

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:

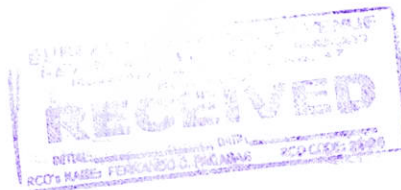
- a. To engage in and carry on the business of purchase and acquire, operate, maintain, lease, sell and dispose of and deal in agricultural equipment and farm machineries and all other articles pertaining to agriculture;
- b. To make available its farm equipment and machineries to the farmers, owner-cultivators, 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 Warehouse Supervisor in MSI Agri-Development Center. Its affair is governed by the Board of Directors composed of a Chairman, Vice Chairman and seven 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, 2018 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, 2018 and 2017. Also, we conducted the audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.



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FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2018	2017	Increase/ (Decrease)
Assets	188,006,893	221,570,812	(33,563,919)
Liabilities	39,529,896	62,076,867	(22,546,971)
Equity	148,476,997	159,493,945	(11,016,948)

II. Comparative Results of Operation

Particulars	2018	2017	Increase/ (Decrease)
Income	198,615,982	333,293,051	(134,677,069)
Expenses	186,708,514	289,462,370	(102,753,856)
Income Tax Expense	3,430,453	13,090,186	(9,659,733)
Net income	8,477,015	30,740,495	(22,263,480)

III. Comparative Budget and Actual Expenditures

Particulars	Budget		Utilization	
	2018	2017	2018	2017
Personnel Services	13,505,985	11,781,250	14,361,644	11,309,425
Maintenance and Other Operating Expenses/Financial Expenses	14,477,840	13,623,100	11,076,360	9,999,229
Capital Expenditures	0	17,000,000	0	3,169,306
	27,983,825	42,404,350	25,438,004	24,477,960

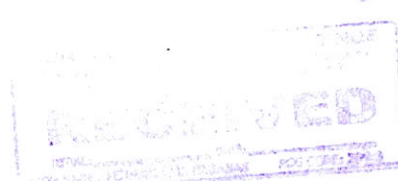
INDEPENDENT AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of MSI for the years ended December 31, 2018 and 2017.

SIGNIFICANT OBSERVATION AND RECOMMENDATION

1. The balance of the Prepaid Expenses – BIR account was understated by P0.519 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 adjust the Prepaid Expense-BIR account to correct the understatement.



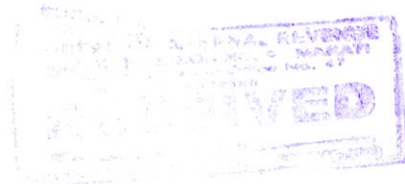
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SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

The audit disallowances as of December 31, 2018 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 eight audit recommendations embodied in the prior years' Annual Audit Reports, three were fully implemented, two were partially implemented and three were not implemented, of which two are reiterated in Part II of this Report.



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PART I

AUDITED FINANCIAL STATEMENTS



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REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 1 – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Masagang 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, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

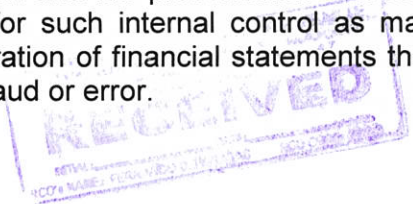
In our opinion, the financial statements present fairly, in all material respects, the financial position of the MSI as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

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 these 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.



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In preparing the financial statements, management is responsible for assessing the MSI's ability to continue as 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 Foundation 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.

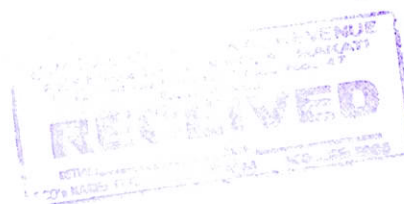
Auditor's Responsibilities for the Audit of the Financial Statements

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.




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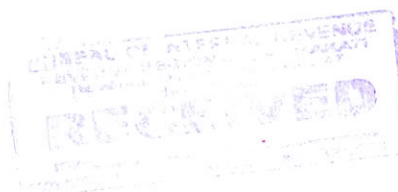
Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 to the 2018 financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


ROCHIE J. FELICES
Supervising Auditor

February 21, 2019



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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, including the schedules attached therein, for the years ended December 31, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, 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 Masaganang Sakahan, Inc.'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 Masaganang Sakahan, Inc. or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Masaganang Sakahan, Inc.'s financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Commission on Audit, the independent auditor appointed by the stockholders, has audited the financial statements of the Masaganang Sakahan, Inc. in accordance with International Standards of Supreme Audit Institutions, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.


CRISPINO C. AGUELO
Chairman of the Board


BLESILDA R. MACALALAD
OIC/Corporate Services Manager


ANNALENE M. BAUTISTA
Corporate Treasurer

Signed this 21st day of February, 2019.

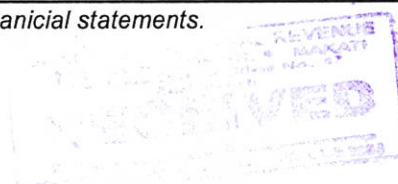


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MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
As at DECEMBER 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	93,483,549	86,772,303
Financial Asset	5	2,604,534	102,961
Receivables, net	6	16,888,846	45,480,462
Inventories	7	23,824,755	45,814,263
Non-Current Assets Held For Sale	8	0	60,000
Other Current Assets	9	3,551,164	1,246,344
Total Current Assets		140,352,848	179,476,333
Non-Current Assets			
Receivables, net	6	22,163,103	14,765,846
Other Investment	10	57,200	57,200
Investment Property	11	4,291,418	4,291,418
Property, Plant and Equipment, net	12	21,053,057	22,842,198
Biological Assets	13	43,050	43,050
Intangible Assets, net	14	46,217	94,767
Total Non-Current Assets		47,654,045	42,094,479
Total Assets		188,006,893	221,570,812
LIABILITIES			
Current Liabilities			
Trade Payables	15	31,044,043	53,392,921
Inter-Agency Payables	16	191,700	1,903,711
Other Payables	17	8,294,153	6,780,235
Total Liabilities		39,529,896	62,076,867
EQUITY			
Retained Earnings	18		
Unappropriated		33,476,997	44,493,945
Appropriated		15,000,000	15,000,000
Stockholders' Equity	19	100,000,000	100,000,000
Total Equity		148,476,997	159,493,945
Total Liabilities and Equity		188,006,893	221,570,812

The Notes on pages 9 to 29 form part of these financial statements.

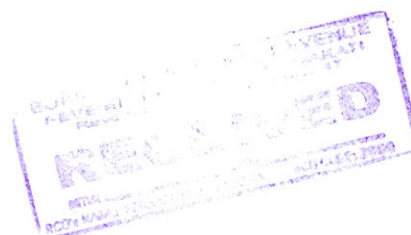


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MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended **DECEMBER 31, 2018 AND 2017**
(In Philippine Peso)

	Note	2018	2017
Income			
Business Income	20	197,534,692	332,667,093
Gains	21	380,000	221,349
Other Non-Operating Income	22	701,290	404,609
Total Income		198,615,982	333,293,051
Expenses			
Direct Costs	23	(161,270,510)	(264,408,489)
Personnel Services	24	(14,361,644)	(11,309,425)
Maintenance and Other Operating Expenses	25	(8,273,797)	(9,996,479)
Non-Cash Expenses	26	(2,802,163)	(3,745,227)
Financial Expenses	27	(400)	(2,750)
Total Expenses		(186,708,514)	(289,462,370)
Net Income Before Tax		11,907,468	43,830,681
Income Tax Expense	30	(3,430,453)	(13,090,186)
Net Income After Tax/			
Total Comprehensive Income		8,477,015	30,740,495

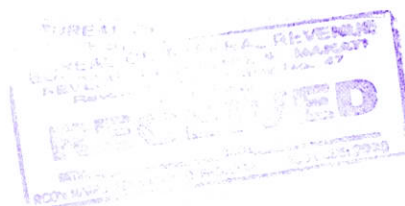
The Notes on pages 9 to 29 form part of these financial statements.



MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended DECEMBER 31, 2018 AND 2017
(In Philippine Peso)

	Retained Earnings		Share Capital		Total
	Appropriated	Unappropriated	Common	Preferred	
	(Note 18)		(Note 19)		
BALANCE AT JANUARY 1, 2017	15,000,000	30,594,479	90,000,000	10,000,000	145,594,479
CHANGES IN EQUITY FOR 2017					
Add/(Deduct):					
Net 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	15,000,000	44,493,945	90,000,000	10,000,000	159,493,945
CHANGES IN EQUITY FOR 2018					
Add/(Deduct):					
Net Income for the year		8,477,015			8,477,015
Declaration of Cash Dividends		(15,370,248)			(15,370,248)
Other Adjustments		(4,123,715)			(4,123,715)
BALANCE AT DECEMBER 31, 2018	15,000,000	33,476,997	90,000,000	10,000,000	148,476,997

The Notes on pages 9 to 29 form part of these financial statements.

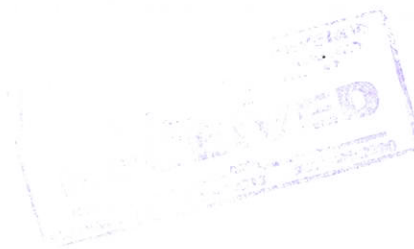


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MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the years ended **DECEMBER 31, 2018 AND 2017**
(In Philippine Peso)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of Revenue		150,663,676	341,504,157
Other Receipts		315,950	161,460
Total Cash Inflows		150,979,626	341,665,617
Cash Outflows			
Payment to Suppliers and Employees		(182,329,076)	(286,858,733)
Payment of Taxes, Licenses and Fees		(9,686,644)	(10,962,045)
Other Disbursements		(400)	(450)
Total Cash Outflows		(192,016,120)	(297,821,228)
Net Cash Provided by/(Used in) Operating Activities		(41,036,494)	43,844,389
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds from Sale of Investment Property		261,925	0
Proceeds from Sale of Property, Plant & Equipment		0	220,000
Proceeds of Matured Investments		62,856,063	0
Total Cash Inflows		63,117,988	220,000
Cash Outflows			
Purchase of Property, Plant, Equipment		0	(3,090,406)
Total Cash Outflows		0	(3,090,406)
Net Cash Provided by/(Used in) Investing Activities		63,117,988	(2,870,406)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Cash Dividends	18	(15,370,248)	(13,559,593)
Cash Used in Financing Activities		(15,370,248)	(13,559,593)
Net Increase in Cash and Cash Equivalents		6,711,246	27,414,390
Cash and Cash Equivalents, January 1	4	86,772,303	59,357,913
Cash and Cash Equivalents, December 31	4	93,483,549	86,772,303

The Notes on pages 9 to 29 form part of these financial statements.



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MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

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, 2018 were authorized for issue on February 21, 2019 in accordance with Board Resolution No. 2019-07.

2. STATEMENT OF COMPLIANCE AND BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

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.

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 during the period presented, unless otherwise stated.

a. PAS 2 – Inventory

This standard provides guidance for determining the cost of inventories and the subsequent recognition of the cost as an expense.

The cost of inventories includes all costs of purchase, costs of conversion (direct labor and production overhead) and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned by:

- specific identification of cost for items of inventory that are not ordinarily interchangeable; and
- the first-in, first-out or weighted average cost formula for items that are ordinarily interchangeable (generally large quantities of individually insignificant items)

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs.

b. 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.

c. PAS 12 – Income Taxes

This Standard prescribes the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and

b) transactions and other events of the current period that are recognized in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences; this Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions.

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognized in profit or loss, any related tax effects are also recognized in profit or loss. For transactions and other events recognized outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognized outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of the bargain purchase gain recognized.

This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosures of information relating to income taxes.

d. PAS 17 – Leases

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

e. PAS 18 – Revenue

Income is defined in the Framework for the Preparation and Presentation of Financial Statements as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. This Standard prescribes the accounting treatment of revenue arising from certain types of transactions and events.

The primary issue in accounting for revenue is determining when to recognize revenue. Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognized. It also provides practical guidance on the application of these criteria.

f. 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.

g. 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 of obsolescence or physical damage of an asset is available;
- (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.

h. 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.

i. 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.

j. 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

$$\text{Formula} = \frac{\text{Total Kilos Per Pile} - \text{Total Kilos of Palay Issued}}{\text{Total Kilos Per Pile}}$$

- b. For amount of loss

$$\text{Formula} = \text{Total Amount of Palay Per Pile} - \text{Total Amount of Palay Issued Per Pile}$$

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:

	2018	2017
Petty Cash	40,000	40,000
Cash in Bank	22,069,405	78,214,223
High Yield Savings Account (HYSA)	71,167,641	8,311,577
Operating Fund – MSI Agri-Development Center	206,503	206,503
Total	93,483,549	86,772,303

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 of MSI in LBP Trust Banking Department.

	2018	2017
Beginning Balance as at January 1	102,961	109,668
Additional investments made		
Gov't Securities-Treasury Bills	1,528,601	0
Gov't Securities-Coupons	1,000,000	0
Accrued interest	2,438	591
Amortization of discount on the acquisition of investment-Treasury Bills	20,489	0

	2018	2017
Less: Fair value decrease-Treasury Bills	(8,783)	0
Fair value decrease-Coupons	(39,651)	(3,811)
Amortization of premium on acquisition		
Coupons	(1,521)	(3,487)
Balance as at December 31	2,604,534	102,961

6. RECEIVABLES

This pertains to Trade Receivables as follows:

Accounts	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Accounts Receivable	16,600,128	43,998,952	60,599,080	45,286,593	36,688,502	81,975,095
Allowance for Impairment- Accounts Receivable	0	(21,941,895)	(21,941,895)	0	(21,941,895)	(21,941,895)
Net Value-Accounts Receivable	16,600,128	22,057,057	38,657,185	45,286,593	14,746,607	60,033,200
Notes Receivable	0	64,608	64,608	0	64,608	64,608
Allowance for Impairment- Notes Receivable	0	(64,608)	(64,608)	0	(64,608)	(64,608)
Net Value-Notes Receivable	0	0	0	0	0	0
Receivables-Miscellaneous	0	685,429	685,429	50,772	678,417	729,189
Allowance for Impairment- Receivable Miscellaneous	0	(674,366)	(674,366)	0	(674,365)	(674,365)
Net Value-Receivables- Miscellaneous	0	11,063	11,063	50,772	4,052	54,824
Receivable Others	288,718	346,123	634,841	143,097	266,327	409,424
Allowance for Impairment- Receivable- Others	0	(251,140)	(251,140)	0	(251,140)	(251,140)
Net Value-Receivable-Others	288,718	94,983	383,701	143,097	15,187	158,284
Total	16,888,846	22,163,103	39,051,949	45,480,462	14,765,846	60,246,308

Aging of Receivables

Accounts	Total	Not past due	Past due		
			< 30 days	30-60 days	> 60 days
Accounts Receivable	16,600,128	3,973,095	2,905,490	2,371,290	7,350,253
Receivable-Miscellaneous	0	0	0	0	0
Receivable-Others	288,718	288,718	0	0	0
Total	16,888,846	4,261,813	2,905,490	2,371,290	7,350,253

The Receivable-Others consists of Receivable-Miscellaneous, Receivables-Others and Notes Receivables amounting to P685,429, P634,841 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:

	2018	2017
Held for Sale:		
Palay	21,761,001	43,642,231
Rice	952,864	1,104,193
Brokens	177,995	660,313
By-products	13,978	25,272
	22,905,838	45,432,009
Held for Consumption:		
Office Supplies Inventory		
Office Supplies	153,155	176,372
Supplies and Materials –Rice Sacks	765,762	205,882
	918,917	382,254
Total	23,824,755	45,814,263

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. In 2018, the land with carrying value of P60,000 was sold for P440,000.00

9. OTHER CURRENT ASSETS

This account consists of the following:

	2018	2017
Prepayments:		
Overpayment of Corporate Income Tax	3,290,720	0
Insurance Premium	148,084	267,887
Fidelity Bond Premium	9,687	9,687
Taxes, Licenses and Fees	2,517	149,299
Taxes Withheld	(104,125)	(31,494)
Medical	0	273,000
Uniform	0	0
Other Services	0	0
Guaranty Deposits	204,281	577,965
Total	3,551,164	1,246,344

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

	2018	2017
At Cost		
At January 1	4,291,418	4,351,418
Additions/(Disposals)	0	0
Transfers/Adjustment	0	(60,000)
At December 31	4,291,418	4,291,418

This account consists of lands acquired through payment in kind by millers. There was no impairment loss recognized during the year.

12. PROPERTY, PLANT AND EQUIPMENT, NET

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, 2018	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
Additions	0	0	0	0	0	0	0	0	0
Adjustment	0	0	0	0	0	0	0	0	0
Balance, December 31, 2018	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, 2018	0	1,494,991	4,158,486	1,220,659	910,747	203,053	4,951	164,835	8,157,722
Depreciation/amortization	0	662,580	596,390	250,327	38,768	61,256	0	179,820	1,789,141
Adjustments	0	0	0	0	0	0	0	0	0
Balance, Dec. 31, 2018	0	2,157,571	4,754,876	1,470,986	949,515	264,309	4,951	344,655	9,946,863
Net Carrying Amount, Dec. 31, 2018	10,782,000	6,029,238	1,438,765	781,512	164,507	203,690	0	1,653,345	21,053,057
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

13. BIOLOGICAL ASSETS

This account consists of four female and one male Anglo Rubian goats and its offspring presented at their carrying value as at December 31, 2018. Originally, the breeding livestocks acquired in May 6, 2015 costing P30,000. There was no movement in the account during the year.

14. INTANGIBLE ASSETS

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

	2017	2017
Balance as of January 1	94,767	127,350
Addition: Purchases	0	44,000
Deduction: Reclassification to Office Equipment	0	(35,000)
Total	94,767	136,350
Amortization	(48,550)	(41,583)
Balance as of December 31	46,217	94,767

15. TRADE PAYABLES

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

	2018	2017
Land Bank of the Philippines (LBP)	29,357,963	49,232,086
Rice suppliers	1,686,080	4,160,835
Total	31,044,043	53,392,921

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:

	2018	2017
Trust liabilities – SSS, Pag-ibig, BIR	191,700	109,466
Income tax payable	0	1,794,245
Total	191,700	1,903,711

17. OTHER PAYABLES

This account consists of:

	2018	2017
Accrued Benefits and Incentives	3,989,919	3,056,482
Accrued Milling Fee	1,507,390	1,323,007
Accrued Travelling	852,575	3,405
Accrued Retirement Fund	684,451	513,587
Accrued Audit Fee	450,000	450,000

	2018	2017
Accrued Leave Credits	199,919	215,245
Accrued Communication	23,634	18,527
Accrued Security Services	11,354	11,040
Medicaid Refund to Employees	0	13,305
Accrued Rent	0	8,935
Accrued Prizes	0	220,000
Tax Refund to Employees	0	3,325
Taxes Withheld	0	546,799
Others	574,911	396,578
Total	8,294,153	6,780,235

18. RETAINED EARNINGS

Other adjustments to the Retained Earnings are the following:

Year	Accounts Affected	Particulars	Amount
CY 2018	Accounts Receivable-T/B	Correction on taking up CWTs	(1,240)
	Sales	Correction in overstatement of sales	(5,600)
	Cost of Sales	Correction in understatement of cost of sales	(12,400)
	Due to BIR	Correction in over remittance of prior years' tax	(18,378)
	Due to BIR	Take up payment of deficiency tax for CY 2015	(100,630)
	Salaries and Wages	Salary Standardization Law differential for CY 2017	(3,800,936)
	Terminal Leave Credits	Salary Standardization Law differential for CY 2017	(214,659)
	Overtime Pay	Salary Standardization Law differential for CY 2017	(12,925)
	Office Supplies Expense	Understated sacks expense from CY 2017	(5,000)
	Audit Fee	Overstated audit fee for CY 2017	21,262
	Accounts Receivable-T/B	Correction on taking up CWTs	40,370
	Miscellaneous Income	Understated miscellaneous income	300
	Cost of Sales	Overstated cost of sales	100
	Sales	Understated sales	3,650
	Payables -	Adjustment on accounts payable - miscellaneous	71,076
	Miscellaneous Trainings & Seminar Expense	CY 2017 Training Expense	(88,707)
	Total		(4,123,715)
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	(33,320)

Year	Accounts Affected	Particulars	Amount
		overstatement of inventories by-products	
	Accounts Payable-T/B	Taking up of prior year's expenses (supplies)	(9,316)
	Leasehold Improvement	Adjustment to amortization due to reclassification of Leasehold Improvement	4,725
	AP-Voucher	Cancellation of payment of appraisal 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 year	(174,996)
	A/R.-Miscellaneous	Refund for unnecessary expenses	2,078
	A/R-Others	Refund for unnecessary expenses	2,525
Total			(3,281,436)

The cash dividend to the National Government for CY 2017 amounting P15,370,248, approved on February 22, 2018 per Board Resolution No. 2018-06, was paid on June 2018.

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.

The abrupt decline in Net Income in 2018 is due to the removal of rice benefit of Land Bank employees in line with the adoption of EO 36.

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 fully paid and issued to its parent, the Land Bank of the Philippines.

20. BUSINESS INCOME

This account includes all revenues derived from business trading operation.

21. GAINS

	2018	2017
Gain on Sale of Investment Property	380,000	0
Gain on Sale of Transportation Equipment	0	219,999
Gain on Change in Fair Market Value of Biological Assets	0	1,350
Total	380,000	221,349

22. OTHER NON-OPERATING INCOME

	2018	2017
Interest-Banks/Placements	472,626	196,727
Miscellaneous Income	228,664	137,982
Contribution Revenue	0	69,900
Total	701,290	404,609

23. DIRECT COSTS

This account pertains to the cost of the rice sold.

24. PERSONNEL SERVICES

This account consists of the following:

	2018	2017
<i>Salaries and Wages</i>	8,205,248	5,310,149
<i>Other Compensation</i>		
Bonus and Incentives	3,365,198	2,687,353
Representation Allowance	219,000	249,000
Transportation Allowance	169,500	159,000
Uniform Allowance	132,000	109,799
Overtime Pay	135,506	108,663
Other Bonuses and Allowances		
Christmas Raffle	0	910,000
Rice Allowance	331,277	592,882
<i>Personnel Benefit Contributions</i>		
SSS, Philhealth and Pag-Ibig Premiums	391,036	384,461
<i>Other Personnel Benefits</i>		
Retirement Gratuity	684,451	513,587
Medical Benefits	273,000	273,001
Terminal Leave Benefit	254,228	11,530
Loyalty Award	201,200	0
Total	14,361,644	11,309,425

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2018	2017
<i>Supplies and Materials Expense</i>		
Office Supplies Expense	1,043,568	1,720,216
Fuel, Oil and Lubricant Expenses	135,411	208,900
	1,178,979	1,929,116
<i>Taxes, Insurance Premiums and Other Fees</i>		
Taxes, Dues and License	1,317,381	1,143,811
Insurance	435,418	457,132
Fidelity Bond Premiums	29,674	26,161
Registration	24,270	21,808
	1,806,743	1,648,912
<i>Training Expense</i>		
Trainings/Seminars	419,920	141,420
<i>Communication Expense</i>		
Telephone Expense	240,637	265,153
Internet Expense	114,648	172,935
Postage and Courier	64,042	100,849
	419,327	538,937
<i>Utility Expenses</i>		
Power	239,376	329,338
Water	50,604	44,516
	289,980	373,854
<i>Awards/ Rewards and Prizes</i>		
Prizes	0	220,000
Awards/Reward Expense	0	38,000
	0	258,000
<i>Professional Services</i>		
Auditing Services	450,000	450,000
<i>General Services</i>		
Security Services	337,361	348,961
<i>Travelling Expenses</i>		
Travelling Expense - Local	248,837	267,250
<i>Repairs and Maintenance</i>		
Spare Parts	155,990	143,411
Repairs and Maintenance	71,946	180,706
Website Maintenance	0	10,080
	227,936	334,197
<i>Labor and Wages</i>		
Handling	73,265	107,768
Wages	7,000	19,184
Milling	(650)	548,482
Truck Scale	0	0
	79,615	675,434

	2018	2017
<i>Other Maintenance and Operating Expenses</i>		
Rent/Lease Expenses	1,041,805	1,052,638
Directors' and Committee Members' Fees	828,000	872,000
Representation Expenses	393,775	398,584
Advertising Expenses	116,379	253,210
Business Development Expenses	92,500	108,715
Membership Dues	34,160	50,000
GPS Device	22,176	19,512
Subscription	0	30,138
Notarial	0	1,380
Printing and Publication	0	1,268
Donations	0	0
Caretaker Fee	0	0
Miscellaneous	286,304	242,953
	2,815,099	3,030,398
Total	8,273,797	9,996,479

26. NON-CASH EXPENSES

This account consists of the following:

	2018	2017
<i>Depreciation (Note 12)</i>		
Depreciation-Transportation Equipment	596,390	583,372
Depreciation-Building	506,031	538,244
Depreciation-Office Equipment	250,327	210,029
Depreciation-Technical & Scientific Equipment	179,820	164,835
Depreciation-Land Improvement	156,549	152,801
Depreciation-OPPE	61,256	57,696
Depreciation-Furniture & Fixtures	38,768	54,167
	1,789,141	1,761,144
<i>Impairment Loss</i>		
Impairment Loss - Inventories*	964,472	1,930,349
Impairment Loss - Biological Assets (Note 13)	0	7,200
	964,472	1,937,549
<i>Amortization</i>		
Amortization - Intangible Asset (Note 14)	48,550	41,583
Amortization - Leasehold Improvement (Note 12)	0	4,951
	48,550	46,534
Total	2,802,163	3,745,227

*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:

	2018	2017
Salaries and Wages	8,205,248	5,310,149
Bonus and Incentives	3,365,198	2,687,353
Other Benefits	1,876,156	2,410,799
Social Security Costs	391,036	384,461
Representation Allowance	219,000	249,000
Transportation Allowance	169,500	159,000
Overtime Pay	135,506	108,663
Total	14,361,644	11,309,425

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, 2018.

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, 2018, the Defined Benefit Obligation is P12,325,910 while the Fair Value of Plan Assets is P3,943,715 resulting in a Net Defined Benefit Liability of P8,382,195.

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 P658,636 for CY 2018 and P513,587 for CY 2017.

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, 2018 and December 31, 2017 are Expense (Income) of P4,703,094 and P513,587, 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, 2018, the amount of P684,451 was recognized as Other Compensation-Retirement Gratuity 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

	2018	2017
Mayor's Permit - Head Office & SRGC	1,126,723	948,792
Real Estate Tax	143,636	154,167
Community Tax - Head Office	10,500	10,500
Barangay Clearance	2,570	2,570
Total	1,283,429	1,116,029

B. National

	2018	2017
NFA License	33,353	30,206

C. Withholding taxes paid/accrued for the year:

	2018	2017
Taxes on Compensation and Benefits	1,480,052	884,889
Creditable Withholding Tax/es	519,427	1,152,673
Total	1,999,479	2,037,562

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:

	2018	2017
Net Income Before Tax	11,907,468	43,830,681
Less: Income Subjected to Final Tax	472,626	196,727
Net Income Subject to Tax	11,434,842	43,633,954
Tax Rate	30%	30%
Provision For Income Tax	3,430,453	13,090,186

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 (January to April 2018). 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:

	2018	2017
Sales - Rice Allocation of LBP Employees	94,052,920	260,027,120
Outstanding Receivables	27,462,992	51,049,653
Outstanding Payables	29,357,963	49,232,086
Total	150,873,875	360,308,859

32. COMPENSATION OF KEY MANAGEMENT OFFICIAL

The basic salary received by the key management official amounted to P607,672 and P864,000 for CY 2018 and 2017, respectively.

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The balance of the Prepaid Expenses – BIR account was understated by P0.519 million due to the non-recording of taxes withheld by clients applied as tax credits in the payment of income tax payable.

1.1 Paragraph 15 of PAS 1 on Presentation of Financial Statements states that:

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense set out in the Framework. x x x.

1.2 The Prepaid Expense – BIR account is debited to record the taxes withheld by MSI's clients from their payments of rice based on the BIR Form 2307 received. The BIR Form 2307 or the withholding tax statement shows the income payment made and the amount of tax withheld therefrom, and the tax credit applied against the income tax liability of MSI for the relevant taxable year. Upon payment of Quarterly Income Tax Return, the supposed creditable taxes withheld in the BIR Form 2307 received from clients are applied as tax credits for the income tax due for a given quarter.

1.3 The Prepaid Expense - BIR account as of December 31, 2018 has a negative balance of P104,125. Audit of the account disclosed that there were taxes withheld by clients totaling P518,915 which were not recorded in the books but applied as tax credits in the payment of the quarterly income tax payable. On the other hand, there are certificates of creditable withholding tax at source or BIR Form 2307 totaling P414,790 in the possession of MSI, which according to Management, shall be applied to the CY 2018 income tax liability, to be settled on April 15, 2019.

1.4 The balance of the Prepaid Expense - BIR account should be the total amount of the creditable withholding taxes not yet applied as tax credits amounting to P414,790. Hence, the account was understated by P518,915 at year end.

1.5 **We recommended that Management require the Corporate Services Department to adjust the Prepaid Expense-BIR account to correct the understatement.**

1.6 Management commented that the Corporate Services Department is conducting a thorough analysis of the Prepaid Expense – BIR account and adjustment/s will be taken up based on the results thereof.

B. COMPLIANCE AUDIT

Gender and Development (GAD)

2. The GAD Plan and Budget for CY 2018 of MSI was not prepared and submitted to the Philippine Commission on Women (PCW), contrary to PCW-NEDA DBM Joint Circular No. 2012-01.

2.1 PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes the guidelines and procedures for the preparation of annual GAD Plans and Budgets (GPBs), and Accomplishment Reports (ARs) to implement the Magna Carta for Women in national government agencies, and government-owned and controlled corporations.

2.2 The general guidelines of the same Joint Circular provide that GAD planning and budgeting shall be conducted annually as part of all programming and budgeting exercises of agencies. The programs, activities and projects in the GPB shall be included in the agency budget proposal and they shall be reflected in the Annual Work and Financial Plan of concerned offices or units within the agency or department. Further, the GAD budget, which is the cost of implementing the GAD Plan shall form part, and is not in addition to the agencies approved budget.

2.3 Also, there are schedules to be observed in GAD planning and budgeting, one of which is the submission of reviewed GPBs and ARs to PCW in January, one year before budget year.

2.4 In 2017, the same observation was included in the Annual Audit Report and still the GAD Plan and Budget for CY 2018 was not prepared and submitted to PCW for review and endorsement contrary to PCW-NEDA DBM Joint Circular No. 2012-01.

2.5 **We recommended and Management agreed to submit the GAD Plan and Budget to PCW in accordance with PCW-NEDA-DBM Joint Circular No. 2012-01.**

2.6 During the exit conference, Management informed that a Focal Person on GAD will be designated and accordingly attend the related seminar to be able to comply with PCW-NEDA-DBM Joint Circular No. 2012-01.

Compliance with Tax Laws

3. The taxes withheld in CY 2018 from the compensation and benefits of MSI personnel and those withheld from suppliers amounting to P1.480 million and P519,427, respectively, were remitted to the Bureau of Internal Revenue within the reglementary period.

SSS Contributions and Remittances

4. In 2018, MSI complied with Republic Act (RA) No. 8282 on the collection and remittance of contributions to SSS, as follows:

a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18, and

b. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

Philhealth and Pag-ibig Premiums

5. In 2018, MSI complied with Title III Rule III, Section 18 of the Implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

MSI also complied with Rule VII, Section 3 of the Implementing Rules and Regulations of RA No. 9679 in the collection and remittance of premium contributions to the Pag-ibig Fund in 2018.

Targets vs. Accomplishments

6. The MSI's strategic objectives and measures are consistent with its mandate to undertake developmental and pioneering types of facilities and services that would boost farmers' productivity and income. In CY 2018, MSI had substantially accomplished five of its targets, as reported in the MSI Performance Scorecard, and presented below:

Strategic Objective (SO)/ Strategic Measure (SM)		Formula	CY 2018 Targets	CY 2018 Accomplishments
CUSTOMERS/STAKEHOLDERS				
SO 1	Strengthen the Market Access			
SM 1	Primary market developed	No. of retailers or end-user accounts	52	59
SM 2	Volume of rice sold to primary market	Volume of rice (in bags)	119,400	24,634.32
SO 2	Strengthen the Competitiveness and Technical Knowledge of LBP Assisted Farmer Organization			
SM 3	Total No. of cooperatives with improved quality of palay that benefitted from the Payment in Kind (PIK)	No. of Cooperatives	33	14
SO 3	Promote Customer Satisfaction and Sales Recognition Program			
SM 4	Percentage of stakeholders which rated MSI with at least Satisfactory rating	Total number of respondents with at least Satisfactory rating (upper two boxes of a 5-point scale) / Total number of respondents	100% of respondents which gave Very Satisfactory rating	Awaiting survey results from the third party provider
FINANCIAL				
SO 4	Strengthen Financial Viability			
SM 5	Net Income After Tax (NIAT)	Absolute amount (in Million Pesos)	35.05	8.27

Strategic Objective (SO)/ Strategic Measure (SM)		Formula	CY 2018 Targets	CY 2018 Accomplishments
INTERNAL PROCESSES				
SO 5	Shore Up Logistical Processes for Quicker Turn-Around Time			
SM 6	Percentage of deliveries made on time	Number of orders made within agreed time of delivery with clients/Total number of orders for delivery	90%	100%
SO 6	Increase Productivity of MSI-Agri Development Center			
SM 7	Capacity utilization ratio of MSI-ADC warehouse	Total incoming rice inventory (in cavans) /Full capacity of warehouse (55,000 cavans)	2.70	1.43
SO 7	Enhance Marketing Strategies			
SM 8	Percentage of Total Bids Won or Served	Number of total bids won or served/Number of total bids tendered	65%	88.64%
LEARNING AND GROWTH				
SO 8	Strengthen Competencies of Employees in the Organization			
SM 9	Percentage of Employees Meeting Required Competencies	Total employees with identified competency gaps addressed/50% of employees with identified competency gaps	50% of employees with identified competency gaps addressed	50% of employees with identified competency gaps addressed
SO 9	Establish Quality Management System			
SM 10	Improve Processes to Quality Management System	Actual accomplishment	Certification under ISO 9001:2015 Standards	Certification under ISO 9001:2015 Standards

STATUS OF DISALLOWANCES, SUSPENSIONS, AND CHARGES

7. Notice of Disallowance (ND) No. LBP-Subs. 2008-015 (2002-2003) dated August 11, 2008 in the amount of P0.585 million covers the payment of additional allowances and benefits of LBP Officials acting as Officers/Board of Directors of MSI. The ND was affirmed under COA Decision No. 2012-018 dated February 16, 2012.

8.1 A Motion for Reconsideration to the Commission was filed by LBP on March 19, 2012, however, it was denied under COA Resolution dated April 4, 2014 for lack of merit. Subsequently, the Legal Services Group of LBP filed a Petition for Certiorari before the Supreme Court on August 4, 2014 on the aforementioned COA Resolution. As of December 31, 2018, the Management had not yet received the decision on the Petition filed before the Supreme Court.

8.2 There are no outstanding audit suspensions and charges as at the end of the year.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the eight audit recommendations embodied in the prior years' Annual Audit Reports, three were fully implemented, two were partially implemented and three were not implemented, of which two are reiterated in Part II of this Report. The other audit observations with the corresponding partially implemented and unimplemented recommendations are presented below:

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2017	
1. The absence of reconciliation of balances between the general ledger and Schedule of Inventories/Stock Cards resulted in discrepancy between the general ledger and stock cards balances of Inventories-Palay and Inventories-By-products of P282,082 and P4,966, respectively, as at December 31, 2017.	Not implemented.
We recommended that Management require the concerned MSI-ADC bookkeeper to reconcile the balances between the general ledger and Schedule of Inventories to ensure accuracy and completeness of recording of transaction in the accounting records, and prepare the necessary adjusting entries for fair presentation of the affected accounts in the financial statements.	There was still a net increase in the unreconciled discrepancy of the balances of Inventories account totaling P728,244 as at December 31, 2018.
2. The absence of a careful review of disbursement vouchers and its supporting documents before approval of payment resulted in erroneous payments to rice suppliers which were not collected as of December 31, 2017.	
Collect the amount of P63,302 from the concerned payee. In case of non-recovery, the responsible personnel shall be made liable for the loss of money.	Not implemented.
	Regular follow-up is being done to collect the amount of P63,302 from the concerned payee.
	Management will seek the assistance of the Land Bank branch that endorsed the payee to be an accredited supplier.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2016	
<p>3. Acquired assets amounting to P4.351 million remained undisposed for more than 18 years, thereby, causing delay in the recovery of the amount paid by MSI to LBP for the account of the LBP Assisted Farmer-Cooperatives.</p>	
<p>Work for the disposal of the acquired assets with book value of P4.351 million to recover the amount paid to LBP for the account of the Assisted-Farmer Cooperatives.</p>	<p>Partially implemented.</p>
	<p>Management requested the Corporate Affairs Department of LBP for the quarterly publication of MSI's ROPAs for sale in its newsletter.</p>
	<p>The ROPA located in South Cotabato was sold for P440,000 last June 2018, and will be paid in installment basis. The receivable balance amounting to P211,117.50 is payable in two amortizations and the last installment is due not later than December 31, 2019.</p>
	<p>On March 21, 2019, the sale for one lot located at Rodal Subdivision was approved, and down payment of P30,000 was made last March 14, 2019.</p>