T.R. No. 0011285, issued on January 5, 2021, Makati City
SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements

TIN 229-481-265

BIR A.N. 08-000745-141-2020, issued on November 4, 2020; effective until November 3, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 23, 2021



Isla Lipana & Co.

Statement required by Section 8-A, Revenue Regulations No. V-1

To the Board of Trustees and Members of
Institute of Corporate Directors, Inc.
14/F Trident Tower, 312 Sen. Gil Puyat Ave., Makati City

None of the partners of the firm have any financial interest in Institute of Corporate Directors, Inc. or any family relationships with its officers or members.

The supplementary information on taxes and licenses for the year ended December 31, 2020 is presented in Note 19 to the financial statements.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read "C. de Guzman".

Carlos Federico C. de Guzman
Partner

CPA Cert. No. 110973

P.T.R. No. 0011285, issued on January 5, 2021, Makati City

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Makati City
April 23, 2021

Institute of Corporate Directors, Inc.
(A non-stock, non-profit association)

Statements of Assets, Liabilities and Fund Balances
As at December 31, 2020 and 2019
(All amounts in Philippine Peso)

| | Notes | 2020 | 2019 |
|---|-------|-------------------|-------------------|
| <u>ASSETS</u> | | | |
| Current assets | | | |
| Cash | 3 | 7,850,862 | 4,943,418 |
| Trade and other receivables | 4 | 2,652,731 | 5,933,144 |
| Prepayments and other current assets | 5 | 1,836,831 | 1,174,466 |
| Total current assets | | 12,340,424 | 12,051,028 |
| Non-current assets | | | |
| Property and equipment, net | 6 | 15,264,697 | 16,874,083 |
| Other non-current assets | 5 | 2,451,236 | 1,982,618 |
| Total non-current assets | | 17,715,933 | 18,856,701 |
| Total assets | | 30,056,357 | 30,907,729 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Current liabilities | | | |
| Payables and accrued expenses | 7 | 5,284,340 | 6,606,909 |
| Deferred revenue | 8 | 2,427,442 | 2,262,129 |
| Due to a related party | 10 | - | 707,340 |
| Loans payable | 9 | 1,300,000 | 1,394,890 |
| Total current liabilities | | 9,011,782 | 10,971,268 |
| Non-current liabilities | | | |
| Loans payable - net of current portion | 9 | 4,044,887 | 4,123,252 |
| Retirement benefit obligation | 11 | 1,076,412 | 433,491 |
| Deferred income tax liability, net | 18 | - | 21,858 |
| Total non-current liabilities | | 5,121,299 | 4,578,601 |
| Total liabilities | | 14,133,081 | 15,549,869 |
| Fund balances | | | |
| Members' contributions | | 65,000 | 65,000 |
| General fund | | 15,858,276 | 15,292,860 |
| Total fund balances | | 15,923,276 | 15,357,860 |
| Total liabilities and fund balances | | 30,056,357 | 30,907,729 |

The notes on pages 1 to 16 are an integral part of these financial statements.

Institute of Corporate Directors, Inc.
(A non-stock, non-profit association)

Statements of Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

| | Notes | 2020 | 2019 |
|--|-------|--------------|--------------|
| Revenues | | | |
| Programs | 12 | 15,940,458 | 29,699,211 |
| Membership dues and contributions | 13 | 5,982,789 | 5,056,254 |
| Grants | 14 | 1,000,000 | 3,000,000 |
| Sponsorships | 15 | 780,357 | 1,924,470 |
| Donations | | - | 240,000 |
| Other income | | - | 161,732 |
| | | 23,703,604 | 40,081,667 |
| Other (loss) income, net | | | |
| Unrealized foreign exchange (loss) gain | 3 | (71,775) | 51,956 |
| Interest income | 3 | 4,923 | 5,332 |
| | | (66,852) | 57,288 |
| Expenses | | | |
| Program costs | 16 | (15,827,345) | (26,019,544) |
| General and administrative expenses | 17 | (6,920,602) | (11,383,679) |
| Interest expense | 9 | (301,035) | (552,942) |
| | | (23,048,982) | (37,956,165) |
| Excess of revenues over expenses before tax | | 587,770 | 2,182,790 |
| Income tax expense | 18 | (22,354) | (196,598) |
| Excess of revenues over expenses for the year | | 565,416 | 1,986,192 |

The notes on pages 1 to 16 are an integral part of these financial statements.

Institute of Corporate Directors, Inc.
(A non-stock, non-profit association)

Statements of Changes in Fund Balances
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

| | Members' contributions | General fund | Total |
|---|-----------------------------------|-------------------------|--------------|
| Balances at January 1, 2019 | 65,000 | 13,306,668 | 13,371,668 |
| Excess of revenues over expenses for the year | - | 1,986,192 | 1,986,192 |
| Balances at December 31, 2019 | 65,000 | 15,292,860 | 15,357,860 |
| Excess of revenues over expenses for the year | - | 565,416 | 565,416 |
| Balances at December 31, 2020 | 65,000 | 15,858,276 | 15,923,276 |

The notes on pages 1 to 16 are an integral part of these financial statements.

Institute of Corporate Directors, Inc.
(A non-stock, non-profit association)

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

| | Notes | 2020 | 2019 |
|---|-------|-------------|-------------|
| Cash flows from operating activities | | | |
| Excess of revenues over expenses before income tax | | 587,770 | 2,182,790 |
| Adjustments for: | | | |
| Interest income | 3 | (4,923) | (5,332) |
| Unrealized foreign exchange loss (gain) | 3 | 71,775 | (51,956) |
| Depreciation | 6 | 1,662,814 | 1,453,847 |
| Interest expense | 9 | 301,035 | 552,942 |
| Write-off of CWT | 17 | 28,000 | 434,841 |
| Operating cash flows before working capital changes | | 2,646,471 | 4,567,132 |
| (Increase) decrease in: | | | |
| Trade and other receivables | 4 | 3,280,413 | (1,308,260) |
| Prepayments and other current assets | 5 | (690,365) | (1,007,939) |
| Other non-current assets | 5 | (512,830) | (145,862) |
| Increase (decrease) in: | | | |
| Trade and other payables | 7 | (1,322,569) | 532,945 |
| Deferred revenue | 8 | 165,313 | 367,307 |
| Due to a related party | 10 | (707,340) | (3,133,785) |
| Retirement benefit obligation | 11 | 642,921 | 82,500 |
| Cash generated from (used in) operations | | 3,502,014 | (45,962) |
| Interest received | 3 | 4,923 | 5,332 |
| Net cash provided by (used in) operating activities | | 3,506,937 | (40,630) |
| Cash flows from investing activities | | | |
| Acquisitions of property and equipment | 6 | (53,428) | (739,455) |
| Cash flows from financing activities | | | |
| Interest paid on loans | 9 | (301,035) | (552,942) |
| Repayments of loans | 9 | (173,255) | (1,247,058) |
| Net cash used in financing activities | | (474,290) | (1,800,000) |
| Net increase (decrease) in cash | | 2,979,219 | (2,580,085) |
| Cash, January 1 | | 4,943,418 | 7,471,547 |
| Effect of exchange rate changes on cash | 3 | (71,775) | 51,956 |
| Cash, December 31 | 3 | 7,850,862 | 4,943,418 |

The notes on pages 1 to 16 are an integral part of these financial statements.

Institute of Corporate Directors, Inc.

(A non-stock, non-profit association)

Notes to the Financial Statements

As at and for the years ended December 31, 2020 and 2019

(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Business information

1.1 General information

Institute of Corporate Directors, Inc. (the "Association") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 15, 2004 as a non-stock, non-profit association.

The Association's primary purpose, among others, is to design, develop and foster a common and substantive corporate governance reform agenda that is grounded on professionalism, good governance, corporate ethics, and responsible citizenship; to inculcate, nurture, promote and foster this agenda in business, government, and other institutions in the Asia-Pacific region in service of the broad and common developmental interests of civil society.

The Association is exempt from the payment of income tax on income related to its operations or activities pursuant to Section 30 (F) of the National Internal Revenue Code (NIRC). No part of the excess of revenue over expenses or assets of the Association shall belong to or inure to the benefit of any member, officer or any specific person. However, any income of whatever kind and character from any of the Association's properties, real or personal, or from any activity conducted for profit, regardless of the disposition, shall be subject to income tax.

On May 17, 2018, the Association received a certificate of tax exemption under certificate no. 820-2018 stating that it has proven by its actual operation that its primary purpose falls under Section 30 (F) of the NIRC of 1997, as amended, and is exempt from income tax only on the revenues or receipts on the Grants, Donations and Contributions, and Membership Dues, subject to the Terms and Conditions attached to the certificate provided. The Association is liable, however, to all other taxes other than those not mentioned in the certificate.

The Association has its principal and registered office address at 14th Floor Trident Tower Condominium, H.V. Dela Costa St. Salcedo Village, 1227 Makati City.

1.2 Impact of COVID-19 pandemic

On March 11, 2020, the World Health Organization (WHO) officially characterized corona virus disease 2019 (COVID-19) as pandemic. This is following the significant increase in the number of cases and affected countries across the globe since cases of unusual pneumonia caused by then unknown virus, with no explicit evidence of human-to-human transmission.

In response, countries across the globe went into lockdown where movement of population were restricted resulting to suspension of business operations. On March 16, 2020, the Island of Luzon, where the Company's operations are primarily located, was declared under enhance community quarantine (ECQ).

Beginning March 2020, all training programs of the Association were conducted virtually.

On January 19, 2021, the Association launched the "Re-engaged with Us" program that will run until March 31, 2021 to help members who are affected by the pandemic by giving discounts on their 2018 to 2020 unpaid contributions. As a result, members' contributions were collected and some even advanced for 2021 and 2022.

The Association also adopted a work-from-home arrangement to sustain its activities. In order to conserve liquidity, the Association was able to renegotiate the terms of its outstanding loan with UBP. Details of the amended terms are disclosed in Note 9.

In 2021, the Association will continue to offer its virtual/online public and exclusive trainings until the Philippine Government allows face-to-face or in-person mass gatherings. To increase revenues, various initiatives will be introduced such as the “*I - Inform* (advocacy awareness campaigns and increase social media presence) *C - Connect* (engage local and international partners, organizations, and stakeholders) *D - Deliver* (provide cutting edge content automate processes and offer blended learning)” initiative, the development of its Massive Open Online Courses (MOOC) and introduction of online learning modules. The Association will also continue with its membership recruitment and target more on Associates.

The Association continues to assess the overall impact of the situation on the Association’s activities and takes appropriate and timely actions to minimize any adverse financial impacts arising from the Covid-19 pandemic.

1.3 Approval of the financial statements

The financial statements of the Association were approved and authorized for issuance by the Board of Trustees on April 22, 2021.

Note 2 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of preparation

The financial statements of the Association as at and for the years ended December 31, 2020 and 2019 have been prepared on a historical cost basis and in accordance with the Philippine Financial Reporting Standards for Small Entities (PFRS for SE) as approved by the Financial Reporting Standards Council, Board of Accountancy and SEC.

2.2 Functional and presentation currency

The financial statements are presented in Philippine Peso, which is the Association's functional and presentation currency.

2.3 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial instrument is recognized when the entity becomes a party to its contractual provisions.

As at each reporting period, the Association has basic financial instruments, consisting of cash, trade receivables, refundable deposits and payables and accrued expenses (except payable to government agencies). The Association has no complex financial instruments as at each reporting period.

Initial measurement

On initial recognition, a basic financial instrument is measured at transaction price (including transaction costs), unless the arrangement is in effect a financing transaction. In this case, it is measured at present value of the future payment discounted using a market rate of interest for a similar debt instrument.

Subsequent measurement

Basic financial instruments are subsequently measured at amortized cost using the effective interest rate method.

Impairment of financial instruments measured at cost or amortized cost

At each reporting date, the Association assesses whether there is objective evidence of impairment on any financial assets that are measured at cost or amortized cost. Where there is any objective evidence of impairment, an impairment loss is recognized immediately in profit or loss.

The impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

Derecognition of financial assets

The Association derecognizes a financial asset when the contractual rights to the cash flows from the assets have expired or are settled, or it has transferred to another party substantially all the risks and rewards of ownership relating to the financial asset.

Derecognition of financial liabilities

The Association derecognizes financial liabilities when these are extinguished - that is, when the obligation is discharged or, cancelled or has expired.

2.4 Cash

Cash represents cash on hand and cash in banks deposits held at call with banks. These are carried in the statements of assets, liabilities and fund balances at face amount or at nominal amount. Deposits held at call with banks earn interest at the prevailing bank deposit rates.

2.5 Trade and other receivables

Trade receivables are recognized initially at the transaction price. They are subsequently measured at amortized cost using the effective interest method. A provision for impairment of 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. Trade receivables are classified in the statements of assets, liabilities and fund balances as current asset when the receivables are expected to be collected within one year of the Association's normal operating cycle, whichever is longer. Otherwise, receivables are classified as non-current assets. Refer to Note 2.3 for relevant accounting policies on trade receivables.

2.6 Prepayments

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 profit as they are consumed in operations or expire with the passage of time. Prepayments are classified in the statements of assets, liabilities and fund balances as current asset when the costs of services related to the prepayments are expected to be incurred within one year or the Association's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

2.7 Property and equipment

Property and equipment are initially measured and recognized at acquisition cost which comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. After initial measurement, property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Association and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is charged to allocate cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives of the Association's depreciable assets are as follows:

| | |
|------------------------|---------------|
| Office equipment | 3 to 5 years |
| Furniture and fixtures | 3 years |
| Office improvements | 3 to 15 years |
| Office building | 25 years |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their accumulated depreciation are written-off from the financial statements.

2.8 Impairment of non-financial assets

Property and equipment are assessed at each reporting date to determine whether there is any indication that the assets are impaired. When an impairment indicator is identified, the carrying value of the asset is tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If the recoverable amount cannot be estimated for an individual asset, the Association estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of the cash flows from other assets within the Association.

If an impairment indicator no longer exists or the recoverable amount has increased subsequently, the Association will determine the amount of impairment loss that can be reversed to the extent that the reversal should not result in a carrying amount of the asset that is higher had no impairment loss was recognized in the prior years.

2.9 Borrowings (or loans payable) and borrowing costs

Borrowings are recognized initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Association has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Refer to Note 2.3 for relevant accounting policies on borrowings.

All borrowing costs are expensed as incurred.

2.10 Trade and other payables

Trade and other payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method. Refer to Note 2.3 for relevant accounting policies on trade and other payables.

2.11 Fund balances

To ensure the observance of limitations and restrictions placed on the use of resources available to the Association, the accounts are maintained in accordance with the principles of fund accounting. Under this procedure, resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group.

The fund balances of the Association are reported as follows:

- General fund which represents unallocated and unrestricted resources available for the Association's operations; and
- Members' contributions which represents contributions of members who are incorporators and trustees of the Association.

2.12 Revenue recognition

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the Association and the amount of revenue can be measured reliably.

Revenues from programs

Revenues from programs which arise from various people or organizations for seminars and conferences conducted are recognized and measured in the period the services are provided.

Membership dues and contributions

Membership dues are recognized when earned. Contributions are recognized in the period when received.

Sponsorships and Grants

Sponsorships and grants received from various funding agencies are recognized in the period when received.

Interest and other income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable. Other income is recognized when earned or when received.

2.13 Expense recognition

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 in profit or loss: 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 statements of assets, liabilities and fund balances as an asset.

Expenses in the statement of income are presented using function of expense method. Program costs refer to costs incurred in the pursuit of the core activities of the Association. General and administrative expenses are expenses incurred in relation to the management and administration of the Association.

Fund expenses recognition

Expenses are recognized when intended project costs and expenses are incurred.

2.14 Employee benefits

Retirement benefit obligation

The Association is yet to establish a formal retirement plan for its employees. Thus, the Association's retirement benefit obligation is measured using the accrual approach based on the minimum retirement benefits required under Republic Act (RA) No. 7641, otherwise known as The Philippine Retirement Pay Law. Accrual approach is applied by calculating the expected liability as at reporting date using the current salary of the entitled employees and the employees' years of service, without consideration of future changes in salary rates and service periods.

Retirement benefit expense/income is equivalent to the change in the calculated retirement benefit assets/obligation using the accrual approach during the period and is recognized immediately in the statements of income within general and administrative expenses.

Short-term benefits

The Association recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Association to its employees include mandatory benefits such as social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Employee bonus

The Association recognized a provision for employee bonuses and an expense for the year based on the performance of the employees during the accounting period. The employee bonus given by the Association will be distributed in the next accounting period.

2.15 Related party transactions and balances

A related party transaction is a transfer of resources, services or obligations between the Association and the related party, regardless of whether a price is charged.

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Association are also considered to be related parties.

2.16 Provisions

Provisions are recognized when the Association has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably measured. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized in profit or loss.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized from the statements of assets, liabilities and fund balances.

2.17 Taxation

Current income tax

The current income tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of income because it excludes items of income or expense that are never taxable or deductible.

The Association's current income tax expense is calculated using 30% regular corporate income tax rate (RCIT) or 2% minimum corporate income tax (MCIT) rate, whichever is higher.

Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities

Deferred income tax liabilities are generally recognized for all taxable temporary differences.

Deferred income tax assets

Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

At the end of each reporting period, the Association reassesses any unrecognized deferred income tax assets. The Association recognizes a previously unrecognized deferred income tax asset to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

The carrying amount of a deferred income tax asset shall be reviewed at the end of each reporting period. It is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognized deferred income tax asset to be utilized.

Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred income tax assets and liabilities are not discounted. Deferred income tax assets and liabilities are presented under non-current assets and liabilities, respectively.

Current income tax assets and current income tax liabilities, or deferred income tax assets and deferred income tax liabilities are offset if, and only if, the Association has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.18 Events after the reporting date

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

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, Republic Act (RA) No.11534, otherwise known as CREATE, was signed into law.

Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1. CIT rate shall be reduced to 20% beginning July 1, 2020 for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million, excluding land on which the particular business entity's office, plant and equipment are situated, are subject to 20% income tax.
2. MCIT rate shall also be amended to 1%, instead of 2%, for the period beginning July 01, 2020 until June 30, 2023.

As at December 31, 2020, the CREATE bill is still pending ratification by both the Philippine Congress and Senate, and consequently pending approval of the President of the Republic of the Philippines. As such, the Association has assessed that the proposed tax law is not enacted or substantively enacted as at December 31, 2020. Therefore, for financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event.

Had the new CIT rates been applied on the December 31, 2020 financial statements of the Association, the newly enacted income tax rate would have resulted lower income tax expense of P33,159 and higher excess of revenues over expenses of P576,469.

Note 3 - Cash

Cash as at December 31 consists of:

| | 2020 | 2019 |
|---------------|------------------|------------------|
| Cash in banks | 7,830,862 | 4,923,418 |
| Cash on hand | 20,000 | 20,000 |
| | <u>7,850,862</u> | <u>4,943,418</u> |

Cash in banks earn interest at the bank deposit rates of 0.10% per annum for the year ended December 31, 2020 (2019 - 0.25%).

Interest income earned from cash in banks for the year ended December 31, 2020 amounted to P4,923 (2019 - P5,332).

As at December 31, 2020 and 2019, the Association has foreign currency denominated cash in banks. Unrealized foreign exchange loss for the year ended December 31, 2020 amounted to P71,775 (2019 - P51,956 gain).

Note 4 - Trade and other receivables

Trade and other receivables as at December 31 consist of:

| | 2020 | 2019 |
|---|-----------|-----------|
| Trade receivables | 2,503,038 | 5,631,309 |
| Advance from Institute for Solidarity in Asia, Inc. (ISA) | 52,211 | 245,719 |
| Other receivables | 97,482 | 56,116 |
| | 2,652,731 | 5,933,144 |

Trade receivables comprise amounts due from the Association's clients and others relative to carrying out activities for the programs, seminars and conferences conducted by the Association.

Advances arise from payment of common expenses and loan amortization made by the Association on behalf of ISA.

Other receivables pertain to advances to employees comprise of unsecured advances for usual business transactions which are payable through salary deduction or liquidated within 15 days after the business transaction.

Note 5 - Prepayments and other current assets; Other non-current assets

Prepayments and other current assets as at December 31 consist of:

| | 2020 | 2019 |
|--|-----------|-----------|
| Prepaid expenses | | |
| Advance payments | 574,789 | 232,616 |
| Subscriptions | 534,432 | 147,000 |
| Employees' health insurance coverage | 332,292 | 337,803 |
| Membership dues | 145,242 | - |
| Office supplies | 113,434 | - |
| Input value-added tax (VAT) | 82,067 | 136,100 |
| Creditable VAT | 54,575 | 169,494 |
| Advance payment for elevator modernization | - | 151,453 |
| | 1,836,831 | 1,174,466 |

Advance payments mainly relate to the CG Conference for 2021 that was postponed in 2020 due to the ongoing pandemic. The CG Conference is expected to be held in 2021.

Subscriptions mainly pertain to the downpayment for the Xscribe software subscriptions amounting to P441,000 as at December 31, 2020 (2019 - P147,000).

Other non-current assets as at December 31 consist of:

| | 2020 | 2019 |
|----------------------------------|-----------|-----------|
| Creditable withholding tax (CWT) | 2,347,264 | 1,878,646 |
| Refundable deposits | 103,972 | 103,972 |
| | 2,451,236 | 1,982,618 |

Refundable deposits amounting to P103,972 as at December 31, 2020 and 2019 consists of deposits made to Meralco, PLDT and Salcedo Towers.

Note 6 - Property and equipment, net

Property and equipment, net as at and for the years ended December 31 are as follows:

| | Office improvements | Office equipment | Furniture and fixtures | Office building | Total |
|---|---------------------|------------------|------------------------|-----------------|--------------|
| At January 1, 2019 | | | | | |
| Cost | 5,521,316 | 2,812,601 | 906,112 | 18,500,000 | 27,740,029 |
| Accumulated depreciation | (2,448,606) | (2,174,085) | (903,864) | (4,624,999) | (10,151,554) |
| Net carrying value | 3,072,710 | 638,516 | 2,248 | 13,875,001 | 17,588,475 |
| For the year ended December 31, 2019 | | | | | |
| Opening net carrying value | 3,072,710 | 638,516 | 2,248 | 13,875,001 | 17,588,475 |
| Additions | - | 736,455 | 3,000 | - | 739,455 |
| Depreciation | (469,452) | (242,005) | (2,390) | (740,000) | (1,453,847) |
| Closing net carrying value | 2,603,258 | 1,132,966 | 2,858 | 13,135,001 | 16,874,083 |
| At December 31, 2019 | | | | | |
| Cost | 5,521,316 | 3,549,056 | 909,112 | 18,500,000 | 28,479,484 |
| Accumulated depreciation | (2,918,058) | (2,416,090) | (906,254) | (5,364,999) | (11,605,401) |
| Net carrying value | 2,603,258 | 1,132,966 | 2,858 | 13,135,001 | 16,874,083 |
| For the year ended December 31, 2020 | | | | | |
| Opening net carrying value | 2,603,258 | 1,132,966 | 2,858 | 13,135,001 | 16,874,083 |
| Additions | 17,858 | 35,570 | - | - | 53,428 |
| Depreciation | (423,440) | (496,515) | (2,858) | (740,001) | (1,662,814) |
| Closing net carrying value | 2,197,676 | 672,021 | - | 12,395,000 | 15,264,697 |
| At December 31, 2020 | | | | | |
| Cost | 5,539,174 | 3,584,626 | 909,112 | 18,500,000 | 28,532,912 |
| Accumulated depreciation | (3,341,498) | (2,912,605) | (909,112) | (6,105,000) | (13,268,215) |
| Net carrying value | 2,197,676 | 672,021 | - | 12,395,000 | 15,264,697 |

Depreciation expense for the years ended December 31 are charged to program costs and general and administrative expenses as follows:

| | Notes | 2020 | 2019 |
|-------------------------------------|-------|-----------|-----------|
| Program costs | 16 | 1,330,251 | 1,163,078 |
| General and administrative expenses | 17 | 332,563 | 290,769 |
| | | 1,662,814 | 1,453,847 |

Management believes that property and equipment are not impaired as at December 31, 2020 and 2019.

Note 7 - Payables and accrued expenses

The Association's payables and accrued expenses as at December 31 consist of:

| | 2020 | 2019 |
|--------------------------------|-----------|-----------|
| Accrued expenses | 3,744,750 | 4,270,737 |
| Deferred output VAT payable | 731,351 | 1,210,068 |
| Payable to government agencies | 404,426 | 343,458 |
| Provision for employee bonuses | 403,813 | 782,646 |
| | 5,284,340 | 6,606,909 |

Accrued expenses mainly pertain to amounts owed for professional fees, seminar venues and materials, utilities, travel and elevator repairs.

Payable to government agencies consist of withholding taxes and payroll contributions.

Note 8 - Deferred revenue

The Association's deferred revenue for 2020 amounted to P2,427,442 (2019 - P2,262,129) which pertains to advance payment of members for their 2021 and 2022 membership dues (2019 - 2020 and 2021 membership dues). The Association offers 5% early bird discount for membership dues to attract members to pay their dues in advance.

Note 9 - Loans payable

Loans payable as at December 31 consist of:

| | 2020 | 2019 |
|-------------|-----------|-----------|
| Current | 1,300,000 | 1,394,890 |
| Non-current | 4,044,887 | 4,123,252 |
| | 5,344,887 | 5,518,142 |

On March 12, 2012, the Association entered into an agreement with Union Bank of the Philippines (UBP) to buy the present office condominium unit containing an area of 260.56 square meters for a purchase price of P18,500,000.

The total reservation fee and down payment paid amounted to P1,850,000. The balance of P16,650,000 is payable over 15 years, with a fixed interest rate of 11% per annum, in equal monthly installments of P189,244 starting June 16, 2012.

In June 2013, the Association paid an amount of P3,500,000 to reduce the principal balance of the loan. Also, the contract to sell was amended to reduce the monthly installments to P150,000 and the interest rate was changed from a fixed rate of 11% per annum to one subject to re-pricing every 6 months based on market rate, equivalent to the average of 10-year and 20-year Philippine Dealing System Treasury - Fixing (PDST-F) rates, plus an additional 2.5%.

In December 2019, interest rate was subject to repricing every 6 months based on the average Bloomberg Valuation Service (BVAL) rates, plus an additional 2.5%

On July 2, 2020, the following amendments on the Association's agreement with UBP were approved:

1. Monthly interest payments of P20,000 on the 16th of each month starting March 2020 up to May 2027; with any and all unpaid monthly interest due computed at 5.50% to be accumulated and paid one-time together with the principal on maturity date.
2. Unpaid principal payments from March 2020 to February 2021 to be paid on best-efforts basis on or before February 16, 2021.

For the year ended December 31, 2020, the interest rates range was 5.50% to 7.29% (2019 - 7.86% to 9.76%). Interest expense for the year ended December 31, 2020 amounted to P301,035 (2019 - P552,942).

The movements in loans payable presented in the statements of assets, liabilities and fund balances and statements of cash flows for the years ended December 31 are as follows:

| | 2020 | 2019 |
|---------------------------|-----------|-------------|
| Beginning of year | 5,518,142 | 6,765,200 |
| Repayment during the year | (173,255) | (1,247,058) |
| End of year | 5,344,887 | 5,518,142 |

Note 10 - Related party transactions

The Association in the ordinary course of its activities, has transactions with its Key Management Personnel. The table below summarizes the Association's transactions and balances with its Key Management Personnel as at and for the years ended December 31:

| | Transactions | | Due to a related party | | Nature, terms and conditions |
|---|--------------|------|------------------------|-----------|--|
| | 2020 | 2019 | 2020 | 2019 | |
| <i>Advances</i> Key management personnel | - | - | - | (707,340) | Advances from key management personnel were obtained to support the programs and operations of the Association prior to receipt of financial commitment from the funding agencies. |

Remuneration of Key Management Personnel

For the year ended December 31, 2020, key management compensation amounted to P2,717,262 which is recorded within professional fees (2019 - P2,917,225 recorded within salaries and wages) (Note 17).

For the year ended December 31, 2020, the Association has no short-term benefits of key management personnel (2019 - P2,400,000). There are no outstanding balances due from or due to key management personnel as at each reporting period.

Note 11 - Retirement benefit obligation

The Association provides for the estimated retirement benefits required to be paid under Republic Act (RA) No. 7641, the Philippine Retirement Pay Law. Under the said Law, the retirement benefit obligation is computed as one-half of monthly salary for every year of service, a fraction of six months being considered as one whole year. The term one-half of monthly salary shall mean 15 days plus the one-twelfth of the 13th month and the cash equivalent of not more than five days service incentive leaves.

Retirement benefit obligation recognized in the statements of assets, liabilities and fund balances as at December 31, 2020 amounts to P1,076,412 (2019 - P433,491).

The retirement benefit expense recognized in the statements of income under general and administrative expenses for the year ended December 31, 2020 amounted to P642,921 (2019 - P82,500) (Note 17).

Note 12 - Programs

Program revenues for the year ended December 31, 2020 amounting to P15,940,458 (2019 - P29,699,211) are earned from public and exclusive courses, as well as written reports, rendered by the Association.

Note 13 - Membership dues and contributions

Membership dues and contributions for the year ended December 31, 2020 amounted to P5,982,789 (2019 - P5,056,254) are payments made by Associates, Graduates and Fellows members.

Note 14 - Grants

For the year ended December 31, 2020, to support the Association's programs, the Association received grants from various companies amounting to P1,000,000 (2019 - P3,000,000).

Note 15 - Sponsorships

In 2020, the Association received various sponsorships amounting to P780,357 (2019 - P1,450,000).

During the year 2019, the Association received golf sponsorships from the guests of the members and clients amounting to P474,464 for the Association's golf tournament.

Note 16 - Program costs

The components of program costs for the years ended December 31 are as follows:

| | Note | 2020 | 2019 |
|---|------|------------|------------|
| Salaries and wages | | 5,313,094 | 5,913,881 |
| Professional fees | | 5,255,674 | 4,920,379 |
| Corporate governance scorecard expenses | | 1,452,418 | 3,205,625 |
| Depreciation | 6 | 1,330,251 | 1,163,078 |
| Seminars, conferences and exhibits | | 1,219,500 | 7,504,633 |
| Membership dues and subscription | | 513,730 | 656,528 |
| Utilities | | 483,597 | 808,047 |
| Marketing | | 132,322 | 154,615 |
| Office supplies | | 81,265 | 443,370 |
| Training and development | | 36,402 | 653,524 |
| Transportation and travel | | 2,970 | 561,167 |
| Miscellaneous | | 6,122 | 34,697 |
| | | 15,827,345 | 26,019,544 |

Note 17 - General and administrative expenses

The components of general and administrative expenses for the years ended December 31 are as follows:

| | Notes | 2020 | 2019 |
|----------------------------------|-------|-----------|------------|
| Salaries and wages | | 4,373,899 | 7,955,692 |
| Retirement expense | 11 | 642,921 | 82,500 |
| Repairs and maintenance | | 520,356 | 220,394 |
| Professional fees | | 501,668 | 642,014 |
| Depreciation | 6 | 332,563 | 290,769 |
| Utilities | | 139,504 | 213,532 |
| Outside services | | 121,881 | 123,596 |
| Membership dues and subscription | | 102,494 | 130,984 |
| Taxes and licenses | | 72,722 | 175,409 |
| Transportation and travel | | 51,865 | 543,752 |
| Written-off assets | | 28,000 | 434,841 |
| Office supplies | | 18,563 | 130,307 |
| Training and development | | - | 121,009 |
| Miscellaneous | | 14,166 | 318,880 |
| | | 6,920,602 | 11,383,679 |

Note 18 - Income taxes

The details of provision for income tax in the statement of income for the years ended December 31 are as follows:

| | 2020 | 2019 |
|---------------------------------------|----------|---------|
| Current income tax expense | 44,212 | 181,011 |
| Deferred income tax (benefit) expense | (21,858) | 15,587 |
| | 22,354 | 196,598 |

Deferred income tax (DIT)

The Association has no DIT liability as at December 31, 2020 (2019 - P21,858).

The Tax Reform Act (RA) of 1997 (the Act) introduced NOLCO as a deduction from taxable income for the three (3) consecutive years immediately following the year such loss was incurred. However, as part of providing COVID-19 response and recovery intervention by the Philippine Government, RA No. 11494, The Bayanihan to Recover as One Act, was approved on September 11, 2020 where NOLCO for taxable years 2020 and 2021 can be applied to the taxable income in five (5) succeeding taxable years. The Association's NOLCO arises from operating losses incurred from its activities.

The details of the Association's NOLCO which can be claimed as deductions from regular corporate taxable income for the year ended December 31, 2019 are as follows:

| Year incurred | Year of expiration | Amount |
|-------------------------------|--------------------|-----------|
| 2018 | 2021 | 381,822 |
| Applied NOLCO during the year | | (381,822) |
| | | - |

As at December 31, 2020, NOLCO and the related unrecognized DIT asset amounted to P1,277,093 and P383,128, respectively. NOLCO incurred in 2020 will expire in 2025.

These NOLCO are available as valid deduction for tax purposes on the Association's activities which are subject to regular tax. The realization of future tax benefit relating to the DIT asset is dependent on many factors including the Association's ability to generate future taxable income. The Association's management has considered these factors in reaching its conclusion not to recognize some DIT asset relating to its NOLCO as at December 31, 2020 and 2019.

As disclosed in Note 1.1, the Association is subject to normal tax for activities not mentioned in the certificate of tax exemption. Consequently, as provided under the Tax Reform Act of 1997, the Association shall pay the MCIT or the normal tax, whichever is higher, for the taxable income derived from the taxable activities. Any excess of MCIT over the normal income tax shall be carried forward on an annual basis and credited against the normal income tax for the next three succeeding taxable years. MCIT shall be imposed beginning on the fourth taxable year immediately following the taxable year in which such corporation started its business operations.

Details of MCIT as at December 31 follow:

| Year of incurrence | Year of expiry | 2020 | 2019 |
|------------------------|----------------|---------|---------|
| 2018 | 2021 | 239,256 | 239,256 |
| 2019 | 2022 | 181,011 | 181,011 |
| 2020 | 2023 | 44,212 | - |
| Unrecognized DIT asset | | 464,479 | 420,267 |

A reconciliation of the provision for income tax applicable to income before tax computed at the statutory tax rate to the income tax expense at the Association's effective tax rate for the years ended December 31 is summarized below:

| | 2020 | 2019 |
|--|-----------|-----------|
| Income tax at statutory rate at 30% | 176,331 | 621,991 |
| Adjustments for: | | |
| Unrecognized DTA | 741,360 | 310,916 |
| Non-deductible expenses | 9,016 | 177,879 |
| Interest income subjected to final tax | (1,477) | (1,600) |
| Net income from exempt activities | (902,876) | (798,041) |
| Application of NOLCO | - | (114,547) |
| Income tax expense | 22,354 | 196,598 |

Note 19 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following supplementary information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Revenue Regulations (RR) 15-2010

(i) Output value-added tax (VAT)

Details of Association's output VAT declared in 2020 are as follows:

| | VAT taxable | VAT-exempt | Total |
|------------------------------|-------------|------------|------------|
| Receipts | 15,699,150 | 6,982,789 | 22,681,939 |
| Receipts from the government | 4,948,499 | - | 4,948,499 |
| | 20,647,649 | 6,982,789 | 27,630,438 |
| Output VAT rate | 12% | 0% | |
| Total Output VAT | 2,477,718 | - | 2,477,718 |

(ii) Input VAT

Details of the Association's input VAT claimed during 2020 are as follows:

| | |
|--|-------------|
| Balance at January 1 | 136,100 |
| Add: Current year's domestic purchases/payments for: | |
| Goods other than for resale or manufacture | 71,770 |
| Services lodged under other accounts | 805,658 |
| Tax credit/payments | 1,546,257 |
| Total available input VAT | 2,559,785 |
| Less: Claims for output VAT | (2,477,718) |
| Balance, December 31 | 82,067 |

(iii) Importations

The Association did not import any goods in 2019, hence did not pay any custom duties and tariff fees.

(iv) Excise tax

The Association is not engaged in the manufacture or production of certain specified goods or articles subject to excise tax for domestic sale or consumption or for any other disposition.

(v) *Documentary stamp tax*

The Association has no transactions for the year ended December 31, 2020 pertaining to acceptance, assignment, sale or transfer of an obligation, right, or property requiring payment of documentary stamp tax.

(vi) *All other taxes and licenses*

All other local and national taxes paid for the year ended December 31, 2020 consist of:

| | |
|---------------------|---------------|
| Business permits | 71,322 |
| Annual registration | 500 |
| Others | 900 |
| | <u>72,722</u> |

(vii) *Withholding taxes*

Details of the Association's withholding taxes paid and accrued in 2020 are as follows:

| | Paid | Accrued | Total |
|---------------------------------|------------------|----------------|------------------|
| Withholding tax on compensation | 803,499 | 205,632 | 1,009,131 |
| Expanded withholding tax | 620,262 | 123,000 | 743,262 |
| | <u>1,423,761</u> | <u>328,632</u> | <u>1,752,393</u> |

(viii) *Tax assessments/cases*

There are no outstanding tax assessments with the BIR and/or tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at December 31, 2020.

Revenue Regulations 34-2020

On December 18, 2020, BIR issued RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents by providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the Annual Income Tax Return.

The Association is not covered by the requirements and procedures for related party transactions provided under this RR as it does not meet any criteria of taxpayers prescribed in Section 2 of the RR.