



*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, 2016 and 2015**



## **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 departments, namely: Corporate Services Department and Business Department. It also operates an Agri-Development Center (ADC), formerly named as Sta. Rosa Grains Center (SRGC), located in Sta. Rosa, Nueva Ecija.

The Corporation is headed by a President and CEO who is assisted by heads of the two departments, and by the Acting Plant Manager in MSI Agri-Development 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 and transactions of the Masaganang Sakahan, Inc. for the period January 1 to December 31, 2016 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, 2016 and 2015. 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	2016	2015	Increase/ (Decrease)
Assets	216,332,723	203,164,502	13,168,221
Liabilities	70,738,244	71,286,111	(547,867)
Equity	145,594,479	131,878,391	13,716,088

### II. Comparative Results of Operation

Particulars	2016	2015	Increase/ (Decrease)
Sales revenue	287,325,780	291,645,974	(4,320,194)
Cost of sales	226,055,418	235,335,803	(9,280,385)
Other business income	486,574	545,726	(59,152)
Expenses	34,637,751	31,223,597	3,414,154
Net income	27,119,185	25,632,300	1,486,885

### III. Comparative Budget and Actual Expenditures

Particulars	Budget		Utilization	
	2016	2015	2016	2015
Personal services	11,069,000	9,466,000	10,630,787	8,819,736
Maintenance and other operating expenses	12,094,219	10,579,490	11,769,358	10,544,413
Capital expenditures	6,762,600	21,969,300	572,926	19,151,537
	<b>29,925,819</b>	<b>42,014,790</b>	<b>22,973,071</b>	<b>38,515,686</b>

## INDEPENDENT AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of MSI for the years ended December 31, 2016 and 2015.

## SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. The balance of the Prepaid Expenses – BIR account was understated by P1.292 million due to the non-recording of taxes withheld by clients applied as tax credits in the payment of income tax payable for CY 2015. Further, taxes withheld by clients in prior years totaling P397,349 were without withholding tax certificates, hence, could no longer be claimed from BIR as tax credits.

1.1 We recommended that Management require the Corporate Services Department to:

a. Prepare the necessary adjustments to reflect the correct balance of creditable withholding taxes (CWTs) to be recorded under Prepaid Expense;



b. Seek assistance from LBP Head Office for the immediate transmittal to MSI by LBP branches of the properly accomplished BIR Form 2307 upon their payment for the CWTs to be used in the relevant taxable year; and

c. Ensure the timely recording of tax credits duly supported by withholding tax statements as Prepaid expense-BIR.

2. The absence of periodic reconciliation of balances between the accounting and inventory records resulted in the overstatement of Inventories - Rice and By-Products by P144,372 and P39,022, respectively, and understatement in Inventories - Palay and Broken by P387,335 and P13,889, respectively.

2.1 We recommended that Management:

a. Conduct immediate reconciliation of the inventory account balances in the General Ledger with the stock cards;

b. Prepare the necessary adjustments to arrive at the correct book balance of the inventory account;

c. Ensure the accuracy and completeness of recording of transactions in the books by conducting periodic reconciliation of the stock cards and schedules of the Inventories; and

d. Hold the responsible employee liable for any shortage.

## **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

The audit disallowance as of December 31, 2016 amounting to P0.585 million pertains to the issued Notice of Disallowance No. LBP-Subs. 2008-015 (2002-2003) on August 11, 2008 for the payment of additional allowances and benefits of LBP Officials acting as Officers/Board of Directors of MSI. There are no audit suspensions and charges as at year-end.

## **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Of the 11 audit recommendations embodied in the prior years' Annual Audit Reports, seven were fully implemented, two were partially implemented, and two were not implemented, one of which is reiterated in Part II of the Report. The details of the partially implemented and not implemented audit recommendations are presented in Part III of this 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.**  
6<sup>th</sup> 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, 2016 and 2015, 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, 2016 and 2015 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

February 17, 2017





## MASAGANANG SAKAHAN, INC.

A Land Bank Subsidiary


### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Masaganang Sakahan, Inc. is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2016, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

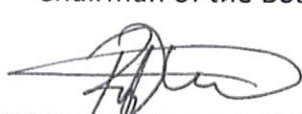
The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Commission on Audit (COA), the state auditor has examined the financial statements of the company in accordance with Philippine Standards on Auditing and in its report to the stockholders has expressed its opinion on the fairness of presentation upon completion of such examination.

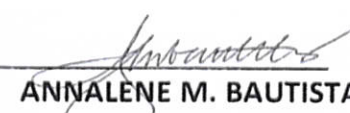
Signature

  
**CRISPINO C. AGUELO**  
Chairman of the Board

Signature

  
**ROY C. OSCILLADA**  
President & CEO

Signature

  
**ANNALENE M. BAUTISTA**  
Treasurer

Signed this 17<sup>th</sup> day of February 2017

**MASAGANANG SAKAHAN, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2016 and 2015**  
(In Philippine Peso)

	Notes	2016	2015
<b>ASSETS</b>			
Cash and cash equivalents	3	59,357,913	44,433,650
Investments			
Financial assets available-for-sale securities	4	104,158	17,341,424
Investment in stocks and bonds	5	57,200	57,200
Receivables (net)	6	74,498,447	71,349,962
Inventories	7	52,462,798	41,442,810
Other assets			
Prepayments	8	1,011,158	1,071,950
Others	9	2,967,502	723,959
Investment property	10	4,351,418	4,351,418
Property, plant and equipment (net)	11	21,473,229	22,362,129
Biological assets	12	48,900	30,000
<b>TOTAL ASSETS</b>		<b>216,332,723</b>	<b>203,164,502</b>
<b>LIABILITIES AND EQUITY</b>			
Financial Liabilities			
Accounts payable	13	62,790,624	63,040,771
Other payables	14	7,947,620	8,245,340
		<b>70,738,244</b>	<b>71,286,111</b>
Equity			
Share capital	15	100,000,000	100,000,000
Retained earnings	16	45,594,479	31,878,391
		<b>145,594,479</b>	<b>131,878,391</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>216,332,723</b>	<b>203,164,502</b>

The Notes on pages 8 to 20 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, 2016 and 2015**  
(In Philippine Peso)

	Note	2016	2015
Business income			
Sales revenue		287,325,780	291,645,974
Cost of sales		226,055,418	235,335,803
Gross profit		61,270,362	56,310,171
Operating expenses	17	23,144,437	20,399,655
Income from operations		38,125,925	35,910,516
Other business income		486,574	545,726
Net income before tax		38,612,499	36,456,242
Income tax expense	20	11,493,314	10,823,942
<b>NET INCOME</b>		<b>27,119,185</b>	<b>25,632,300</b>
OTHER COMPREHENSIVE INCOME		0	0
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>27,119,185</b>	<b>25,632,300</b>

The Notes on pages 8 to 20 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, 2016 and 2015**  
(In Philippine Peso)

	<b>Share Capital</b>		<b>Retained</b>	
	<b>Common</b>	<b>Preferred</b>	<b>Earnings</b>	<b>Total</b>
	<b>Stock</b>	<b>Stock</b>		
	(Note 15)		(Note 16)	
<b>Balance, December 31, 2014</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>14,291,917</b>	<b>114,291,917</b>
Net income for CY 2015			25,632,300	25,632,300
Cash dividends declared			(6,260,115)	(6,260,115)
Prior period adjustments			(1,785,711)	(1,785,711)
<b>Balance, December 31, 2015</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>31,878,391</b>	<b>131,878,391</b>
Net income for CY 2016			27,119,185	27,119,185
Cash dividends declared			(12,816,150)	(12,816,150)
Prior period adjustments			(586,947)	(586,947)
<b>Balance, December 31, 2016</b>	<b>90,000,000</b>	<b>10,000,000</b>	<b>45,594,479</b>	<b>145,594,479</b>

The Notes on pages 8 to 20 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, 2016 and 2015**  
(In Philippine Peso)

	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		279,392,818	271,950,911
Collection of interest and other income		97,716	88,681
Payment of bank charges		(400)	(13,398)
Payment of taxes, licences and fees		(9,611,177)	(470,941)
Cash payments to suppliers and employees		(258,294,752)	(235,162,721)
<b>Net cash generated from operating activities</b>		<b>11,584,205</b>	<b>36,392,532</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from/placement of investments		16,729,134	(12,611,516)
Payment for leasehold improvement		(71,930)	(34,340)
Purchase of furniture and fixtures		(248,757)	(13,500)
Purchase of office equipment		(252,239)	(73,450)
Purchase of land and land improvements		0	(18,989,000)
Purchase of biological assets		0	(30,000)
Proceeds from sale of office equipment		0	4,700
Proceeds from sale of transportation equipment		0	80,000
<b>Net cash provided by/(used in) investing activities</b>		<b>16,156,208</b>	<b>(31,667,106)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends		(12,816,150)	(6,260,115)
<b>Net cash used in financing activities</b>		<b>(12,816,150)</b>	<b>(6,260,115)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		14,924,263	(1,534,689)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	3	<b>44,433,650</b>	<b>45,968,339</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	3	<b>59,357,913</b>	<b>44,433,650</b>

The Notes on pages 8 to 20 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 an Agri-Development Center, formerly named as Sta. Rosa Grains Center, located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2016 were authorized for issue in accordance with the Resolution No. 2017-09 adopted by the Board of Directors on February 15, 2017.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of financial statements preparation**

The financial statements have been prepared on a historical cost basis, except for financial asset available-for-sale securities which has been stated at fair value. All values are rounded to the nearest peso.

**Statement of compliance**

The financial statements of Masaganang Sakahan, Inc. have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Revised Chart of Accounts (RCA) for Government Corporations prescribed in COA Circular Nos. 2015-010 and 2016-006.



The accounting policies adopted in the preparation of these financial statements are set out below, which have been consistently applied to both years presented, unless otherwise stated.

### **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 comprises 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:

	2016	2015
Cash in bank	50,905,976	36,746,225
High Yield Savings Account (HYSA) *	8,205,005	7,443,131
Operating fund – MSI Agri-Development Center	206,459	204,294
Cash collecting officer	473	0
Petty cash	40,000	40,000
	<b>59,357,913</b>	<b>44,433,650</b>

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

#### **4. FINANCIAL ASSETS AVAILABLE-FOR-SALE SECURITIES**

This account pertains to the net investment placement of MSI through LBP Trust Banking Department amounting to P104,158 and P17,341,424 as at December 31, 2016 and 2015, respectively.

#### **5. INVESTMENT IN STOCKS AND BONDS**

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

#### **6. RECEIVABLES**

This account consists of trade receivables from sale of the following:

	<b>2016</b>	<b>2015</b>
Rice	78,751,171	75,095,038
Palay	17,528,244	17,528,244
Others	1,151,041	1,060,258
	97,430,4576	93,683,540
Allowance for impairment	(22,932,009)	(22,333,578)
	<b>74,498,447</b>	<b>71,349,962</b>

The Other receivables consists of Receivable-Miscellaneous, Receivables-Others and Notes Receivables amounting to P678,967, P407,465.36 and P64,608, respectively.

The Notes Receivables represents restructured past-due accounts receivables, which are secured by hard collaterals and covered by promissory notes. This is fully provided with allowance for impairment.

#### **7. INVENTORIES**

This account consists of the following:

	<b>2016</b>	<b>2015</b>
Palay	49,136,255	40,449,067
Rice	3,301,410	537,962
Brokens	(13,889)	455,246
By-products	39,022	535
	<b>52,462,798</b>	<b>41,442,810</b>



## **8. PREPAYMENTS**

This account consists of the following:

	<b>2016</b>	<b>2015</b>
Taxes withheld	342,815	138,945
Medical	273,001	247,001
Insurance premium	199,921	84,467
Taxes, licenses & fees	154,167	328,043
Uniform	25,000	80,000
Other services	10,080	20,625
Fidelity bond premium	6,174	10,499
Office rent	0	90,825
Rice benefit	0	71,545
	<b>1,011,158</b>	<b>1,071,950</b>

## **9. OTHER ASSETS**

This account consists of the following:

	<b>2016</b>	<b>2015</b>
Guaranty deposits	1,846,125	370,438
Supplies and materials	994,027	206,821
Intangible assets	127,350	146,700
	<b>2,967,502</b>	<b>723,959</b>

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 assets pertains to the net book value of the acquired accounting system and amortized using the straight line method. As of December 31, 2016, the total amortization expense recognized amounted to P38,700.

## **10. INVESTMENT PROPERTY**

This account pertains to land acquired through payment in kind by millers.

## 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, 2016	10,782,000	8,087,000	6,442,934	1,183,202	837,986	415,560	25,574	27,774,256
Additions	0	0	0	252,239	248,757	0	71,930	572,926
Adjustment					27,279			27,279
<b>Balance, December 31, 2016</b>	<b>10,782,000</b>	<b>8,087,000</b>	<b>6,442,934</b>	<b>1,435,441</b>	<b>1,114,022</b>	<b>415,560</b>	<b>97,504</b>	<b>28,374,461</b>
Accumulated depreciation/amortization, January 1, 2016	0	160,789	3,513,111	906,828	739,243	92,156	0	5,412,127
Depreciation/amortization	0	643,157	535,754	103,802	90,058	53,201	35,854	1,461,826
Adjustments					27,279			27,279
<b>Balance, December 31, 2016</b>	<b>0</b>	<b>803,946</b>	<b>4,048,865</b>	<b>1,010,630</b>	<b>856,580</b>	<b>145,357</b>	<b>35,854</b>	<b>6,901,232</b>
<b>Net carrying amount, December 31, 2016</b>	<b>10,782,000</b>	<b>7,283,054</b>	<b>2,394,069</b>	<b>424,811</b>	<b>257,442</b>	<b>270,203</b>	<b>61,650</b>	<b>21,473,229</b>
<b>Net carrying amount, December 31, 2015</b>	<b>10,782,000</b>	<b>7,926,211</b>	<b>2,929,823</b>	<b>276,374</b>	<b>98,743</b>	<b>323,404</b>	<b>25,574</b>	<b>22,362,129</b>

## 12. BIOLOGICAL ASSETS

This comprises the costs of livestock totaling P30,000 consisting of four female and one male Anglo Nubian Goats costing P6,000 each acquired on May 6, 2015 and their offspring which were recorded as gain. These livestock are taken care of at MSI-ADC compound for breeding purposes. The increase in fair market value of the offspring weighing 126 kilograms as of December 31, 2016 amounted to P18,900.

## 13. ACCOUNTS PAYABLE

This account pertains to MSI's trade/business payables to the following:

	2016	2015
Land Bank of the Philippines (LBP)	59,311,362	61,130,991
Rice suppliers	3,479,262	1,909,780
	<b>62,790,624</b>	<b>63,040,771</b>

Payables to LBP arise from collection in kind such as Palay and Rice from cooperatives in connection with their loans to LBP.

#### 14. OTHER PAYABLES

This account consists of the following:

	2016	2015
Income tax payable	3,327,902	3,973,873
Payable - Voucher	93,717	1,552,396
Trust liabilities – SSS, PHIC, Pag-ibig	(65,910)	(70,484)
Miscellaneous liabilities	4,591,911	2,789,555
	<b>7,947,620</b>	<b>8,245,340</b>

Miscellaneous liabilities pertains to accrual of operating expenses such as retirement benefits, utilities, performance bonus incentives, leave credits, milling fee, audit fee, etc. as of December 31, 2016.

#### 15. SHARE CAPITAL

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 fully subscribed and paid the P100 million capital stock.

#### 16. RETAINED EARNINGS

The prior period adjustments as December 31, 2015 and 2016 pertain to the following:

Year	Accounts Affected	Particulars	Amount
CY 2015	Miscellaneous Income	Long outstanding payable after negative result of confirmation	96,944
	Taxes and Licenses	Deficiency tax –CYs 2011 & 2012	(1,121,129)
	Audit fee	Audit fee for CYs 2012, 2013 & 2014	(558,398)
	Other benefits/Bonus and incentives	Rice allocation and PBI for CY 2014	(180,759)
	Rental expense	Condo dues for August 2014	(22,369)
			<b>(1,785,711)</b>
CY 2016	Loss on palay shrinkage	Correction of overstatement of loss on palay shrinkage	170,660
	Bad debts	Correction of overstatement of allowance for bad debts in CY 2014	145,860
	Travelling expenses	Correction on traveling expenses	11,934
	Miscellaneous income	Unrecorded income in CY 2014	400
	Cost of sales	Correction in the understatement of cost of sales in CY 2015	(631,280)
	Other services	Correction in the other services expense in CY 2014	(116,322)



<b>Year</b>	<b>Accounts Affected</b>	<b>Particulars</b>	<b>Amount</b>
	Audit fee	Audit fee for CY 2015	(124,167)
	Sales	Correction in the overstatement of sales	(44,032)
			<b>(586,947)</b>

The declaration of cash dividend to the National Government for CY 2016 and 2015 of P13,559,593 and P12,816,150, respectively, were approved on February 15, 2017 in Board Resolution No. 2017-09 and on February 17, 2016 in Board Resolution No. 2016-08, respectively.

MSI appropriated P15.0 million for plant expansion/construction of a new warehouse which was approved by the Board on February 15, 2017 in Board Resolution No. 2017-10.

## **17. OPERATING EXPENSES**

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

	<b>2016</b>	<b>2015</b>
<b>Personnel services</b>		
<i>Salaries and wages</i>	5,042,595	4,062,645
<i>Other compensation</i>		
Bonus and incentives	2,862,550	2,351,020
Overtime pay	112,111	63,312
<i>Personnel benefit contributions</i>		
SSS, Philhealth and Pag-ibig Premiums	363,501	298,138
<i>Other personnel benefits</i>		
Other benefits	2,250,030	2,044,620
	<b>10,630,787</b>	<b>8,819,735</b>
<b>Maintenance and other operating expenses</b>		
<i>Supplies and materials expense</i>		
Office supplies expense	1,501,836	1,482,198
<i>Taxes, insurance premiums and other fees</i>		
Taxes, dues and license	1,305,578	1,538,436
Insurance	281,133	390,004
<i>Other maintenance and operating expenses</i>		
Rent	952,875	1,089,900
Per diem/Allowances	890,000	526,000
Representation and entertainment	684,433	540,524
Business development	115,696	108,395
Reproduction	47,892	101,850
Other maintenance and operating expenses	1,714,465	1,544,596
<i>Losses</i>		
Loss on Palay shrinkage	653,112	1,035,506
<i>Communication expense</i>		
Communication	555,804	479,635
<i>Utility expenses</i>		
Light, power and water	417,879	395,589

	2016	2015
<i>Travelling expenses</i>		
Travelling Expense - Local	388,477	368,230
<i>General Services</i>		
Security services	289,116	217,560
<i>Repairs and maintenance</i>		
Spare parts	190,329	328,668
Repairs and maintenance	171,067	212,434
Gasoline, oil and lubricant expenses	127,791	129,087
	10,287,483	10,488,612
<b>Non-cash expenses</b>		
Depreciation	1,425,972	965,215
Impairment loss	744,291	0
Amortization	55,204	46,709
	2,225,467	1,011,924
<b>Financial expenses</b>		
Interest and other bank charges	700	79,384
	<b>23,144,437</b>	<b>20,399,655</b>

## 18. EMPLOYEES BENEFITS

### 18.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2016	2015
Salaries and wages	5,042,595	4,062,645
Bonus and incentives	2,862,550	2,080,620
Other benefits	2,250,030	2,044,620
Social security costs	363,501	298,138
Overtime pay	112,111	63,313
	10,630,787	8,549,336
Directors' remuneration		
Per diem	890,000	526,000
Bonus and incentives	0	270,400
	890,000	796,400
	<b>11,520,787</b>	<b>9,345,736</b>

### 18.2 Retirement benefits

The MSI Retirement Plan is a participant to the LBP Subsidiaries Retirement Benefit Plan which is non-contributory. The Plan was approved by the Board of Directors for implementation on July 20, 2010.

The Report on Valuation dated October 12, 2016 of the MSI Retirement Plan for Valuation dates: January 1, 2015, December 31, 2015 and December 31, 2016 contains, among others, the following:

## **Characteristics of the Defined Benefit Plan and its Associated Risks**

The Masaganang Sakahan, Inc. Retirement Plan is non-contributory and of the defined benefit type which provides a retirement benefit equal to one-half month basic salary for every year of service, where one-half shall include fifteen (15) days salary based on the latest salary rate, five (5) days of service incentive leaves, and one-twelfth (1/12) of the 13<sup>th</sup> month pay.

## **Regulatory Framework in which the Retirement Plan Operates**

In accordance with the provisions of the Labor Code, MSI is required to pay eligible employees at least minimum regulatory benefit upon normal retirement, subject to age and service requirements. If the benefit under the Retirement Plan is less than the benefit provided by the Labor Code, MSI is required to pay the deficiency.

## **Responsibilities of Trustees**

The Retirement Plan Trustee, as appointed by MSI in the Trust Agreement executed by and between MSI and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and actuary to value the Retirement Fund. As the administrator of the Retirement Plan, the Retirement Plan Trustee (rather than the MSI) is responsible for the ultimate control, disposition, or management of the money received or contributed.

## **Unusual or Significant Risks to which the Retirement Plan Exposes the MSI**

There are no unusual or significant risks to which the Retirement Plan exposes the MSI. However, in the event benefit claim arises under the Retirement Plan and the Retirement Fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due from MSI to the Retirement Fund.

## **Plan Amendments, Curtailments, or Settlements**

There was no plan amendment, curtailment, or settlement recognized for the financial years ended December 31, 2015 and December 31, 2016.

## **Amounts Recognized in the Financial Statements**

The valuation results are based on the employee data as of valuation dates. The discount rate assumption is based on the PDEX (PDST-R2) benchmark market yields on government bonds as of the valuation dates (or latest available) considering the average years of remaining working life of employees as the estimated term of the benefit obligation.

It is assumed that MSI initially applied the Amended Philippine Accounting Standard (PAS) No. 19(R) (as amended in June 2011) on January 1, 2015. The amended PAS 19(R) simplifies the reporting of the defined benefit cost by introducing the Net Interest Approach, which disaggregates the defined benefit cost into the following components:



1. Service Cost (cost of services received);
2. Net Interest (financing effect of paying for benefits in advance or in arrears); and
3. Remeasurements (period to period fluctuations in the amounts of defined benefit obligations and plan assets).

Under the Net Interest Approach, Service Cost and Net Interest on the net defined benefit liability (asset) are both recognized in Profit or Loss, while Remeasurements of the net defined benefit liability (asset) are recognized outside profit or loss in Other Comprehensive Income (OCI). It is further required by Amended PAS 19(R) that remeasurements recognized in OCI shall not be reclassified to profit or loss in a subsequent period. Instead, the Company may either accumulate the remeasurements in OCI or transfer those amounts recognized in OCI within equity in accordance with Amended PAS 19(R)122.

Upon initial application of the amended accounting standard, the Defined Benefit Obligation (DBO) is P6,662,345 and the Fair Value of Plan Assets is P2,591,667 resulting in a Net Defined Benefit Liability at transition amounting to P4,070,678.

As of December 31, 2015, the Defined Benefit Obligation is P6,951,391 while the Fair Value of Plan Assets is P2,596,616, resulting in a Net Defined Benefit Liability of P4,354,775.

As of December 31, 2016, the Defined Benefit Obligation is P7,987,829 while the Fair Value of Plan Assets is P4,166,753, resulting in a Net Defined Benefit Liability of P3,821,076.

The components of the Defined Benefit Cost (DBC) recognized in Profit or Loss (P&L) are:

1. The Service Cost (Current and Past), and
2. Net Interest on the Net Defined Benefit Liability (Asset).

The Defined Benefit Cost to be recognized in P&L as of December 31, 2015 and December 31, 2016 are expenses of P526,680 and P513,587, respectively.

The components of the Defined Benefit Cost recognized in OCI are the remeasurements, which consist of the Actuarial Gains and Losses during the year on the DBO, return on Plan Assets, and Changes in the Effect of the Asset Ceiling. The DBC recognized in OCI as of December 31, 2015 and December 31, 2016 are Expense (Income) of (P242,584) and P826,515, respectively.

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, 2016, the amount of P513,587 was recognized as other benefits and recorded as Payable-Miscellaneous to the Fund.

## 19. 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

	2016	2015
Mayor's permit - Head Office & SRGC	794,468	956,016
Real estate tax	155,227	249,186
Community tax - Head Office	10,500	10,500
Barangay clearance	2,200	2,550
	<b>962,395</b>	<b>1,218,252</b>

### B. National

	2016	2015
NFA License	<b>32,846</b>	<b>33,250</b>

### C. Withholding taxes paid/accrued for the year:

	2016	2015
Taxes on compensation and benefits	898,147	738,056
Creditable withholding tax/es	1,199,587	389,301
	<b>2,097,734</b>	<b>1,127,357</b>

### D. 2005 Deficiency tax paid during the year

	2016	2015
Corporate income tax	0	1,086,147
Value added tax	0	0
Expanded withholding tax	0	34,982
	<b>0</b>	<b>1,121,129</b>

## 20. INCOME TAX EXPENSE

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.

The provisions for income taxes were computed as follows:

	<b>2016</b>	<b>2015</b>
Net income before tax	38,612,499	36,452,242
Less: Income subjected to final tax	301,453	376,437
Net income subject to tax	38,311,046	36,079,805
Tax rate	30%	30%
<b>Provision for income tax</b>	<b>11,493,314</b>	<b>10,823,942</b>

## **21. RELATED PARTY TRANSACTIONS**

A Management Contract exists between the MSI and the LBP wherein MSI guarantees the purchase of rice in amounts equivalent to the rice requirements of the employees of the Bank. Also, there is a Payment-in-Kind Program wherein MSI undertakes the collection and remittance of LBP's loan receivables from farmers/cooperatives in the form of palay and rice, the value of which is payable to the Bank within 90 days.

Some officers of LBP constitute the Board of Directors and Executive Committee of MSI.

The transactions of MSI with LBP, the parent corporation, are as follows:

	<b>2016</b>	<b>2015</b>
Sales - rice allocation of LBP employees	231,896,705	224,815,942
Outstanding receivables	66,870,797	62,220,476
Receivables - miscellaneous from LBP Officers	0	35,000
Outstanding payables	59,311,362	61,130,991
	<b>358,078,864</b>	<b>348,202,409</b>

## **22. COMPENSATION OF KEY MANAGEMENT OFFICIALS**

The basic salary received by the key management official amounted to P857,000 and P780,000 for CY 2016 and 2015, respectively.