



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)

For the Years ended December 31, 2015 and 2014

EXECUTIVE SUMMARY

INTRODUCTION

The Masaganang Sakahan, Inc. (MSI) is a wholly-owned subsidiary of Land Bank of the Philippines (LBP). It was registered with the Securities and Exchange Commission on December 11, 1974 under SEC Registration No. 59145. LBP acquired 100 per cent equity ownership of MSI in 1974 and invested to date P100 million in the Corporation's common and preferred shares of stocks. Its primary objectives are:

- a. To engage in and carry on the business of purchase and acquire, operate, maintain, lease, sell and dispose of and deal in agricultural equipment and farm machineries and all other articles pertaining to agriculture;
- b. To make available its farm equipment and machineries to the farmers, owner-cultivators, agricultural lessees, tillers, and/or other beneficiaries of land reform for farm mechanization and development so as to obtain full utilization of land and enhancement of agricultural products; and
- c. To engage in the business of purchase and sale, barter and exchange of rice and other cereals, and other commodities of native production in the Philippines.

MSI is divided into two units, namely: Finance and Accounting Unit and Marketing and Trading Unit. It also operates a grain center, the Sta. Rosa Grains Center (SRGC), a special project, located in Sta. Rosa, Nueva Ecija.

The Corporation is headed by a President and General Manager who is assisted by heads of the two units, and by the Acting Plant Manager in Sta. Rosa Grains Center. Its affair is governed by the Board of Directors composed of a Chairman, Vice Chairman and nine other Directors.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of the accounts, transactions and operations of the Masaganang Sakahan, Inc. for the period January 1 to December 31, 2015 in accordance with Philippine Public Sector Standards on Auditing to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2015 and 2014. Also, we conducted the audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2015	2014	Increase/ (Decrease)
Assets	203,164,502	148,938,630	54,225,872
Liabilities	71,286,111	34,646,713	36,639,398
Equity	131,878,391	114,291,917	17,586,474

II. Comparative Results of Operation

Particulars	2015	2014	Increase/ (Decrease)
Income	292,191,700	265,795,917	26,395,783
Expenses	266,559,400	253,275,687	13,283,713
Net income	25,632,300	12,520,230	13,112,070

III. Comparative Budget and Actual Expenditures

Particulars	Budget		Utilization	
	2015	2014	2015	2014
Personal services	9,466,000	8,314,200	8,819,736	8,080,666
Maintenance and other operating expenses	10,579,490	9,360,784	11,579,919	9,177,201
Capital expenditures	21,969,300	642,000	19,151,537	442,106
	42,014,790	18,316,984	39,551,192	17,699,973

INDEPENDENT AUDITOR'S OPINION

The Auditor rendered an unmodified opinion and a qualified opinion on the fairness of presentation of the financial statements of MSI for the years ended December 31, 2015 and CY 2014, respectively.

SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. The Inventories account was overstated by a net amount of P0.853 million due to the variances noted between the book balances and stock cards/count of Inventories – Palay, Rice, Broken Rice and By-products amounting to P397,474, P0.804 million, P446,036 and P535, respectively, thereby, affecting the fair presentation of inventories accounts in the financial statements.

1.1 We recommended and Management agreed to:

a. Require the concerned MSI personnel to conduct immediate reconciliation of the inventories account balances with the stock cards;

- b. Hold the responsible employee liable for the shortage, if any, and/or prepare the necessary adjusting journal entries, if warranted, to adjust the book balance of the inventories account; and
 - c. Ensure at all times the accuracy and completeness of recording of transactions in the books, and the existence of inventories by conducting periodic reconciliation of the stock cards and schedules of the Inventories.
- 2. The MSI-SRGC receivables from clients totaling P0.676 million were not supported with subsidiary ledgers, thereby casting doubt on the existence of MSI's rights over such receivables and the accuracy and completeness of the balance.
 - 2.1 We recommended and Management agreed to require the responsible personnel to maintain subsidiary ledgers of clients' accounts for the sale of rice broken and by-products at MSI-SRGC.
- 3. The recorded milling fees were overstated by P168,971 that also overstated the costs of Inventories-Rice and By-Products, while understating the Receivable-Trade/Business by the same amount as a result of offsetting the milling fees from the receivable account from millers on the sale of rice broken and/or by-products.
 - 3.1 We recommended and Management agreed to require the responsible personnel to:
 - a. Ensure that the recorded milling fees are correct as reflected in the Sales Invoice to avoid over costing of Inventories and reducing the receivable account even without receiving payments from the millers, and
 - b. Analyze and prepare the necessary journal entries, where appropriate, to adjust the balances of the affected accounts.
- 4. MSI surpassed most of its targets for CY 2015 based on the Measures/Performance Indicators set in the Performance Agreement between the Governance Commission for GOCCs (GCG) and MSI.
 - 4.1 We commended the MSI for the good work as we also recommended that Management maintain its effort and determination in achieving its annual targets for the success of MSI as Land Bank's partner in providing marketing support to small farmers and fisherfolks.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

The audit disallowance as of December 31, 2015 amounting to P0.585 million pertains to the issued Notice of Disallowance No. LBP-Subs. 2008-015 (2002-2003) on August 11, 2008 (which was prior to the use of the Rules and Regulations on Settlement of Accounts) for the payment of additional allowances and benefits of LBP Officials acting as Officers/Board of Directors of MSI. There are no other outstanding audit suspensions and disallowances as at year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 29 audit recommendations embodied in the prior years' Annual Audit Reports, 17 were fully implemented, eight were partially implemented and four were not implemented. The details of the partially implemented and not implemented audit recommendations are presented in Part III of the report.

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PART I

AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Masaganang Sakahan, Inc.
6th Floor, SSHG Law Center
105 Paseo de Roxas
Legaspi Village, Makati City

We have audited the accompanying financial statements of **Masaganang Sakahan, Inc.** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Masaganang Sakahan, Inc.** as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT


CORA D. MARQUEZ
Supervising Auditor

11 March 2016

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014
(In Philippine Peso)

	Notes	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	3	44,433,650	45,968,339
Available-for-sale Financial Assets	4	17,341,424	0
Financial asset at fair value through profit or loss	5	0	4,469,025
Accounts receivable	6	71,349,962	55,312,017
Inventories	7	41,442,810	31,951,537
Notes receivable	8	0	0
Prepaid expenses	9	1,071,950	1,297,624
Other assets	10	723,959	1,299,371
		176,363,755	140,297,913
Non-current Assets			
Property, plant and equipment	11	22,362,129	4,232,099
Investment properties	12	4,351,418	4,351,418
Investment in stocks and bonds	13	57,200	57,200
Biological assets	14	30,000	0
		26,800,747	8,640,717
TOTAL ASSETS		203,164,502	148,938,630
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable	15	63,040,771	23,376,805
Other liabilities	16	8,245,340	11,269,908
		71,286,111	34,646,713
Equity			
Common stock	17	90,000,000	90,000,000
Preferred stock	17	10,000,000	10,000,000
Retained earnings		31,878,391	14,291,917
		131,878,391	114,291,917
TOTAL LIABILITIES AND EQUITY		203,164,502	148,938,630

The Notes on pages 8 to 19 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
Sales		291,645,974	262,467,004
Cost of sales		235,335,803	228,917,963
Gross profit		56,310,171	33,549,041
Operating expenses	19	20,399,655	19,146,996
Income from operations		35,910,516	14,402,045
Other income		545,726	3,328,913
Net income before tax		36,456,242	17,730,958
Provision for income tax	22	10,823,942	5,210,728
NET INCOME		25,632,300	12,520,230
OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME		25,632,300	12,520,230

The Notes on pages 8 to 19 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the Years ended December 31, 2015 and 2014
(In Philippine Peso)

	Capital Stock		Retained Earnings	
	Common Stock	Preferred Stock	As restated	Total
	(Note 17)		(Note 18)	
Balance, December 31, 2013, as restated	90,000,000	10,000,000	7,515,866	107,515,866
Cash dividends declared			(5,744,179)	(5,744,179)
Net income for CY 2014			12,520,230	12,520,230
Balance, December 31, 2014	90,000,000	10,000,000	14,291,917	114,291,917
Cash dividends declared			(6,260,115)	(6,260,115)
Prior period adjustments			(1,785,711)	(1,785,711)
Net income for CY 2015			25,632,300	25,632,300
Balance, December 31, 2015	90,000,000	10,000,000	31,878,391	131,878,391

The Notes on pages 8 to 19 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		271,950,911	226,608,765
Cash payments to suppliers and employees		(235,162,721)	(259,011,495)
Collection of interest and other income		88,681	204,433
Payment of bank charges		(13,398)	(150)
Payment of taxes, licences and fees		(470,941)	(3,511,200)
Net cash generated from/(used in) operating activities		36,392,532	(35,709,647)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of IT software		0	(172,500)
Purchase of office equipment		(73,450)	(107,661)
Purchase of land and land improvements		(18,989,000)	0
Purchase of furniture and fixtures		(13,500)	(14,000)
Payment for leasehold improvement		(34,340)	(39,445)
Purchase of other property, plant and equipment		0	(281,000)
Purchase of biological assets		(30,000)	0
Proceeds from sale of office equipment		4,700	0
Proceeds from sale of investment property		0	298,200
Placement of/Proceeds from investments		(12,611,516)	25,761,175
Proceeds from sale of transportation equipment		80,000	0
Net cash provided by/(used in) investing activities		(31,667,106)	25,444,769
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividends		(6,260,115)	(5,744,179)
Net cash used in financing activities		(6,260,115)	(5,744,179)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(1,534,689)	(16,009,057)
CASH AND CASH EQUIVALENTS, beginning of year	3	45,968,339	61,977,396
CASH AND CASH EQUIVALENTS, end of year	3	44,433,650	45,968,339

The Notes on pages 8 to 19 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso, unless otherwise stated)

1. CORPORATE INFORMATION

The Masaganang Sakahan, Inc. (MSI) was registered with the Securities and Exchange Commission on December 11, 1974 under SEC Registration No. 59145. The LBP acquired 100 per cent equity ownership of MSI in 1974 and invested to date P100 million in the Corporation's common and preferred shares of stocks.

The primary objectives of MSI are:

- To engage in and carry on the business of purchase and acquire, operate, maintain, lease, sell and dispose of and deal in agricultural equipment and farm machineries and all other articles pertaining to agriculture;
- To make available its farm equipment and machineries to the farmers, owner-cultivators, agricultural lessees, tillers, and/or other beneficiaries of land reform for farm mechanization and development so as to obtain full utilization of lands and enhancement of agricultural products; and
- To engage in the business of purchase and sale, barter and exchange of rice and other cereals, and other commodities of native production in the Philippines.

The Corporation operates a Grain Center located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2015 were authorized for issue in accordance with the Resolution No. 2016-07 adopted by the Board of Directors on February 17, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of financial statements preparation

The financial statements have been prepared on a historical cost basis and all values are rounded to the nearest peso.

2.2 Statement of compliance

The financial statements of Masaganang Sakahan, Inc. have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

2.3 Adoption of new accounting standards and accounting policies

The accounting policies adopted are consistent with those of previous financial year except that the Corporation adopted those new/revised standards mandatory for financial years beginning on or after January 01, 2005.

The changes in accounting policies resulted from adoption of the following new or revised standards:

- PAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a) restating the comparative amounts for the prior period(s) presented in which the error occurred: or
- b) if the error occurred before the earliest prior period presented; restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

- PAS 17 – Leases

Lease payment is recognized as an expense on a straight-line basis over the lease term.

- PAS 19 – Employee benefits

This standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

- PAS 39 – Financial instruments: Recognition and Measurement

This standard classifies the financial assets as at fair value through profit or loss; held to maturity investments; loans and receivables; and available-for-sale financial assets. These categories apply to measurement and profit or loss recognition.

- PAS 40 - Investment Property

Investment property is recognized as an asset when it is probable that the future economic benefits that are associated with the property will flow to the entity.

The accounting policies adopted in preparing the financial statements are as follows:

- a. Cash and cash equivalents in the Statement of Financial Position is comprised of cash in bank, short term investment and cash on hand.
- b. Trade receivables which generally have 30-90 day term are recognized and carried at original invoice amount. When there is objective evidence that the Corporation will not be able to collect the receivables, an allowance for probable losses is provided.

c. Allowance for probable losses is set up for expected losses from non-moving trade receivables considering the debtor's capacity to pay.

d. Inventories are valued at cost including the costs incurred in bringing each item to its present condition.

The cost of the palay stocks is the actual procurement cost. For the rice inventory, the cost includes the cost of palay issued for milling (using the FIFO valuation method) and other related expenses during palay procurement and milling expenses. Specific identification method of valuation of inventory of rice is being used since milling is done on a per order basis.

e. Investment and other financial assets are recorded at cost at the time of acquisition. Non-derivative financial assets with fixed determinable payment and maturity are classified as held-to-maturity when the Corporation has the positive intention and ability to hold to maturity. Investments are classified as marketable securities upon acquisition when the maturity is 90 days to one year while investment with maturity of more than one year is considered as long term investments.

f. Property, Plant and Equipment are recorded at cost. Depreciation is computed on a straight-line method over the estimated useful life of the respective assets after deducting the 10 per cent residual value. Maintenance and repairs are charged to expenses as incurred while major repairs and betterments are capitalized. When the items of property or equipment are disposed, the related cost and accumulated depreciation are removed from the accounts and any gain is treated as income.

g. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash in bank	36,746,225	25,656,660
High Yield Savings Account (HYSA) *	7,443,131	20,054,647
Operating fund - Sta. Rosa Grain Center (SRGC)	204,294	203,681
Cash collecting officer	0	13,351
Petty cash	40,000	40,000
	44,433,650	45,968,339

*This account represents placements at Land Bank of the Philippines Trust Banking Group maturing in 30 days.

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account represent net investment placement of MSI through LBP Trust Banking Department amounting to P17,341,424 as at December 31, 2015.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account represent investment placement amounting to P30,230,200 in Money Market Unit Investment Trust Fund (MMUITF) on November 18, 2013 at LBP Trust Banking Group. This was already closed and invested to other type of investment as of December 31, 2015.

6. ACCOUNTS RECEIVABLE

This account consists of trade receivables for the following:

	2015	2014
Rice	75,095,038	59,085,939
Palay	17,528,244	17,528,244
Others	995,650	966,804
	93,618,932	77,580,987
Allowance for probable losses	(22,268,970)	(22,268,970)
	71,349,962	55,312,017

7. INVENTORIES

This account consists of the following:

	2015	2014
Palay	40,449,067	22,102,103
Rice	537,962	3,390,373
Brokens	455,246	6,436,374
By-products	535	22,687
	41,442,810	31,951,537

8. NOTES RECEIVABLES

This account represents the restructured past-due accounts receivables, which are secured by hard collaterals and covered by promissory notes as follows:

	2015	2014
Notes receivables	64,608	64,608
Allowance for probable losses	(64,608)	(64,608)
	0	0

9. PREPAID EXPENSES

This account consists of the following:

	2015	2014
Taxes, licenses & fees	328,043	304,074
Medical	247,001	234,000
Taxes withheld	138,945	126,823
Office rent	90,825	90,825
Insurance premium	84,467	291,964
Uniform	80,000	75,000
Rice benefit	71,545	142,070
Other services	20,625	0
Fidelity bond premium	10,499	10,499
Condo dues	0	22,369
	1,071,950	1,297,624

10. OTHER ASSETS

This account consists of the following:

	2015	2014
Guaranty deposits	370,438	306,388
Supplies and materials	206,821	826,933
Intangible	146,700	166,050
	723,959	1,299,371

Guaranty deposits are deposits for rental of office space and photocopying machine subject to refund. Supplies and materials represent cost of office supplies and sack inventory.

Intangible represents the net book value of the acquired accounting system. As of December 31, 2015, the total amortization expense recognized amounted to P6,450.

11. PROPERTY, PLANT AND EQUIPMENT

This account is composed of the following:

	Land	Building & Land Improvement	Transportation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improvements	TOTAL
Cost, January 1, 2015	0	0	7,002,303	1,215,007	955,376	295,560	126,675	9,594,921
Additions	10,782,000	8,087,000	0	73,450	13,500	120,000	34,340	19,110,290
Disposals	0	0	(559,369)	(105,255)	(130,890)	0	0	(795,514)
Balance, December 31, 2015	10,782,000	8,087,000	6,442,934	1,183,202	837,986	415,560	161,015	27,909,697
Accumulated depreciation/amortization, January 1, 2015	0	0	3,463,382	933,831	818,572	38,955	108,082	5,362,822
Depreciation/amortization	0	160,789	597,408	78,249	76,550	53,201	41,327	1,007,524
Adjustments	0	0	(547,679)	(105,252)	(155,879)	0	13,968	(822,778)
Balance, December 31, 2015	0	160,789	3,513,111	906,828	739,243	92,156	134,441	5,547,568
Net carrying amount, December 31, 2015	10,782,000	7,926,211	2,929,823	276,374	98,743	323,404	25,574	22,362,129
Net carrying amount, December 31, 2014	0	0	3,538,921	281,176	136,804	256,605	18,593	4,232,099

12. INVESTMENT PROPERTIES

This account pertains to the book value of land as follows:

	2015	2014
Investment property	4,351,418	4,351,418
Allowance for depreciation/Impairment loss	0	0
	4,351,418	4,351,418

13. INVESTMENT IN STOCKS AND BONDS

This account consists of investment with PLDT amounting to P57,200.

The investments with Fil-Capital, Cagayan Sugar Farmers Cooperative Association and Archmar have been derecognized from the books in CY 2015 based on confirmation

from the Securities and Exchange Commission that these investees are already non-existent.

14. BIOLOGICAL ASSETS

This comprises the costs of livestock consisting of four female and one male Anglo Nubian Goats costing P6,000 each acquired on May 6, 2015 and taken care of at MSI-SRGC compound for breeding purposes.

15. ACCOUNTS PAYABLE

This account pertains to MSI's trade/business payables consisting of:

	2015	2014
Payment-in-kind – Palay & Rice	61,130,991	20,571,195
Rice suppliers	1,909,780	2,805,610
	63,040,771	23,376,805

Payment-in-kind - Palay & Rice represents payables of MSI to LBP for the collection in kind (Palay/Rice) from cooperatives with loans from LBP.

16. OTHER LIABILITIES

This account consists of the following:

	2015	2014
Income tax payable	3,973,873	1,698,443
Payable - Voucher	1,552,396	69,226
Trust liabilities – SSS, PHIC, Pag-ibig	(70,484)	91,634
Retention payable	0	7,500
Miscellaneous liabilities	2,789,555	9,403,105
	8,245,340	11,269,908

Miscellaneous liabilities represents accrual of operating expenses such as salaries, retirement benefits, utilities, etc. for CY2015, and unapplied payments of clients as of December 31, 2015 arising from the sale of rice.

17. CAPITAL STOCK

The increase in authorized capital stock from P25 million to P100 million divided into nine million common shares and one million preferred shares with a par value of ten pesos (P10.00) per share was approved by the Securities and Exchange Commission on January 14, 1993.

The Land Bank of the Philippines has fully subscribed and paid MSI's P100 million capital stock.

18. RETAINED EARNINGS

The declaration of cash dividend to the National Government for CY 2015 and 2014 of P12,816,150 and P6,260,115, respectively, were approved on February 17, 2016 and March 24, 2015 in Board Resolution No. 2016-08 and in Board Resolution No. 2015-07, respectively.

The prior period adjustments pertain to the corrections of CY 2014 and prior years' transactions as follows:

Particulars	Amount
Prior year's deficiency tax	1,121,129
Audit fee	558,398
Payable miscellaneous	(96,944)
Condo dues	22,369
Other benefits	180,759
	1,785,711

19. OPERATING EXPENSES

This consists of the personal services and maintenance and other operating expenses as follows:

	2015	2014
Salaries and wages	4,062,645	4,050,000
Bonus and incentives	2,351,020	1,828,750
Other benefits	2,044,620	1,870,185
Other services	1,544,596	1,171,684
Taxes, licenses and fees	1,538,436	840,546
Supplies and materials	1,482,198	1,512,759
Rent	1,089,900	1,089,900
Loss on palay shrinkage	1,035,506	1,889,129
Depreciation	965,215	848,700
Representation and entertainment	540,524	499,429
Per diem/Allowances	526,000	486,000
Communication	479,635	422,029
Light, power and water	395,589	529,864
Insurance	390,004	110,457
Travelling expenses	368,230	307,021
Spare parts	328,668	243,530
SSS, Philhealth and Pag-ibig premiums	298,138	296,268
Security services	217,560	228,900
Repairs and maintenance	212,434	236,492

	2015	2014
Gasoline and oil	129,087	218,759
Business development	108,395	115,503
Reproduction	101,850	105,635
Interest and other bank charges	79,384	95,461
Overtime pay	63,312	35,463
Amortization	46,709	114,532
	20,399,655	19,146,996

20. EMPLOYEES BENEFITS

20.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2015	2014
Salaries and wages	4,062,645	4,050,000
Bonus and incentives	2,080,620	1,558,350
Social security costs	298,138	296,268
Other benefits	2,044,620	1,870,185
	8,486,023	7,774,803
Directors' remuneration		
Per diem	526,000	486,000
Bonus and incentives	270,400	270,400
	796,400	756,400
	9,282,423	8,531,203

20.2 Retirement benefits

MSI has a Retirement Benefit Plan which is non-contributory and provides a retirement benefit equal to one-half month basic salary for every year of service, where one –half month salary shall mean fifteen days salary based on the latest salary rate, five days of service incentive leaves, and one-twelfth (1/12) of the 13th month pay after satisfying certain age and service requirements.

The Plan was approved for implementation on July 20, 2010 but due to the meager income of MSI during that period, the Board asked the Management to set a seed fund of P200,000 and a build – up every time there is extra-ordinary income.

The regular monthly accrual equivalent to 5 per cent of total basic salary of MSI employees was taken up as miscellaneous payables to MSI employees from July 2010 to December 2013 prior to the opening of a trust account at LBP Trust Banking Group (TBG) and the availability of the funding actuarial valuation report.

MSI engaged the services of an actuarial company last December 2013. Hereunder are the comments and recommendations contained in the actuarial report:

1. The estimated annual normal cost or current contribution for the valuation period January 1, 2014 to December 31, 2014 is P343,804. This amount is recommended to be paid monthly or quarterly on the basis of a percentage of covered payroll for the period which is actuarially computed at 8.3 percent. This actuarial funding rate shall be the basis of current and future service contributions until the next actuarial valuation.

2. The past service liability as of January 1, 2014 is P6,316,399 (actuarial liability for services rendered prior to valuation date). It is recommended that this amount be paid within the valuation period; however if this is not feasible, payment may be amortized over a period not exceeding the remaining working life of the employee group. It should be pointed out that in case the unfunded actuarial liability is to be amortized and in the event that a benefit claim shall arise, the unfunded portion of the claim shall be due and payable to the retirement fund from the Corporation. However, this action may not be necessary if the retirement fund is actuarially costed periodically.

3. As of January 1, 2014, the vested benefit is P5,805,105 (benefit payable assuming all eligible employees will avail of their Plan benefit during the valuation period). This amount is based on the applicable benefit under the plan as of the valuation date.

4. It is also recommended that an actuarial valuation be made every two or three years to check the above recommended funding scheme and to adjust contributions due to deviations from the actuarial assumptions arising from the investment yield, mortality gains and losses, employee turnover and benefit forfeitures.

The assumptions used in determining pension obligation for the defined benefit plan are as follows:

Funding Method	: Accrued Benefit Actuarial Cost Method. Under this Method, the Annual Normal Cost is the present value of retirement benefits payable in the future in respect of services in the current period. The Past Service Liability is the present value of the units of benefits payable in the future in respect of services rendered prior to valuation date. The most commonly used form of Accrued Benefit Valuation Method is the Projected Unit Credit Method.
Salary Projection Rate	: 5.0 per cent compounded annually
Investment Rate	: 3.4 per cent p.a. compounded annually
Manner of Payment	: Lump Sum
Withdrawal Rate	: 4.33 per cent

The Fund is being administered by the LBP Trust Banking Group who is responsible for the investment strategy of the Plan. As of December 31, 2015, the amount of fund deposited/invested in LBP-TBG amounted to P2,596,616.39 and the amount of P1,529,996.41 was lodged to Payable-Voucher account.

21. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth under Revenue Regulation No. 15-2010, hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year:

A. Local

	2015	2014
Mayor's permit - Head Office & SRGC	956,016	644,568
Real estate tax	249,186	146,080
Community tax - Head Office	10,500	10,500
Barangay clearance	2,550	4,748
	1,218,252	805,896

B. National

	2015	2014
NFA License	33,250	33,300

C. Withholding taxes paid/accrued for the year:

	2015	2014
Taxes on compensation and benefits	738,056	833,794
Creditable withholding tax/es	389,301	434,607
	1,127,357	1,268,401

D. 2005 Deficiency tax paid during the year

	2015	2014
Corporate income tax	1,086,147	0
Value added tax	0	0
Expanded withholding tax	34,982	0
	1,121,129	0

22. PROVISION FOR INCOME TAX

Tax liabilities for the current period are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date. For CY 2015, the provision for income tax was computed as follows: