

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, 2017 and 2016

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, 2017 in accordance with International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2017 and 2016. 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	2017	2016	Increase/ (Decrease)
Assets	221,570,812	216,332,723	5,238,089
Liabilities	62,076,867	70,738,244	(8,661,377)
Equity	159,493,945	145,594,479	13,899,466

II. Comparative Results of Operation

Particulars	2017	2016	Increase/ (Decrease)
Income	333,293,051	287,812,354	45,480,697
Expenses	289,462,370	249,199,855	40,262,515
Income Tax Expense	13,090,186	11,493,314	1,596,872
Net income	30,740,495	27,119,185	3,621,310

III. Comparative Budget and Actual Expenditures

	Bud	get	Utilization	
Particulars	2017	2016	2017	2016
Personal Services	11,781,250	11,069,000	11,309,425	10,997,287
Maintenance and Other Operating			233	
Expenses/Financial Expenses	13,623,100	12,094,219	9,999,229	9,268,570
Capital Expenditures	17,000,000	6,762,600	3,169,306	572,926
	42,404,350	29,925,819	24,477,960	20,838,783

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, 2017 and 2016.

SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

- 1. The balance of the Prepaid Expenses BIR account was understated by P0.508 million due to the non-recording of taxes withheld by clients applied as tax credits in the payment of income tax payable.
- 1.1 We recommended that Management require the Corporate Services Department to conduct a thorough analysis of the Prepaid Expense-BIR account and prepare the necessary adjusting journal entry for fair presentation of the affected accounts in the financial statements.
- 2. The faithful representation of the balance of Office Supplies Inventory account amounting to P382,254 as at December 31, 2017 was not established due to the unreconciled variance of P961,383 between the general ledger and stock cards.

- 2.1 We recommended that Management require the Accountant and the Warehouse Supervisor at MSI-ADC to:
 - a. Reconcile the variances between the general ledger and stock cards and effect immediately the necessary adjustments to present the correct balances of the inventory account in the accounting records and report, and
 - b. Review the process of issuing sacks and recording in the stock cards to identify causes of variances, and ensure that postings in the stock cards are completely supported with documents.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

The audit disallowances as of December 31, 2017 amounted to P0.585 million. There are no audit suspensions and charges as at year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 14 audit recommendations embodied in the prior years' Annual Audit Reports, ten were fully implemented and four were partially implemented, three of which are reiterated in Part II of this Report. The details of the partially implemented audit recommendation are presented in Part III of this Report.

TABLE OF CONTENTS

PART I	AUDITED FINANCIAL STATEMENTS	Page
	Independent Auditor's Report	1
	Statement of Management's Responsibility For Financial Statements	4
	Statements of Financial Position	5
	Statements of Comprehensive Income	6
	Statements of Changes in Equity	7
	Statements of Cash Flows	8
	Notes to Financial Statements	9
PART II	OBSERVATIONS AND RECOMMENDATIONS	28
PART III	STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS	38

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.
12th Floor, SSHG Law Center
105 Paseo de Roxas
Legaspi Village, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Masaganang Sakahan**, **Inc.** (**MSI**) (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statement of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the MSI as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the MSI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the MSI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MSI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MSI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Note 29 to the 2017 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

g Auditor

March 7, 2018



A LANDBANK SUBSIDIARY

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Masaganang Sakahan, Inc. is responsible for the preparation of the financial statements as at December 31, 2017 and 2016, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The 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 before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Masaganang Sakahan, Inc. in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

> CRISPINO T. AGUELO Chairman of the Board

> > March G, 2018

Date Signed

ANNALÈNE M. BAUTISTA

Treasurer

ROY C. OSCILLADA

President-CEO/General Manager

March 6, 2018

Date Signed

March G. 2018

Date Signed

(A wholly-owned subsidiary of Land Bank of the Philippines)

CONDENSED STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31, 2017 and 2016

(In Philippine Peso)

	Note	2017	2016
ASSE	TS		N
Current Assets			
Cash and Cash Equivalents	4	86,772,303	59,357,913
Financial Asset	5	102,961	104,158
Receivables	6	45,480,462	54,988,027
Inventories	7	45,814,263	53,456,825
Non-Current Assets Held For Sale	8	60,000	0
Other Current Assets	9	1,246,344	2,857,283
Total Current Assets		179,476,333	170,764,206
Non-Current Assets			
Receivables, net	6	14,765,846	19,510,420
Other Investment	10	57,200	57,200
Investment Property	11	4,291,418	4,351,418
Property, Plant and Equipment, net	12	22,842,198	21,473,229
Biological Assets	13	43,050	48,900
Intangible Assets, net	14	94,767	127,350
Total Non-Current Assets	97459	42,094,479	45,568,517
Total Assets		221,570,812	216,332,723
LIABILI	TIES		
Current Liabilities			
Financial Liabilities	15	53,392,921	62,790,624
Inter-Agency Payables	16	1,903,711	3,261,992
Other Payables	17	6,780,235	4,685,628
Total Liabilities		62,076,867	70,738,244
EQUI'	TY		
Retained Earnings	18	59,493,945	45,594,479
Stockholders' Equity	19	100,000,000	100,000,000
	10	100,000,000	100,000,000
Total Equity		159,493,945	145,594,479

(A wholly-owned subsidiary of Land Bank of the Philipines)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Philippine Peso)

	Note	2017	2016
Income			
Business Income	20	332,667,093	287,325,780
Gains	21	221,349	36,750
Other Non-Operating Income	22	404,609	449,824
Total Income		333,293,051	287,812,354
Expenses			
Direct Costs	23	(264,408,489)	(226,055,418)
Personnel Services	24	(11,309,425)	(10,997,287)
Maintenance and Other Operating Expenses	25	(9,996,479)	(9,267,871)
Non-Cash Expenses	26	(3,745,227)	(2,878,579)
Financial Expenses	27	(2,750)	(700)
Total Expenses		(289,462,370)	(249,199,855)
Net Income Before Tax		43,830,681	38,612,499
Income Tax Expense	30	(13,090,186)	(11,493,314)
Net Income After Tax/		(10,000,100)	(11,100,014)
Total Comprehensive Income		30,740,495	27,119,185

(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Philippine Peso)

	Retained Share Capital		Capital		
	Earnings	Common	Preferred	Total	
	(Note 18)	(Note	e 19)		
BALANCE AT JANUARY 1, 2016	31,878,391	90,000,000	10,000,000	131,878,391	
CHANGES IN EQUITY FOR 2016					
Add/(Deduct):					
Comprehensive Income for the year	27,119,185			27,119,185	
Declaration of Cash Dividends	(12,816,150)			(12,816,150)	
Other Adjustments	(586,947)			(586,947)	
BALANCE AT DECEMBER 31, 2016	45,594,479	90,000,000	10,000,000	145,594,479	
CHANGES IN EQUITY FOR 2017					
Add/(Deduct):					
Comprehensive Income for the year	30,740,495			30,740,495	
Declaration of Cash Dividends	(13,559,593)			(13,559,593)	
Other Adjustments	(3,281,436)			(3,281,436)	
BALANCE AT DECEMBER 31, 2017	59,493,945	90,000,000	10,000,000	159,493,945	

(A wholly-owned subsidiary of Land Bank of the Philipines) STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of Revenue		341,504,157	279,392,818
Other Receipts		161,460	97,716
Total Cash Inflows		341,665,617	279,490,534
Cash Outflows			
Payment to Suppliers and Employees		(286,858,733)	(258, 294, 752)
Payment of Taxes, Licenses and Fees		(10,962,045)	(9,611,177)
Other Disbursements		(450)	(400)
Total Cash Outflows		(297,821,228)	(267,906,329)
Net Cash Provided by Operating Activities		43,844,389	11,584,205
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds from Sale of Property, Plant & Equipment		220,000	0
Proceeds of Matured Investments		0	16,729,134
Total Cash Inflows		220,000	16,729,134
Cash Outflows			
Purchase of Property, Plant, Equipment		(2.000.406)	(572.026)
Total Cash Outflows		(3,090,406) (3,090,406)	(572,926) (572,926)
Net Cash Provided by/(Used in) Investing Activities		(2,870,406)	16,156,208
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Cash Dividends		(13,559,593)	(12,816,150)
Cash Used in Financing Activities		(13,559,593)	(12,816,150)
Net Increase in Cash and Cash Equivalents		27,414,390	14,924,263
Cash and Cash Equivalents, January 1	4	59,357,913	44,433,650
Cash and Cash Equivalents, December 31	4	86,772,303	59,357,913

(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 MSI's principal office of business is located at the 12th Floor SycipLaw Center, 105 Paseo de Roxas, Legaspi Village, Makati City, while its Agri-Development Center, formerly named as Sta. Rosa Grains Center, is located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2017 were authorized for issue in accordance with the Resolution No. 2018-06 adopted by the Board of Directors on February 22, 2018.

2. STATEMENT OF COMPLIANCE AND BASIS FOR PREPARATION OF FINANCIALSTATEMENTS

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The financial statements have been prepared on historical cost basis, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

The financial statements are presented in Philippine Peso, the country's functional currency.

The preparation of financial statements in compliance with the adopted PAS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 3.1 The significant accounting policies that have been used in the preparation of the financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.
 - a. 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.
- b. PAS 17 Leases

As a lessee, operating lease payment is recognized as an expense on a straightline basis over the lease term.

c. 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.

d. PAS 36 – Impairment of Assets

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications from external and internal sources of information:

- (a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- (d) the carrying amount of the net assets of the entity is more than its market capitalization:
- (e) evidence is available of obsolescence or physical damage of an asset;
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and
- (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected;

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

e. 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.

f. PAS 40 - Investment Property

This standard applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and, with some exceptions, may be subsequently measured using a cost model or fair value model, with changes in the fair value under the fair value model being recognized in profit or loss.

g. PAS 41 – Biological Assets

This standard requires biological assets to be measured on initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured. A gain or loss on initial recognition of a biological asset at fair value (FV) less to cost to sell and from a change in FV less cost to sell of a biological asset shall be included in profit or loss for the period in which it arises.

3.2 Cash and cash equivalents in the Statement of Financial Position comprises cash in bank, short term investment and cash on hand.

- 3.3 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.
- 3.4 Allowance for probable losses is set up for expected losses from non-moving trade receivables considering the debtor's capacity to pay.
- 3.5 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. Specific identification method of valuation of inventory of rice is being used because milling is done on a per order basis.

Tolerable Weight Loss

Taking into consideration all the loss causing factors, the following formula is adopted for all palay stored for a maximum of 18 months duration to calculate the expected total Tolerable Weight Loss (TWL):

%Y = -0.085458 + 0.0075178 X

Where, %Y is the percentage of weight loss, and X is the number of days of storage.

The said percentage will serve as the standard tolerable allowance for losses in weights of stored palay (referring to the natural loss causing factors such as MC Variation, Rodent Infestation and Bird Infestation). All other additional tolerable allowances not covered in the above computation, as in below cases, shall be discussed and computed separately.

- 1. Uncontrolled insect infestation
- 2. In-warehouse/Outside Piling Spillages
- 3. Scale Error
- 4. Truck scale-platform scale variances.

Following the NFA Standards for the acceptable weight loss and considering the inventory turn-over of MSI, the MSI's tolerable weight loss shall not be more than 2 per cent. The NFA TWL Formula shall be applied for palay stocks stored above 270 days and maximum of 540 days.

The following is the computation of shrinkage per pile:

a. For kilograms loss in percentage

Formula = <u>Total Kilos Per Pile – Total Kilos of Palay Issued</u> Total Kilos Per Pile

b. For amount of loss

Formula = Total Amount of Palay Per Pile - Total Amount of Palay Issued Per Pile

The booking of loss on palay shrinkage shall be made after the pile has been fully issued through the following entry:

Dr. Loss on Palay Shrinkage

XXX

Cr. Inventory Palay

XXX

- 3.6 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.
- 3.7 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.
- 3.8 Investment properties comprises land acquired by the Corporation in settlement of loans through foreclosure or dation in payment and are measured initially at cost. Subsequent to initial recognition, these are stated at cost less accumulated depreciation and impairment loss. Investment properties are derecognized when they have either been disposed of. Any gains or losses on derecognition of an investment property are recognized in the profit and loss in the year of derecognition.
- 3.9 Non-current assets held for sale is a real estate acquired through repossession or foreclosure that the Corporation intends to sell within one year from the date of classification as held for sale.

The Corporation classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Corporation is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair values. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Corporation and there is sufficient evidence that the Corporation remains committed to sell the asset.

Assets classified as held for sale are not subject to depreciation or amortization, and are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell.

3.10 Intangible Assets specifically computer software are initially recognized at cost. The useful life of the asset is assessed at three to five years. The straight line method is

adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016
Cash in Bank	78,214,223	50,905,976
High Yield Savings Account (HYSA)	8,311,577	8,205,005
Operating Fund – MSI Agri-Development Center	206,503	206,459
Cash - Collecting Officer	0	473
Petty Cash	40,000	40,000
Total	86,772,303	59,357,913

The High Yield Savings Account (HYSA) represents placements at Land Bank of the Philippines Trust Banking Group maturing in 30 days.

5. FINANCIAL ASSET

This account pertains to the net investment placement with LBP Trust Banking Department.

6. RECEIVABLES

6.1 Trade Receivables

Accounts		2017			2016	
Accounts	Current	Non-current	Total	Current	Non-current	Total
Accounts Receivable Allowance for Impairment-	45,286,593	36,688,502	81,975,095	54,837,057	41,442,358	96,279,415
Accounts Receivable	0	(21,941,895)	(21,941,895)	0	(21,941,895)	(21,941,895)
Net Value-Accounts						
Receivable	45,286,593	14,746,607	60,033,200	54,837,057	19,500,463	74,337,520
Notes Receivable Allowance for Impairment-	0	64,608	64,608	0	64,608	64,608
Notes Receivable	0	(64,608)	(64,608)	0	(64,608)	(64,608)
Net Value-Notes Receivable	0	0	0	0	0	0
Receivables-Miscellaneous Allowance for Impairment-	50,772	678,417	729,189	550	678,417	678,967
Receivable Miscellaneous	0	(674, 365)	(674, 365)	0	(674, 365)	(674, 365)
Net Value-Receivables-						
Miscellaneous	50,772	4,052	54,824	550	4,052	4,602
Receivable Others Allowance for Impairment-	143,097	266,327	409,424	150,420	257,045	407,465
Receivable- Others	0	(251,140)	(251,140)	0	(251,140)	(251,140)
Net Value-Receivable-Others	143,097	15,187	158,284	150,420	5,905	156,325
Total	45,480,462	14,765,846	60,246,308	54,988,027	19,510,420	74,498,447

6.2 Aging of Receivables

Assessments	Tatal	Total Not past		Past due		
Accounts	Total	due	< 30 days	30-60 days	> 60 days	
Accounts Receivable	45,286,593	2,918,620	3,371,080	18,185,882	20,811,011	
Receivable-Miscellaneous	50,772	50,772	0	0	0	
Receivable-Others	143,097	0	0	0	143,097	
Total	45,480,462	2,969,392	3,371,080	18,185,882	20,954,108	

The Receivable-Others consists of Receivable-Miscellaneous, Receivables-Others and Notes Receivables amounting to P729,189, P409,425 and P64,608, respectively.

The Notes Receivables represents restructured past-due accounts receivables, which are secured by hard collaterals and covered by promissory notes.

7. INVENTORIES

This account consists of the following:

	2017	2016
Held for Sale:		
Palay	43,642,231	49,136,255
Rice	1,104,193	3,301,410
Brokens	660,313	(13,889)
By-products	25,272	39,022
	45,432,009	52,462,798
Held for Consumption:		
Office Supplies Inventory		
Office Supplies	176,372	177,927
Supplies and Materials -Rice Sacks	205,882	816,100
	382,254	994,027
Total	45,814,263	53,456,825

8. NON-CURRENT ASSETS HELD FOR SALE

This consists of land acquired through repossession or foreclosure that the Corporation intends to sell within one year from the date of classification as held for sale.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2017	2016
Prepayments:		
Medical	273,000	273,001
Insurance Premium	267,887	199,921
Taxes, Licenses and Fees	149,299	154,167

	2017	2016
Fidelity Bond Premium	9,687	6,174
Taxes Withheld	(31,494)	342,815
Uniform	Ó	25,000
Other Services	0	10,080
	668,379	1,011,158
Guaranty Deposits	577,965	1,846,125
Total	1,246,344	2,857,283

The prepayments are expenditures paid but not yet incurred. When the prepayments are eventually consumed, it is charged to expense.

Guaranty deposits are deposits for rental of office space and performance bond subject to refund.

10. OTHER INVESTMENT

This account consists of investment in shares of stock with PLDT.

11. INVESTMENT PROPERTY

This account consists of lands acquired through payment in kind by millers. There was no impairment loss recognized during the year. The decrease of P60,000 in the carrying amount was due to the reclassification of one parcel of land to Non-Current Assets Held for Sale.

12. PROPERTY, PLANT AND EQUIPMENT

This account consists of the following:

Particulars	Land	Building & Land Improve- ment	Transpor- tation Equipment	Office Equipment	Furniture & Fixtures	Other PPE	Leasehold Improve- ments	Technical & Scientific Equipment	TOTAL
Cost, January 1, 2017	10,782,000	8,087,000	6,442,934	1,435,441	1,114,022	415,560	61,650	0	28,338,607
Additions	0	43,110	179,800	817,057	0	52,439	0	1,998,000	3,090,406
Adjustment	0	56,699	(429,093)	0	0		(56,699)	0	(429,093)
Balance, December 31, 2017	10,782,000	8,186,809	6,193,641	2,252,498	1,114,022	467,999	4,951	1,998,000	30,999,920
Accumulated depreciation/ amortization, January 1, 2017	0	803,946	4,048,865	1,010,630	856,580	145,357	0	0	6,865,378
Depreciation/	U	603,946	4,046,665	1,010,030	636,360	145,557	U	U	0,000,070
amortization	0	691,045	583,372	210,029	54,167	57,696	4,951	164,835	1,766,095
Adjustments	0	0	(473,751)	0	0	0		0	(473,751)
Balance, Dec. 31, 2017	0	1,494,991	4,158,486	1,220,659	910,747	203,053	4,951	164,835	8,157,722
Net Carrying Amount, Dec. 31, 2017	10,782,000	6,691,818	2,035,155	1,031,839	203,275	264,946	0	1,833,165	22,842,198
Net Carrying Amount, Dec. 31, 2016	10,782,000	7,283,054	2,394,069	424,811	257,442	270,203	61,650	0	21,473,229

13. BIOLOGICAL ASSETS

This account consists of goats and its offspring presented at their carrying value as at December 31, 2017. Originally, the breeding stocks acquired in May 2015 consist of five goats costing P30,000. Reconciliation of the carrying amount of the livestock:

	2017	2016
Carrying Amount as at January 1	48,900	30,000
Increase due to birth of offspring	1,350	18,900
Decrease due to death of offspring and breeding stock	(7,200)	0
Carrying Amount as at December 31	43,050	48,900

Details of on the number of livestock follow:

	2017	2016
Balance, Jan. 1	13	5
Increase due to birth of offspring	1	8
Decrease due to death of 1 offspring and 1 breeding stock	(2)	0
Carrying Amount as at December 31	12	13

14. INTANGIBLE ASSETS

This account pertains to accounting system software. Below is the reconciliation of the carrying amount of the account:

	2017	2016
Balance as of January 1	127,350	146,700
Addition: Purchases	44,000	0
Deduction: Reclassification to Office Equipment	(35,000)	0
Total	136,350	146,700
Amortization	(41,583)	(19,350)
Balance as of December 31	94,767	127,350

15. FINANCIAL LIABILITIES

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

	2017	2016
Land Bank of the Philippines (LBP)	49,232,086	59,311,362
Rice suppliers	4,160,835	3,479,262
Total	53,392,921	62,790,624

MSI acts as collecting agent for LBP. The payables to LBP arise from collection in kind such as Palay and Rice from cooperatives for payment of loans to LBP.

16. INTER-AGENCY PAYABLES

This account consists of the following:

	2017	2016
Income tax payable	1,794,245	3,327,902
Trust liabilities – SSS, Pag-ibig, BIR	109,466	(65,910)
Total	1,903,711	3,261,992

17. OTHER PAYABLES

This account consists of:

	2017	2016
Accrued Benefits and Incentives	3,056,482	2,245,450
Accrued Milling Fee	1,323,007	796,948
Taxes Withheld	546,799	53,278
Accrued Retirement Fund	513,587	513,587
Accrued Audit Fee	450,000	273,750
Accrued Prizes	220,000	83,760
Accrued Leave Credits	215,245	309,265
Accrued Communication	18,527	2,500
Medicard Refund to Employees	13,305	7,140
Accrued Security Services	11,040	59,076
Accrued Rent	8,935	83,491
Accrued Travelling	3,405	0
Tax Refund to Employees	3,325	0
Others	396,578	257,383
Total	6,780,235	4,685,628

18. RETAINED EARNINGS

Other adjustments to the Retained Earnings are the following:

Year	Accounts Affected	Particulars	Amount
CY 2017	Depreciation	Correction of depreciation expense in prior years	(29,967)
	Accounts Receivable- T/B	Correction on taking up CWTs and error in taking up sales invoices in CY 2016	(2,923,348)
	Other Services-Prizes	Correction of prior period expense of other services on VRB	(50,000)
	Inventory-By products	Correction of prior period overstatement of inventories by- products	(33,320)
	Accounts Payable-T/B	Taking up of prior year's expenses (supplies)	(9,316)

Year	Accounts Affected	Particulars	Amount
	Leasehold	Adjustment to amortization due to	
	Improvement	reclassification of Leasehold	
	· ·	Improvement	4,725
	AP-Voucher	Cancellation of payment of appraisal	10.00
		fee taken up on CY 2016	42,750
	Audit fee	Audit fee for CY 2016	(168,250)
	AP-Voucher	Taking up actual expenses for	
		December 2016	(19,517)
	AP-T/B	Cancellation of order in CY 2016	75,200
	AP-T/B	Taking up of expenses (supplies) in prior	3.6
		year	(174,996)
	A/RMiscellaneous	Refund for unnecessary expenses	2,078
	A/R-Others	Refund for unnecessary expenses	2,525
Total			(3,281,436)
CY 2016	Loss on palay	Correction of overstatement of loss on palay	
	shrinkage	shrinkage	170,660
	Bad debts	Correction of overstatement of allowance for	
		bad debts in CY 2014	145,860
	Travelling expenses	Correction in 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)
	Audit fee	Audit fee for CY 2015	(124,167)
	Sales	Correction in the overstatement of sales	(44,032)
Total			(586,947)

The declaration of cash dividend to the National Government for CY 2017 and 2016 of P15,356,186 and P13,559,593, respectively, were approved on February 22, 2018 per Board Resolution No. 2018-06 and on February 15, 2017 per Board Resolution No. 2017-09, respectively.

On February 15, 2017, the Board of Directors approved per Board Resolution No. 2017-10 the appropriation of P15.0 million for plant expansion/construction of a new warehouse

19. STOCKHOLDERS' EQUITY

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 P100 million capital stock was subscribed and fully paid by its parent, the LBP.

20. BUSINESS INCOME

This account includes all revenues derived from business trading operation.

21. GAINS

	2017	2016
Gain on Sale of Transportation Equipment	219,999	0
Gain on Change in Fair Market Value of		
Biological Assets	1,350	36,750
Total	221,349	36,750

22. OTHER NON-OPERATING INCOME

	2017	2016
Interest-Banks/Placements	196,727	301,453
Miscellaneous Income	137,982	148,371
Contribution Revenue	69,900	0
Total	404,609	449,824

The Contribution Revenue pertains to the remaining book value of the donated vehicle from LBP Leasing and Finance Corporation.

23. DIRECT COSTS

This account represents cost of the rice sold.

24. PERSONNEL SERVICES

This account consists of the following:

	2017	2016
Salaries and Wages	5,310,149	5,042,595
Other Compensation		
Bonus and Incentives	2,687,353	2,862,550
Representation Allowance	249,000	268,500
Transportation Allowance	159,000	136,000
Uniform Allowance	109,799	95,000
Overtime Pay	108,663	112,111
Other Bonuses and Allowances		
Christmas Raffle	910,000	880,000
Rice Allowance	592,882	454,821
Personnel Benefit Contributions		
SSS, Philhealth and Pag-Ibig Premiums	384,461	363,501
Other Personnel Benefits		
Retirement Gratuity	513,587	513,587
Medical Benefits	273,001	247,000
Terminal Leave Benefit	11,530	0
Others	0	21,622
Total	11,309,425	10,997,287

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2017	2016
Supplies and Materials Expense		
Office Supplies Expense	1,720,216	1,501,836
Fuel, Oil and Lubricant Expenses	208,900	127,791
	1,929,116	1,629,627
Taxes, Insurance Premiums and Other Fees		4:
Taxes, Dues and License	1,143,811	1,305,578
Insurance	457,132	281,133
Fidelity Bond Premiums	26,161	31,936
Registration	21,808	21,176
	1,648,912	1,639,823
Training Expense		
Trainings/Seminars	141,420	386,290
Communication Expense		
Telephone Expense	265,153	323,335
Internet Expense	172,935	195,579
Postage and Courier	100,849	36,890
	538,937	555,804
Utility Expenses	000,007	333,004
Power	329,338	400,101
Water	44,516	
VVUCOI	373,854	17,778
Awards/ Rewards and Prizes	373,034	417,879
Prizes	220,000	0
Awards/Reward Expense	220,000	0
Awarus/Newaru Experise	38,000	38,000
Professional Services	258,000	38,000
	450.000	070 750
Auditing Services	450,000	273,750
General Services		
Security Services	348,961	289,116
Travelling Expenses		
Travelling Expense - Local	267,250	252,477
Repairs and Maintenance		
Repairs and Maintenance	180,706	171,067
Spare Parts	143,411	190,329
Website Maintenance	10,080	2,240
	334,197	363,636
Labor and Wages	,	220,000
Milling	548,482	(460)
Handling	107,768	50,696
Wages	19,184	41,700
Truck Scale	0	4,483
	675,434	96,419
	070,434	90,419

	2017	2016
Other Maintenance and Operating Expenses		
Rent/Lease Expenses	1,052,638	1,208,785
Directors' and Committee Members' Fees	872,000	890,000
Representation Expenses	398,584	415,932
Advertising Expenses	253,210	192,848
Business Development Expenses	108,715	115,696
Membership Dues	50,000	59,667
Subscription	30,138	18,353
GPS Device	19,512	0
Notarial	1,380	1,500
Printing and Publication	1,268	47,892
Donations	0	2,216
Caretaker Fee	0	17,850
Miscellaneous	242,953	354,311
	3,030,398	3,325,050
Total	9,996,479	9,267,871

26. NON-CASH EXPENSES

This account consists of the following:

X	2017	2016
Depreciation (Note 12)		
Depreciation-Motor Vehicle	583,372	535,754
Depreciation-Building	538,244	504,307
Depreciation-Office Equipment	210,029	103,802
Depreciation-Technical & Scientific	164,835	0
Depreciation-Land Improvement	152,801	138,850
Depreciation-OPPE	57,696	53,201
Depreciation-Furniture & Fixtures	54,167	90,058
	1,761,144	1,425,972
Impairment Loss		
Impairment Loss - Inventories*	1,930,349	653,112
Impairment Loss - Receivables	0	744,291
Impairment Loss - Biological Assets (Note 13)	7,200	0
	1,937,549	1,397,403
Amortization		
Amortization - Intangible Asset (Note 14)	41,583	19,350
Amortization - Leasehold Improvement (Note 12)	4,951	35,854
	46,534	55,204
Total	3,745,227	2,878,579

^{*}The Impairment Loss on Inventories pertains to loss on palay shrinkage as described in Note No. 3.5.

27. FINANCIAL EXPENSES

This account pertains to bank charges.

28. EMPLOYEES BENEFITS

28.1 Compensation and Other benefits

Expenses incurred for salaries and employee benefits are presented below:

	2017	2016
Salaries and Wages	5,310,149	5,042,595
Bonus and Incentives	2,687,353	2,862,550
Other Benefits	2,410,799	2,212,030
Social Security Costs	384,461	363,501
Representation Allowance	249,000	268,500
Transportation Allowance	159,000	136,000
Overtime Pay	108,663	112,111
Total	11,309,425	10,997,287

28.2 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. It was revised upon approval of the Board on July 28, 2016.

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 13th 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 year ended December 31, 2017.

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):
- 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, 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.

As of December 31, 2017, the Defined Benefit Obligation is P8,399,670 while the Fair Value of Plan Assets is P4,181,732 resulting in a Net Defined Benefit Liability of P4,217,938.

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 recognized in P&L amounted to P513,587 for CY 2017 and 2016.

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, 2017 and December 31, 2016 are Expense (Income) of P294,482 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, 2017, the amount of P513,587 was recognized as other benefits and recorded as Payable-Miscellaneous to the Fund.

29. SUPPLEMENTARY INFORMATION ON REVENUE REGULATION

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

	2017	2016
Mayor's Permit - Head Office & SRGC	948,792	794,468
Real Estate Tax	154,167	155,227
Community Tax - Head Office	10,500	10,500
Barangay Clearance	2,570	2,200
Total	1,116,029	962,395
3. National		
	2017	2016
NFA License	30,206	32,846

C. Withholding taxes paid/accrued for the year:

	2017	2016
Taxes on Compensation and Benefits	884,889	898,147
Creditable Withholding Tax/es	1,152,673	1,199,587
Total	2,037,562	2,097,734

On February 12, 2018, MSI received a Preliminary Assessment Notice P-LA008537-047-2015 dated February 7, 2018 from the BIR regarding the deficiencies noted in the payment of taxes for the taxable year 2015, particularly Income Tax, Expanded Withholding Tax and Withholding Tax on Compensation. The documents necessary to refute the findings were already forwarded to the BIR on February 27, 2018.

30. 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:

	2017	2016
Net Income Before Tax	43,830,681	38,612,499
Less: Income Subjected to Final Tax	196,727	301,453
Net Income Subject to Tax	43,633,954	38,311,046
Tax Rate	30%	30%
Provision For Income Tax	13,090,186	11,493,314

31. 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:

	2017	2016
Sales - Rice Allocation of LBP Employees	260,027,120	231,896,705
Outstanding Receivables	51,049,653	66,870,797
Outstanding Payables	49,232,086	59,311,362
Total	360,308,859	358,078,864

32. COMPENSATION OF KEY MANAGEMENT OFFICIAL

The basic salary received by the key management official amounted to P864,000 for CY 2017 and 2016.

33. RECLASSIFICATION

Certain accounts in the CY 2016 financial statements (FS) were reclassified to conform to the CY 2017 FS presentation.