**PHILIPPINE CHARITY SWEEPSTAKES OFFICE**

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in Philippine Peso unless otherwise stated)

1. **CORPORATE INFORMATION**

The Philippine Charity Sweepstakes Office (PCSO) was created under Philippine Legislature Act No. 4130 on October 30, 1934 and later amended by Republic Act (RA) No. 1169 in 1954 and Batas Pambansa (BP) Blg. 42 on September 24, 1979. The PCSO is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character.

In adherence to its main thrust of providing funds for health programs and other charities of national character, the PCSO is engaged in various social welfare and development programs. The main programs of the agency are as follows: endowment fund/quality health care program; individual medical assistance program; community outreach program; ambulance donation program; national calamity and disaster program; and hospital renovation and improvement of health care facilities.

To support and sustain the foregoing mandated tasks, the PCSO holds and conducts charity sweepstakes, races, and lotteries and engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs. It also undertakes other activities to enhance and expand such fund-generating operations as well as strengthen the agency’s fund-management capabilities.

The main products of the PCSO are the Sweepstakes and the Lottery games. The Sweepstakes game has steadily been evolving through the years to be able to conform with the changing demand of times, to keep the game interesting to all Sweepstakes enthusiasts, to attract more clients, and to maintain a variety of Sweepstakes products readily available in the market. Various game types have been introduced and other game innovations are constantly being conceptualized, particularly the traditional and scratch and match variety**.**

1. **Lotto Games**

The PCSO offers five (5) 6-pick number games, namely: Lotto 6/42, Mega Lotto 6/45, Super Lotto 6/49, Grand Lotto 6/55 and the Ultra Lotto 6/58. All of these number games can be played using the system play (systems 7 to 12), 5 Roll, and Lucky Pick.

The PCSO Board of Directors approved the implementation of the grant of one per cent (1%) share on Jackpot Winnings to Lotto Agents who had sold the Jackpot winning Ticket, not to exceed the amount of One Million Pesos (P1,000,000), to be taken from the Jackpot Prizes of the winners as per Board Resolution No. 223, Series of 2017 dated September 28, 2017.

The national games operated by the Corporation covers the area of Luzon, Visayas and Mindanao. Each game has scheduled draw dates and being drawn at PCSO Main Office Draw Court in Mandaluyong City. The new Lotto Minimum Jackpot Prize (net of 1% Agent’s Share) was implemented effective October 15, 2017 as per Memorandum Order No. 2017-192. (See table below)

| **Type of Game** | **Days** | **Minimum Jackpot**  **Prize (before October 15, 2017)** | **Minimum Jackpot**  **Prize (on October 15, 2017)** |
| --- | --- | --- | --- |
| Lotto 6/42 | Tuesday/Thursday/Saturday | Php 6 Million | Php 5.94 Million |
| Mega Lotto 6/45 | Monday/Wednesday/Friday | Php 9 Million | Php 8.91 Million |
| Super Lotto 6/49 | Tuesday/Thursday/Sunday | Php 16 Million | Php 15.84 Million |
| Grand Lotto 6/55 | Monday/Wednesday/Saturday | Php 30 Million | Php 29.7 Million |
| Ultra Lotto 6/58 | Tuesday/Friday/Sunday | Php 50 Million | Php 49.5 Million |

The following are digit games being operated by the Corporation. Draws are being conducted at PCSO Main Office Draw Court in Mandaluyong City.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Type of Game** | **Frequency of draws** | **Coverage** | **Days** | **Minimum Guaranteed Amount**  **(per Php 10 play)** |
| 6 Digit | Once (every 9PM) | Luzon | Tuesday/ Thursday/ Saturday | Php150,000 |
| 4 Digit | Once (every 9PM) | Luzon, Visayas  and Mindanao | Monday/ Wednesday/ Friday | Php 10,000 |
| 3 Digit (Suertres) | Three times (3x) daily (11AM-4PM-9PM) | Monday to Sunday | Php 4,500 |
| 2 Digit (EZ2) | Three times (3x) daily (11AM-4PM-9PM) | Monday to Sunday | Php 4,000 |

1. **Lotto Prize Fund and Revenue Allocation**

The PCSO Board of Directors approved the restructuring of the Lotto Prize Fund as per Board Resolution No. 295, Series of 2012 dated September 10, 2012 and the pari-mutuel prize system on all digit games with capping on the First Prize as per Board Resolution No. 320, Series of 2012 dated October 04, 2012.

The new Lotto price increase per bet and new prize structure were implemented effective May 17, 2013 as per Lotto Circular 2013-02.

|  |  |  |
| --- | --- | --- |
| **GAME** | **AMOUNT PER SHARE (BASED ON NUMBER OF WINNERS)** | |
| **5 WINNING NUMBERS** | **4 WINNING NUMBERS** |
| 6/42 | Up to 25,000.00 | Up to 1,000.00 |
| 6/45 | Up to 50,000.00 | Up to 1,500.00 |
| 6/49 | Up to 70,000.00 | Up to 2,000.00 |
| 6/55 | Up to 200,000.00 | Up to 3,000.00 |
| 6/58 | Up to 280,000.00 | Up to 3,800.00 |

Revenue Allocation for Lotto Games, 6-digit (6D), 4-digit (4D), Suertres Lotto, and the EZ2 are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Allocation for PGMC Old Agents from January 1 to July 22, 2018** | | **Allocation for PGMC New Agents and POSC Agents from January 1 to July 22, 2018** | | **Allocation for PGMC Old and New Agents and POSC Agents starting July 23, 2018** | |
| **Particulars** | **Lotto Games** | **6D, 4D, Suertres Lotto, and EZ2** | **Lotto Games** | **6D, 4D, Suertres Lotto, and EZ2** | **Lotto Games** | **6D, 4D, Suertres Lotto, and EZ2** |
| **Gross Receipts** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Printing Cost | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Net Receipts** | **98.00%** | **98.00%** | **98.00%** | **98.00%** | **98.00%** | **98.00%** |
|  |  |  |  |  |  |  |
| **I. Prize Fund (55% of NR)** | **53.90%** | **53.90%** | **53.90%** | **53.90%** | **53.90%** | **53.90%** |
| Agent's Commission | 7.50% | 5.00% | 7.50% | 5.00% | 7.50% | 5.00% |
| Direct Cost - ELA | 6.07% | 6.07% | 4.74% | 4.74% | 3.69% | 3.69% |
| Tax | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% |
| Prize Margin/Reserved Fund | 5.63% | 4.13% | 6.96% | 5.46% | 8.01% | 6.51% |
| Jackpot Prize Pool | 20.00% | 30.00% | 20.00% | 30.00% | 20.00% | 30.00% |
| Lower Prizes | 12.00% | 6.00% | 12.00% | 6.00% | 12.00% | 6.00% |
|  |  |  |  |  |  |  |
| **II. Charity Fund (30% of NR)** | **29.40%** | **29.40%** | **29.40%** | **29.40%** | **29.40%** | **29.40%** |
| Education | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Direct Cost - ELA | 3.31% | 3.31% | 2.59% | 2.59% | 2.02% | 2.02% |
| Documentary Stamp Tax | 20.00% | 20.00% | 20.00% | 20.00% |  |  |
| Financial Assistance | 5.09% | 5.09% | 5.81% | 5.81% | 26.38% | 26.38% |
|  |  |  |  |  |  |  |
| **III. Operating Fund (15% of NR)** | **14.70%** | **14.70%** | **14.70%** | **14.70%** | **14.70%** | **14.70%** |
| Direct Cost - ELA | 1.65% | 1.65% | 1.29% | 1.29% | 0.96% | 0.96% |
| Net Operating Fund | 13.05% | 13.05% | 13.41% | 13.41% | 13.74% | 13.74% |

1. **PCSO Lotto Express (KENO)**

The PCSO Lotto Express (Keno) started its selling and draw operations on March 06, 2006 with only six (6) outlets in the National Capital Region (NCR).

As of December 31, 2017, there were 3,069 active terminals nationwide. The Keno game can be played from choosing your numbers or Lucky Pick from Spot 1 to Spot 10, Hi or Low. Twenty (20) Keno winning numbers, out of eighty (80) numbers, are electronically drawn thru an application program called “Random Number Generator” which is being simultaneously displayed in every outlet nationwide. The Keno draw is being held every 10 minutes’ interval, from 7:00 am to 12:00 mn, from Monday to Sunday. With the base price of P10 only, jackpot prizes can be won ranging from a minimum of P25 (Spot 1) to as high as P1, 000,000 (Spot 10).

The Revenue Allocation of PCSO Lotto Express (KENO) is as follows:

|  |  |  |
| --- | --- | --- |
|  | **Allocation from January 1 – July 22, 2018** | **Allocation starting July 23, 2018** |
| **Gross Receipts** | **100.00%** | **100.00%** |
| Printing Cost | 2.00% | 2.00% |
| **Net Receipts** | **98.00%** | **98.00%** |
|  |  |  |
| **I. Prize Fund (55% of NR)** | **53.90%** | **53.90%** |
| Agent's Commission | 5.00% | 5.00% |
| Direct Cost - ELA | 9.24% | 9.24% |
| Tax | 2.70% | 2.70% |
| **Prize Margin/Reserved Fund** | **-18.04%** | **-18.04%** |
| Jackpot Prize Pool | 55.00% | 55.00% |
|  |  |  |
| **II. Charity Fund (30% of NR)** | **29.40%** | **29.40%** |
| Direct Cost - ELA | 5.04% | 5.04% |
|  | 20.00% | - |
| Financial Assistance | 4.36% | 24.36% |
| Documentary Stamp Tax |  |  |
| **III. Operating Fund (15% of NR)** | **14.70%** | **14.70%** |
| Direct Cost - ELA | 2.52% | 2.52% |
| Net Operating Fund | 12.18% | 12.18% |

1. **Small Town Lottery**

In pursuit of its mandate and directives of the President of the Philippines, the PCSO Board of Directors conducted experimental test-run for the Small Town Lottery (STL) Operations, and thereafter evaluated its feasibility. Through Board Resolution No. 2433, Series of 2009, approved on 18 December 2009, STL was declared as one of the regular products of the PCSO. Further, Board Resolution No. 019 Series of 2016, approved the expansion of STL operations in other provinces and cities.

The STL shall be implemented locally all over the country through Authorized STL Agents (ASA), formerly called Authorized Agent Corporations (AAC), taking into consideration the manpower of the PCSO and other relevant factors, as may be determined by the PCSO Board of Directors. It shall be the only legal and authorized numbers game nationwide, and the PCSO ASA are the only entities or persons authorized to operate and conduct STL in their areas operation.

The STL shall be implemented with the following objectives:

1. To raise additional funds for PCSO’s health programs, medical assistance and services, and charities of national character;
2. To provide funds to various local government units for their health programs and medical assistance and services;
3. To provide an alternative to illegal number games/operations and to aid their eradication (to stamp out jueteng and “masiao”); and
4. To provide additional opportunities for employment.

STL Area of Operation applied for by the ASA could be a province or a chartered city; provided, however, that in the case of Metro Manila, the STL area of Operation shall be in accordance with the following districts:

1. Southern District comprising of the Cities of Makati, Pateros, Taguig, Muntinlupa, Las Piñas, Paranaque, and Pasay;
2. Western District comprising the City of Manila only;

Central District comprising Quezon City only;

1. Northern District comprising the Cities of Caloocan, Malabon, Navotas and Valenzuela and,
2. Eastern District comprising the Cities of Pasig, Mandaluyong, San Juan and Marikina;

As of December 31, 2018, there were 85 operational STL ASAs nationwide:

|  |  |
| --- | --- |
| National Capital Region | 2 |
| Northern and Central Luzon | 24 |
| Southern Tagalog and Bicol Region | 14 |
| Visayas Region | 19 |
| Mindanao Region | 26 |
| **Total** | **85** |

*\*2 were terminated but remain operational (Charity Games of Chance Corporation and Mekas Gaming & Entertainment Corporation)*

The STL Games are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Number Range** | **Description** | **Bet:Pay-Out** |
| 2-Number Game | 1 – 31 | A combination of two (2) numbers is drawn, one from each set within the number range. | P1:P400 |
| Suwer3 | 0 – 9 | A combination of three (3) numbers is drawn, one from each set within the number range. | P1:P450 |
| Pares | 1 – 38 | A combination of two (2) numbers is drawn, one from each set within the number range. | P1:P800 |
| A player wins if his chosen combination matches that of the drawn combination in exact order. Other variations or games with designs and features which may hereafter be requested by the ASA and authorized by the PCSO Board of Directors. | | | |

The PCSO monthly Gross Sales Receipts for STL would be based on approved minimum Presumptive Monthly Retail Receipts (PMRR) of an ASA subject to periodic review. The monthly share from STL sales is equivalent to 21.20% of the Gross Receipts for the STL Charity Fund and 0.70% for the Operating Fund. On 6 September 2018, under Board Resolution No. 0282, s. 2018, PCSO’s monthly share for the STL Charity Fund increased to 21.20% on the Third Quarter of 2018 to extend allotment to Philippine National Police (PNP) Health Services and National Bureau of Investigation (NBI).

The STL Revised Implementing Rules and Regulations (RIRR) aims to improve the STL operations and cover the nationwide expansion of STL operations.

Hereunder are the changes in Revenue Allocation based on Board Resolution No. 511 series of 2014 and its revised version under Board Resolution No. D-0020, s. 2016. The PNP Share was further revised on 24 November 2016 because of the PNP-intensified activities. Also under Board Resolution No. 0063, s. 2017, Congressional District and Provincial Government share were revised on April 24, 2017. Further amended in compliance with RA 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN law) and for the purpose of enhancing and strengthening cooperation in curbing the operation of illegal number games under Board Resolution No. 0282, s. 2018 as shown in the next table:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | BR No. | BR No. | BR No. | BR No. | BR No. |
| Particulars | 511 | D-0020 | D-0063 | D-0063 | 0282 |
|  | s. 2014 | s. 2016 | s. 2016 | s. 2017 | s 2018 |
| **I. Gross Sales** | 100.000% | 100.000% | 100.000% | 100.000% | 100.00% |
| Printing Cost | 2.000% | 2.000% | 2.000% | 2.000% | 2.00% |
| Documentary Stamp Tax | 0.000% | 0.000% | 0.000% | 0.000% | 20.00% |
| **II. Net Sales** | 98.000% | 98.000% | 98.000% | 98.000% | 78.00% |
| **III. PRIZE FUND (55% of Net Sales)** | 53.900% | 53.900% | 53.900% | 53.900% | 42.90% |
| Agency Commission | 10.000% | 10.000% | 10.000% | 10.000% | 10.00% |
| BIR Tax (5% of PF) | 2.695% | 2.695% | 2.695% | 2.695% | 2.145% |
| Net Prize Fund | 41.205% | 41.205% | 41.205% | 41.205% | 30.755% |
| **IV. CHARITY FUND (30% of Net Sales)** | 29.400% | 29.400% | 29.400% | 29.400% | 23.400% |
| City/Municipality | 7.000% | 3.000% | 3.000% | 3.000% | 0.500% |
| Congressional District | 1.000% | 0.250% | 0.250% | 0.750% | 0.000% |
| Provincial Government | 1.500% | 0.750% | 0.750% | 1.000% | 0.500% |
| National Bureau of Investigation | 0.000% | 0.000% | 0.000% | 0.000% | 0.200% |
| Philippine National Police | 3.000% | 2.500% | 2.500% | 2.500% | 1.000% |
| PNP Health Services | 0.000% | 0.000% | 0.000% | 0.000% | 1.000% |
| National Headquarters | 0.500% | 0.400% | 0.400% | 0.400% | 0.000% |
| Police Regional Office | 0.500% | 0.400% | 0.400% | 0.400% | 0.000% |
| Police Provincial Office | 1.000% | 0.600% | 0.500% | 0.500% | 0.000% |
| Local Police Station | 1.000% | 0.600% | 0.700% | 0.700% | 0.000% |
| CIDG-National | 0.200% | 0.200% | 0.200% | 0.200% | 0.000% |
| CIDG-Regional | 0.200% | 0.200% | 0.200% | 0.200% | 0.000% |
| CIDG-Provincial | 0.100% | 0.100% | 0.100% | 0.100% | 0.000% |
| Documentary Stamp Tax | 10.000% | 10.000% | 10.000% | 10.000% | 0.000% |
| PCSO Charity Fund | 6.900% | 12.900% | 12.900% | 12.150% | 21.200% |
| **V. OPERATING FUND (15% of Net Sales)** | 14.700% | 14.700% | 14.700% | 14.700% | 11.700% |
| Operating Fund Expenses (AAC) | 10.000% | 10.000% | 10.000% | 10.000% | 11.000% |
| Operating Fund Expenses (PCSO) | 4.700% | 4.700% | 4.700% | 4.700% | 0.700% |
| **TOTAL** | **98.000%** | **98.000%** | **98.000%** | **98.000%** | **78.000%** |

1. **Scratch-It**

Scratch-It is a PCSO lottery game that involves scratching a play area on a ticket to reveal a winning symbol or pattern equivalent to a cash prize that is paid to the player immediately. There are two (2) price points for Scratch it tickets: P20 with prizes of up to P200,000 and P50 which can win up to P500,000. The game’s prize tiers differ from each other, ranging from P20 (balik-taya) to P500, 000 jackpot prize. All prizes paid are tax-free as provided for under Section 4 of RA 1169, as amended.

The Memorandum of Agreement (MOA) with Pacific Online Systems Corporation (POSC) has expired on 30 November 2016, however, Article 1 of the MOA provides that “all tickets disbursed within the aforesaid period shall be allowed to be marketed continuously until fully-sold and the corresponding winnings thereof shall be honored and paid even after the period herein provided.”

1. **National Instant Sweepstakes Program**

The PCSO Board of Directors approved the introduction and operation of the Instant Sweepstakes project to generate continuing additional revenues for the agency.

This project is being conducted with Authorized Distributor under a non-exclusive all-in contract involving production, distribution, marketing, advertising and selling of said Instant Sweepstakes tickets nationwide on a considered sold basis and at no cost nor risk to PCSO.

**Personnel Complement**

Shown below is the number of PCSO employees as of December 31, 2018:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Head Office** | **Branch Offices** | **Total** |
| Permanent Employees | 595 | 444 | 1039 |
| Co Terminus | 54 | 4 | 58 |
| Confidential Agents | 264 | 241 | 505 |
| Consultants | 75 | 0 | 75 |
| Job Order | 48 | 25 | 73 |
| **Total** | **1,036** | **714** | **1,750** |

The Members of the Board of Directors are: Anselmo Simeon P. Pinili, the Chairman who assumed office on January 17, 2018; Alexander F. Balutan, the General Manager and Vice-Chairman; Marlon U. Balite; Sandra M. Cam; and Atty. Jesus Manuel C. Suntay, who resigned from his post on October 15, 2018. Atty. Wesley A. Barayuga is the Board Secretary.

The PCSO’s registered office, which is also its principal place of business, is located at Sun Plaza Building, 1507 Shaw Boulevard corner Princeton St., Mandaluyong City 1552. It has five branch operations departments, namely: National Capital Region (NCR), Northern and Central Luzon (NCL), Southern Tagalog and Bicol Region (STBR), Visayas, and Mindanao.

Below is the composition of 67 Branch Offices of PCSO as of December 31, 2018:

|  |  |
| --- | --- |
| Northern and Central Luzon | Aurora, Bataan, Benguet, Bulacan, Cagayan, Ilocos Norte, Ilocos Sur, Ifugao, Isabela, Kalinga, La Union, Mountain Province, Nueva Ecija, Nueva Viscaya, Pampanga, Pangasinan, Tarlac and Zambales |
| Southern Tagalog and Bicol Region | Albay, Batangas, Camarines Norte, Camarines Sur, Catanduanes, Cavite, Laguna, Marinduque, Masbate, Occidental Mindoro, Oriental Mindoro, Palawan, Quezon, Rizal, Romblon and Sorsogon |
| Visayas | Aklan, Antique, Bohol, Capiz, Cebu, Iloilo, Leyte, Negros Occidental, Negros Oriental, Northern Samar, Southern Leyte, Western Samar, Biliran, Eastern Samar |
| Mindanao | Agusan del Norte, Agusan del Sur, Bukidnon, Davao del Norte, Davao del Sur, Davao Oriental, Guimaras, Lanao Del Norte, Maguindanao, Misamis Occidental, Misamis Oriental, North Cotabato, South Cotabato, Sultan Kudarat, Surigao del Norte, Surigao del Sur, Zamboanga del Norte, Zamboanga del Sur, Zamboanga Sibugay. |

The financial statements of PCSO for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on June 14, 2019.

1. **BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**
2. **Statement of Compliance with Philippine Financial Reporting Standards (PFRSs)**

The financial statements of the PCSO have been prepared in accordance with Philippine PFRSs, which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC).

1. **Basis of Preparation**

The financial statements of the PCSO have been prepared on the historical cost basis unless otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the PCSO takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
* Level 2 inputs are inputs, other than quoted prices included within Level1, that are observable for the asset or liability, either directly or indirectly; and
* Level 3 inputs are unobservable inputs the asset or liability.

1. **Functional and Presentation Currency**

The financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the PCSO operates. All amounts are rounded off to the nearest peso, except when otherwise indicated.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
2. **First Time Adoption of PFRS**

The PCSO’s financial statements for the year ended December 31, 2018 are its first annual financial statements prepared under accounting policies that comply with PFRS. The PCSO prepared its opening PFRS statement of financial position on January 1, 2017. The financial statements are presented in accordance with PFRS 1, *First Time Adoption of the Philippine Financial Reporting Standards*.

**PFRS 1: First Time Adoption of PFRSs**

These are the Corporation’s first financial statements prepared in accordance with PFRSs and PFRS 1-First-time Adoption of Philippine Financial Reporting Standards has been applied.

**PFRS 7: Financial Instruments: Disclosures**

The Corporation provided a reconciliation of equity which shows that the Financial Instruments are already in accordance with PFRS 7, specifically short term and long term investments that were reclassified to financial assets at fair value through profit or loss, financial assets at fair value through other income, and financial assets at amortized cost.

**PFRS 9: Financial Instruments**

The Corporation recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provision of the instruments. The Corporation is already adopting this from previous financial statements.

**PFRS 13: Fair Value Measurement**

The financial instruments have been prepared on a historical basis, except for the financial assets at fair value through profit or loss and other comprehensive income which are already measured at fair value which resulted in unrealized loss on investment.

**PAS 1: Presentation of Financial Statements**

The Corporation’s ­financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations which have been approved by the Financial Reporting Standards Council (FRSC).

**PAS 2: Inventories**

Inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition as the Corporation is already practicing in its recording.

In addition, pursuant to COA Circular No. 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories before issuance to end-user that resulted in adjustment of P5,475,247 in Retained Earnings.

**PAS 7: Statement of Cash Flows**

The Corporation prepares a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented. It prepares cash flow based on its classification as to Operating, Investing and Financing activities which includes cash and cash equivalents.

**PAS 8: Accounting Policies, Changes in Accounting Estimates and Errors**

The Corporation conforms to applicable accounting policies and changes when it is recorded retrospectively like pursuant to COA Circular No. 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories before issuance to end-user resulting in adjustment of P5,475,247 in Retained Earnings. In addition, prior period errors like unrecorded expense, interest, depreciation and amortization and double recording of transactions from previous year are also recorded retrospectively amounting to P594,426,356**.**

**PAS 10: Events after the Reporting Period**

The Corporation determines events after its reporting period whether it needs to adjust the financial statements along with the required disclosures or may only require disclosures. There was no significant event that happened after the reporting period.

**PAS 12: Income Taxes**

The Corporation computes current income tax based on Minimum Corporate Income Tax (MCIT) and Regular Corporate Income Tax (RCIT) whichever is higher. In addition, deferred tax asset and deferred tax liabilities are also recognized for terminal leave and unrealized gain on forex amounting to P10,725,576 and P5,114,940 as of December 31, 2018, respectively.

**PAS 16: Property, Plant and Equipment**

The Corporation’s depreciable properties are stated at cost less accumulated depreciation and amortization. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. When property and equipment 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 statement of comprehensive income. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. This is computed at cost less residual value of 5 per cent of acquisition cost over useful life.

In addition, pursuant to COA Circular No. 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories before issuance to end-user that resulted in adjustment of P5,475,247 in Retained Earnings.

**PAS 17: Leases**

The Corporation enters in leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The Corporation also intends to apply PFRS 16 which is effective on January 1, 2019.

**PAS 18: Revenue**

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The Corporation’s main revenue arises from service and business income and non-operating income.

**PAS 19: Employee Benefits**

The Corporation recognizes wages and other contributions as short-term employee benefit and termination benefit as post-employment benefit.

**PAS 24: Related Party Disclosures**

The Corporation’s related parties’ transaction pertains to the remuneration of the Key Management Personnel which includes per diem being received by the Board of Directors as short-term employee benefit and the terminal leave benefit by the President as post-employment benefit.

**PAS 36: Impairment of Assets**

The Corporation provides allowance in its financial asset which is normally in its Notes Receivable, Interest Receivable and Inter-Agency Receivable. It also reverses any amount of allowance provided that will be recovered. In CY 2017, an allowance of P136,396,991 for impairment loss pertaining to Due from BTr was reversed.

**PAS 37: Provisions, Contingent Liabilities and Contingent Assets**

**Provisions**

Provisions are recognized when PCSO has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When PCSO expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

**Contingent Liabilities**

PCSO does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying benefits or service potential is remote.

**Contingent Assets**

PCSO does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset’s value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**PAS 38: Intangible Assets**

Intangible assets are measured and carried at cost less accumulated amortization. Internally generated intangible assets development costs are accounted for according to the stages of development as follows (see Note 13):

* + - * 1. Planning – accounted for similar to research and development cost and charged to expense of the period on which it is incurred.
        2. Application development – capitalized and amortized over estimated useful life (see Note 6.5d3) to the extent that content is developed for purposes other than to advertise and promote the products and services of PRA.
        3. Content development are charged to expense.
        4. Operating the web site or application is also charged to expense.

**PAS 40: Investment Property**

The Corporation recorded its Investment Property at cost, depreciated using straight-line method with 30 years useful life or lease term whichever is shorter, and with salvage value of 5 per cent.

**Reconciliation**

The following reconciliations show the effect on the PCSO’s Statement of Financial Position of the transition from the Generally Accepted Accounting Principles (GAAP) to the PFRS at January 1, 2017 and December 31, 2017, and the PCSO’s Statement of Income for the year ended December 31, 2017.

PCSO reclassifies items that it recognized in accordance with previous GAAP as one type of asset, liability or component of equity, but are different type of asset, liability or component of equity in accordance with PFRSs.

Reconciliation of the assets, liabilities and equity showing reclassification of the account balances as of January 1, 2017 and December 31, 2017, respectively, is shown in the following tables:

**RECONCILIATION OF ASSETS, LIABILITIES & EQUITY**

**AT JANUARY 1, 2017 (TRANSITION DATE)**

| **Effect of Transition to PFRSs** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Previous GAAP** | **Reclassification** | **Recognition & Measurement** | **PFRSs** |  |
| **ASSETS** | |  |  |  |  |  |
| Current Assets | |  |  |  |  | Current Assets |
|  | Cash & Cash Equivalent | 5,688,002,431 | (17,241,900) |  | 5,670,760,531 | Cash & Cash Equivalent |
|  |  |  | 17,241,900 |  | 17,241,900 | Other Current Assets-Advances |
|  | Short-term Investments | 3,675,813,503 | (3,675,813,503) |  |  |  |
|  |  | - | 3,675,813,503 |  | 3,675,813,503 | Other Investments |
|  | Receivables | 1,361,091,417 | (10,303,969) |  | 1,350,787,448 | Receivables |
|  |  |  | 10,303,969 |  | 10,303,969 | Other Current Assets-Advances to Officers & Employees |
|  | Prepayments | 14,281,764 | (12,295,097) |  | 1,986,667 | Other Current Assets-Prepayments |
|  | Inventories | 223,776,486 |  |  | 223,776,486 | Inventories |
|  | Other Current Assets | 20,069,877 | (20,069,877) |  | - | Other Non-current Assets-Guaranty Deposits and Other Deposits |
|  | **Total Current Assets** | **10,983,035,478** | **(32,364,974)** |  | **10,950,670,504** | **Total Current Assets** |
|  | |  |  |  |  |  |
| Non-current Assets | |  |  |  |  | Non-current Assets |
|  | Long-Term Investments | 215,068,855 |  |  | 215,068,855 | Other Investment-Investment in Time Deposits, Local Currency |
|  | Held-to-Maturity Investments | 2,830,616,974 | (2,830,616,974) |  | (0) |  |
|  |  |  | 200,000,000 |  | 200,000,000 | Financial Assets-Investment in Bonds-Local |
|  |  |  | 2,480,616,974 |  | 2,480,616,974 | Financial Assets -Financial Assets at Fair Value through other Comprehensive Income |
|  |  |  | 150,000,000 |  | 150,000,000 | Other Investments-Investment in Time Deposits, Local |
|  | Property, plant & Equipment | 1,099,693,184 | (312,112,851) |  | 787,580,333 | Property, plant & Equipment |
|  |  |  | 38,872,714 |  | 38,872,714 | Intangible Asset |
|  |  |  | 273,240,137 |  | 273,240,137 | Investment Property, Land |
|  | Other Assets | 752,310,612 |  |  | 752,310,612 | Other Assets |
|  |  |  | 780 |  | 780 | Other Assets - Deferred Assets /Losses |
|  |  |  | 12,294,317 |  | 12,294,317 | Other Non - Current Assets-Prepayments |
|  |  |  | 19,944,294 |  | 19,944,294 | Other Assets - Guaranty Deposits |
|  |  |  | 125,582 |  | 125,52 | Other Assets - Other Assets |
|  | **Total Non-Current Assets** | **4,897,689,625** | **32,364,973** |  | **4,930,054,598** | **Total Non - Current Assets** |
| **TOTAL ASSETS** | | **15,880,725,103** |  |  | **15,880,725,103** |  |
|  | |  |  |  |  |  |
| **LIABILITIES** | |  |  |  |  |  |
| Current Liabilities | |  |  |  |  | Current Liabilities |
|  | Accounts Payable | 5,812,886,347 | (89,639,849) |  | 5,723,246,498 | Financial Liabilities |
|  |  |  | 4,827,644 |  | 4,827,644 | Provisions - Current |
|  | Inter-Agency Payables | 343,570,559 |  |  | 343,570,559 | Inter-Agency Payables |
|  | Intra-Agency Payables | 4,851,187,739 | (4,851,187,739) |  | - | Retained Earnings-Charity Fund and Prize Fund |
|  | Other Current Liability | 1,241,776,511 | (465,660,761) |  | 776,115,750 | Other Current Liability |
|  | **Total Current Liabilities** | 12,249,421,156 | (5,401,660,705) |  | 6,847,760,451 | **Total Current Liabilities** |
|  |  |  |  |  |  |  |
| Non-current Liabilities | |  |  |  |  | Non-current Liabilities |
|  | Deferred Credits | 28,888,338 | - |  | 28,888,338 | Deferred Credits |
|  |  |  | 84,812,205 |  | 84,812,205 | Provisions- Non-Current |
|  |  |  | 465,660,761 |  | 465,660,761 | Non-Current Liabilities - Trust Liabilities |
|  | **Total Non-Current Liabilities** | **28,888,338** | **550,472,966** |  | **579,361,304** | Total Non-current Liabilities |
|  | **Total Liabilities** | **12,278,309,494** | **(4,851,187,739)** |  | **7,427,121,755** | **Total Liabilities** |
|  |  |  |  |  |  |  |
| **EQUITY** | |  |  |  |  |  |
|  | Appraisal Capital | 708,617,561 | (708,617,561) |  |  | Retained Earnings |
|  | Restricted Capital | 2,400,000,000 | (2,400,000,000) |  |  | Retained Earnings - Operating Fund (APPROPRIATION) |
|  | Contingent Surplus | 5,678,727 | (5,678,727) |  |  | Retained Earnings |
|  | Government Equity | 5,410 | (5,410) |  |  | Retained Earnings |
|  | Retained Earnings (Deficit) | 488,113,911 | 15,656,147 |  | 503,770,058 | Retained Earnings |
|  |  |  | (15,656,147) |  | (15,656,147) | Cumulative Changes in Fair Value |
|  |  |  | 708,617,561 |  | 708,617,561 | Retained Earnings |
|  |  |  | 2,400,000,000 |  | 2,400,000,000 | Retained Earnings |
|  |  |  | 5,678,727 |  | 5,678,727 | Retained Earnings |
|  |  |  | 5,410 |  | 5,410 | Retained Earnings |
|  |  |  | 2,795,491,627 |  | 2,795,491,627 | Charity Fund |
|  |  |  | 2,055,696,112 |  | 2,055,696,112 | Prize Fund |
|  | **Total Equity** | **3,602,415,609** | **4,851,187,739** |  | **8,453,603,348** | **Total Equity** |
| **TOTAL LIABILITIES & EQUITY** | | **15,880,725,103** | **-** | **-** | **15,880,725,103** | **TOTAL LIABILITIES & EQUITY** |

**RECONCILIATION OF ASSETS, LIABILITIES & EQUITY**

**AT DECEMBER 31, 2017**

| **Effect of Transition to PFRSs** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Previous GAAP** | **Reclassification** | **Difference in Recognition & Measurement** | **PFRSs** |  |
| **ASSETS** | |  |  |  |  |  |
| Current Assets | |  |  |  |  | Current Assets |
|  | Cash & Cash Equivalent | 10,344,371,700 | (18,065,205) |  | 10,326,306,495 | Cash & Cash Equivalent |
|  |  |  | 17,067,291 |  | 17,067,291 | Other Current Assets-Advances |
|  | Short-term Investments | 3,188,621,807 |  |  | 3,188,621,807 | Other Investments |
|  | Receivables | 1,299,802,818 | (19,897,406) |  | 1,279,905,412 | Receivables |
|  |  |  | 9,210,821 |  | 9,210,821 | Other Current Assets-Advances to Officers |
|  | Prepayments | 15,360,906 | (12,415,097) |  | 2,945,809 | Other Current Assets-Prepayments |
|  | Inventories | 36,747,243 | (1,968) |  | 36,745,275 | Inventories |
|  | Other Current Assets | 19,909,132 | (19,909,132) |  | - | Other Non-Current Assets-Prepayments |
|  | **Total Current Assets** | **14,904,813,606** | **(44,010,696)** | - | **14,860,802,910** | **Total Current Assets** |
|  |  |  |  |  |  |  |
| Non-current Assets | |  |  |  |  | Non-current Assets |
|  | Long-Term Investments | 215,933,801 |  |  | 215,933,801 | Other Investment-Investment in Time Deposits, Local Currency |
|  | Held to Maturity Investments | 2,954,680,269 | (2,954,680,269) |  | - |  |
|  |  |  | 200,000,000 |  | 200,000,000 | Financial Assets-Investment in Bonds-Local |
|  |  |  | 2,604,680,269 |  | 2,604,680,269 | Financial Assets -Financial Assets at Fair Value through other Comprehensive Income |
|  |  |  | 150,000,000 |  | 150,000,000 | Other Investments-Investment in Time Deposits, Local |
|  | Property, plant & Equipment | 1,140,793,656 | (353,219,953) |  | 787,573,703 | Property, Plant & Equipment |
|  |  |  | 48,351,955 |  | 48,351,955 | Intangible Asset |
|  |  |  | 281,032,298 |  | 281,032,298 | Investment Property |
|  | Other Assets | 3,342,600,749 | (22,114) |  | 3,342,578,635 | Other Assets |
|  |  |  | 780 |  | 780 | Other Assets-Deferred Assets/Losses |
|  |  |  | 12,414,317 |  | 12,414,317 | Other Assets-Prepaid rent |
|  |  |  | 19,806,800 |  | 19,806,800 | Other Assets-Guaranty Deposits |
|  |  |  | 102,332 |  | 102,332 | Other Assets-Other Assets |
|  | **Total Non-Current Assets** | **7,654,008,475** | **8,466,415** | **-** | **7,662,474,890** | **Total Non-Current Assets** |
| **TOTAL ASSETS** | | **22,558,822,081** | **(35,544,281)** | **-** | **22,523,277,800** | **TOTAL ASSETS** |
|  | |  |  |  |  |  |
| **LIABILITIES** | |  |  |  |  |  |
| Current Liabilities | |  |  |  |  | Current Liabilities |
|  | Accounts Payable | 9,070,509,907 | (1,104,557,402) |  | 7,965,952,505 | Accounts Payable |
|  |  |  | 1,676,345 |  | 1,676,345 | Provisions |
|  | Inter-Agency Payables | 150,246,637 |  |  | 150,246,637 | Inter-Agency Payables |
|  | Intra-Agency Payables | 1,973,791,997 | (1,973,791,997) |  | - |  |
|  | Other Current Liability | 4,138,430,240 | (3,245,054,413) |  | 893,375,827 | Other Current Liability |
|  | **Total Current Liability** | **15,332,978,781** | **(6,321,727,467)** | **-** | **9,011,251,314** | **Total Current Liabilities** |
|  |  |  |  |  |  |  |
| Non-current Liabilities | |  |  |  |  |  |
|  | Deferred Credits | 28,894,257 | - | - | 28,894,257 | Deferred Credits |
|  |  |  | 3,245,054,413 |  | 3,245,054,413 | Trust Liabilities |
|  |  |  | 162,352,371 |  | 162,352,371 | Provisions |
|  | **Total Non-Current Liabilities** | **28,894,257** | **3,407,406,784** | **-** | **3,436,301,041** | Total Non-Current Liabilities |
|  | **Total Liabilities** | **15,361,873,038** | **(2,914,320,683)** |  | **12,447,552,355** | **Total Liabilities** |
|  |  |  |  |  |  |  |
| **EQUITY** | |  |  |  |  |  |
|  | Appraisal Capital | 708,617,561 | (708,617,561) |  |  |  |
|  | Restricted Capital | 2,500,000,000 | (2,500,000,000) |  |  |  |
|  | Contingent Surplus | 5,678,727 | (5,678,727) |  |  |  |
|  | Government Equity | 421,009 | (421,009) |  |  |  |
|  | Retained Earnings (Deficit) | 3,982,231,746 | 76,190,176 |  |  |  |
|  |  |  | 708,617,561 |  |  |  |
|  |  |  | 2,500,000,000 |  |  |  |
|  |  |  | 5,678,727 |  |  |  |
|  |  |  | 421,009 |  |  |  |
|  |  |  | 1,170,563,699 |  |  |  |
|  |  |  | 1,659,811,244 |  | 10,103,514,162 | Retained Earnings |
|  |  |  | (27,788,717) |  | (27,788,717) | Cumulative Changes in Fair Value |
|  | **Total Equity** | **7,196,949,043** | **2,878,776,402** | **-** | **10,075,725,445** | **Total Equity** |
| **TOTAL LIABILITIES & EQUITY** | | **22,558,822,081** | **(19,888,134)** | **-** | **22,523,277,800** |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **RECONCILIATION OF COMPREHENSIVE INCOME** | | | | |  | |  |
| **AT DECEMBER 31, 2017** | | | | |  | |  |
| **Effect of Transition to PFRSs** | | | | | | | |
|  |  | **Previous GAAP** | **Reclassification** | **Difference in Recognition & Measurement** | **PFRSs** |  | |
| **INCOME** | |  |  |  |  |  | |
|  | Service and business income | 8,851,953,438 | 857,338,023 | 44,253,509,974 | 53,962,801.435 | Total Service & Business Income | |
|  | Gains | **-** | - | 1,286,296 | 1,286,296 | Gains | |
|  | Other non-operating income | **-** | 23,538,938 | **-** | 23,538,938 | Other non-operating income | |
|  | **Total Income** | **8,851,953,438** | **880,876,961** | **44,254,796,270** | **53,987,626,669** | **Total Income** | |
|  | **Operating Expenses** |  |  |  |  |  | |
|  | Personnel Services | (1,250,351,117) |  | (65,078,612) | (1,315,429,729) | Personnel Services | |
|  | Maintenance & Other |  |  |  |  | Maintenance & Other | |
|  | Operating Expenses | (3,035,252,198) | (307,074,95) | (35,195,462,602) | (38,537,789,753) | Operating Expenses | |
|  | Printing Expenses | (389,792,844) | 389,792,844 |  | - |  | |
|  | Financial Expenses | (5,829,020) |  | (802,256) | (6,631,276) | Financial Expenses | |
|  |  | - | (82,717,891) | (341,700) | (83,059,591) | Non-Cash Expenses | |
|  | **Total Expenses** | **(4,681,225,179))** | **-** | **(35,261,685,170)** | **(39,942,910,349)** |  | |
|  | **Other Income/(loss)** |  |  |  |  |  | |
|  | Interest on Investments | 70,392,870 | (70,392,870) |  | - |  | |
|  | Unrealized losses-AFS | (27,788,717) | 27,788,717 |  | - |  | |
|  | Interest on bank accounts | 22,772,387 | (22,772,387) | **-** | - |  | |
|  | Other income | 815,500,421 | ( 815,500,421) | - | - |  | |
|  | **Total other income** | **880,876,961** | **(880,876,961 )** | **-** | **-** |  | |
|  | Net income from operations | **5,051,605,220** | - | 8,993,111,100 | 14,044,716,320 | Net income from operations | |
|  |  |  |  | (12,654,060,832) | (12,654,060,832) | Financial assistance / contributions | |
|  | **Net Income** | **5,051,605,220** | **-** | **(3,660,949,732)** | **1,390,655,488** | **Net income** | |
|  | **Other comprehensive loss** | **-** | **-** | **(12,132,570)** | **(12,132,570)** |  | |
|  | **Total comprehensive income** | **5,051,605,220** | **-** | **(3,673,082,302)** | **1,378,522,918** | **Total comprehensive income** | |

1. **Adoption of new and amended PFRSs**
2. Effective for reporting periods beginning on or after January 1, 2018

PCSO adopted for the first time the following amendments to PFRSs, which are mandatorily effective for annual periods beginning on or after January 1, 2018.

* Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions for First-time Adopters* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E7 of PFRS 1, because it has now served its intended purpose.
* *PFRS 9 (2014), Financial Instruments*. This standard replaces PAS 39, *Financial Instruments – Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013) versions. It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics. PFRS 9 eliminates the previous PAS 39 categories of Held to Maturity (HTM), loans and receivables and Available For Sale (AFS).

PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities. The most significant effect of PFRS 9 to financial liabilities relates to cases where the fair value option is taken: the amount of change in fair value of financial liability designated as at fair value through profit or loss that is attributable to changes in credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates accounting mismatch.

Based on PCSO’s analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, the Corporation has concluded that application of PFRS 9 has no significant effect on the measurement of the Corporation’s financial assets and liabilities.

The following table shows the original classification under PAS 39 and the new classification for each class of the Corporation’s financial assets as at January 1, 2018:

|  | **Classification under PAS 39** | **Classification under PFRS 9** | **Carrying Amount under PAS 39** | **Carrying Amount under PFRS 9** |
| --- | --- | --- | --- | --- |
| Cash and cash equivalents | Loans and receivables | Financial assets at amortized cost | 10,344,371,700 | 10,326,306,495 |
| Receivables | Loans and receivables | Financial assets at amortized cost | 1,303,114,632 | 1,293,903,811 |
| Held to Maturity financial assets | Held to Maturity investments | Financial assets at amortized cost | 2,954,680,269 | 350,000,000 |
| Financial assets At FVOCI | 2,604,680,269 |
| Short-Term Investments | Held to Maturity investments | Financial assets at amortized cost | 3,188,621,807 | 3,188,621,807 |
| Long-Term Investments | Held to Maturity investments | Financial assets at amortized cost | 215,933,801 | 215,933,801 |

PFRS 9 replaces the ‘incurred loss’ model in PAS 39 with an ‘expected credit loss’ (ECL) model. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The shortfall is then discounted at an approximation to the asset’s original effective interest rate. The new impairment model applies to financial assets at amortized cost, contract assets, and debt investments at Fair Value through Other Comprehensive Income (FVOCI), but not to investments in equity instruments.

PCSO assessed that the adoption of PFRS 9, specifically on determining the expected credit loss using the simplified approach, has no impact on the carrying amounts of the Corporation’s financial assets carried at amortized cost.

* Amendment to PAS 40, *Investment Property – Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property occurred.
* Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration –* The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

1. Effective in 2018 that are not relevant to PCSO

The following list of PFRS/PAS/IFRIC were not applicable and considered in the preparation of the Financial Statements based on the nature of business and current operation of the PCSO which is mainly the conduct of lottery draw and extending financial assistance to those in need.

* Amendments to PFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
* Amendments to PFRS 4, *Insurance Contracts – Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts –* The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, *Financial Instruments* is applied before implementing PFRS 17, *Insurance Contracts* (‘the overlayapproach’). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, *Financial Instruments: Recognition and Measurement* instead (‘the deferral approach’).
* Amendments to PAS 28, *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value –* The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

PFRS 3: Business Combinations

PFRS 5: Non-Current Assets Held for Sale and Discontinued Operations

PFRS 6: Exploration for and Evaluation of Mineral Resources

PFRS 8: Operating Segments

PFRS 11: Joints Arrangements

PFRS 12: Disclosure of Interests in Other Entities

PFRS 14: Regulatory Deferral Accounts

PAS 23: Borrowing Costs

PAS 26: Accounting and Reporting by Retirement Benefit Plans

PAS 27: Separate Financial Statements

PAS 28: Investments in Associates and Joint Ventures

PAS 29: Financial Reporting in Hyperinflationary Economies

PAS 33: Earnings per Share

PAS 34: Interim Financial Reporting

PAS 41: Agriculture

Philippine Interpretations SIC-32: Intangible Assets-Web Site Costs Philippine Interpretations IFRIC-1: Changes in Existing Decommissioning, Restoration and Similar Liabilities

Philippine Interpretations IFRIC-2: Members’ Shares in Co-operative Entities and Similar Instruments

Philippine Interpretations IFRIC-4: Determining whether an Arrangement contains a lease

Philippine Interpretations IFRIC-5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Philippine Interpretations IFRIC-6: Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

Philippine Interpretations IFRIC-7: Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies

Philippine Interpretations IFRIC-9: Reassessment of Embedded Derivatives

Philippine Interpretations IFRIC-10: Interim Financial Reporting and Impairment

Philippine Interpretations IFRIC-12: Service Concession Arrangements

Philippine Interpretations IFRIC-13: Customer Loyalty Programmes

Philippine Interpretations IFRIC- 14: PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Philippine Interpretations IFRIC-15: Agreements for the Construction of Real Estate

Philippine Interpretations IFRIC-16: Hedges of a Net Investment in a Foreign Operation

Philippine Interpretations IFRIC-17: Distribution of Non-Cash Assets to Owners

Philippine Interpretations IFRIC-18: Transfer of Assets from Customers

Philippine Interpretations IFRIC-19: Extinguishing Financial Liabilities with Equity Instruments

Philippine Interpretations IFRIC-20: Stripping Costs in the Production Phase of a Surface Mine

Philippine Interpretations IFRIC-21: Levies

Philippine Interpretations SIC-7: Introduction of Euro

Philippine Interpretations SIC-10: Government Assistance-No Specific Relation to Operating Activities

Philippine Interpretations SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

Philippine Interpretations SIC-29: Service Concession Arrangements: Disclosures

Philippine Interpretations SIC-31: Revenue-Barter Transactions Involving Advertising Services

1. New and Amended PFRSs Issued but Not Yet Effective

New and amended PFRSs which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2019:

* PFRS 16, *Leases –* This standard will replace PAS 17, Leases and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought on to lessees’ statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.
* Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments –* The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities’ examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
* Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation –* The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).
* Amendments to PAS 28, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures –* The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity’s net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments.*
* Amendments to PAS 19, *Employee Benefits – Plan Amendment Curtailment or Settlement –* The amendments specify how companies remeasure a defined benefit plan when a change – an amendment, curtailment or settlement – to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

Annual Improvements to PFRSs 2015-2017 Cycle:

* Amendments to PFRS 3, *Business Combinations and* PFRS 11*, Joint Arrangements – Previously Held Interest in a Joint Operation –* The amendment to PFRS 3, *Business Combinations* clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.
* Amendments to PAS 12, *Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity –* Clarifies that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
* Amendments to PAS 23, *Borrowing Costs – Borrowing Costs Eligible for Capitalization –* Clarifies that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

Effective for annual periods beginning on or after January 1, 2020 and thereafter:

* PFRS 17, *Insurance Contracts –* This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.
* Amendments to PFRS 3, *Business Combination –* The amendments narrowed the definition of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. It clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It also adds an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
* Amendments to PAS 1, *Presentation of Financial Statements –* Clarifies the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves. It provides that an Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

1. Deferred effectivity

* Amendments to PFRS 10, *Consolidated Financial Statements and* PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture –* The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.
* PFRS 15, *Revenue from Contracts with Customers*

The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g., the point at which revenue is recognized, accounting for variable consideration, cost of fulfilling and obtaining a contract, etc.).

* Amendment to PFRS 15, *Revenue from Contracts with Customers* – *Clarification to PFRS 15*

The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts. The Commission on Audit issued Resolution No. 2019-006 dated March 27, 2019, prescribing the mandatory application of PFRS 15 effective January 1, 2019.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Corporation.

1. **Financial Instruments**

Financial assets or financial liabilities are recognized in the Corporation’s statement of financial position when, and only when, the entity becomes party to the contractual provision of the instruments. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. For purposes of presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities, PAS 32*, Financial Instruments: Presentation* is applied to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and liabilities should be offset.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVTPL), includes transaction cost.

*“Day 1” Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the PCSO recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the PCSO deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the PCSO determines the appropriate method of recognizing the “Day 1” difference.

*Classification and Measurement of Financial Assets*

Financial assets and liabilities at FVTPL are either classified as held for trading or designated at FVTPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

* it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
  + on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
  + it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes equity instruments which the PCSO had not irrevocably elected to classify at FVOCI at initial recognition. This category includes debt instruments whose cash flows are not “solely for payment of principal and interest” assessed at initial recognition of the assets, or which are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The PCSO may, at initial recognition, designate a financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVTPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVTPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVTPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVTPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

As at December 31, 2018 and 2017, the PCSO does not have financial assets and liabilities classified as FVTPL.

1. **Financial Assets**

*Classification and Measurement of Financial Assets*

The PCSO classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVTPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. Financial liabilities, on the other hand, are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the PCSO’s business model and its contractual cash flow characteristics.

***Financial Assets at Amortized Cost***

Financial assets shall be measured at amortized cost if both of the following conditions are met:

* the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
* the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2018 and 2017, the PCSO’s cash and cash equivalents, receivables, short term investments and long term investments (except externally managed funds recorded as Financial Assets – AFS) are classified under this category.

***Financial Assets at FVOCI – debt investments***

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVTPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

* the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
* the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the PCSO may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairmentlosses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at December 31, 2018 and 2017, the PCSO’s externally managed funds (included in the long term investment account) are classified as FVOCI.

Below is the Corporation’s accounting policy on the classification and subsequent measurement of financial assets applicable before January 1, 2018:

Financial assets include cash, investment in other government banks and loans and receivables.

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of 90 days or less from dates of acquisition.

Loans and Receivables*.* Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They arise when the corporation provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date which are classified as non-current assets.

Loans and receivables are presented as Trade and Other Receivables in the Statement of Financial Position. Loans and receivables are subsequently measured at cost less impairment losses. Any changes in their value are recognized in profit or loss.

***Impairment of Financial Assets***

Below is the Corporation’s accounting policy on the impairment of financial assets applicable starting January 1, 2018:

The PCSO records an allowance for “expected credit loss” (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the PCSO expects to receive. The difference is then discounted at an approximation to the asset’s original effective interest rate.

For trade receivables, the PCSO has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The PCSO has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the PCSO compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

Accounts Receivable are provided with an allowance for bad debts based on its age at the following rates:

|  |  |
| --- | --- |
| **Age of Accounts Receivable** | **Percentage (%)** |
| 11 years and over | 100 |
| 7 to 10 years | 75 |
| 4 to 6 years | 50 |
| 2 to 3 years | 25 |

***Derecognition of Financial Assets***

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 right to receive cash flows from the asset has expired;
* the PCSO retains the right to receive cash flows from the financial 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 PCSO has transferred its right to receive cash flows from the financial 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.

When the PCSO has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the PCSO’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the PCSO could be required to repay.

1. **Financial Liabilities and Equity Instruments**

***Classification as Debt or Equity***

Debt and equity instruments issued by the Corporation classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Financial Liabilities***

*Initial recognition*

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the PCSO having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2018 and 2017, the PCSO’s accounts payable and inter-agency payables (except statutory payables) are classified under this category.

***Classification and Subsequent Measurement***

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

* It has been acquired principally for the purpose of repurchasing it in the near term; or
* On initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
* It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

* Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
* The financial liability forms part of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation’s documented risk management or investment strategy, and information about the Corporation is provided internally on that basis; or
* It forms part of a contract containing one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not closely related, and PFRS 9, *Financial Instruments*, permits the entire combined contract (asset or liability) to be designated as a FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item in the statement of comprehensive income. Fair value is determined in the manner described in notes.

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

*Derecognition of Financial Liabilities*

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the PCSO could raise debt with similar terms and conditions in the market.  The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified.  In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

**Offsetting of Financial Assets and Liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

**Classification of Financial Instrument between Liability and Equity**

A financial instrument is classified as liability if it provides for a contractual obligation to:

* Deliver cash or another financial asset to another entity;
* Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the PCSO; or
* Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the PCSO does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

***Equity Instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity of the PCSO consists of the following:

***Charity Fund***

Charity Fund represents the thirty per cent (30%) share of net receipts (Gross sales less 2% printing cost) from which the Board of Directors, in consultation with the Ministry of Human Settlement on identified priority programs, needs, and requirements in specific communities and with approval of the Office of the President, shall make payments or grants for health programs, including the expansion of existing ones, medical assistance and services and/or charities of national character such as the Philippine National Red Cross, under such policies and subject to such rules and regulations as the Board may from time establish and promulgate. The Board may apply part of the contributions to the charity fund to approved investments of the Office pursuant Section 1(B) hereof, but in no case shall such application to investments exceed ten per cent (10%) of the net receipts from the sale of sweepstakes tickets in any given year

***Prize Fund***

Prize Fund represents the fifty-five per cent (55%) share of net receipts (Gross sales less 2% printing cost) set aside for the payment of prizes, including those for the owners, jockeys of running horses, and sellers of winning tickets.

Prizes not claimed by the public within one (1) year from date of draw shall be considered as forfeited, and shall form part of the charity fund for disposition as stated.

***Operating Fund***

Operating Fund represents the fifteen per cent (15%) share of net receipts (Gross sales less 2% printing cost) set aside as contributions to the operating expenses and capital expenditures of the office.

All balances of any funds shall revert to and form part of the charity fund and shall be subject to dispositions as stated.

***Retained Earnings***

Retained Earnings represent accumulated profit attributable to equity holders of the Corporation after deducting dividends declared. The Corporation remits 50% of its annual earnings to the national government as mandated under RA No. 7656 and its Revised Implementing Rules and Regulations (IRR). Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

1. **Inventories**

Inventories include Drugs and Medicines for Distribution, Office Supplies Inventory, Accountable Forms, Plates and Stickers Inventory, Medical, Dental and Laboratory Supplies, Play/Bet Slips and Thermal Rolls Inventory and Other Supplies and Materials Inventory.

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the weighted average method.

When the net realizable value of the inventories is lower than the cost, the PCSO recognizes an impairment loss for the decline in the value of the inventory. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized in profit or loss in the period in which the reversal occurs.

When inventories are consumed, the carrying amount of those inventories is recognized as an expense in the statement of comprehensive income.

1. **Prepayments and Other Current Assets**

Prepayments and other current assets represent assets of the PCSO that are expected to be realized or consumed within one year from the reporting dates. These are initially recorded at the amount of cash paid and are charged to profit or loss as they are consumed in operations or expire with the passage of time.

1. **Investment Property**

Investment properties are properties that are held to earn rentals or for capital appreciation or both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.  Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment property is measured at cost less any accumulated depreciation. Depreciation is computed on a straight-line basis over an estimated life of 30 years.

Transfers to, or from, investment property is made only when there is a change in use.  Transfers to or from investment property is recognized at the carrying amount of the asset transferred. Accordingly, no gain or loss is recognized from these transfers.

1. **Property and Equipment**

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

* its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
* any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
* the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

At the end of each reporting period, items of property and equipment are measured at cost less any subsequent accumulated depreciation and impairment losses

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalized in accordance with the PCSO’s accounting policy. Depreciation of these assets, on the same basis as other property assets, commences at the time the assets become ready for their intended use.

1. **Intangible Assets**

Intangible Assets include computer software that are not integral part of the computer. These are initially recorded at cost and are subsequently measured at cost less accumulated amortization and any accumulated impairment loss. These are amortized over estimated useful life of 1 & 3 years using the straight–line method. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

1. **Impairment of Non-financial Assets**

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

*Derecognition of Non-financial assets*

Items of non-financial assets are derecognized when these assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and net proceeds from derecognition is recognized in profit or loss.

1. **Related Parties**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among the reporting enterprises and their key management personnel, directors, or their shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

1. **Revenue Recognition**

Revenue is recognized when the performance obligation in the contract has been satisfied. Revenue is measured at the fair value of the consideration received or receivable.

The PCSO also assesses its revenue arrangements to determine if it is acting as a principal or as an agent.

***Sale of Tickets***

Revenue from the sale of tickets is recognized at the time of sale, except for advance sales. These advance sales are recognized as revenue at the time lotteries were drawn.

Of the total revenue, fifty-five per cent (55%) is allocated to the Prize Fund for payment of prizes, including those for the owners, jockeys of running horses, and sellers of winning tickets. Another thirty per cent (30%) is allocated to the Charity Fund from which identified priority programs, needs and requirements in specific communities take payments or grants for health programs, including the expansion of existing ones, medical assistance and services, and/or charities of national character. The remaining fifteen per cent (15%), meanwhile, is set aside to the Operating Fund as contributions to the operating expenses and capital expenditures of PCSO.

Revenue from the sale of tickets is recognized at the time of sale, except for advance sales. These advance sales are recognized as revenue at the time lotteries were drawn.

***Interest Revenue***

Interest revenue is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

1. **Expense Recognition**

Expenses are recognized in profit or loss when 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 financial position as an asset.

Expenses in the statement of comprehensive income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the PCSO.

1. **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rental payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

1. PCSO as Lessee

Leases which transfer to the PCSO substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the PCSO substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the income statement on a straight-line basis over the lease term. Executory costs, such as maintenance and insurance, are expensed as incurred.

The PCSO has entered into property leases of equipment and office space and has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are leased out on operating lease.

1. **Employee Benefits**

Under PAS 19 *– Employee Benefits*, an entity is required to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

**Short-term Benefits**

The PCSO recognizes an expense for services rendered by employees during the accounting period. A liability is recognized for the amount expected to be paid if the PCSO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The total terminal leave liability as of December 31, 2018 amounted to P176,373,451.56 recorded in the account Leave Benefits Payable.

**Terminal leave Benefits**

Terminal leave benefits are computed based on the actual leave credits earned by employees as of reporting date. The amount reported as liability in the statement of financial position is based on the employee’s salary grade as of reporting dates.

1. **Income Taxes**

Income tax expense represents the sum of the current tax and deferred tax expense.

**Current Tax**

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The PCSO’s current tax liability is calculated using 30 per cent regular corporate income tax (RCIT) rate or 2 per cent minimum corporate income tax rate, whichever is higher. CY 2018 is the first year of PCSO as a taxable entity. Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law excluded PCSO from the list of exempted corporation in paying income tax.

**Deferred Tax**

Deferred 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 tax liabilities are generally recognized for all taxable temporary differences. Deferred 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. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the PCSO expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**Current and Deferred Tax for the Year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

1. **Foreign Currency Transactions and Translation**

The accounting records of the PCSO are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as Financial Assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

1. **Judgment and Estimates**

The preparation of the financial statements in accordance with PFRS requires the PCSO to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

**Judgments**

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

*Classification of Financial Instruments*

The PCSO classifies a financial instrument, or its component parts, on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument.

The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

**Estimates**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Estimating Useful Lives of Property and Equipment*

The PCSO estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

| **PPE Account** | **Estimated Life in Years** |
| --- | --- |
| Land Improvements | 10 |
| Building – those that are predominantly |  |
| Wood | 10 |
| Mixed | 20 |
| Concrete | 30 |
| Leasehold Improvement |  |
| Land | 10 |
| Building |  |
| Wood | 10 |
| Mixed | 20 |
| Concrete | 30 |
| Office Equipment | 5 |
| Furniture and Fixtures | 10 |
| IT Equipment and Software | 5 |
| Library Books | 5 |
| Machineries | 10 |
| Communication Equipment | 10 |
| Medical, Dental & Laboratory Equipment | 10 |
| Military and Police Equipment | 10 |
| Sports Equipment | 10 |
| Motor Vehicle | 7 |
| Other PPE | 5 |

The carrying values of the PCSO’s property and equipment as at December 31, 2018 and 2017, amount to P795,329,828 and P803,059,315, respectively. Depreciation cost charged to operation amounts to P105,021,608 and P81,703,017 in 2018 and 2017, respectively.

1. **Provisions**

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties associated with the present obligation. In those cases when the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

1. **Events after Reporting Date**

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after the reporting period (non-adjusting events) are disclosed in the notes to the financial statements.

1. **RISK MANAGEMENT OBJECTIVES AND POLICIES**
2. **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the corporation’s risk management framework. The Board has established the corporation’s credit, finance, operational risk and executive committees, which are responsible for developing and monitoring Corporation’s risk management policies in their specific areas.

All board committees have executive and non-executive members and report regularly to the Board of Directors on their activities.

PCSO’s risk management policies are established to identify and analyze the risks faced by the corporation, to set appropriate risk limits and control, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes to market conditions, products and services offered. PCSO, through its training and management standards and procedures, aims to develop disciplined and constructive control environment, in which all employees understand their roles and obligations.

The corporation audit committee is responsible for monitoring compliance with PCSO’s risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risk faced by the corporation and it is regularly discussed in the Board meeting.

Generally, the maximum risk exposure of financial assets and financial liabilities is the carrying amount of the financial assets and financial liabilities as shown in the Statement of Financial Position, as summarized:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **2018** | **2017** |
| **Financial Assets:** |  |  |  |
| Cash and cash equivalents | 5 | 9,814,627,510 | 10,326,306,495 |
| Receivables | 7 | 2,177,751,351 | 1,293,903,811 |
| Financial assets-held to maturity | 10 | 200,000,000 | 200,000,000 |
| Financial assets at FVOCI | 10 | 2,602,512,704 | 2,604,680,269 |
| Other investments – current portion | 6 | 1,606,912,432 | 3,188,621,807 |
| Other investments – noncurrent portion | 10 | 385,538,351 | 365,933,801 |
|  |  | **16,787,342,348** | **17,979,446,183** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **2018** | **2017** |
| **Financial Liabilities:** |  |  |  |
| Financial liabilities - current portion | 16 | 7,764,015,907 | 8,078,952,180 |
| Financial liabilities - noncurrent portion | 20 | 26,517,481 | 28,894,257 |
| Inter-agency payables \* | 17 | 20,259,687 | 27,584,540 |
| Trust liabilities | 21 | 4,046,921,242 | 3,245,054,413 |
|  |  | **11,857,714,317** | **11,380,485,390** |

*\* excluding statutory payables amounting to P691,942,623 and P122,662,097 as of December 31, 2018 and 2017, respectively*

1. **Credit Risk**

a.Credit Risk Exposure

Credit risk refers to the risk that the client will default on its contractual obligation resulting in financial loss to the corporation. PCSO has adopted a policy of dealing only with creditworthy clients and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Also, PCSO manages its credit risk by depositing its cash with high credit quality banking institutions.

The table below shows the gross maximum exposure to credit risk of the corporation as of the years ended December 31,2018 and 2017, without considering the effects of the credit risk mitigation techniques.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **2018** | **2017** |
| **Financial Assets:** |  |  |  |
| Cash and cash equivalents | 5 | 9,814,627,510 | 10,326,306,495 |
| Receivables – gross | 7 | 2,341,614,948 | 1,457,773,497 |
| Financial assets-held to maturity | 10 | 200,000,000 | 200,000,000 |
| Financial assets at FVOCI | 10 | 2,602,512,704 | 2,604,680,269 |
| Other investments – current portion | 6 | 1,606,912,432 | 3,188,621,807 |
| Other investments – noncurrent portion | 10 | 385,538,351 | 365,933,801 |
|  |  | **16,951,205,945** | **18,143,315,869** |

1. Management of Credit Risk

The PCSO Board of Directors has approved guidelines/implementing rules and regulations to manage the corporation’s credit risk exposure. PCSO has adopted the Revised Rules and Regulations (RRR) Governing the Conduct and Operations of the Philippine On-Line Lottery and the RIRR Governing the Conduct and Operations of the STL. The implementing rules and regulations explicitly state the provisions for the Imposition of Penalties and Procedures in case of agents’ default on the remittance of sales.

It also requires imposition of security/cash bonds to Lotto/Keno agents and ASAs in order to ensure remedial collection of unremitted sale.

PCSO will request authority from COA for the write-off of receivable balance (and any related allowances for impairment losses) when it has determined that the receivables are finally uncollectible after exhausting its efforts to collect and legal action has been undertaken.

1. **Liquidity Risk**

Liquidity risk is the risk that the Corporation might encounter difficulty in meeting obligation from its financial liabilities.

a.Management of Liquidity Risk

The Corporation’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation’s reputation.

The corporation seeks to manage its liquidity profile to be able to finance capital expenditures as well as its current operations. To cover its financing requirements, the corporation intends to use internally generated funds and available short-term credit facilities.

As part of its liquidity risk management, the corporation regularly evaluates its projected and actual cash flows. It also continually assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and subsidies from the national government or government owned and controlled corporations.

b.Exposure to Liquidity Risk

The liquidity risk is the adverse situation when the corporation encounters difficulty in meeting unconditionally the settlement of its obligations at maturity. Prudent liquidity management requires that liquidity risks are identified, measured, monitored and controlled in a comprehensive and timely manner. Liquidity management is a major component of the corporate-wide risk management system. Liquidity planning takes into consideration various possible changes in economic, market, political, regulatory and other external factors that may affect the liquidity position of the corporation.

1. **Market Risks**

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor’s issuer’s credit standing) will affect the Corporation’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

*Management of Market Risk*

The management of interest rate risk against interest gap limits is supplemented by monitoring the sensitivity of the Corporation’s financial assets and liabilities to various standard and non-standard interest rate scenarios.

1. **Operational Risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Corporation’s operations and are faced by all business entities.

The Corporation’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of control to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

* Requirements for appropriate segregation of duties, including the independent authorization of transaction
* Requirements for the reconciliation and monitoring of transactions
* Compliance with regulatory and other legal requirements
* Documentation of controls and procedures
* Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risk identified
* Requirements for the reporting of operational losses and proposed remedial action
* Development of contingency plans
* Training and professional development
* Ethical and business standards
* Risk mitigation, including insurance where this is effective

Compliance with corporate standards is supported by a program of periodic reviews undertaken by the Executive Committee. The results of periodic reviews are discussed with the Board of Directors.

1. **CASH AND CASH EQUIVALENTS**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Cash in bank | 9,809,056,062 | 10,315,053,913 |
| Cash - collecting officers | 4,402,637 | 10,847,394 |
| Petty cash fund | 1,168,811 | 405,188 |
| **Total** | **9,814,627,510** | **10,326,306,495** |

Cash – Collecting Officers represents amount of collections made by the Collecting Officers that are deposited at the end of the day.

Petty Cash Fund is the working fund wherein small expenses are being disbursed.

Cash in Bank represents the bank accounts (savings and current accounts) with the Land Bank of the Philippines (LBP) and other government depository banks maintained by the Home Office and branches. Interest income from these accounts amounted to P28,013,414 and P25,383,808 for the period 2018 and 2017, respectively.

1. **OTHER INVESTMENTS**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Cash in Bank - Local Currency, Time Deposits | 1,495,518,028 | 3,083,343,781 |
| Cash in Bank - Foreign Currency, Time Deposits | 111,394,404 | 105,278,026 |
| **Total** | **1,606,912,432** | **3,188,621,807** |

Short-term investments consist of high-yield savings account (LBP) and premium savings (Postal Bank) with maturity period of 91-182 days. The acquisition cost and maturity value of the investments in foreign currency amount to $2,118,569.87 and $2,139,110.07 respectively, were translated to peso based on Bangko Sentral ng Pilipinas (BSP) month-end rate of USD1=P52.58 on December 31, 2018. Details are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Investment Date** | **Maturity Date** | **Acquisition Cost** | **Interest Receivable** | **Present Value** | **Maturity Value** |
| **Cash in Bank-Local Currency, Time Deposits** | | | | | |
| December 12, 2018 | June 11, 2019 | 563,601,427 | 773,386 | 564,374,813 | 569,495,445 |
| November 20, 2018 | May 21, 2019 | 484,423,672 | 1,268,922 | 485,692,593 | 488,929,889 |
| November 20, 2018 | May 21, 2019 | 308,080,008 | 806,998 | 308,887,007 | 310,945,836 |
| November 20, 2018 | May 21, 2019 | 11,213,222 | 29,372 | 11,242,594 | 11,317,530 |
| November 20, 2018 | May 21, 2019 | 11,213,222 | 29,372 | 11,242,594 | 11,317,530 |
| December 10, 2018 | March 12, 2019 | 57,007,453 | 74,822 | 57,082,276 | 57,269,687 |
| December 10, 2018 | March 12, 2019 | 5,784,584 | 7,593 | 5,792,177 | 5,811,194 |
| December 10, 2018 | March 12, 2019 | 54,194,440 | 71,130 | 54,265,570 | 54,443,735 |
|  |  | **1,495,518,028** | **3,061,595** | **1,498,579,624** | **1,509,530,846** |
| **Cash in Bank-Foreign Currency, Time Deposits** | | | | | |
| January 04, 2018 | January 04, 2019 | 111,394,404 | 1,261,926 | 112,656,330 | 112,474,407 |
|  |  | **111,394,404** | **1,261,926** | **112,656,330** | **112,474,407** |

Interest income from Local Currency, Time Deposits are P26,380,764 and P38,619,626 for CYs 2018 and 2017, respectively.

1. **RECEIVABLES**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Accounts Receivable | 1,381,360,212 | 1,311,283,436 |
| Allowance for Impairment | (163,863,597) | (163,869,686) |
|  | 1,217,496,615 | 1,147,413,750 |
| Due from Officers and Employees | 77,127,679 | 71,322,347 |
| Due to/from Home Office/Branch Offices | 16,742,476 | 20,412,036 |
| Receivables Disallowance | 3,877,567 | 4,263,456 |
| Other Receivables | 862,507,014 | 36,493,823 |
| **Total** | **2,177,751,351** | **1,279,905,412** |

In conformity with PAS No. 8, the Other Receivables accounts are restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 33,182,008 |
| Adjustment/Recording of Interest Income-Branches | 60,133 |
| Adjustment/Recording of Interest Income-Head Office | 2,845,726 |
| Adjustment/Recording of Miscellaneous Income - Head Office | 393,456 |
| Adjustment/Recording of Other Service Income - Branches | 10,000 |
| Adjustment/Recording of Processing Fees - Branches | 2,500 |
| **Restated Amount as of December 31, 2017 - Other Receivables** | **36,493,823** |

Accounts Receivable pertains to unremitted sales of Sweepstakes, Keno and Lotto Agents, STL ASA, and Peryahan (Globaltech Mobile Online Corporation).

Due from Officers and Employees are personal accounts of officers and employees, such as but not limited to car loan assistance program (CLAP) and tax deficiencies.

Due to/from Home Office/Branch Offices are reciprocal accounts which are still subject for reconciliation caused by the adoption of centralized accounting system in CY 2013.

Receivables Disallowance account includes COA disallowances on the payment of various benefits to the employees of PCSO Branch Offices.

Other Receivables represent accruals of interest income from various bank accounts for the period ended December 31, 2018 and the garnish amount pertaining to the case filed by TMA Group of Companies to PCSO under Civil Case No. 11-310 in the amount of P707,223,555.44.

The decrease in Allowance for Impairment-Accounts Receivable resulted from the entry made to correct entry posted in August 2013 amounting to P6,088.27. Allowance for Impairment was used instead of Accumulated Depreciation-Leasehold Improvement.

Adjustments – STL Accounts Receivables – Iloilo are entries to correct double recording of STL shares for the period January-April 2016 amounting to P11,662,317.35 and erroneous entries for the collection of Accounts Receivable for the period March and June 2015 amounting to P4,012,295.64 and P3,443,241.14, respectively.

1. **INVENTORIES**

Thisaccount consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Drugs and Medicines for Distribution** |  |  |
| Carrying Amount January 1 | 5,220,972 | 34,911,673 |
| Additional acquisition during the year | 11,498,870 | 1,690,504 |
| Expensed during the year | (10,930,353) | (34,400,784) |
| Other adjustment / Accruals | 408,760 | 3,019,579 |
| **Carrying Amount December 31** | **6,198,249** | **5,220,972** |
|  |  |  |
| **Office Supplies Inventory** |  |  |
| Carrying Amount January 1 | 17,149,877 | 21,364,270 |
| Additional acquisition during the year | 7,530,379 | 6,951,758 |
| Expensed during the year | (8,919,316) | (11,603,854) |
| Other adjustment / Accruals | (283,037) | 437,703 |
| **Carrying Amount December 31** | **15,477,903** | **17,149,877** |
|  |  |  |
| **Accountable Forms, Plates and Stickers Inventory** | |  |
| Carrying Amount January 1 | 1,335 | (6,591) |
| Additional acquisition during the year | 7,200 | 31,322 |
| Expensed during the year | (20,885) | (23,396) |
| Other adjustment / Accruals | 14,707 | - |
| **Carrying Amount December 31** | **2,357** | **1,335** |
|  |  |  |
| **Medical, Dental and Laboratory Supplies** |  |  |
| Carrying Amount January 1 | 41,679 | 93,935 |
| Additional acquisition during the year | 67,272 | 585,863 |
| Expensed during the year | (587,594) | (729,979) |
| Other adjustment / Accruals | 484,208 | 91,860 |
| **Carrying Amount December 31** | **5,565** | **41,679** |
|  |  |  |
| **Play/Bet Slips and Thermal Rolls Inventory** |  |  |
| Carrying Amount January 1 | 8,580,057 | 165,645,265 |
| Additional acquisition during the year | 308,996,717 | 128,484,620 |
| Expensed during the year | (296,618,830) | (275,504,148) |
| Other adjustment / Accruals | 114,022,968 | (10,045,680) |
| **Carrying Amount December 31** | **134,980,912** | **8,580,057** |
|  |  |  |
| **Other Supplies and Materials Inventory** |  |  |
| Carrying Amount January 1 | 5,751,355 | 5,806,333 |
| Additional acquisition during the year | 486,691 | 160,622 |
| Expensed during the year | (436,629) | (158,183) |
| Other adjustment / Accruals | 69,125 | (57,417) |
| **Carrying Amount December 31** | **5,870,542** | **5,751,355** |
|  |  |  |
| **Total** | **162,535,528** | **36,745,275** |

In conformity with PAS No. 8, the Inventories accounts are restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 17,150,903 |
| Adjustment/Recording of Office Supplies Inventory - Branch | (1,026) |
| **Restated Amount as of December 31, 2017 - Office Supplies Inventory** | **17,149,877** |

Drugs and Medicines Inventory pertains to the cost of drugs and medicines purchased/received for stock/use in office operations/projects. It also includes Medical, Dental and Laboratory supplies.

The Office Supplies Inventory pertains to the cost of office supplies purchased/received for use in office operations.

Play/Bet Slips and Thermal rolls Inventory consists of lotto supplies used in betting for various lotto games.

1. **OTHER CURRENT ASSETS**

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **ADVANCES** |  |  |
| Advances for Payroll | 4,044,773 | 1,433,264 |
| Advances to Officers and Employees | 13,563,744 | 9,210,821 |
| Advances to Special Disbursing Officer | 16,199,002 | 15,634,026 |
| Sub-Total | **33,807,519** | **26,278,111** |
| **PREPAYMENTS** |  |  |
| Prepaid Insurance | 3,940,286 | 1,423,547 |
| Other Prepayments | 616,301,301 | 1,522,263 |
| Sub-Total | **620,241,587** | **2,945,810** |
| **Total** | **654,049,106** | **29,223,921** |

Advances are used to recognize the amount of advances granted to accountable officers for payment of salaries, wages, personnel benefits; special purpose/time-bound undertakings; and for official travel.

Prepayments include Prepaid Insurance which are unused portion of insurance paid to the GSIS-General Insurance Group for PCSO motor vehicles, facilities, properties, and insurances of PCSO officials as bonds to cover any liability that the officials may incur. Other Prepayments include overpayment of corporate income tax amounting to P615,768,212.

The account Advances to Special Disbursing Officer amounting to P6,284,333.23 was used to record advances by Cash Disbursing Officers of PCSO branches for payment of Charity and Prize Fund expenses.

1. **FINANCIAL ASSETS**

This account consists of the following:

|  | **2018** | **2017** |
| --- | --- | --- |
| **FINANCIAL ASSETS** |  |  |
| Financial Assets-Held to Maturity (Investments in Bonds - Local) | 200,000,000 | 200,000,000 |
| Financial Assets at FVOCI | 2,602,512,704 | 2,604,680,269 |
| Sub-Total | **2,802,512,704** | **2,804,680,269** |
| **OTHER INVESTMENTS** |  |  |
| Investments in Time Deposits - Local Currency | 150,000,000 | 150,000,000 |
| Investments in Time Deposits - Foreign Currency | 235,538,351 | 215,933,801 |
| Sub-Total | **385,538,351** | **365,933,801** |
| **Total** | **3,188,051,055** | **3,170,614,070**  3,170,614,070  **3,170,614,070** |

The Financial Assets at FVOCI are externally managed funds which include the P2.5 Billion allocated for the construction of PCSO Building that was placed in PCSO Trust Fund Account pursuant to Board Resolution No. 158 series of 2014 with amendments under Board Resolution No. 352 series of 2016. These are managed by the Land Bank Trust Banking Group based on the PCSO’s Investment Policy Statement.

Investments in Time Deposits-Local Currency are High Yield Savings Account (HYSA) and Premium Savings placed in LBP and Postal Bank, respectively with maturities of more than three hundred sixty five (365) days.

The acquisition cost and maturity value of the investments in foreign currency amounting to $4,479,618.70 and $4,633,220.34, respectively, and were translated to peso based on BSP month-end rate of USD1=P52.58. Details are shown below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Investment Date** | **Maturity Date** | **Acquisition Cost** | **Interest Receivable** | **Present Value** | **Maturity Value** |
| April 12, 2018 | April 13, 2020 | 235,538,351 | 4,796,178 | 240,334,529 | 243,614,725 |

Interest income from the long term investments are as follows:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Investment in Bonds | 7,800,000 | 7,800,000 |
| Financial Assets - Available for Sale Securities | 81,510,995 | 70,392,870 |
| Investments in Time Deposits - Local Currency | 3,750,000 | 3,750,000 |
| **Total** | **93,060,995** | **81,942,870** |

1. **INVESTMENT PROPERTY**

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Investment Property, Land | 274,642,026 | 274,642,025 |
| Investment Property, Building (net) | 6,059,340 | 6,390,273 |
| **Total** | **280,701,366** | **281,032,298** |

The PCSO uses the following criteria to distinguish investment property from owner-occupied property:

a. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;

b. Land held for currently undetermined future use.

Investment Property account is composed of thirty-one (31) land properties and two (2) buildings. The investment property were land and building acquired through foreclosed properties from defaulted sweepstakes agents.

|  |  |  |
| --- | --- | --- |
| **LAND PROPERTIES** | **2018** | **2017** |
| Brgy. Concepcion Uno, Marikina City | 1,664,000 | 1,664,000 |
| Brgy. Salvacion, La Loma, Quezon City | 4,080,000 | 4,080,000 |
| Tigbe, Norzagaray, Bulacan | 864,000 | 864,000 |
| Brgy. Pabanlag, Floridablanca, Pampanga | 1,797,000 | 1,797,000 |
| Brgy. Kataasan, Dinalupihan, Bataan | 238,000 | 238,000 |
| Brgy. Pagalanggang, Dinalupihan, Bataan | 804,000 | 804,000 |
| Brgy. Sto. Domingo, Capas, Tarlac | 4,290,000 | 4,290,000 |
| Brgy. Tibag, Tarlac City | 3,669,000 | 3,669,000 |
| Maliwalo, Tarlac City | 21,000 | 21,000 |
| Brgy. Maginoo, Gapan, Nueva Ecija | 544,000 | 544,000 |
| Brgy. Sangitan West, Cabanatuan, Nueva Ecija | 244,000 | 244,000 |
| Peñafrancia Hills Subd, Brgy. Cupang, Antipolo City | 415,599 | 415,599 |
| Brgy. San Isidro, Taytay, Rizal | 105,733,000 | 105,733,000 |
| Brgy. San Roque, Antipolo City | 111,206,000 | 111,206,000 |
| Brgy. Cupang, Antipolo City | 268,000 | 268,000 |
| Brgy. Macabud, Montalban, Rizal | 67,000 | 67,000 |
| Brgy. Galicia III, Mendez, Cavite | 720,000 | 720,000 |
| Brgy. 26 Caridad, Cavite City | 749,000 | 749,000 |
| Brgy. Cawayan, II, San Francisco, Quezon | 865,000 | 865,000 |
| Brgy. Sambat, San Pascual, Batangas | 1,142,000 | 1,142,000 |
| Lobo, Batangas | 1,705,000 | 1,705,000 |
| Brgy. Bagumbayan Sur, Naga City | 636,000 | 636,000 |
| Brgy. Almendras-Cogon, Sorsogon City | 778,000 | 778,000 |
| Brgy. Bical, Libmanan, Sorsogon City | 2,203,000 | 2,203,000 |
| Brgy. Basak, Lapu-lapu City, Cebu | 1,425,000 | 1,425,000 |
| Bunga, Abuyog, Leyte | 844,000 | 844,000 |
| Brgy, Sicayab, Dipolog City | 14,739,000 | 14,739,000 |
| Poblacion Lubao, Pampanga | 25,000 | 25,000 |
| Agdahon, Cuartero, Capiz | 368,000 | 368,000 |
| Right of Way – Flamingo Land Subd, Antipolo | 4,500,000 | 4,500,000 |
| Right of Way – Manuel Uy & Sons – Antipolo City | 8,038,427 | 8,038,427 |
| **Total** | **274,642,026** | **274,642,026** |

The amount in the investment property, land account is a mere transfer from land account amounting to P274,642,026 for year 2017. There are no additions and disposal made for the year 2017 and 2018. As a first time adopter, PCSO may elect to measure the investment property, land on the date of transition (January 1, 2017) to this Framework at its fair value and use that fair value as its deemed cost at that date.

The value in the investment property is a transfer from building account with the amount of P6,390,273 for the year 2017 and P6,059,340 for 2018. The carrying value is computed as cost less accumulated depreciation and depreciated using straight-line method. No additions/acquisition or disposal happened for the years 2017-2018.

**Schedule of Investment Property (Building)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **No. 72 Bulusan Street, Brgy. Salvacion, La Loma, Quezon City** | **Barangay Sangitan West, Cabanatuan City, Nueva Ecija** | **Total** |
| Cost | 7,122,000 | 592,000 | 7,714,000 |
| Salvage Value(5%) | (356,100) | (29,600) | 385,700 |
| Depreciable Cost | **6,765,900** | **562,400** | **7,328,300** |
| Estimated Useful Life | 27 | 7 |  |
| Depreciation |  |  |  |
| 2014 | 250,589 | 80,343 |  |
| 2015 | 250,589 | 80,343 |  |
| 2016 | 250,589 | 80,343 |  |
| 2017 | 250,589 | 80,343 |  |
| 2018 | 250,589 | 80,343 |  |
| Total Accumulated Depreciation as of December 31, 2018 | **(1,252,945)** | **(401,715)** | **(1,654,660)** |
| Salvage Value(5%) |  |  | **385,700** |
| Net Book Value as of  December 31, 2018 | **5,869,055** | **190,285** | **6,059,340** |

1. **PROPERTY AND EQUIPMENT**

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017, of property and equipment is shown below:

**2018**

|  | **Land and Land Improvements** | **Building & Leasehold Improvements** | **Office Furniture, Equipment and Machineries** | **Information and Communication Technology Equipment** | **Motor Vehicles** | **Construction in-Progress** | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Costs** |  |  |  |  |  |  |  |
| January 1, 2018 | 482,898,000 | 65,751,601 | 324,241,088 | 118,893,402 | 107,716,586 | - | **1,099,500,677** |
| Additions | - | 16,596,976 | 12,956,795 | 12,979,613 | 6,950,000 | 16,315,006 | **65,798,390** |
| Disposals | - | - | - | (32,813) | - | - | **(32,813)** |
| PPE Reclassification | - | (153,600) | 174,600 | 1,185,626 | - | (12,083,511) | **(10,876,885)** |
| Adjustments | - | 609,152 | 1,948,382 | (9,783,300) | 1,998,000 | - | **(5,227,766)** |
| **December 31, 2018** | **482,898,000** | **82,804,129** | **339,320,865** | **123,242,528** | **116,664,586** | **4,231,495** | **1,149,161,603** |
| **Accumulated Depreciation:** |  |  |  |  |  |  |  |
| January 1, 2018 | - | (32,552,113) | (121,645,500) | (17,269,840) | (84,540,899) | - | **(256,008,352)** |
| Depreciation expense | - | (10,278,775) | (19,734,310) | (67,400,367) | (7,608,156) | - | **(105,021,608)** |
| Adjustments | - | 396,358 | 630,722 | 4,989,121 | 1,181,984 | - | **7,198,185** |
| **December 31, 2018** | **-** | **(42,434,530)** | **(140,749,088)** | **(79,681,086)** | **(90,967,071)** | **-** | **(353,831,775)** |
| **Carrying Amount -12/31/18** | **482,898,000** | **40,369,599** | **198,571,777** | **43,561,442** | **25,697,515** | **4,231,495** | **795,329,828** |

**2017**

|  | **Land and Land Improvements** | **Building & Leasehold Improvements** | **Office Furniture, Equipment and Machineries** | **Information and Communication Technology Equipment** | **Motor Vehicles** | **Construction in-Progress** | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Cost:** |  |  |  |  |  |  |  |
| January 1, 2017 | 482,898,000 | 68,850,311 | 289,558,208 | 167,382,387 | 106,196,170 | 76,593 | **1,114,961,669** |
| Additions | - | 2,860,266 | 38,669,006 | 3,656,523 | - | - | **45,185,795** |
| Transfer to Other Assets | - | - | (1,599,953) | (1,365,833) | (1,998,000) | - | **(4,963,786)** |
| PPE Reclassification | - | 23,951 | (53,778,602) | 2,547,046 | (24,311) | (76,593) | **(51,308,509)** |
| Reclass to Semi-Expendable Expenses | - | - | (3,352,191) | (4,377,609) | - | - | **(7,729,800)** |
| Adjustments | - | (5,982,927) | 54,744,620 | (48,949,112) | 3,542,727 | - | **3,355,308** |
| **December 31, 2017** | **482,898,000** | **65,751,601** | **324,241,088** | **118,893,402** | **107,716,586** | **-** | **1,099,500,677** |
| **Accumulated Depreciation:** | |  |  |  |  |  |  |
| January 1, 2017 | - | (28,610,441) | (107,804,966) | (94,556,433) | (81,888,729) | - | **(312,860,569)** |
| Depreciation | - | (10,382,551) | (19,036,103) | (33,932,810) | (6,353,411) | - | **(69,704,875)** |
| Adjustments | - | 987,546 | 4,907,631 | 62,994,030 | 3,724,355 | - | **70,638,470** |
| **December 31, 2017** | **-** | **(39,980,538)** | **(121,933,438)** | **(65,495,213)** | **(84,517,785)** | **-** | **(311,926,974)** |
| **Carrying Amount -12/31/17** | **482,898,000** | **25,771,063** | **202,307,650** | **53,398,189** | **23,198,801** | **-** | **787,573,703** |

In conformity with PAS No. 8, the Property, Plant and Equipment are restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 33,199,488 |
| Adjustment/Recording of Depreciations Expenses -Building - Head Office | (155,071) |
| Adjustment/Recording of Depreciations Expenses - Lease Assets Improvements - Branch | (7,273,354) |
| **Restated Amount as of December 31, 2017 -Building & Leasehold Improvements** | **25,711,063** |

|  |  |
| --- | --- |
| Unrestated Amount as of December 31, 2017 | 202,595,588 |
| Adjustment/Recording of Depreciations Expenses - Books - Branch | 2,954 |
| Adjustment/Recording of Depreciations Expenses - Furniture and Fixtures - Branch | 67,750 |
| Adjustment/Recording of Depreciations Expenses - Office Equipment - Branch | (53,586) |
| Adjustment/Recording of Depreciations Expenses - Other Machinery & Equipment - Branch | (69,107) |
| Adjustment/Recording of Depreciations Expenses - Other Machinery & Equipment - Head Office | (239,274) |
| Adjustment/Recording of Depreciations Expenses - Other Property, Plant & Equipment - Head Office | 3,325 |
| **Restated Amount as of December 31, 2017 -Office Furniture, Equipment and Machineries** | **202,307,650** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 49,192,410 |
| Adjustment/Recording of Reclassification of Semi-Expendable Expenses - Head Office | (3,409) |
| Adjustment/Recording of Depreciations Expenses - Communication Equipment - Head Office | 6,840 |
| Adjustment/Recording of Depreciations Expenses - Information and Communication Technology Equipment - Head Office | 4,199,488 |
| Adjustment/Recording of Depreciations Expenses - Information and Communication Technology Equipment - Branch | 2,860 |
| **Restated Amount as of December 31, 2017 -Information and Communication Technology Equipment** | **53,398,189** |

The land amounts to P482,796,000 for 2017 and 2018. No addition or disposal was made.

Building and Leasehold Improvements account increases due to completion of Aklan and Cavite Branch office. Building was also divided into Property, Plant and Equipment with the amount of P38,118,089.90 (gross) and P7,714,000.00 (gross) for Investment Property-Building.

The Office Furniture, Equipment and Machineries account includes the purchase of Brand New Perforating Machine worth P2,995,940.00 to be used by the Security Printing and Production Department. The balance pertained to the cost of various items procured by various PCSO offices.

Additions to Information and Communications Technology Equipment consist of 50 units of Desktop Computers - P2,371,025.00; 25 units of laptop amounting to P1,374.407.00 and 2 units of Integrated Service Router - P692,400.00

Fixed Assets recorded from Office Equipment up to Other Property, Plant and Equipment were reclassified to have proper identification to which account code it belongs. Uniform classifications of Account Code and Class Description were made due to recording of same asset description to different account codes for prior period purchases. A meeting was held last June 5, 2017, together with Asset and Supply Management Department (ASMD), Accounting and Budget Department (ABD, Branch Operation Sector (BOS) and Internal Audit Services (IAS), to come up with detailed asset description that must be recorded in each account codes. The account code and its examples are consolidated and agreed to implement as follows:

Office Equipment account includes air-conditioning units (ACU), binding machine (BIN), typewriter (TYP), check writer (CKW), duplicating machine (DUP), punching machine (PUN), stamping machine (STP), shredder machine (SHR), bill counting machine (BCM), laminating machine (LAM).

Furniture and Fixtures account includes blinds (BLI), cashier/teller booth (CTB), cabinet (CAB), chairs (CHA), divider (DIV), partition/workstation (PNW), racking system (RAC), table (TAB), vault (VLT) and table accessories (TBA).

Information and Communication Technology Equipment account includes computer desktop in set (DES), Ipad (IPD), computer parts and accessories (CPA), data center equipment (DCE), printer (PRI), projector and accessories (PRO), scanner (SCA), network devices (NTD), storage devices (STD), server (SVR), software (SFW).

Books account includes hardbound/electronic books (BKS).

Other Machinery & Equipment account includes draw equipment and accessories (DEA).

Communication Equipment account includes camera and accessories (CAM), handheld radio and accessories (RAD), lapell (LPL), telephone apparatus (TEL), mobile phone (MOB), voice recorder (VOI), sound system (SSM), television and accessories (TVN), cassette recorder (CAS), CD player (CDP), DVD player (DVD) and VHS player.

Medical Equipment account includes dental equipment/ apparatus/ instrument (DEN), medical equipment/apparatus/instrument (MED) and laboratory equipment (LAB).

Military and Police Security Equipment account includes firearms and accessories (FNA) and CCTV System in set (CTV).

Sports Equipment account includes sports equipment and accessories (SEA).

Printing Equipment account includes printing equipment and accessories (PEA).

Motor Vehicles account includes motor vehicle (VEH).

Other Property, Plant and Equipment account includes container van (CVN), generator set (GEN), fan (FAN), kitchen appliances (KAP), kitchen articles (KNA) and general services tools and equipment (GST) such finger time recorder, signage, tent, GST tools, air ionizer, air compressor, dehumidifier, forklift and other unidentified items.

Construction In Progress account includes uncompleted major repair and renovation of PCSO Cebu Branch Office Building and construction of perimeter fence with steel gate at the PCSO Antipolo Property.

Unserviceable Properties not yet disposed where bring back to active Property, Plant and Equipment and the corresponding Accumulated Depreciation. The lapsing schedule shows the summary list of the unserviceable properties.

1. **INTANGIBLE ASSETS**

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017, of computer software is shown below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018** |  | **2017** |
| **Costs** |  |  |  |
| Beginning Balance | 174,782,505 |  | 73,330,796 |
| Additions | 13,104,820 |  | 37,801,298 |
| Adjustments | 7,564,278 |  | 60,662,756 |
| **Total** | **195,451,603** |  | **171,794,850** |
| **Accumulated Depreciation:** |  |  |  |
| Beginning Balance | (106,082,319) |  | (31,470,426) |
| Depreciation expense | (450,480) |  | (3,606,610) |
| Disposals | - |  | - |
| Adjustments | (52,431,152) |  | (71,005,284) |
| **Total** | **(158,963,951)** |  | **(106,082,320)** |
| Unrestated balance | - |  | 65,712,530 |
| Restatements | - |  | (17,360,575) |
| **Carrying Amount** | **36,487,652** |  | **48,351,955** |

In conformity with PAS No. 8, the Intangible Assets are restated as follows:

|  |  |
| --- | --- |
|  | Amount |
| Unrestated Amount as of December 31, 2017 | 68,700,185 |
| Adjustment/Recording of Amortization-Computer Software- Head Office | (20,348,230) |
| **Restated Amount as of December 31, 2017 -Computer Software** | **48,351,955** |

Intangible asset pertains to Computer Software with a carrying value of P68,700,185.00 for the year 2017 and P36,487,652.00 for the year 2018. The amortization is computed using straight line method with a useful life of three years. However, there are included software with 12-month subscription and it is amortized over one year.

Additions in the Computer Software for the year 2018 include 1 Lot Multi-factor Authentication Solution which provides identification of users by means of the combination of more than one different components worth P12,888,888.88; 3-unit of One-year subscription of Adobe Creative Cloud for P51,500 each; and 1-unit of Wirecast Pro-Windows 1 year premium support for Wirecast Pro amounting to P61,432.00. However, no disposal was made for 2018.

The adjustment for 2017 and 2018 is due to split of IT Equipment and Software (old account) to Information and Communication Technology Equipment (hardware) and Intangible Asset (Software).

1. **OTHER NON-CURRENT ASSETS**

This account consists of the following:

|  | **2018** | **2017** |
| --- | --- | --- |
| **PREPAYMENTS** |  |  |
| Prepaid Rent | 26,473,793 | 12,414,317 |
| **DEPOSITS** |  |  |
| Guaranty Deposits | 31,263,310 | 19,806,800 |
| Other Deposits | 4,116,458,793 | 3,302,112,787 |
| **OTHER ASSETS** |  |  |
| Foreclosed Property/Assets-net | 26,300 | 26,300 |
| Deferred Assets/Losses | 780 | 780 |
| Abandoned/Surrendered Properties-net | 384,524 | 776,222 |
| Other Assets | 39,770,990 | 39,765,658 |
| **Total** | **4,214,378,490** | **3,374,902,864** |

Prepayments include prepaid rent pertains to the advance deposits for lease/rentals of property, plant and equipment used in operations. These can be used as rental payments only at the end of the term of the contract

Deposit includes guaranty deposits and other deposits. Guaranty deposits are paid to utility companies, namely: Manila Electric Company and Philippine Long Distance Telephone Company. It also includes guaranty deposits for lease/rentals of the buildings located in Shaw Blvd., Mandaluyong City that are currently being occupied by the PCSO. Other deposits represent the cash bond of STL ASA, Lotto and Keno and the Prize Seed Fund entrusted/deposited to PCSO bank account by Pacific Online System Company, Philippine Gaming Management Corporation and Powerball Management Corporation for payment of prizes for Scratch and Match. Also includes the escrow deposit of Mark Sensing Ltd. retained by PCSO is in compliance with the court order to withhold 24.5 per cent commission of CISCO on PCSO’s lotto supplies purchases with Mark Sensing Ltd. (*Reference:* *Civil Case No. Q-05-54756*).

Other Assets include Foreclosed Property/Assets, Deferred Assets/Losses, Abandoned/Surrendered Properties and Other Assets.

1. **TAXES**

Income Tax Expense

This account consists of provisions for income taxes for:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Income tax expense - current | 627,822,438 | - |
| Income tax expense - deferred | (5,583,636) | - |
| **Total** | **622,238,802** | **-** |

The details of statutory reconciliation are provided below:

|  | **2018** | **2017** |
| --- | --- | --- |
| Income tax at statutory rate | 640,028,332 | - |
| Tax effect of income subject to final tax | (36,530,304) | - |
| Tax effect of non-deductible representation expense | 18,740,774 | - |
| **TOTAL** | **622,238,802** | - |

Analysis of income tax payable (prepaid income tax) follows:

|  | **2018** | **2017** |
| --- | --- | --- |
| **Regular Corporate Income Tax:** | 2,133,427,775 | - |
| Net income (loss) before tax |  |  |
| Permanent Differences: |  |  |
| Interest income subject to final tax | (121,767,680) |  |
| Tax Assessment | 62,469,246 |  |
| Temporary Differences: |  |  |
| Provision for retirement benefits | 35,751,918 |  |
| Unrealized gain Foreign exchange | (17,139,799) |  |
| **Taxable income** | **2,092,741,460** |  |
| Tax rate | 30% |  |
|  | **627,822,438** |  |
| **Minimum Corporate Income Tax** |  |  |
| Gross Income | 14,391,764,256 |  |
| Tax rate | 2% |  |
|  | **287,835,285** |  |
| Tax due (Higher of RCIT and MCIT) | 627,822,438 |  |
| Less: Tax credits |  |  |
| 1st-3rd Quarters income tax payments | 1,243,590,650 |  |
| **Prepaid income tax** | **(615,768,212)** | - |

* 1. Deferred Taxes

Details of DTA and DTL follows:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| DTA: |  | - |
| DTA arising from terminal leave | 10,725,576 | - |
| DTL: |  | - |
| DTL arising from unrealized gain on forex | 5,141,940 | - |
|  | **5,583,636** | - |

1. **FINANCIAL LIABILITIES**

Details of Accounts payable are as follow:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Accounts Payable | 7,752,554,544 | 7,960,240,902 |
| Due to Officers and Employees | 11,461,363 | 5,711,603 |
| **TOTAL** | **7,764,015,907** | **7,965,952,505** |

Accounts Payable includes the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Miscellaneous Accounts Payable | 5,340,239,149 | 3,826,297,951 |
| Vouchers Payable-Charity Fund | 2,047,761,732 | 3,580,607,033 |
| Vouchers Payable-Operating Fund | 94,008,028 | 129,322,084 |
| Vouchers Payable-Prize Fund | 99,109,723 | 113,646,755 |
| Rental and Maintenance | 171,435,912 | 310,367,079 |
| **TOTAL** | **7,752,554,544** | **7,960,240,902** |

In conformity with PAS No. 8, the Accounts Payable accounts are restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 6,470,677,474 |
| Adjustment/Recording of Accruals of Personnel Expenses - Head Office | 2,426,908 |
| Adjustment/Recording of Miscellaneous Accounts Payable - Head Office | (2,646,806,431) |
| **Restated Amount as of December 31, 2017 - Miscellaneous Accounts Payable** | **3,826,297,951** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 1,930,859,430 |
| Adjustment/Recording of Accounts Payable - Charity Fund - Branch | (7,562,815) |
| Adjustment/Recording of Accounts Payable - Charity Fund - Head Office | 1,657,310,418 |
| **Restated Amount as of December 31, 2017 - Vouchers Payable-Charity Fund** | **3,580,607,033** |

|  |  |
| --- | --- |
| Unrestated Amount as of December 31, 2017 | 104,545,223 |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Branch | (16,384) |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Head Office | 197,864 |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Branch | 651,636 |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Head Office | 19,099,599 |
| Adjustment/Recording of Salary Differential - Branch | 199,276 |
| Adjustment/Recording of Salary Differential - Head Office | 4,020,853 |
| Adjustment/Recording of Uncollected Overtime Pay - Head Office | 848,996 |
| Adjustment/Recording of Uncollected Salaries/Benefits - Branch | 2,620,292 |
| Adjustment/Recording of Uncollected Salaries/Benefits - Head Office | (2,845,271) |
| **Restated Amount as of December 31, 2017 - Vouchers Payable-Operating Fund** | **129,322,084** |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 84,320,382 |
| Adjustment/Recording of Accounts Payable - Prize Fund - Branch | 518,257 |
| Adjustment/Recording of Accounts Payable - Prize Fund - Head Office | 28,808,117 |
| **Restated Amount as of December 31, 2017 - Vouchers Payable-Prize Fund** | **113,646,756** |

The Miscellaneous Accounts Payable refers to various obligations being accrued every year end. Majority of its components were accrual of Prize Fund expenses, Performance Based Bonus, Employer’s Provident Fund share, Collective Negotiation Agreement (CNA) bonus, Advertising Expenses, and various Charity Fund expenses. The amount of P164,028,716 pertaining to employees’ leave credits for CY2017 was reclassified to Leave Benefits Payable.

The Vouchers Payable-Charity Fund refers to various unpaid processed vouchers payable to hospitals and other institutions/agencies as payment for financial assistance under the Individual Medical Assistance Program, Mandatory Contributions and Other Health and Welfare Programs of PCSO.

The Vouchers Payable-Operating Fund pertains to processed vouchers for various operating expenses that remains unpaid at year-end. This account also includes the payables of the Branch Offices.

The Vouchers Payable-Prize Fund refers to various unpaid processed vouchers for the payment of Prize Fund expenses.

The Vouchers Payable-Rentals and Maintenance pertains to the amount payable to the service providers of the lottery system, Philippine Gaming Management Corp., Pacific Online System Corp. and Total Gaming Technology, Inc., as payment for the cost of equipment lease rental and maintenance.

1. **INTER-AGENCY PAYABLES**

Inter-Agency payables includes the following accounts:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Due to BIR | 672,955,650 | 110,893,163 |
| Due to Other NGAs | 19,813,951 | 27,138,805 |
| Due to GSIS | 15,855,751 | 8,661,565 |
| Due to PhilHealth | 2,032,225 | 1,982,314 |
| Due to Pag-IBIG | 1,098,997 | 1,125,055 |
| Due to Other GOCCs | 445,736 | 445,735 |
| **TOTAL** | **712,202,310** | **150,246,637** |

1. **PROVISIONS**

This account consists of liabilities to the following:

|  | **2018** | **2017** |
| --- | --- | --- |
| Current Provisions | 4,836,933 | 1,676,345 |
| Non-Current Provisions | 171,536,519 | 162,352,371 |
| **TOTAL PROVISIONS** | **176,373,452** | **164,028,716** |

This account consists of leave benefits of employees. Employees retiring the following year are categorized as current provisions.

1. **OTHER CURRENT LIABILITIES**

This account is composed of the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Dividends Payable** | **755,594,486** | **-** |
| PCSO Provident Fund contributions | 14,133,563 | 13,492,205 |
| Amount held in trust for "Scratch and Match" prizes | 7,501,859 | 7,761,859 |
| Withheld payment of employees payable to Sweepstakes Cooperative | 5,337,636 | 5,867,676 |
| Withheld amount payable to thermal roll supplier | (228,191) | (233,760) |
| Share of the PNP in STL | 261,005,368 | 186,801,079 |
| Share of Charity Fund in STL | 768,239,601 | 629,549,185 |
| Other payables | 165,553,491 | 50,137,583 |
| **Total Other Payables** | **1,221,543,327** | **893,375,827** |
| **TOTAL OTHER CURRENT LIABILITIES** | **1,977,137,813** | **893,375,827** |

Share of Charity Fund in STL includes the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Share of Charity Fund in STL of Chartered cities | 957,081 | 954,979 |
| Share of Charity Fund in STL of Municipalities | 442,037,861 | 399,216,343 |
| Share of Charity Fund in STL of Provincial | 165,670,872 | 115,330,450 |
| Share of Charity Fund in STL of Congressional | 159,573,787 | 114,047,413 |
| **Share of Charity Fund in STL** | **768,239,601** | **629,549,185** |

The account Amount Held in Trust for “Scratch and Match” prizes pertain to the amount entrusted to PCSO by the operators of the “Scratch and Match” project for the payment of prizes.

1. **DEFERRED CREDITS**

This account represents advance sales of sweepstakes, keno and lotto tickets and advance remittances of lotto agentsand deferred tax liabilities.

1. **TRUST LIABILITIES**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Performance/Bidders Bonds | 4,044,936,506 | 3,243,069,676 |
| Guaranty Deposits Payable | 1,984,736 | 1,984,737 |
| **TOTAL** | **4,046,921,242** | **3,245,054,413** |

The performance/bidders bonds consist of retention fees from suppliers and cash bond of STL, Lotto and Keno agents. Abrupt change in amount was due to increase in number of approved Authorized STL Agents.

The Guaranty Deposits Payable account pertains to the cash bond of various Lotto and Keno agents of Branches.

1. **EQUITY**

**Retained Earnings**

|  |  |
| --- | --- |
| **OPERATING FUND** | **2018** |
| Restated Balance, January 01, 2018 | 7,170,092,574 |
| Payment of Dividends Payable for the CY2017 | (2,535,289,114) |
| Subsidy to Charity Fund | (500,000,000) |
| Balance before Corporate Income Tax & Dividends Payable | 4,134,803,460 |
| Add/(Deduct): Net Income/(Loss) after Corporate Income | 3,943,727,429 |
| Balance before transfer to Charity Fund & Dividends Payable | 8,078,530,889 |
| Less: Dividends Payable | (712,295,026) |
| Transfer to Charity Fund | (3,170,609,934) |
| **Ending Balance, December 31, 2018** | **4,195,625,929** |

|  |  |
| --- | --- |
| **CHARITY FUND** | **2018** |
| Restated Balance, January 01, 2018 | 1,279,057,348 |
| Forfeiture of unclaimed prizes | 494,638,021 |
| Subsidy from Operating Fund | 500,000,000 |
| Balance before Corporate Income Tax & Dividends Payable | 2,273,695,369 |
| Add/(Deduct): Net Income/(Loss) after Corporate Income | (2,672,272,363) |
| Balance before transfer to Charity Fund & Dividends Payable | (398,576,994) |
| Add: Transfer to Charity Fund | 3,170,609,934 |
| **Ending Balance, December 31, 2018** | **2,772,032,940** |

|  |  |
| --- | --- |
| **PRIZE FUND** | **2018** |
| Restated Balance, January 01, 2018 | 1,654,364,240 |
| Forfeiture of unclaimed prizes | (494,638,021) |
| Balance before Corporate Income Tax & Dividends Payable | 1,159,726,219 |
| Add/(Deduct): Net Income/(Loss) after Corporate Income | 239,733,906 |
| Balance before transfer to Charity Fund & Dividends Payable | 1,399,460,125 |
| Less: Dividends Payable | (43,299,460) |
| **Ending Balance, December 31, 2018** | **1,356,160,665** |

2. Cumulative Changes in Fair Value of Investment

|  |  |
| --- | --- |
|  | **Amount** |
| Beginning Balance, January 01, 2017 | - |
| Change in policy | (15,656,147) |
| Restated Balance, January 01, 2017 | (15,656,147) |
| Change in policy | (12,132,570) |
| Restated Balance, December 31, 2017 | (27,788,717) |
| Less: Unrealized loss on changes in fair value | (62,791,067) |
| **Ending Balance, December 31, 2018** | **(90,579,784)** |

1. **INCOME**

The PCSO’s income consist of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Operating** | **Charity** | **Prize** | **2018** |
| **Service and Business Income** |  |  |  |  |
| **Service Income** |  |  |  |  |
| Processing/Application Fee | 11,465,182 | - | - | 11,465,182 |
| Other Service Income | 143,465,739 | - | - | 143,465,739 |
| **Total Service Income** | **154,930,921** | **-** | **-** | **154,930,921** |
|  |  |  |  |  |
| **Business Income** |  |  |  |  |
| Income from Gaming Operations | 11,405,706,127 | 18,280,433,142 | 33,050,015,396 | 62,736,154,665 |
| Seminar/Training Fees | 958,800 | - | - | 958,800 |
| Fines and Penalties | 4,323,168 | - |  | 4,323,168 |
| Interest Income | 88,368,682 | 56,841,133 | 7,070,803 | 152,280,618 |
| Rent Income | - |  |  | - |
| Other Business Income |  | 2,403,662 |  | 2,403,662 |
| **Total Business Income** | **11,499,356,777** | **18,339,677,937** | **33,057,086,199** | **62,896,120,913** |
| **Total Service and Business Income** | **11,654,287,698** | **18,339,677,937** | **33,057,086,199** | **63,051,051,834** |
| **Gains** |  |  |  |  |
| Gain or loss on Foreign Exchange (FOREX) | - | 17,139,799 |  | 17,139,799 |
| **Total Gains** | **-** | **17,139,799** | **-** | **17,139,799** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Other Non-Operating Income** | | |  |  |  |  |
| **Sale of Assets** | | |  |  |  |  |
| Sale of Unserviceable Property | | | (29,594) |  |  | (29,594) |
| **Total Sale of Assets** | | | **(29,594)** | **-** | **-** | **(29,594)** |
|  |  |  |  |  |  |  | |
| **Miscellaneous Income** | | |  |  |  |  | |
| Miscellaneous Income | | | 29,164,831 |  |  | 29,164,831 | |
| Total Miscellaneous Income | | | 29,164,831 | - | - | 29,164,831 | |
| **Total Non-Operating Income** | | | **29,135,237** | **-** | **-** | **29,135,237** | |
| **TOTAL INCOME** | | | **11,683,422,935** | **18,356,817,736** | **33,057,086,199** | **63,097,326,870** | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Operating** | **Charity** | **Prize** | **2017** |
| **Service and Business Income** |  |  |  |  |
| **Service Income** |  |  |  |  |
| Processing/Application Fee | 11,440,000 | - | - | 11,440,000 |
| Other Service Income | 778,519,370 | - | - | 778,519,370 |
| **Total Service Income** | **789,959,370** | **-** | **-** | **789,959,370** |
|  |  |  |  |  |
| **Business Income** |  |  |  |  |
| Income from Gaming Operations | 8,851,953,437 | 15,583,678,507 | 28,570,077,264 | 53,005,709,208 |
| Seminar/Training Fees | 957,220 | - | - | 957,220 |
| Fines and Penalties | 1,039,291 | - | - | 1,039,291 |
| Interest Income | 65,376,540 | 78,117,755 | 6,196,436 | 149,690,731 |
| Rent Income | 5,602 | - | - | 5,602 |
| Other Business Income | - | 15,440,013 | - | 15,440,013 |
| **Total Business Income** | **8,919,332,090** | **15,677,236,275** | **28,576,273,700** | **53,172,842,065** |
| **Total Service and Business Income** | **9,709,291,460** | **15,677,236,275** | **28,576,273,700** | **53,962,801,435** |
| **Gains** |  |  |  |  |
| Gain or loss on Foreign Exchange (FOREX) | - | 1,286,296 | - | 1,286,296 |
| **Total Gains** | **-** | **1,286,296** | **-** | **1,286,296** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Other Non-Operating Income** |  |  |  |  |
| **Sale of Assets** |  |  |  |  |
| Sale of Unserviceable Property | (68,653) | - | - | (68,653) |
| **Total Sale of Assets** | **(68,653)** | - | - | **(68,653)** |
| **Miscellaneous Income** |  |  |  |  |
| Miscellaneous Income | 23,607,591 | - | - | 23,607,591 |
| **Total Miscellaneous Income** | 23,607,591 | - | - | 23,607,591 |
| **Total Non-Operating Income** | **23,538,938** | - | - | **23,538,938** |
| **TOTAL INCOME** | **9,732,830,398** | **15,678,522,571** | **28,576,273,700** | **53,987,626,669** |

Income from Gaming Operations consists of the following:

**2018**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Operating** | **Charity** | **Prize** | **Total** |
| **Retail Receipts** | | **9,535,054,316** | **19,070,108,632** | **34,961,865,826** | **63,567,028,774** |
| Less: | Printing Cost (2% of RR) | 190,701,086 | 381,402,173 | 699,237,317 | 1,271,340,576 |
|  | Documentary Stamp Tax | 170,237,501 | 340,475,001 | 624,204,169 | 1,134,916,671 |
|  |  | **360,938,587** | **721,877,174** | **1,323,441,486** | **2,406,257,247** |
| **Net Retail Receipts** | | **9,174,115,729** | **18,348,231,458** | **33,638,424,340** | **61,160,771,527** |
| Add: | 2% Printing Cost (Less share of ISAC) | 1,248,358,096 | - | - | 1,248,358,096 |
|  | Additional 20% for payment of DST | 1,134,916,671 | - | - | 1,134,916,671 |
| **Total Income from Operations** | | **11,557,390,496** | **18,348,231,458** | **33,638,424,340** | **63,544,046,294** |
| Less: | Share of ISAC from NISP | 151,684,368 | 67,798,316 | 588,408,944 | 807,891,629 |
| **Gross Revenue** | | **11,405,706,128** | **18,280,433,142** | **33,050,015,396** | **62,736,154,665** |

**2017**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | | **Operating** | **Charity** | **Prize** | **Total** |
| **Retail Receipts** | | | **7,950,856,381** | **15,901,712,762** | **29,153,140,065** | **53,005,709,208** |
| **Less:** | | Printing Cost (2% of RR) | 159,017,128 | 318,034,255 | 583,062,801 | 1,060,114,184 |
|  | | Documentary Stamp Tax | - | - | - | - |
|  | |  | 159,017,128 | 318,034,255 | 583,062,801 | 1,060,114,184 |
| **Income from Operations** | | | **7,791,839,253** | **15,583,678,507** | **28,570,077,264** | **51,945,595,024** |
| **Add:** | | 2% Printing Cost | 1,060,114,184 | - | - | 1,060,114,184 |
|  | | Additional 20% for payment of DST | - | - | - | - |
| **Total Income from Operations** | | | 8,851,953,437 | 15,583,678,507 | 28,570,077,264 | 53,005,709,208 |
| **Less:** | | Share of ISAC from NISP | - | - | - | - |
| **Gross Revenue** | | | **8,851,953,437** | **15,583,678,507** | **28,570,077,264** | **53,005,709,208** |

PCSO’s retail receipts consist of the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Sweepstakes | 4,867,500 | 22,500,000 |
| NISP | 1,149,124,000 | - |
| STL | 26,112,538,884 | 15,743,604,391 |
| Keno | 4,397,969,030 | 5,357,611,520 |
| Lotto | 31,902,529,360 | 31,858,987,200 |
| Peryahan | - | 23,006,097 |
|  | **63,567,028,774** | **53,005,709,208** |

In accordance with the provision of PCSO Charter, specifically Section 6 of RA 1169 as amended by Batas Pambansa Bilang 42, the gross receipts generated from the sale of tickets whether for sweepstakes, lotteries or similar activities, shall be deducted the printing cost of such tickets, which in no case shall exceed two per cent (2%) of such gross receipts to arrive at the net receipts. The net receipts shall be allocated as follows:

1. Fifty-five per cent (55%) shall be set aside as Prize Fund.
2. Thirty per cent (30%) shall be set aside as contributions to the Charity Fund.
3. Fifteen per cent (15%) shall be set aside as contributions to Operating Expenses and Capital Expenditures of the Office.

In conformity with PAS No. 8, the Other Income\(Expenses) accounts are restated as follows:

|  |  |
| --- | --- |
| Unrestated Amount as of December 31, 2017 | 11,437,500 |
| Adjustment/Recording of Processing Fees - Branches | 2,500 |
| **Restated Amount as of December 31, 2017 - Processing/Application Fee**  **(Operating Fund)** | **11,440,000** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 778,509,370 |
| Adjustment/Recording of Other Service Income - Branches | 10,000 |
| **Restated Amount as of December 31, 2017 - Other Service Income**  **(Operating Fund)** | **778,519,370** |
|  |  |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 52,009,100 |
| Adjustment/Recording of Interest Income- Head Office | 12,132,570 |
| Adjustment/Recording of Interest Income-Branches | 60,095 |
| Adjustment/Recording of Interest Income-Head Office | 1,174,775 |
| **Restated Amount as of December 31, 2017 - Interest Income (Operating Fund)** | **65,376,540** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 63,131,830 |
| Adjustment/Recording of Interest Income-Head Office | 4,144 |
| **Restated Amount as of December 31, 2017 - Interest Income (Charity Fund)** | **63,135,974** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 2,919,559 |
| Adjustment/Recording of Interest Income-Head Office | 2,546,238 |
| **Restated Amount as of December 31, 2017 - Interest Income (Prize Fund)** | **5,465,797** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 23,214,134 |
| Adjustment/Recording of Miscellaneous Income - Head Office | 393,457 |
| **Restated Amount as of December 31, 2017 - Miscellaneous Income (Operating Fund)** | **23,607,591** |

1. **EXPENSES**

The PCSO’s expenses consist of:

**2018**

**Personnel Services**

|  | | | **Operating** | **Charity** | **Prize** | **Total** |
| --- | --- | --- | --- | --- | --- | --- |
| Salaries and Wages | | | 463,753,170 | - | - | 463,753,170 |
| Personnel Economic Relief Allowance (PERA) | | | 27,273,915 | - | - | 27,273,915 |
| Representation and Transportation Allowance (RATA) | | | 19,806,948 | - | - | 19,806,948 |
| Clothing/Uniform Allowance | | | 6,946,000 | - | - | 6,946,000 |
| Subsistence Allowance | | | 649,200 | - | - | 649,200 |
| Laundry Allowance | | | 86,850 |  |  | 86,850 |
| Hazard Pay | | | 3,926,501 |  |  | 3,926,501 |
| Longevity Pay | | | 2,830,115 |  |  | 2,830,115 |
| Overtime and Night Pay | | | 4,302,200 |  |  | 4,302,200 |
| Year End Bonus | | | 78,001,468 |  |  | 78,001,468 |
| Cash Gift | | | 5,716,250 |  |  | 5,716,250 |
| Other Bonuses and Allowances | | | 98,440,644 |  |  | 98,440,644 |
| Retirement and Life Insurance Premiums | | | 55,903,113 |  |  | 55,903,113 |
| Pag-IBIG Contributions | | | 1,398,842 |  |  | 1,398,842 |
| PhilHealth Contributions | | | 5,125,366 |  |  | 5,125,366 |
| Employees Compensation Insurance Premiums | | | 1,458,760 |  |  | 1,458,760 |
| Provident/Welfare Fund Contributions | | | 93,359,759 |  |  | 93,359,759 |
| Terminal Leave Benefits | | | 37,824,706 |  |  | 37,824,706 |
| Retirement Gratuity | | | 2,618,743 |  |  | 2,618,743 |
| Other Personnel Benefits | | | 134,731 |  |  | 134,731 |
| **Total Personnel Services** | | | **909,557,281** | **-** | **-** | **909,557,281** |
|  |  |  |  |  |  |  |
| **Maintenance and Other Operating Expenses** | | | **Operating** | **Charity** | **Prize** | **2018** |
| Traveling Expenses | | | 20,278,442 |  |  | 20,278,442 |
| Training Expenses | | | 20,936,187 |  |  | 20,936,187 |
| Office Supplies Expenses | | | 16,364,984 |  |  | 16,364,984 |
| Drugs and Medicines Expenses | | |  | 9,166,055 |  | 9,166,055 |
| Medical, Dental and Laboratory Supplies Expenses | | |  | 606,653 |  | 606,653 |
| Fuel, Oil and Lubricants Expenses | | | 5,896,842 |  |  | 5,896,842 |
| Military & Police Supplies Expenses | | | 948 |  |  | 948 |
| Play/Bet Slips And Thermal Rolls Supplies Expenses | | | 297,429,220 |  |  | 297,429,220 |
| Electrical Supplies and Materials Expenses | | | 93,587 |  |  | 93,587 |
| Semi-Expendable Furniture, Fixtures and Books Expenses | | | 5,475,247 |  |  | 5,475,247 |
| Other Supplies and Materials Expenses | | | 4,999,818 |  |  | 4,999,818 |
| Utility Expenses | | | 31,054,755 |  |  | 31,054,755 |
| Communication Expenses | | | 14,976,713 |  |  | 14,976,713 |
| Extra-ordinary and Miscellaneous Expenses | | | 256,727 |  |  | 256,727 |
| Professional Services | | | 146,519,525 |  |  | 146,519,525 |
| General Services | | | 58,112,005 |  |  | 58,112,005 |
| Repairs and Maintenance | | | 7,379,964 |  |  | 7,379,964 |
| Taxes, Duties and Licenses | | | 118,266,392 | 12,153,637 | 1,414,161 | 131,834,190 |
| Fidelity Bond Premiums | | | 1,187,272 |  |  | 1,187,272 |
| Insurance Expenses | | | 4,501,109 |  |  | 4,501,109 |
| *Other Maintenance and Operating Expenses* | | |  |  |  |  |
| Rent Expenses | | | 609,890,784 | 1,021,808,798 | 1,873,316,131 | 3,505,015,713 |
| Advertising Expenses | | | 147,914,867 |  |  | 147,914,867 |
| Donation Expenses | | | 24,100,994 |  |  | 24,100,994 |
| Documentary Stamps Expenses | | | 1,134,916,671 | 8,306,939,740 | - | 9,441,856,411 |
| Transportation and Delivery Expenses | | | 4,456,223 |  |  | 4,456,223 |
| Printing and Publication Expenses | | | 130,834,334 |  |  | 130,834,334 |
| Representation Expenses | | | 383,146 |  |  | 383,146 |
| Membership Dues & Contribution to Organization | | | 944,068 |  |  | 944,068 |
| Subscription Expenses | | | 303,546 |  |  | 303,546 |
| Directors and Committee Members' Fees | | | 7,365,120 |  |  | 7,365,120 |
| Lottery Draws Expenses | | | 495,337,823 |  |  | 495,337,823 |
| Fees and Commission - Seller's Share/Commission (Sweepstakes) | | |  |  | 1,216,875 | 1,216,875 |
| Fees and Commission - Commission Expenses | | |  |  | 4,861,087,834 | 4,861,087,834 |
| Other Maintenance and Operating Expenses | | | 2,857,461,453 |  | 736,812 | 2,858,198,265 |
|  | | |  |  |  |  |
| *Prize Expenses* | | |  |  |  |  |
| Jackpot Prizes | | |  |  | 3,819,831,848 | 3,819,831,848 |
| Low Tier Prizes | | |  |  | 20,781,925,789 | 20,781,925,789 |
| Winning Tickets - Sweepstakes | | |  |  | 1,436,364 | 1,436,364 |
| 5% Prize Fund Tax | | |  |  | 1,419,032,123 | 1,419,032,123 |
| Seller's Share (Lotto) | | |  |  | 21,452,956 | 21,452,956 |
| **Total Maintenance and Other Operating Expenses** | | | **6,167,638,766** | **9,350,674,883** | **32,781,450,893** | **48,299,764,542** |
|  | | |  |  |  |  |
| **Financial Expenses** | | | **Operating** | **Charity** | **Prize** | **2018** |
| Financial charges | | | **5,715,592** | **40,180** | **243,908** | **5,999,680** |
|  | | |  |  |  |  |
| **Non-Cash Expenses** | | | **Operating** | **Charity** | **Prize** | **2018** |
| Depreciation Expenses | | | **70,202,559** |  |  | **70,202,559** |
|  | | |  |  |  |  |
| **Financial Assistance/Subsidy/Contribution** | | | **Operating** | **Charity** | **Prize** | **2018** |
| Individuals | | |  | 8,999,843,302 |  | 8,999,843,302 |
| National Government Agencies | | |  | 1,050,751,644 |  | 1,050,751,644 |
| Local Government Units | | |  | 1,428,031,121 |  | 1,428,031,121 |
| Non-Government Organizations/People's Organizations | | |  | 771,137 |  | 771,137 |
| Other Charity Expenses | | |  | 198,977,831 |  | 198,977,831 |
| **Total Financial Assistance/Subsidy/Contribution** | | |  | **11,678,375,035** |  | **11,678,375,035** |
| **Total Operating Expenses** | | | **7,153,114,198** | **21,029,090,098** | **32,781,694,801** | **60,963,899,097** |

**2017**

**Personal Services**

|  | **Operating** | **Charity** | **Prize** | **Total** |
| --- | --- | --- | --- | --- |
| Salaries and Wages | 431,113,346 | 22,334,676 |  | 453,448,022 |
| Personnel Economic Relief Allowance (PERA) | 26,887,474 | 1,185,546 |  | 28,073,020 |
| Representation and Transportation Allowance (RATA) | 26,468,317 | 420,841 |  | 26,889,158 |
| Clothing/Uniform Allowance | 11,270,000 | 500,000 |  | 11,770,000 |
| Subsistence Allowance | 39,650 | 652,950 |  | 692,600 |
| Laundry Allowance | 5,550 | 87,150 |  | 92,700 |
| Hazard Pay | 18,014,323 | 2,066,004 |  | 20,080,328 |
| Longevity Pay | 1,291,269 | 1,676,221 |  | 2,967,490 |
| Overtime and Night Pay | 4,714,775 | 58,025 |  | 4,772,800 |
| Year End Bonus | 70,998,006 | 4,162,284 |  | 75,160,290 |
| Cash Gift | 5,879,250 | - |  | 5,879,250 |
| Other Bonuses and Allowances | 467,151,684 | 23,260,298 |  | 490,411,982 |
| Retirement and Life Insurance Premiums | 45,692,754 | 2,034,824 |  | 47,727,578 |
| Pag-IBIG Contributions | 1,358,956 | 54,400 |  | 1,413,356 |
| PhilHealth Contributions | 3,945,250 | 183,138 |  | 4,128,388 |
| Employees Compensation Insurance Premiums | 1,362,197 | 54,400 |  | 1,416,597 |
| Provident/Welfare Fund Contributions | 80,835,464 | 3,962,763 |  | 84,798,227 |
| Terminal Leave Benefits | 50,858,383 | 2,385,091 |  | 53,243,473 |
| Other Personnel Benefits | 2,464,470 | - |  | 2,464,470 |
| **Total Personal Services** | **1,250,351,118** | **65,078,611** |  | **1,315,429,729** |
|  |  |  |  |  |
| **Maintenance and Other Operating Expenses** | **Operating** | **Charity** | **Prize** | **Total** |
| Traveling Expenses | 18,542,582 | 340,971 | - | 18,883,553 |
| Training Expenses | 22,763,420 | - | - | 22,763,420 |
| Office Supplies Expenses | 11,971,479 | 127,452 |  | 12,098,931 |
| Drugs and Medicines Expenses | - | 2,659,099 | - | 2,659,099 |
| Medical, Dental and Laboratory Supplies Expenses | - | 798,121 | - | 798,121 |
| Fuel, Oil and Lubricants Expenses | 4,406,591 | 95,964 |  | 4,502,555 |
| Play/Bet Slips And Thermal Rolls Supplies Expenses | 275,504,148 | - | - | 275,504,148 |
| Electrical Supplies and Materials Expenses | 29,766 | - |  | 29,766 |
| Semi-Expendable Furniture, Fixtures and Books Expenses | 3,317,114 | 44,865 | - | 3,361,979 |
| Other Supplies and Materials Expenses | 2,747,568 | - | - | 2,747,568 |
| Utility Expenses | 25,167,944 | - | - | 25,167,944 |
| Communication Expenses | 14,539,472 |  |  | 14,539,472 |
| Extra-ordinary and Miscellaneous Expenses | 351,955 | - | - | 351,955 |
| Professional Services | 98,227,212 | 1,091,532 | - | 99,318,744 |
| General Services | 54,431,581 |  |  | 54,431,581 |
| Repairs and Maintenance | 5,781,727 | 40,184 | - | 5,821,911 |
| Taxes, Duties and Licenses | 16,134,054 | 14,941,601 | 730,640 | 31,806,295 |
| Fidelity Bond Premiums | 892,828 |  |  | 892,828 |
| Insurance Expenses | 4,259,461 |  |  | 4,259,461 |
| *Other Maintenance and Operating Expenses* |  |  |  |  |
| Rent Expenses | 646,187,888 | 1,178,370,512 | 2,160,345,940 | 3,984,904,340 |
| Advertising Expenses | 118,235,567 | - | - | 118,235,567 |
| Donation Expenses | 17,407,253 | - | - | 17,407,253 |
| Documentary Stamps Expenses | - | 5,298,392,921 | - | 5,298,392,921 |
| Transportation and Delivery Expenses | 4,691,245 | 412,501 | - | 5,103,746 |
| Printing and Publication Expenses | 69,540,506 | - | - | 69,540,506 |
| Representation Expenses | 390,603 | 412,501 |  | 803,104 |
| Membership Dues & Contribution to Organization | 608,895 |  |  | 608,895 |
| Subscription Expenses | 279,393 |  |  | 279,393 |
| Directors and Committee Members' Fees | 5,920,000 |  |  | 5,920,000 |
| Lottery Draws Expenses | 230,063,039 |  |  | 230,063,039 |
| Fees and Commission - Seller's Share/Commission  (Sweepstakes) | | 5,622,500 | | 5,622,500 |
| Fees and Commission - Commission Expenses |  |  | 3,773,703,132 | 3,773,703,132 |
| Other Maintenance and Operating Expenses | 1,689,933,859 | 503,163 |  | 1,690,437,022 |
| *Prize Expenses* |  |  |  |  |
| Jackpot Prizes | - | - | 2,758,826,579 | 2,758,826,579 |
| Low Tier Prizes | - | - | 18,565,286,705 | 18,565,286,705 |
| Winning Tickets - Sweepstakes | - | - | 3,862,091 | 3,862,091 |
| 5% Prize Fund Tax | - | - | 1,428,503,864 | 1,428,503,864 |
| Seller's Share (Lotto) | - | - | 349,765 | 349,765 |
| **Total Maintenance and Other Operating Expenses** | **3,342,327,150** | **6,498,231,387** | **28,697,231,216** | **38,537,789,753** |
|  |  |  |  |  |
| **Financial Expenses** |  |  |  |  |
| Financial charges | **5,829,020** | **41,009** | **761,247** | **6,631,276** |
|  |  |  |  |  |
| **Non-Cash Expenses** |  |  |  |  |
| Depreciation Expenses | **82,717,891** | **341,700** | **-** | **83,059,591** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial Assistance/Subsidy/Contribution** |  |  |  |  |
| Individuals | - | 9,478,574,819 | - | 9,478,574,819 |
| National Government Agencies | - | 1,085,949,605 | - | 1,085,949,605 |
| Local Government Units | - | 1,594,681,141 | - | 1,594,681,141 |
| Non-Government Organizations/People's Organizations | - | 1,306,715 | - | 1,306,715 |
| Other Charity Expenses | - | 493,548,552 | - | 493,548,552 |
| **Total Financial Assistance/Subsidy/Contribution** |  | **12,654,060,832** |  | **12,654,060,832** |
| **Total Operating Expenses** | **4,681,225,179** | **19,217,753,539** | **28,697,992,463** | **52,596,971,181** |

In conformity with PAS No. 8, the Expenses are restated as follows:

|  |  |
| --- | --- |
| Unrestated Amount as of December 31, 2017 | 424,941,436 |
| Adjustment/Recording of Accruals of Personnel Expenses - Head Office | 1,571,671 |
| Adjustment/Recording of Salaries And Wages - Regular-Branches | 129,857 |
| Adjustment/Recording of Salaries And Wages - Regular-Head Office | 2,603,436 |
| Payment of Salaries And Wages - Regular-Branches | 1,287,514 |
| Payment of Salaries And Wages - Regular-Head Office | 579,432 |
| **Restated Amount as of December 31, 2017 - Salaries and Wages (Operating Fund)** | **431,113,346** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 22,399,752 |
| Adjustment/Recording of Salaries And Wages - Regular-Head Office | (65,076) |
| **Restated Amount as of December 31, 2017 - Salaries and Wages (Charity Fund)** | **22,334,676** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 26,895,110 |
| Adjustment/Recording of Personnel Economic Relief Allowance-Branches | (2,545) |
| Payment of Personnel Economic Relief Allowance-Branches | (8,636) |
| Payment of Personnel Economic Relief Allowance-Head Office | 3,545 |
| **Restated Amount as of December 31, 2017 - PERA (Operating Fund)** | **26,887,474** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 26,440,842 |
| Adjustment/Recording of Representation Allowance-Branches | 9,453 |
| Adjustment/Recording of Representation Allowance-Head Office | (17,250) |
| Adjustment/Recording of Transportation Allowance-Branches | 9,454 |
| Adjustment/Recording of Transportation Allowance-Head Office | (15,313) |
| Payment of Representation Allowance-Head Office | 21,000 |
| Payment of Transportation Allowance-Head Office | 20,131 |
| **Restated Amount as of December 31, 2017 - Representation Allowance and Transportation Allowance (Operating Fund)** | **26,468,317** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 11,250,000 |
| Payment of Clothing/Uniform Allowance-Head Office | 20,000 |
| **Restated Amount as of December 31, 2017 - Clothing/Uniform Allowance (Operating Fund)** | **11,270,000** |
|  |  |
|  |  |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 18,245,907 |
| Adjustment/Recording of Hazard Pay-Head Office | (231,584) |
| **Restated Amount as of December 31, 2017 - Hazard Pay (Operating Fund)** | **18,014,323** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 4,566,668 |
| Adjustment/Recording of Hazard Pay-Head Office | (2,500,664) |
| **Restated Amount as of December 31, 2017 - Hazard Pay (Charity Fund)** | **2,066,004** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 1,291,098 |
| Payment of Longevity Pay-Head Office | 171 |
| **Restated Amount as of December 31, 2017 - Longevity Pay (Operating Fund)** | **1,291,269** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 3,865,778 |
| Payment of Overtime And Night Pay-Head Office | 848,996 |
| **Restated Amount as of December 31, 2017 - Overtime and Night Pay (Operating Fund)** | **4,714,774** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 69,873,637 |
| Adjustment/Recording of 13Th Month Pay-Branches | 27,332 |
| Adjustment/Recording of 13Th Month Pay-Head Office | 272,489 |
| Adjustment/Recording of Accruals of Personnel Expenses - Head Office | 146,590 |
| Adjustment/Recording of Mid-Year Bonus-Branches | 6,068 |
| Adjustment/Recording of Mid-Year Bonus-Head Office | 161,628 |
| Payment of 13Th Month Pay-Branches | 169,385 |
| Payment of 13Th Month Pay-Head Office | 70,958 |
| Payment of Mid-Year Bonus-Branches | 239,334 |
| Payment of Mid-Year Bonus-Head Office | 30,585 |
| **Restated Amount as of December 31, 2017 - Year End Bonus (Operating Fund)** | **70,998,006** |
|  |  |
| Unrestad Amount as of December 31, 2017 | 5,874,250 |
| Payment of Cash Gift-Head Office | 5,000 |
| **Restated Amount as of December 31, 2017 - Year End Bonus (Operating Fund)** | **5,879,250** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 464,413,295 |
| Adjustment/Recording of Accruals of Personnel Expenses - Head Office | 708,648 |
| Adjustment/Recording of Christmas Bonus /Rpip-Head Office | (70,000) |
| Adjustment/Recording of Christmas Bonus-Branches | 48,182 |
| Adjustment/Recording of Christmas Bonus-Head Office | 843,125 |
| Adjustment/Recording of Collective Negotiation Agreement - Civilian-Head Office | (25,000) |
| Adjustment/Recording of Educational Assistance-Branches | 15,170 |
| Adjustment/Recording of Educational Assistance-Head Office | 356,382 |
| Payment of Christmas Bonus /Rpip-Head Office | 33,107 |
| Payment of Christmas Bonus-Branches | 359,901 |
| Payment of Christmas Bonus-Head Office | 146,946 |
| Payment of Educational Assistance-Branches | 227,140 |
| Payment of Educational Assistance-Head Office | 85,788 |
| Payment of Rice Allowance-Head Office | 9,000 |
| **Restated Amount as of December 31, 2017 - Other Bonuses and Allowances (Operating Fund)** | **467,151,684** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 49,986,060 |
| Adjustment/Recording of Retirement And Life Insurance Premiums-Branches | 24,365 |
| Adjustment/Recording of Retirement And Life Insurance Premiums-Head Office | (4,632,894) |
| Payment of Retirement And Life Insurance Premiums-Head Office | 315,223 |
| **Restated Amount as of December 31, 2017 - Retirement and Life Insurance Premiums (Operating Fund)** | **45,692,754** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 2,376,957 |
| Adjustment/Recording of Retirement And Life Insurance Premiums-Branches | (342,133) |
| **Restated Amount as of December 31, 2017 - Retirement and Life Insurance Premiums (Charity Fund)** | **2,034,824** |
|  |  |
|  |  |
|  |  |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 1,358,556 |
| Adjustment/Recording of Pag-Ibig Contributions-Branches | 400 |
| **Restated Amount as of December 31, 2017 - Pag-IBIG Contr. (Operating Fund)** | **1,358,956** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 3,968,638 |
| Payment of Philhealth Contributions-Head Office | 600 |
| Adjustment/Recording of Philhealth Contributions-Branches | (23,988) |
| **Restated Amount as of December 31, 2017 - PhilHealth Contr. (Operating Fund)** | **3,945,250** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 80,731,896 |
| Payment of Provident/Welfare Fund Contributions-Head Office | 103,568 |
| **Restated Amount as of December 31, 2017 - Provident/Welfare Fund Contr. (Operating Fund)** | **80,835,464** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 3,957,162 |
| Adjustment/Recording of Provident/Welfare Fund Contributions- Head Office | 5,601 |
| **Restated Amount as of December 31, 2017 - Provident/Welfare Fund Contr. (Charity Fund)** | **3,962,763** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 50,079,194 |
| Payment of Terminal Leave Benefits-Head Office | 779,189 |
| **Restated Amount as of December 31, 2017 - Terminal Leave Benefits (Operating Fund)** | **50,858,383** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 2,456,970 |
| Payment of Special Legal Counsel Allowance-Head Office | 7,500 |
| **Restated Amount as of December 31, 2017 - Other Personnel Benefits (Operating Fund)** | **2,464,470** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 18,092,372 |
| Adjustment/Recording of Travelling Expenses - Local - Branch | 27,355 |
| Adjustment/Recording of Travelling Expenses - Local - Head Office | 320,329 |
| Payment of Travelling Expenses - Local - Branch | 6,888 |
| Payment of Travelling Expenses - Local - Head Office | 95,639 |
| **Restated Amount as of December 31, 2017 - Traveling Expenses (Operating Fund)** | **18,542,583** |
| Unrestated Amount as of December 31, 2017 | 21,788,164 |
| Adjustment/Recording of Training Expenses - Head Office | 879,992 |
| Payment of Traning Expenses - Local - Head Office | 95,264 |
| **Restated Amount as of December 31, 2017 - Training Expenses (Operating Fund)** | **22,763,420** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 10,928,940 |
| Adjustment/Recording of Reclassification of Office Supplies Expenses - Head Office | (190,740) |
| Payment of Office Supplies Expenses - Head Office | 1,233,279 |
| **Restated Amount as of December 31, 2017 - Office Supplies Expenses (Operating Fund)** | **11,971,479** |

|  |  |
| --- | --- |
| Unrestated Amount as of December 31, 2017 | 4,324,226 |
| Adjustment/Recording of Fuel, Oil And Lubricants Expenses - Branch | 5,080 |
| Adjustment/Recording of Fuel, Oil And Lubricants Expenses - Head Office | 11,000 |
| Payment of Fuel, Oil And Lubricants Expenses - Branch | 11,607 |
| Payment of Fuel, Oil And Lubricants Expenses - Head Office | 54,678 |
| **Restated Amount as of December 31, 2017 - Fuel, Oil and Lubricants Expenses (Operating Fund)** | **4,406,591** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 3,291,469 |
| Adjustment/Recording of Semi-Expendable Expenses - Head Office | 3,409 |
| Adjustment/Recording of Semi-Expendable Expenses - Branch | 400 |
| Adjustment/Recording of Semi-Expendable Expenses - Head Office | 19,765 |
| Adjustment/Recording of Semi-Expendable Expenses - Branch | 1,026 |
| Adjustment/Recording of Semi-Expendable Expenses - Branch | 1,045 |
| **Restated Amount as of December 31, 2017 - Semi-Expendable Furniture, Fixtures and Books Expenses(Operating Fund)** | **3,317,114** |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 43,665 |
| Adjustment/Recording of Accounts Payable - Charity Fund - Head Office | 1,200 |
| **Restated Amount as of December 31, 2017 - Semi-Exp., F&F and Books Exp. (Charity Fund)** | **44,865** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 2,588,089 |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Branch | 159,479 |
| **Restated Amount as of December 31, 2017 - Other Supplies and Materials Expenses (Operating Fund)** | **2,747,568** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 24,325,034 |
| Adjustment/Recording of Electricity Expenses - Branch | (5,597) |
| Adjustment/Recording of Electricity Expenses - Head Office | (188,297) |
| Adjustment/Recording of Water Expenses - Branch | (4,481) |
| Adjustment/Recording of Water Expenses - Head Office | 12,010 |
| Payment of Electricity Expenses - Branch | (4,506) |
| Payment of Electricity Expenses - Head Office | 950,948 |
| Payment of Water Expenses - Head Office | 82,833 |
| **Restated Amount as of December 31, 2017 - Utility Expenses (Operating Fund)** | **25,167,944** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 14,399,445 |
| Adjustment/Recording of Postage and Courier Services Expenes - Branch | (720) |
| Adjustment/Recording of Telephone Expenses - Landline - Head Office | 52,654 |
| Adjustment/Recording of Telephone Expenses - Landline - Branch | 4,337 |
| Adjustment/Recording of Telephone Expenses - Mobile - Branch | 2,947 |
| Adjustment/Recording of Telephone Expenses - Mobile - Head Office | 80,470 |
| Adjustment/Recording of Internet Expenses - Head Office | 339 |
| **Restated Amount as of December 31, 2017 - Communication Expenses (Operating Fund)** | **14,539,472** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 342,955 |
| Adjustment/Recording of Miscellaneous Expenses - Head Office | 9,000 |
| **Restated Amount as of December 31, 2017 - Extra-ordinary and Misc. Exp. (Operating Fund)** | **351,955** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 97,056,370 |
| Adjustment/Recording of Auditing Services Expenses - Branch | (4,320) |
| Adjustment/Recording of Auditing Services Expenses - Head Office | 872,035 |
| Payment of Auditing Services Expenses - Head Office | 156,485 |
| Adjustment/Recording of Legal Services Expenses - Branch | 1,000 |
| Adjustment/Recording of Consultancy Services Expenses - Head Office | (284,318) |
| Payment of Consultancy Services Expenses - Head Office | 216,818 |
| Adjustment/Recording of Other Professional Services - Branch | 123,046 |
| Adjustment/Recording of Other Professional Services - Head Office | 90,096 |
| **Restated Amount as of December 31, 2017 - Professional Services (Operating Fund)** | **98,227,212** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 47,254,350 |
| Adjustment/Recording of Security Expenses - Head Office | 7,177,231 |
| **Restated Amount as of December 31, 2017 - General Services (Operating Fund)** | **54,431,581** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 5,600,247 |
| Adjustment/Recording of Repairs & Maintenance-Motor Vehicles - Branch | (13,533) |
| Adjustment/Recording of Repairs & Maintenance-Motor Vehicles - Head Office | (170,746) |
| Adjustment/Recording of Repairs & Maintenance-Other Property, Plant & Equipment - Head Office | (12,114) |
| Adjustment/Recording of Repairs And Maintenance-Leased Assets Improvements- Building - HO | 450 |
| Adjustment/Recording of Repairs And Maintenance-Machinery and Equipt.- Printing Equipt. - HO | (73,462) |
| Adjustment/Recording of Repairs And Maintenance-Machinery And Equipment-Office Equipment-Information And Communication Technology Equipment - Branch | (2,850) |
| Payment of Repairs & Maintenance Expenses - Buildings - Head Office | 68,000 |
| Payment of Repairs & Maintenance-Leased Assets Improvements- Building - Head Office | 28,608 |
| Payment of Repairs & Maintenance-Machinery & Equipment - Printing Equipment- Head Office | 79,835 |
| Payment of Repairs & Maintenance-Motor Vehicles - Head Office | 277,292 |
| **Restated Amount as of December 31, 2017 - Repairs and Maint. Exp. (Operating Fund)** | **5,781,727** |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 40,084 |
| Adjustment/Recording of Repairs & Maintenance-Motor Vehicles - Head Office | (1,500) |
| Payment of Repairs & Maintenance-Motor Vehicles - Head Office | 1,600 |
| **Restated Amount as of December 31, 2017 - Repairs and Maintenance Expenses (Charity Fund)** | **40,184** |
| Unrestated Amount as of December 31, 2017 | 15,764,137 |
| Adjustment/Recording of Taxes, Duties And Fees - Branch | (38) |
| Adjustment/Recording of Taxes, Duties And Fees - Head Office | 369,955 |
| **Restated Amount as of December 31, 2017 - Taxes, Duties and Licenses (Operating Fund)** | **16,134,054** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 893,203 |
| Adjustment/Recording of Fidelity Bond & Insurance Premiums Expenses - Branch | (375) |
| **Restated Amount as of December 31, 2017 - Insurance Expenses (Operating Fund)** | **892,828** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 646,187,887 |
| Adjustment/Recording of Rent Expenses - Branches | 1 |
| **Restated Amount as of December 31, 2017 - Rent (Operating Fund)** | **646,187,888** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 114,347,014 |
| Adjustment/Recording of Advertising Expenses - Head Office | (7,575,151) |
| Payments of Advertising Expenses - Head Office | 11,463,704 |
| **Restated Amount as of December 31, 2017 - Advertising Expenses (Operating Fund)** | **118,235,567** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 17,741,701 |
| Adjustment/Recording of Donation Expenses - Head Office | (334,448) |
| **Restated Amount as of December 31, 2017 - Donation Expenses (Operating Fund)** | **17,407,253** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 4,638,709 |
| Payment of Transportation & Delivery Expenses - Branch | 21,878 |
| Adjustment/Recording of Transportation & Delivery Expenses - Branch | 30,658 |
| **Restated Amount as of December 31, 2017 - Transportation and Delivery Expenses (Operating Fund)** | **4,691,245** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 69,540,120 |
| Adjustment/Recording of Printing And Publication Expenses - Branch | 386 |
| **Restated Amount as of December 31, 2017 - Printing and Publication Expenses (Operating Fund)** | **69,540,506** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 343,387 |
| Adjustment/Recording of Representation Expenses - Head Office | 47,216 |
| **Restated Amount as of December 31, 2017 - Representation Expenses (Operating Fund)** | **390,603** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 257,152 |
| Adjustment/Recording of Subscription Expenses - Head Office | 22,241 |
| **Restated Amount as of December 31, 2017 - Subscription Expenses (Operating Fund)** | **279,393** |
| Unrestated Amount as of December 31, 2017 | 228,583,687 |
| Adjustment/Recording of Lottery Draws (Lotto) - Branch | (3,700) |
| Adjustment/Recording of Lottery Draws - Head Office | 945,525 |
| Adjustment/Recording of Lottery Draws (STL) - Branch | 225,527 |
| Adjustment/Recording of Lottery Draws (STL) - Head Office | 312,000 |
| **Restated Amount as of December 31, 2017 - Lottery Draws Expenses (Operating Fund)** | **230,063,039** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 5,625,000 |
| Adjustment/Recording of Seller'S Prize-Head Office | (2,500) |
| **Restated Amount as of December 31, 2017 - Seller's Share/Commission - Sweepstakes (Prize Fund)** | **5,622,500** |
|  |  |
|  |  |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 3,773,764,029 |
| Adjustment/Recording of Fees And Commission Expenses-Keno-Agent's Commission On Sales-Head Office | (60,897) |
| **Restated Amount as of December 31, 2017 - Commission Expenses (Prize Fund)** | **3,773,703,132** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 1,687,618,112 |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Head Office | 24,000 |
| Adjustment/Recording of Job Order - Head Office | 1,562 |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Branch | (56,510) |
| Adjustment/Recording of Maintenance and Other Operating Expenses - Head Office | 2,346,695 |
| **Restated Amount as of December 31, 2017 - Other Maintenance and Operating Expenses (Operating Fund)** | **1,689,933,859** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 2,933,638,559 |
| Adjustment/Recording of Prizes-Lotto-Jackpot-Head Office | (186,983,418) |
| Payment of Prizes-Lotto-Jackpot-Head Office | 12,171,438 |
| **Restated Amount as of December 31, 2017 - Jackpot Prizes (Prize Fund)** | **2,758,826,579** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 19,010,069,327 |
| Adjustment/Recording of Prizes-Keno-Lower Prize Above 10,000 -Branches | (37,415) |
| Adjustment/Recording of Prizes-Keno-Lower Prize Above 10,000 -Head Office | (3,655,250) |
| Adjustment/Recording of Prizes-Lotto-Lower Prize Above 10,000 -Branches | 233,956 |
| Adjustment/Recording of Prizes-Lotto-Lower Prize Above 10,000 -Head Office | (460,206,446) |
| Payment of Prizes-Keno-Lower Prize 10,000 And Below-Head Office | 25,000 |
| Payment of Prizes-Keno-Lower Prize Above 10,000 -Head Office | 4,452,450 |
| Payment of Prizes-Lotto-Lower Prize 10,000 And Below-Head Office | 467,730 |
| Payment of Prizes-Lotto-Lower Prize Above 10,000 -Branches | 321,716 |
| Payment of Prizes-Lotto-Lower Prize Above 10,000 -Head Office | 13,615,637 |
| **Restated Amount as of December 31, 2017 - Low Tier Prizes (Prize Fund)** | **18,565,286,705** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 2,222,727 |
| Adjustment/Recording Of Prizes-Sweepstakes-Jackpot-Head Office | (6,818) |
| Payment Of Prizes-Sweepstakes-Jackpot-Head Office | 1,646,182 |
| **Restated Amount as of December 31, 2017 - Winning Tickets - Sweepstakes (Prize Fund)** | **3,862,091** |
| Unrestated Amount as of December 31, 2017 | 284,091 |
| Adjustment/Recording of Prizes-Lotto-Jackpot- Agent's Commission On Jackpot-Head Office | (270,000) |
| Payment of Prizes-Lotto-Jackpot- Agent's Commission On Jackpot-Head Office | 335,674 |
| **Restated Amount as of December 31, 2017 - Seller's Share - Lotto (Prize Fund)** | **349,765** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 5,810,803 |
| Adjustment/Recording of Other Financial Charges - Head Office | 7,667 |
| Adjustment/Recording of Bank Charges - Branch | 10,550 |
| **Restated Amount as of December 31, 2017 - Financial Charges (Operating Fund)** | **5,829,020** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 40,180 |
| Adjustment/Recording of Taxes, Duties And Fees - Head Office | 829 |
| **Restated Amount as of December 31, 2017 - Financial Charges (Charity Fund)** | **41,009** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 117,600 |
| Adjustment/Recording of Other Financial Charges - Head Office | 643,648 |
| **Restated Amount as of December 31, 2017 - Financial Charges (Prize Fund)** | **761,248** |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  | **Amount** |
| Unrestated Amount as of December 31, 2017 | 77,358,867 |
| Adjustment/Recording of Amortization-Computer Software- Head Office | 17,360,575 |
| Adjustment/Recording of Depreciations Expenses - Books - Branch | (2,953) |
| Adjustment/Recording of Depreciations Expenses - Furnitures and Fixtures - Branch | (67,750) |
| Adjustment/Recording of Depreciations Expenses - Office Equipment - Branch | 53,586 |
| Adjustment/Recording of Depreciations Expenses - Office Equipment - Head Office | 0 |
| Adjustment/Recording of Depreciations Expenses - Other Machinery & Equipment - Branch | 16,627 |
| Adjustment/Recording of Depreciations Expenses - Other Machinery & Equipment - Head Office | 239,273 |
| Adjustment/Recording of Depreciations Expenses - Communication Equipment - Head Office | (6,840) |
| Adjustment/Recording of Depreciations Expenses - Information and Communication Technology Equipment - Branch | (2,860) |
| Adjustment/Recording of Depreciations Expenses - Information and Communication Technology Equipment - Head Office | (13,064,427) |
| Adjustment/Recording of Depreciations Expenses - Lease Assets Improvements - Branch | 682,047 |
| Adjustment/Recording of Depreciations Expenses - Other Property, Plant & Equipment - Head Office | (3,325) |
| Adjustment/Recording of Depreciations Expenses -Building - Head Office | 155,071 |
| **Restated Amount as of December 31, 2017 - Depreciation Expenses (Operating Fund)** | **82,717,891** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 9,923,679,930 |
| Adjustment/Recording of EMAP-Branch | (7,743) |
| Adjustment/Recording of EMAP-Head Office | (17,883,077) |
| Adjustment/Recording of IMAP-Branch | (5,330,838) |
| Adjustment/Recording of IMAP-Head Office | (1,841,853,398) |
| Payment of EMAP-Branch | 461,183 |
| Payment of EMAP-Head Office | 15,508,197 |
| Payment of Endowment Fund-Head Office | (40) |
| Payment of IMAP-Branch | (2,685,416) |
| Payment of IMAP-Head Office | 1,406,686,021 |
| **Restated Amount as of December 31, 2017 - Individuals (Charity Fund)** | **9,478,574,819** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 828,250,255 |
| Adjustment/Recording of Pdea Operations-Head Office | 215,400,000 |
| Adjustment/Recording of PHILIPPINE CROP INSURANCE CORP.-Head Office | 42,045,657 |
| Payment of National Council On Disability Affairs-Head Office | 253,693 |
| **Restated Amount as of December 31, 2017 - National Government Agencies (Charity Fund)** | **1,085,949,605** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 1,385,230,254 |
| Adjustment/Recording of Share of LGU Share per COA AOM No. 18-010 | 243,183,579 |
| Adjustment/Recording of Share of LGU on Charity Fund-Head Office | (306,150,067) |
| Payment of Share Of LGU on Charity Fund-Head Office | 272,417,375 |
| **Restated Amount as of December 31, 2017 - Local Govenrment Units (Charity Fund)** | **1,594,681,141** |
|  |  |
| Unrestated Amount as of December 31, 2017 | 845,753 |
| Payment of Philippine Red Cross-Head Office | 460,962 |
| **Restated Amount as of December 31, 2017 - Non-Government Organizations/People's Organizations (Charity Fund)** | **1,306,715** |

|  |  |
| --- | --- |
| Unrestated Amount as of December 31, 2017 | 506,694,167 |
| Adjustment/Recording of Other Health And Welfare Related Programs-Head Office | (363,627) |
| Adjustment/Recording of Purchase Of Medical Dental/Hospital Equipment And Supplies-Head Office | (31,300,000) |
| Adjustment/Recording of Sports Development Program-Head Office | 241,720 |
| Payment of Aids For Victims Of National Calamities-Head Office | 4,999,995 |
| Payment of Other Health And Welfare Related Programs-Head Office | 441,297 |
| Payment of Purchase Of Medical Dental/Hospital Equipment And Supplies-Head Office | 12,835,000 |
| **Restated Amount as of December 31, 2017 - Other Charity Expenses (Charity Fund)** | **493,548,552** |

1. **LEASE AGREEMENTS**

*PCSO as a lessee*

PCSO entered into equipment lease agreement with Philippine Gaming Management Corporation (PGMC), Pacific Online and Systems Corporation and Total Gaming Technologies, Inc. as lessee covering the on-line lottery equipment and accessories for PCSO’s on-line lottery operation nationwide. As lease fee, PCSO paid a certain percentage of the gross amount of the tickets purchased through the respective terminals of the service providers.

PCSO entered into lease agreement with the following companies for PCSO’s Main and Branch Offices and the PCSO has determined that all significant risks and rewards of ownership of this property remain with the lessor. The agreement provides for the payment of guaranty deposits which are included in the Other Non-current Assets account amounting to P23,877,210. Prepaid rent recognized related to this agreement amounted to P26,473,793.

|  |  |  |
| --- | --- | --- |
| **Lessor** | **Guaranty Deposits** | **Prepaid Rent** |
| Angpin & Associates | 3,851,401 | 4,031,772 |
| Peaksun Enterprises & Export Corp | 231,278 | 231,278 |
| Conservatory Shaw Plaza | 12,694,920 | 14,148,155 |
| Sun Plaza Development Corp | 7,099,611 | 8,083,027 |
| Adjustments | - | (20,439) |
| **TOTAL** | **23,877,210** | **26,473,793** |

Future minimum rentals payable under operating leases follow:

|  |  |  |
| --- | --- | --- |
| **Rent due within:** | **2018** | **2017** |
| 0 - 1 year | 103,448,397 | 98,522,283 |
| After 1 year but not more than 5 years | 108,620,817 | 212,069,214 |
| Beyond 5 years | - | - |
| **Total** | **212,069,214** | **310,591,497** |

1. **SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATION NO. 15-2010 AND 19-2011**

The following information are presented for purposes of filing with the BIR and are not a required part of the basic financial statement:

**Revenue Regulation 15-2010**

Withholding Taxes for 2018

Withholding taxes paid and accrued during the year is as follows:

|  |  |
| --- | --- |
| Withholding tax on compensation | 51,311,749 |
| Withholding tax at source (expanded) | 588,887,193 |
| **TOTAL** | **640,198,942** |

Other Taxes and Licenses for 2018

Details of the PCSO’s documentary stamp tax paid or accrued are as follows:

|  |  |
| --- | --- |
| **TAX TYPE** | **AMOUNT** |
| Final Tax | 2,518,261,799 |
| Final VAT Withheld | 344,837,050 |
| Documentary Stamp Tax | 12,389,172,044 |
| Fringe Benefit Tax | 55,575 |
| Corporate Income Tax | 1,243,590,650 |
| **TOTAL** | **16,495,917,118** |

1. **RELATED PARTY TRANSACTIONS**

Transactions between related parties are based on terms similar to those offered to third parties. Parties are related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Corporation’s related parties include the Corporation’s key management personnel as described below.

**Compensation of Key Management Personnel of the Corporation**

The compensation of key management personnel included in the Administrative Expenses in the Statement of Comprehensive Income amounted to P10,553,231.70 and P10,575,215.92 for the years 2018 and 2017, respectively, as short-term employee benefits.

Short-term employee benefits include annual salaries, allowances, honoraria, and other non-monetary benefits.

1. **PENDING LEGAL CASES**

Presently, there are 38 pending cases at the PCSO Legal Department related to lotto, sweepstakes and other gaming operations. These are categorized into civil, criminal and other cases against erring sweepstakes and lotto agents.

|  |  |  | **No. of Cases** | **Total Amount  (Principal/ Interest/MRR)** |
| --- | --- | --- | --- | --- |
| I. Criminal Cases | | |  |  |
|  | A. Sweepstakes Defaulted Accounts | |  |  |
|  |  | Provincial Distributors | 2 | 5,799,486.06 |
|  |  | Sales Representatives | 3 | 5,603,767.75 |
|  |  | Authorized Agents | 3 | 4,140,000.00 |
|  |  | Sales Manager | 1 | 15,319.20 |
|  |  | Sub-total | 9 | 15,558,573.01 |
|  | B. Lotto Defaulted Accounts | |  |  |
|  |  | National Capital Region (NCR) Department | 11 | 12,936,052.77 |
|  |  | Northern and Central Luzon (NCL) Department | 2 | 5,349,524.91 |
|  |  | Visayas and Mindanao Department | 7 | 10,080,357.57 |
|  |  | Sub-total | 20 | 28,365,935.25 |
|  |  | Total | 29 | 43,924,508.26 |
| II. Civil Cases | | |  |  |
|  | A. Sweepstakes Defaulted Accounts | |  |  |
|  |  | Provincial Distributors | 5 | 7,901,224.49 |
|  |  | Sales Supervisors | 1 | 548,895.66 |
|  |  | Sub-total | 6 | 8,450,120.15 |
|  | B. Lotto Defaulted Accounts | |  |  |
|  |  | National Capital Region (NCR) | 3 | 6,398,424.98 |
|  |  | Sub-total | 3 | 6,398,424.98 |
|  |  | Total | 9 | 14,848,545.13 |
| **GRAND TOTAL** | | | **38** | **58,773,053.39** |
|  |  |  |  |  |
| Other Cases | | |  |  |
|  | A. TMA Group of Companies Pty. Ltd. | |  |  |
|  | B. Philippine Gaming and Management Corporation | |  |  |
|  | C. DFNN Inc. | |  |  |
|  | D. Globaltech Mobile Online Corporation | |  |  |

**Status Report of PCSO Cases**

| **Case Title** | **Nature** | **Cause of Action** | **Status** |
| --- | --- | --- | --- |
| **TMA** |  |  |  |
| TMA Group of Companies Pty. Ltd., et al vs. PCSO, Chairman Margarita P. Juico, et al. (Civil Case No. 11-310, RTC Makati City, Branch 66) | Specific performance and Mandatory Prohibitory Injunction with Prayer for TRO and/or Preliminary Injuction | PCSO suspended and later on, terminated the Contractual Joint Venture Agreement with TMA for the supply of paper in PCSO’s gaming operations. | Decision dated 05 December 2017.  Order of Execution dated 18 January 2018 and 13 February 2018.  Garnishment of P707,223,555.41.  PCSO filed a Notice of Appeal as of December 2017. |
| TMA Group of Companies Pty. Ltd., et al vs. PCSO, Dirs. Joaquin, Mamba, Nantes & Tolentino (Special Civil Case No. 11-569, RTC Makati City, Branch 66) | Indirect Contempt | The alleged purchase of paper supply by PCSO to POSC and PGMC during the existence of a writ of preliminary injunction dated 16 May 2011 | Awaiting Order resetting the hearing on Plaintiff’s initial presentation of evidence. |
| PCSO, et al. vs. TMA Group of Companies Pty., Ltd. et al. (G.R. No. 212143) | Petition for Review on Certiorari with Urgent Motion for Issuance of a TRO and/or writ of preliminary injunction | Assails the issuance of the writ of preliminary injunction dated 16 May 2011 | Filed Petition for Review on Certiorari with Urgent Motion for Issuance of TRO and WPI. A TRO dated 20 October 2015 was issued against TMA to stop it from unloading paper and at prices fixed by the 6 November 2013 Order the in Civil Case No. 11-310. Parties filed a Joint Motion for Suspension of Proceedings on 18 June 2015. SC’s 20 January 2016 Resolution noted Respondents’ Manifestation to immediately inform the Court once the parties have arrived at mutually acceptable Compromise Agreement. |
| PCSO et al vs. TMA Group of Companies Pty. Ltd. (G.R. No. 225457) | Petition for Review on Certiorari | Assails the Decision and Resolution of the Court of Appeals dismissing PCSO’s petition for certiorari and affirming the orders of the RTC-Makati City, Branch 133 in Civil Case No. 11-310 granting TMA’s Motion for the Issuance of Writ of Execution against PCSO for the amount of Php 82,354,037.32 representing the deliveries of lotto supply pursuant to the 6 November 2013 Order. | Filed on 22 August 2016 |
| PCSO et. Al vs. RTC et al. (CA G.R. No. SP No. 143220) | Certiorari | Assailing the Orders dated 18 May 2016 and 20 September 2016 of RTC-Makati City, Branch 66 directing PCSO to order paper from TMA. | Filed on 05 December 2016. Filed Reply to Comment on 10 April 2017 |
| PCSO vs. Hon. Judge Joselito Villarosa (G.R. No. 236888) | Petition for Certiorari | TRO and Injunction application on the Order of Execution dated 18 January 2018 of RTC-Makati 66 | Consolidated with the two other SC petitions (G.R. No. 212143 and G.R. No. 225457)  Resolution dated 9 July 2018 – posting of bond by TMA in the amount of Php 350 Million Pesos.  Omnibus Motion of TMA seeking reconsideration that instead of posting said amount of bond, to deliver the paper subject of the P707,223,555.44. |
| Verified Complaint against Judge Villarosa Supplemental Complaint | Admin before in the COA | Assailing the propriety of issuing order of execution as it run counters to rules of COA. Supplemental was filed with respect to garnishment of P707,223,555.41 | Judge Villarosa was required to submit Comment on the Verified Complaint |
| PCSO v. Judge Joselito Villarosa, TMA Group of Companies, Pty. Ltd. and TMA, CA-G.R. SP. No. 156017 (Petition for Certiorari and Mandamus) before the Court of Appeals | Petition for Certiorari and Mandamus | Assailing the 21 March 2018 Order of RTC-Makati granting the Motion for Execution of the Decision dated 05 December 2017 with prayer to direct Judge Villarosa to transmit the records of the case to the Court of Appeals as a result of the filing of a Notice of Appeal by PCSO | Filed on 01 June 2018. Pending with the CA. Resolution dated 10 July 2018 requiring:   1. Respondent to Comment and petitioners to file a Reply, if necessary. 2. As to the prayer for TRO/WPI, await Comment and/or Reply 3. Directed to inform the court of other cases filed involving these parties and issues. |
| **PGMC** |  |  |  |
| Consolidated cases: Philippine Gaming Management Corporation vs. PCSO, et al. (Civil Case No. 12530 and Civil Case No. 12-011, RTC-Makati City, Branch 143) | Indirect contempt with application for TRO and/or Preliminary Injunction | PCSO allegedly violated the Order dated 22 December 2005 and Writ of Execution dated 02 February 2006 of RTC-Makati City, Branch 143 confirming the Arbitral Decision granting exclusivity to PGMC to operate online lotto terminals in Luzon | PCSO filed Manifestation and Motion on the dismissal of the case in light of the Arbitral Decision dated 20 February 2018  Confirmed Arbitral Award dated May 25, 2018  PGMC filed a Motion for Reconsideration and a Motion for Inhibition. PCSO filed its Comment  PCSO filed a Motion for Execution of the confirmed Arbitral Award  Order of Inhibition was issued bu RTC-Branch 143  -Re-raffled to Branch 135  -Petition to Vacate Award filed by PGMC. In an Order dated 02 April 2018, the court required PCSO to filed Comment/Opposition on the Petition to Vacate Arbitral Award of PGMC filed before RTC-Branch 148 (Judge Soriano) |
| PCSO vs. PGMC (CA-G.R. No. 128259, Court of Appeals) | Petition for certiorari with TRO and/or writ of preliminary injunction | PCSO assails the RTC’s denial of PCSO’s Motion to Dismiss and Supplemental Motion to Dismiss and its Motion for Reconsideration of the said denial in the indirect contempt cases for lack of jurisdiction and non-compliance with the condition precedent prior to arbitration, among others. | The CA dismissed the petition upon motion of PCSO pursuant to the agreement of PCSO and PGMC under the 2018 Supplemental and Status Quo Agreement. Considering that PGMC opposed the dismissal of the indirect contempt cases, contrary to the said Agreement, PCSO filed a Motion for Reconsideration, which was denied by CA. |
| PCSO vs. PGMC (G.R. No. 22801) | Review on Certiorari | Assails the CA’s dismissal of PCSO’s petition | After deliberating on the Petition for Review on Certiorari assailing the Resolutions dated 01 March 2016 and 2 November 2016 of the CA (CA-GR SP 128259), the Court, without necessarily giving due course, resolves to require respondent to Comment within 10 days from notice.  PCSO filed Manifestation and Motion on the dismissal of the case in the light of the Arbitral Decision dated 20 February 2018 |
| Philippine Gaming Management Corporation vs. PCSO (ICC Case No. 20105/CYK, Arbitral Tribunal) | Arbitration Case | By agreement, the parties referred the sole issue of exclusivity before arbitration | Arbitral Decision dated 20 February 2018.  TERMINATED |
| **DFNN INC.** |  |  |  |
| PCSO vs. DFNN Inc. (Spec. Pro. Case No. MC-15-9557, RTC-Mandaluyong City, Branch 212) | Petition for Confirmation of Arbitral Award dated 21 May 2015 | PCSO seeks to confirm Arbitral Award awarded liquidated damages to DFNN Inc. in the amount of Php 27 Million Pesos by reason of unjustified termination of PCSO of DFNN Inc’s Equipment Lease Agreement (ELA) | Confirm Arbitral Award. Court consolidated case with RTC-Makati in light of CA decision. |
| DFNN Inc. vs. PCSO (Spec. Pro. Case No. M-7844, RTC Makati City, Branch 212) | Petition for Confirmation of Arbitral Award dated 21 May 2015 | DFNN Inc. seeks to correct Arbitral Award on the ground of evidence miscalculation of figures by adding 2% penalty interest per month from date of termination/cancellation of the ELA. | RTC-Makati City, Branch 66 rendered Decision dated 17 February 2016 correcting the Arbitral Award from P27 Million Pesos to P310,095,1479.70 with legal interest from finality until full satisfaction thereof. |
| PCSO vs. DFNN Inc. (DFNNI) (CA-GR SP No. 145983) | Petition for Review pursuant to Rule 19.12 of the Special Rules of Court on Alternative Dispute Resolution with TRO and/or Preliminary Injunction | Assails the Decision dated 17 February 2016 of the RTC-Makati City, Branch 66 granting DFNN Inc.’s petition for correction. | PCSO has filed Petition for Review praying for the reversal of the said Order on the ground of lack of jurisdiction by RTC-Makati City, Branch 66 and there is no evident miscalculation of figures to justify correction.  On 17 November 2016, the Court of Appeals dismissed PCSO’s Petition and likewise denied the MR  The above-dismissal is the subject of PCSO’s Petition for Review on Certiorari docketed as G.R. No. 234193 before the Supreme Court. |
| DFNN, Inc. vs. PCSO (CA-GR SP No. 145462) | Petition for Certiorari under Rule 19.26 of Special Rules on Alternative Dispute Resolution with application for TRO and/or Preliminary Injunction | Assails the Order dated 11 April 2016 of the RTC-Mandaluyong City, Branch 212 denying the motion to consolidated PCSO’s petition with DFNN Inc.’s petition before RTC-Makati City, Branch 66 and affirming its jurisdiction over PCSO’s petition for confirmation of Arbitral Award dated 21 May 2015. | The Legal Department requested the Office of the Government Corporate Counsel to file a rejoinder to the Reply of DFNN Inc.  On 20 February 2017, the Court of Appeals granted DFNNI’s Petition and directed the Mandaluyong RTC to consolidate the Petition for Confirmation with the Petition for Correction before the Makati RTC.  PCSO filed a Motion for Reconsideration challenging the consolidation of the cases following the conflicting decisions of the Makati RTC and Mandaluyong RTC. However, this was denied by the Court on 10 July 2017.  The above-decision is subject of PCSO’s Petition for Review on Certiorari before the Supreme Court docketed as G.R. No. 232801. |
| **GLOBALTECH** |  |  |  |
| Globaltech Mobile Online Corporation vs. PCSO (Civil Case No. 75149-PSG, RTC-Pasig City Branch 161) | Amended Complaint for Preliminary Injunction and Referral to Arbitration | Assails PCSO’s termination on 17 February 2016 of its Deed of Authority to Operate the Peryahan Games | Order dated 24 June 2016 noted without action Globaltech’s Ex-Parte Motion for Issuance of Writ of Preliminary Injunction to lift suspension and continue operations of the Peryahan games in light of PCSO’s Motion for Reconsideration. Order dated 13 October 2017 denying the application for preliminary injunction of Globaltech and directing the parties to arbitrate |
| Remeliza Gabuyo vs Jose Aguiling, et al. (directors and officers of Globaltech Mobile Online Corp.) | Criminal Complaint for estafa | Estafa was filed for Globaltech’s act of misappropriating Peryahan sales due to PCSO in the amount of Php 708,037,074.06 | PCSO’s Motion for Reconsideration of dismissal of the criminal complaint (25 January 2017) is before the Office of the Prosecutor filed on 27 March 2017. |
| Globaltech Mobile Online Corp. vs. PCSO docketed as 154056  Consolidated with 151727 | Petition for Certiorari filed before the Court of Appeals | Globaltech assails the Order dated 13 October 2017 | January 14, 2019 Decision dismissing BOTH petitions, affirming the Orders dated 17 May 2016, 11 October 2016 and 24 April 2017 and directing the parties to arbitration |
| PCSO vs. Globaltech Mobile Online Corp. | Petition for Certiorari filed before the Court of Appeals docketed as CA G.R. No. 151727 dated 08 June 2017 | PCSO assails the Orders dated 17 May 2016, 11 October 2016 and 24 April 2017, which suspended PCSO’s Notice of Termination of the DOA and directed the parties to arbitrate upon posting of bond by Globaltech | Above January 14, 2019 Decision |
| Global Mobile Corporation vs PNP, Dagupan Pangasinan | Injunction Complaint | TRO and Injunction to stop the PNP to arrest Globaltech employees operating Peryahan games. PCSO was impleaded. | Fouth TRO hearing dated 23 March 2018 on TRO Application of Globaltech.  PCSO Filed Answer and Comment to TRO.  Denied TRO – 23 March 2018  Hearing on 20 September 2018 |
| Globaltech v. PO3 Reynaldo Luspo, et al. (for Damages) docketed as Civil Case No. 2018-757 before the Regional Trial Court, Branch 39 of Cagayan de Oro |  | Case filed by Globaltech against members of the police and PCSO’s STL agent who conducted operations against the Peryahan ng Bayan within Cagayan de Oro | PCSO Motion for Intervention  The RTC admitted PCSO’s intervention. In addition, PCSO filed a Comment/Opposition against Globaltech’s Motion to Archive the case pending negotiations with the police officers and the defendants. PCSO’s position is that the negotiation, if there is one, is illegal and the case should be dismissed for lack of cause of action. |
| Globaltech v. Saturn Gaming N’ Amusement Corp., Atty. Dante Gierran and Atty. Antonio Pagatpat, NBI (for Damages) as Civil Case Man-8009 before the Regional Trial Court, Branch 88 of Mandaue City |  | Case filed by Globaltech against members of the police and PCSO’s STL agent who conducted operations against the Peryahan ng Bayan within Mandaue City, Cebu | PCSO Motion for Intervention  PCSO’s motion for intervention with attached Answer-in-Intervention is pending resolution. The RTC required Globaltech to file Comment. The NBI has also filed its Answer. |

1. **DIVIDENDS PAYABLE**

Section 3 of R.A. No. 7656 dated November 9, 1993 and its Revised Implementing Rules and Regulations (IRR) require Government Owned and/or Controlled Corporations (GOCC) to declare and remit at least fifty per cent (50%) of their annual earnings as dividends to the National Government.

The Commission on Audit (COA) issued audit observations pertaining to PCSO’s non-payment of dividends for CYs 2012, 2013 and 2014 in the total amount of P4,034,319,731. However, due to the provision in R.A. No. 1169, otherwise known as the “PCSO Charter”, PCSO is mandated that all balances of any funds shall regularly revert to and form part of the Charity Fund, thus, there is nothing left to be declared and remitted as dividend. This matter has been referred to the Department of Finance (DOF).

On 16 March 2016, the Department of Finance clarified PCSO’s exemption from R.A. No. 7656 in its reply to the Commission on Audit’s (COA) inquiry regarding the applicability of The Dividends Law to PCSO.

The Department of Finance confirms that PCSO is not exempt for RA No. 7656, however, DOF recognizes that PCSO’s Charter R.A. No. 1169 mandates all balances of any funds to revert to and form part of the Charity Fund.

Likewise, DOF, through its then Asst. Secretary and Officer-in-Charge of the Corporate Affairs Group and the Privatization and Office of Special Concerns shared that “DOF, PCSO and Governance Commission for Government-Owned and/or Controlled Corporations (GCG) on 25 August 2015, it was agreed that PCSO will have to revert all accumulated surplus to the Charity Fund in compliance with its Charter; then, DOF shall further reassess PCSO’s outstanding dividend due, if any.”

DOF also recognized that PCSO does not have any outstanding dividends due covering prior years until 2014, since unutilized Operating Fund was transferred to the Charity Fund.

On December 20, 2016, the Office of the Government Corporate Counsel (OGCC) rendered an opinion on the applicability of the Dividends Law to PCSO. The OGCC is of the opinion that since PCSO’s earnings have already been allocated, the remittance of 50% of its income to the National Treasury is a violation of PCSO’s mandate. OGCC mentioned that “while PCSO cannot remit dividends to the National Government, it is the public at large that in a way reaps the benefits through the vital public service that they render, funding individual and institutional assistance, as well as special programs”. It was further recommended that any deviation from PCSO’s Charter should have corresponding amendment to the mandate of the law creating it.

In the Department of Finance letter dated May 18, 2017, it was specified that PCSO has an outstanding dividend due to National Government in the amount of P4,034.32 Million for FY 2012 TO 2014 and P1,202.50 Million for FY 2016 or a total of P5,236.82 Million.

On January 17, 2018, COA Legal Services Sector, rendered an Opinion on the nature and extent of the obligation of the PCSO relative to the declaration and remittance of dividends to the National Government under R.A. No. 7656 and its Implementing Rules and Regulations.

The COA Legal Affairs Office is of the position that “Section 3 of RA No. 7656 provides that all GOCCs shall declare and remit at least 50% of their annual earnings as cash stock or property dividends to the National Government while Section 6(D) of R.A. No. 1169 provides that all balances of any funds in the PCSO shall revert to and form part of the Charity Fund.” It further stated that “the provisions should be interpreted in a way that they can be harmonized in accordance with the rules on statutory construction. Thus, the interpretation that any balance from the Operating Fund will be reverted back to Charity Fund only after the declaration and remittance of the required dividends under R.A. No. 7656, is more in accord with the purposes and intents of the two laws.”

COA – Legal Affairs Office concluded that pending the approval of the President exempting the PCSO from the unpaid dividends, the provision of R.A. No. 7656 on the remittance of dividends should be applied in conjunction with PCSO’s Charter.

In May 2018, PCSO remitted Two Billion Five Hundred Thirty Five Million Two Hundred Eighty Nine Thousand One Hundred Fourteen Pesos and 49/100 (P2,535,289,114.49) to the Bureau of the Treasury, representing the Dividend due for CY 2017.

As of 31 December 2018, the PCSO is still negotiating with the Department of Finance if indeed the PCSO would be required to remit P8.422 Billion inclusive of the amounts due from CYs 1994 to 2011.