

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017 (As Restated)	January 1, 2017 (As Restated)
ASSETS				
Current Assets				
Cash and cash equivalents	8	75,435,917	105,006,292	52,194,706
Investment in time deposits	9	1,504,520,890	1,246,719,768	1,569,666,641
Receivables - net	10	142,728,268	88,425,375	62,901,552
Prepayments	11	13,978,867	7,525,397	11,513,947
Total Current Assets		1,736,663,942	1,447,676,832	1,696,276,846
Non-Current Assets				
Investment in time deposits	9	552,982,500	479,808,000	-
Investment in stocks	12	3,500,000	600,000	600,000
Other receivables	13	7,631,860	8,147,810	9,657,610
Property, plant and equipment	14	48,507,294	38,334,435	34,421,007
Intangible assets	15	3,805,945	-	-
Deferred tax assets	32	340,375,316	92,643,699	66,390,838
Other non-current assets	16	15,517,158,599	12,496,223,526	10,249,457,926
Total Non-Current Assets		16,473,961,514	13,115,757,470	10,360,527,381
Total Assets		18,210,625,456	14,563,434,302	12,056,804,227
LIABILITIES				
Current Liabilities				
Financial liabilities	17	75,776,441	96,513,658	40,792,722
Inter-agency payables	18	49,077,678	21,007,631	45,937,190
Intra-agency payables	19	9,417	9,417	8,217
Other payables	21	427,579	209,313,061	210,862,951
Total Current Liabilities		125,291,115	326,843,767	297,601,080
Non-Current Liabilities				
Trust liabilities	20	15,670,321,511	12,541,129,137	10,291,078,619
Deferred credits/unearned income	22	307,750,610	255,569,088	190,411,955
Provisions	23	6,504,765	5,615,470	3,705,522
Deferred tax liabilities	32	206,521,256	150,905	-
Total Non-Current Liabilities		16,191,098,142	12,802,464,600	10,485,196,096
Total Liabilities		16,316,389,257	13,129,308,367	10,782,797,176
EQUITY				
Government equity	30	63,217,089	63,217,089	63,217,089
Retained earnings		1,828,119,110	1,370,908,846	1,210,789,962
Other comprehensive income	12	2,900,000	-	-
Total Equity		1,894,236,199	1,434,125,935	1,274,007,051
Total Liabilities and Equity		18,210,625,456	14,563,434,302	12,056,804,227

The notes on pages 10 to 59 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017 (As Restated)
Income			
Service income	24.1	787,050,163	651,536,218
Business income	24.2	126,010,870	104,818,960
Gains on forex	24.3	749,703,301	23,138,249
Other non-operating income		197,902	-
Total Income		1,662,962,236	779,493,427
Expenses			
Personnel services	26	64,998,489	47,933,661
Maintenance and other operating expenses	27	108,217,309	113,992,791
Financial expenses		40,942	172,443
Direct costs	25	110,200,881	96,642,171
Unrealized loss on foreign exchange	29	773,283,104	22,352,404
Non-cash expenses	28	7,050,642	2,926,566
Total Expenses		1,063,791,367	284,020,036
Profit before tax		599,170,869	495,473,391
Income tax expense	32.3	141,960,605	117,196,329
Profit after tax		457,210,264	378,277,062
Net assistance/subsidy(financial assistance/subsidy/contribution)		-	-
Net income		457,210,264	378,277,062
Other comprehensive income(loss) for the period	12	2,900,000	-
Total comprehensive income		460,110,264	378,277,062

The notes on pages 10 to 59 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	Retained Earnings	Other Comprehensive Income	Government Equity	Total
BALANCE AT JANUARY 1, 2017		1,314,707,077	-	63,217,089	1,377,924,166
ADJUSTMENTS:					
Add/(deduct):					
Changes in accounting policy	7	(103,917,115)	-	-	(103,917,115)
BALANCE AT JANUARY 1, 2017 (As Restated)	7	1,210,789,962	-	63,217,089	1,274,007,051
CHANGES IN EQUITY FOR 2017					
Add/(deduct):					
Comprehensive income		378,277,062	-	-	378,277,062
Dividends	21	(208,885,482)	-	-	(208,885,482)
Other adjustments	6	(9,272,696)	-	-	(9,272,696)
BALANCE AT DECEMBER 31, 2017 (As Restated)		1,370,908,846	-	63,217,089	1,434,125,935
CHANGES IN EQUITY FOR 2018					
Add/(deduct):					
Comprehensive income	12	457,210,264	2,900,000	-	460,110,264
BALANCE AT DECEMBER 31, 2018		1,828,119,110	2,900,000	63,217,089	1,894,236,199

The notes on pages 10 to 59 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	2018	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows		
Collection of income/revenue	812,040,716	702,977,490
Collection of receivables	188,638	5,260,517
Trust receipts	913,094	-
Receipt of interest earned	132,781	-
Other receipts	1,493,910	1,282,153
Total cash inflows	814,769,139	709,520,160
Adjustments	4,342,704	31,105,761
Adjusted cash inflows	819,111,843	740,625,921
Cash outflows		
Payment of expenses	211,186,829	171,756,725
Purchase of inventories	20,000	-
Grant of cash advances	6,873,368	7,724,603
Prepayments	3,058,797	-
Refund of deposits	1,338,367	-
Payments of accounts payable	30,499,542	19,280,750
Remittance of personnel benefit contributions	24,890,533	21,752,517
Other disbursements	151,732,662	149,107,137
Total cash outflows	429,600,098	369,621,732
Adjustments	42,206,692	30,322,204
Adjusted cash outflows	471,806,790	399,943,936
Net cash provided by operating activities	347,305,053	340,681,985
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows		
Proceeds from sale/disposal of PPE	135,352	-
Proceeds from matured investments	241,126,398	564,835,649
Total cash inflows	241,261,750	564,835,649
Adjustments	-	(152,375,334)
Adjusted cash inflows	241,261,750	412,460,315
Cash outflows		
Purchase of property, plant and equipment	6,976,596	5,924,702
Purchase of investments	405,383,415	483,970,641
Total cash outflows	412,360,011	489,895,343
Net cash used in investing activities	(71,098,261)	(77,435,028)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash outflows		
Payment of cash dividends	208,885,482	210,435,371
Total cash outflows	208,885,482	210,435,371
Net cash used in financing activities	(208,885,482)	(210,435,371)
Net decrease in cash and cash equivalents	(32,678,690)	52,811,586
Effects of exchange rate changes on cash and cash equivalents	3,108,314	-
CASH AND CASH EQUIVALENTS, JANUARY 1	105,006,292	52,194,706
CASH AND CASH EQUIVALENTS, DECEMBER 31	8	75,435,917
	75,435,917	105,006,292

The notes on pages 10 to 59 form part of these statements.

PHILIPPINE RETIREMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION/ENTITY PROFILE

The **PHILIPPINE RETIREMENT AUTHORITY** (PRA) is a Government Owned and Controlled Corporation (GOCC) created on July 4, 1985 pursuant to Executive Order (EO) No. 1037 and operates under the supervision of the Department of Tourism (DOT) as an attached agency through Republic Act (RA) No. 9593, also known as the Tourism Act of 2009. PRA is mandated by law to develop and promote the Philippines as a retirement haven as a means of accelerating the social and economic development of the country, strengthening its foreign exchange position at the same time providing further the best quality of life to the targeted retirees in a most attractive package. The purposes and objectives of the Authority are as follows:

- a. To develop and promote the country as a retirement haven;
- b. To adopt the integrated approach in the development or establishment of retirement communities in the country considering the eleven (11) basic needs of man;
- c. To provide the organizational framework to encourage foreign investment in the Authority's development projects;
- d. To provide effective supervision, regulation and control in the development and establishment of retirement communities in the country and in the organization, management and ownership of the Authority's projects; and
- e. To make optimum use of existing facilities and/or assets of the government and the private sector without sacrificing their competitiveness in the international and local markets.

PRA recommends to the Bureau of Immigration (BI), the issuance of Special Resident Retirees Visa (SRRV), a special non-immigrant visa with multiple/indefinite entry privileges, to qualified foreigners and former Filipino citizens who wish to make the Philippines their second home.

With the passage of Tourism Act of 2009, also known as RA No. 9593 on May 12, 2009, the supervision of PRA was transferred from the Department of Trade and Industry (DTI) to the DOT.

As at December 31, 2018, PRA is headed by General Manager and Chief Executive Officer, Atty. Bienvenido K. Chy, assisted by a Deputy General Manager and four (4) Department Managers. The Authority has a total of 156 manpower complement consisting of eighty-three (83) regular employees and seventy-three (73) job orders.

The Authority's registered office address is located at the 29th Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City, 1200 Philippines. PRA has four (4) satellite offices operating in major cities, i.e., Angeles (Subic/Clark), Baguio, Cebu and Davao. PRA can be reached through its website www.pra.gov.ph.

The financial statements of PRA were presented and approved for issuance by the Board of Trustees on April 4, 2019.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Statement of Compliance

The financial statements of PRA have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy. The term PFRS includes PFRS, Philippine Accounting Standards (PAS) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations.

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

An explanation of how the transition to PFRSs has affected the reported financial position, financial performance and cash flows of the Authority is provided in *Note 7*.

The financial statements have been prepared on a historical basis, unless stated otherwise.

2.2. Presentation and functional currency

The financial statements are presented in Philippine Peso (P), which is also the country's functional currency and all amounts are rounded off to the nearest peso, unless otherwise stated.

3. ADOPTION OF PHILIPPINE FINANCIAL REPORTING STANDARDS

Effective in CY 2018 that are Relevant to PRA

PFRS 1: First Time Adoption of PFRSs

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

PFRS 7: Financial Instruments: Disclosures

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

PFRS 9: Financial Instruments

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

PFRS 13: Fair Value Measurement

The financial instruments have been prepared on a historical basis, except for the financial assets at fair value through other comprehensive income (investment in stock) which is already measured at fair value which resulted in unrealized gain of P2.900 million (*Note 12*).

PAS 1: Presentation of Financial Statements

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

PAS 2: Inventories

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

In addition, pursuant to COA Circular Nos. 2015-007 and 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories specifically as semi-expendable assets before issuance to end-user. This resulted in an adjustment of P2,103,618 to Retained Earnings.

PAS 7: Statement of Cash Flows

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

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

The Authority conforms to this applicable standard and changes in accounting policies and correction of errors are generally accounted for retrospectively while changes in estimates are accounted for prospectively. Pursuant to COA Circular No. 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories before issuance to end-user resulting in adjustment of P2,103,618 in Retained Earnings.

PAS 10: Events after the Reporting Period

The Authority determines events after its reporting period whether it needs to adjust the financial statements along with the required disclosures or may only require disclosures. No reportable events after the reporting period require adjustments or disclosures.

PAS 12: Income Tax

The Authority computes current income tax based on effective rate of thirty (30%) per cent for Corporations.

PAS 16: Property, Plant and Equipment

PRA's depreciable properties are stated at cost less accumulated depreciation and amortization. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after the items of property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. When the property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of comprehensive income. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets based on acquisition cost less residual value of ten (10%) per cent of the acquisition cost.

In addition, pursuant to COA Circular Nos. 2015-007 and 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as semi-expendable assets or inventories before issuance to end-user that resulted in adjustment of P2,103,618 in Retained Earnings.

PAS 17: Leases

PRA entered into operating leases with Metropolitan Bank and Trust Company (MBTC) – Trust Banking Group for Citibank Tower 29th Floor quadrants A & D and with BDO Unibank, Inc. – Trust and Investment Group for quadrant C which are due to expire on December 31, 2019 and February 29, 2020, respectively

PAS 18: Revenue

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The main revenue of PRA arises from various fees received from foreign retiree-members or applicants to the retirement program pursuant to EO No. 1037 dated July 4, 1985. The Authority recommends to the Bureau of Immigration (BI) the issuance of the Special Resident Retirees Visa (SRRV), a special non-immigrant visa with multiple/indefinite entry privileges to qualified foreigners and former Filipino citizens who wish to make the Philippines their second home. The fees are discussed in Note 4.15 – Revenue.

The effect of transition from previous generally accepted accounting principles (GAAP) to PFRS is explained in *Note 7*.

PAS 19: Employee Benefits

The employees of PRA are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

PRA recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowances, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

PAS 21: The Effects of Changes in Foreign Exchange Rates

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- a. Foreign currency monetary items are translated using the closing rate;
- b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

The Authority translated its transactions and monetary items in foreign currencies for calendar years (CYs) 2018 and 2017 as required by the standard.

PAS 24: Related Party Disclosures

PRA related parties' transaction pertains to the remuneration of the Key Management Personnel discussed in *Note 31.2*.

PAS 36: Impairment of Assets

The Authority provides allowance in its financial asset which is normally in its Accounts Receivable and Other Receivable. It also reverses any amount of allowance provided that will be recovered.

PAS 37: Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are recognized when PRA has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic

benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

Contingent Liabilities

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

Contingent Assets

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

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

PAS 38: Intangible Assets

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

- a. Planning – accounted for similar to research and development cost and charged to expense of the period on which it is incurred.
- b. Application development – capitalized and amortized over estimated useful life to the extent that content is developed for purposes other than to advertise and promote the products and services of PRA.
- c. Content development are charged to expense.
- d. Operating the web site or application is also charged to expense.

IFRIC-22: Foreign Currency Transactions and Advance Consideration

Advanced payments in foreign currencies received by PRA from retiree-members are now recognized as deferred credits/unearned income and translated to Philippine peso

(PRA's functional currency) using the exchange rate at the initial recognition or the date such advance payments are received.

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

PRA continuous to evaluate all aspects of its lease arrangements and determines whether its accounting reflects its substance with weight given to those aspects and implications that have an economic effect.

SIC-32: Intangible Assets-Web Site Costs

The Authority concludes that a web site developed using internal expenditures, whether for internal or external access, is an internally generated intangible assets that is subject to and accounted for in accordance with PAS 38 – Intangible Assets.

Effective in CY 2018 that are not Relevant to PRA

The following list of PFRS/PAS/IFRIC/SIC are not applicable and were not considered in the preparation of the financial statements based on the nature of business and current operation of PRA.

- PFRS 2: Share-based Payment
- PFRS 3: Business Combinations
- PFRS 4: Insurance Contracts
- PFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- PFRS 6: Exploration for and Evaluation of Mineral Resources
- PFRS 8: Operating Segments
- PFRS 10: Consolidated Financial Statements
- PFRS 11: Joint Arrangements
- PFRS 12: Disclosure of Interests in Other Entities
- PFRS 13: Fair Value Measurement
- PFRS 14: Regulatory Deferral Accounts
- PFRS 15: Revenue from Contracts with Customers
- PFRS 17: Insurance Contracts
- PAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- PAS 23: Borrowing Costs
- PAS 26: Accounting and Reporting by Retirement Benefit Plans
- PAS 27: Separate Financial Statements
- PAS 28: Investments in Associates and Joint Ventures
- PAS 29: Financial Reporting in Hyperinflationary Economies
- PAS 33: Earnings per Share
- PAS 34: Interim Financial Reporting
- PAS 40: Investment Property
- PAS 41: Agriculture

Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretations Committee (SIC) interpretations of IFRS.

- IFRIC-1: Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC-2: Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC-5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC-6: Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
- IFRIC-7: Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC-10: Interim Financial Reporting and Impairment
- IFRIC-12: Service Concession Arrangements
- IFRIC-14: PAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC-16: Hedges of a Net Investment in a Foreign Operation
- IFRIC-19: Extinguishing Financial Liabilities with Equity Instruments
- IFRIC-20: Stripping Costs in the Production Phase of a Surface Mine
- IFRIC-21: Levies
- IFRIC-23: Uncertainty over Income Tax Treatment
- SIC-7: Introduction of the Euro
- SIC-10: Government Assistance-No Specific Relation to Operating Activities
- SIC-15: Operating Leases-Incentives
- SIC-25: Income Taxes-Changes in the Tax Status of an Entity or its Shareholders
- SIC-29: Service Concession Arrangements: Disclosures

Effective for reporting periods beginning on or after January 1, 2018

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRSs which PRA adopted effective for annual periods beginning on or after January 1, 2018.

- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions for First-time Adopters* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraphs E3-E37 of PFRS 1, because it has now served its intended purpose.
- *PFRS 9 (2014), Financial Instruments*. This standard replaces PAS 39, *Financial Instruments – Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013) versions. It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition and derecognition.

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

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

Based on PRA's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, the Authority has concluded that no material difference resulted in applying PFRS 9 as compared to PAS 39 in the measurement of all its financial assets and liabilities.

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

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	105,006,292	105,006,292
Receivables	Loans and receivables	Financial assets at amortized cost	88,425,375	88,425,375
Investments in time deposits	Held to Maturity investments	Financial assets at amortized cost	1,727,127,768	1,727,127,768
Investment in stocks	Available for sale	Financial assets at fair value through other comprehensive income	600,000	600,000

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

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

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

Effective in 2018 that are not relevant to PRA

The following list of PFRS/PAS/IFRIC were not applicable and considered in the preparation of the Financial Statements based on the nature of business and current operation of PRA.

- Amendment to PAS 40, *Investment Property – Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property occurred.
- Amendments to PFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- Amendments to PFRS 4, *Insurance Contracts – Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, *Financial Instruments* is applied before implementing PFRS 17, *Insurance Contracts* ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, *Financial Instruments: Recognition and Measurement* instead ('the deferral approach').
- Amendments to PAS 28, *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

New and Amended PFRSs Issued but Not Yet Effective

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

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

- PFRS 16, *Leases* – This standard will replace PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought on to lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

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

Annual Improvements to PFRSs 2015-2017 Cycle:

- Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements – Previously Held Interest in a Joint Operation* – The amendment to PFRS 3, *Business Combinations* clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.
- Amendments to PAS 12, *Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – Clarifies that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- Amendments to PAS 23, *Borrowing Costs – Borrowing Costs Eligible for Capitalization* – Clarifies that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

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

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

Deferred effectivity

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

The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance

(e.g., the point at which revenue is recognized, accounting for variable consideration, cost of fulfilling and obtaining a contract, etc.).

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Financial Instruments

The Authority recognizes a financial asset or a financial liability in its statement of financial position when, and only when, it becomes a party to the contractual provision of the instruments. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Authority’s financial assets.

All recognized financial assets are subsequently measured in their entirety at either amortized costs or fair value, depending on the classification of the financial assets.

Classification of financial assets

a. Cash and Cash Equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short term investments with an original maturity period of three months or less from dates of placements and that are subject to insignificant risk of changes in value (*Note 8*).

b. Accounts Receivable

Trade receivables are recognized at their face value less allowance for doubtful accounts. The allowance for doubtful accounts is provided for identified potentially uncollectible accounts using the following estimates:

Accounts aged three (3) years and above = 100%

As at December 31, 2018, PRA’s aging of receivable is presented below:

Age	2018	2017
Less than 90 days	14,970,898	10,693,609
91-365 days	12,943,474	9,267,794
Over one year	20,444,811	14,258,145
Over three years	26,668,914	26,361,482
Total	75,028,097	60,581,030

c. Investments in time deposits

Surplus peso and dollar cash funds of PRA are placed in Time Deposits, and High Yield (HY) Deposits in government banks, i.e. Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP), to generate additional interest income. US Dollar investments are revalued and recorded using the US Dollar rates conversion at the end of the year.

Investments classified as current are those items with original maturities of over 90 days and less than one year.

Investments classified as non-current are those with original maturities of more than one year and are not maturing in the next twelve months.

d. Investments in stocks

Equity instruments of another entity are considered as financial assets of the investor/holder in accordance with PAS 32.11. Furthermore, PAS 32.11 defines an equity instrument as any contract that evidences a residual interest in the assets after deducting its liabilities.

A proprietary club share entitles the shareholder to a residual interest in the net assets upon liquidation which justifies that such instrument is an equity instrument and thereby qualifies as a financial asset to be classified and accounted for as equity instruments.

A non-proprietary club share, though an equity instrument in its legal form, is not an equity instrument in the context of PAS 32. Furthermore, it does not entitle the holder to a contractual right to receive cash or another financial asset from the issuing corporation. The holder of the share, in substance, only paid for the privilege to enjoy the club facilities and services but not for ownership of the club. In such case, the holder must account for the share as an intangible asset under PAS 38.

Investments in stocks held by PRA are proprietary club shares. These shares were accounted for as Investment at Fair Value through Other Comprehensive Income under PFRS 9.

4.2 Fair Value Measurement

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

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

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

4.3 Impairment of Financial Assets

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

The Authority applies an ECL model to its financial assets measured at amortized cost but not to investment in equity instruments.

Loss allowances are measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Authority measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Authority has elected to measure loss allowances for receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than three (3) years past due.

The Authority considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realizing security (if any is held); or
- The financial asset is more than three (3) years past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Authority assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Below is the Authority's accounting policy on the impairment of financial assets applicable before January 1, 2018:

Retirees who had been delinquent in paying dues for the past three years were sent collection/demand letters or notices. After three (3) notices and the accounts are still unpaid, the retirees were placed on a watch list and published in three leading newspapers of general circulation. If after publication, the retirees still fail to update their accounts, their SRRVs shall be recommended to the BI for cancellation and the receivables shall be recommended to be written off from the books of accounts subject to the approval by the PRA Board of Trustees.

4.4 Derecognition of Financial Assets

The Authority derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognizes its retained interest in the asset and an associated liability for amount it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset other than in its entirety, the Authority allocates the previous carrying amount of the financial assets between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

4.5 Financial Liabilities and Equity Instruments

Classification as Debt or Equity

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

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Authority's financial statements when the PRA becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Authority's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Financial liabilities include accounts payable and due to officers and employees.

Classification and Subsequent Measurement

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

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method. Accounts payable, due to officers and employees, inter/intra-agency payables, and trust liabilities are classified as other financial liabilities.

4.6 Derecognition of Financial Liabilities

The Authority derecognizes financial liabilities when, and only, the Authority's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4.7 Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Authority are recognized at the proceeds received, net of direct issue costs.

4.8 Retained Earnings

Retained Earnings represent accumulated profit attributable to equity holders of the Authority after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

4.9 Inventories

Inventories are assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition as the Authority is already practicing in its recording. In addition, pursuant to COA Circular No. 2015-007 and 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories specifically as semi-expendable assets before issuance to end-user. This resulted in an adjustment of P2,103,618.26 to Retained Earnings. Inventories are carried at lower of cost or net realizable values.

4.10 Property, Plant and Equipment

PRA's depreciable properties are stated at cost less accumulated depreciation and amortization. The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and intended use. Expenditures incurred after the items of property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred, however, when significant parts of PPE are required to be replaced at intervals, the PRA recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets based on acquisition cost less residual value of ten (10%) per cent of the acquisition cost.

PRA uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

<u>Asset</u>	<u>Estimated Useful Life</u>
Office building	30 years
Office equipment	5 years
Furniture and fixtures	10 years
IT and software	5 years
Library books	7 years
Other equipment	10 years
Transport vehicles	7 years

A PPE's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

PRA de-recognizes items of PPE and /or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in the surplus or deficit when the asset is de-recognized).

In addition, pursuant to COA Circular Nos. 2015-007 and 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as semi-expendable assets or inventories before issuance to end-user that resulted in adjustment of P2,103,618 in Retained Earnings.

4.11 Intangible Assets

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably.

Intangible assets acquired separately are initially recognized at cost.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in PAS 23, *Borrowing Costs*.

Subsequent expenditure on an in-process research or development project acquired separately and recognized as an intangible asset is:

- i. Recognized as an expense when incurred if it is research expenditures;
- ii. Recognized as an expense when incurred if it is a development expenditure that does not satisfy the criteria for recognition as an intangible asset; and
- iii. Added to the carrying amount of the acquired in-process research or development project if it is a development expenditure that satisfies the recognition criteria for intangible assets.

Intangible assets acquired through non-exchange transactions

The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date these are acquired.

Internally generated intangible assets

Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

Recognition of an expense

Expenditure on an intangible item is recognized as expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria of an asset.

Subsequent measurement

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life are amortized over their useful lives.

The straight line method is adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

An intangible asset with indefinite useful life is not to be amortized.

Intangible assets with indefinite useful lives or an intangible assets not yet available for use are assessed for impairment annually and whenever there is an indication that the assets may be impaired.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is de-recognized.

Research and development costs

PRA recognizes as expense the research costs incurred. Development costs on an individual project are recognized as intangible assets when PRA can demonstrate:

- i. The technical feasibility of completing the asset so that the asset will be available for use or sale
- ii. Its intention to complete and its ability to use or sell the asset
- iii. How the asset will generate future economic benefits or service potential
- iv. The availability of resources to complete the asset
- v. The ability to measure reliably the expenditure during development
- vi. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses
- vii. Amortization of the asset begins when development is complete and the asset is available for use
- viii. It is amortization over the period of expected future benefit
- ix. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit

Web Site Costs

The Authority concludes that a web site developed using internal expenditures, whether for internal or external access, is an internally generated intangible asset that is subject to and accounted for in accordance with PAS 38 – *Intangible Assets*.

Internally generated intangible assets development costs are accounted for according to the stages of development as follows (*Note 15*):

- a. Planning – accounted for similar to research and development cost and charged to expense of the period on which it is incurred.
- b. Application development – capitalized and amortized over estimated useful life to the extent that content is developed for purposes other than to advertise and promote the products and services of PRA.
- c. Content development are charged to expense.
- d. Operating the web site or application is also charged to expense.

The estimated useful life used by the Authority in amortizing the intangible assets are as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Computer software	5 years
Website cost	5 years

4.12 Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

Deferred tax is provided using the balance sheet liability method on temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.13 Impairment of Non-financial Assets

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

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

Derecognition of Non-financial assets

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

4.14 Leases

PRA as a lessee.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) there is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Leases which do not transfer to the Authority substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized as expense on a straight-line basis over the lease term while the variable rent is recognized as an expense based on the terms of the lease contract.

PRA entered into operating leases with Metropolitan Bank and Trust Company (MBTC) – Trust Banking Group for Citibank Tower 29th Floor quadrants A & D and with BDO Unibank, Inc. – Trust and Investment Group for quadrant C which are due to expire on December 31, 2019 and February 29, 2020, respectively.

4.15 Revenue

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The main revenue of PRA arises from various fees received from foreign retiree-members or applicants to the retirement program pursuant to EO No. 1037 dated July 4, 1985. The Authority recommends to the BI the issuance of SRRV, a special non-immigrant visa with multiple/indefinite entry privileges to qualified foreigners and former Filipino citizens who wish to make the Philippines their second home. The fees are discussed below.

The effect of transition from previous generally accepted accounting principles (GAAP) to PFRS is explained in *Note 7*.

Service Income

Income is measured at the fair value of the consideration received or receivable. PRA recognizes income from various fees and services during the period to which it relates.

Income from operations pertains mainly to the following fees:

Annual PRA Fee (APF) pertains to the annual fee collected from active members at US\$ 360.00 for the principal retiree and two (2) qualified dependents and US\$100.00 for every additional dependent. Qualified dependents include the legal spouse and children below 21 years old.

Visa Application and Passport Fees (VAPF) are one-time processing/service fees paid by retiree-applicants as initial requirement for their SRRV applications in the program at US\$1,400.00 for the principal applicant and US\$300.00 for each qualified dependent applicants.

Management Fees (MF) are collected from private banks where retiree-members maintain their visa deposits computed at agreed rates based on the outstanding amount of deposits. Presently there are twenty-four (24) private banks maintaining visa deposits of retiree-members.

Visitorial Fees (VF) represent the annual fees due from retirees who have converted their requisite visa deposits into active investments, at the rates ranging from 0.5 per cent (1/2%) to 1.5 per cent (1 and ½%) of the total amount of visa deposit invested.

Since May 29, 2006, the Special Reduced Deposit (SRD) scheme was implemented, modifying the amount of required deposits as well as the visitorial fees for the conversion of deposits into active investments. The minimum qualifying deposit and visitorial fee rates applicable to those enrolled under the SRD Program for the principal retiree-applicant are as follows:

Minimum Qualifying Deposit:

Age	Original Visa Deposit	Reduced to
35 to 49 years old	US\$ 75,000.00	US\$ 50,000.00
50 years old and above	US\$ 50,000.00	US\$ 20,000.00

Visitorial Fees:

Amount of Visa Deposit Converted	Annual Visitorial Fees
US\$ 20,000.00	US\$ 500 or its peso equivalent
US\$ 50,000.00	US\$ 750 or its peso equivalent

Retirees who had been delinquent in paying VF for more than three (3) years were sent collection letters/notices. After three (3) notices and the retirees still failed to pay, they were placed on a watch list published in three leading newspapers of general circulation. If after publication, the retirees remain delinquent, their SRRVs shall be recommended to the BI for cancellation and the receivables shall be recommended to be written off from the books of accounts subject to the approval by the PRA Board of Trustees.

Harmonization Fees (HF) are amounts collected pursuant to Board Resolution No. 92, series of 2007, otherwise known as the harmonization of the old and new schemes of deposit. A management fee of 1.5 per cent (1 and ½%) per annum is levied by PRA on the retiree in consideration for the release of the amounts in excess of the required visa deposit under the modified SRD scheme.

Registration/ID Fees represent the annual fees of US\$10.00 collected from active retiree-member (principal plus dependents) for the issuance of PRA membership identification (ID) card.

Processing Fees such as cancellation, accreditation (including marketer and merchant partners), re-stamping, visa downgrading, clearances and other PRA services to retiree-members, are as follows:

Schedule of Processing Fees

Services	Rates (US\$)	Rate (Peso)
Cancellation (plus BI fee)	US\$ 10	P3,020 (BI fee)*
Visa downgrade	US\$ 10	
Re-stamping (plus BI fee)	US\$ 10	P1,010 (BI fee)
Accreditation – New Marketer	US\$ 300	
Accreditation – Renewal – Marketer	US\$ 150	
ID Issuance – Marketer (if accreditation validity is less than six (6) months)		P300
Accreditation – Retirement Facility		
Courier Fee (retiree is in the Philippines)		P150 (or actual)
Courier Fee (retiree is abroad)	US\$ 20 (or actual)	
Membership Certification	US\$ 5	

*Includes P500 for Bureau of Immigration (BI) express lane.

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine the interest income for each period.

Dividends or similar distributions are recognized when PRA's right to receive payments are established.

However, PRA has not received any dividends from its equity investment with the Baguio Country Club Corporation.

4.16 Employee Benefits

The employees of PRA are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

PRA recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowances, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

4.17 The Effects of Changes in Foreign Exchange Rates

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- a. Foreign currency monetary items are translated using the closing rate;
- b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

The Authority translated its transactions and monetary items in foreign currencies for CYs 2018 and 2017 as required by the standard.

4.18 Related Party Disclosures

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

PRA related parties' transaction pertains to the remuneration of the Key Management Personnel discussed in *Note 31.2*.

4.19 Provisions

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

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

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

4.20 Foreign Currency Transactions and Advance Consideration

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- a. Foreign currency monetary items are translated using the closing rate;
- b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

Advance payments in foreign currencies received by PRA from retiree-members are now recognized as deferred credits/unearned income and translated to Philippine peso (PRA's functional currency) using the exchange rate at the initial recognition or the date such advance payments are received.

4.21 Accounting Policies, Changes in Accounting Estimates and Errors

The Authority conforms to this applicable standard and changes in accounting policies and correction of errors are generally accounted for retrospectively while changes estimates are accounted for prospectively. Pursuant to COA Circular No. 2016-006, tangible assets with acquisition cost of P15,000 and below are classified as inventories before issuance to end-user resulting in adjustment of P2,103,618 in Retained Earnings.

4.22 Events after the Reporting Period

The Authority determines events after its reporting period whether it needs to adjust the financial statements along with the required disclosures or may only require disclosures. No reportable events after the reporting period require adjustments or disclosures.

4.23 Use of Judgment and Estimates

The preparation of financial statements requires the use of judgment and accounting estimates or assumptions that affect the amounts reported in the financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

5.1 Risk Management Framework

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

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

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

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

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

	Note	2018	2017
Financial Assets:			
Cash and cash equivalents	8	75,435,917	105,006,292
Receivables	10	142,728,268	88,425,375
Investment in time deposits	9	2,057,503,390	1,726,527,768
Investment in stocks	12	3,500,000	600,000
Restricted fund	16	15,512,878,746	12,492,011,607
Other receivables	13	7,631,860	8,147,810
		17,799,678,181	14,420,718,852

	Note	2018	2017
Financial Liabilities:			
Financial liabilities-current	17	75,776,441	96,513,658
Inter-agency payables	18	49,077,678	21,007,631
Intra-agency payables	19	9,417	9,417
Trust liabilities	20	15,670,321,511	12,541,129,137
Other payables	21	427,579	209,313,061
		15,795,612,626	12,867,972,904

5.2 Credit Risk

a. Credit Risk Exposure

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

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

The carrying amount of the financial assets recognized in the financial statements represents the corporation's maximum exposure to credit risk.

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

	Note	2018	2017
Financial Assets:			
Cash and cash equivalents	8	75,435,917	105,006,292
Receivables - gross	10	169,397,180	114,786,857
Investment in time deposits	9	2,057,503,390	1,726,527,768
Investment in stocks	12	3,500,000	600,000
Other receivables - gross	13	12,161,217	12,677,167
		2,317,997,704	1,959,598,084

b. Management of Credit Risk

The Board of Trustees has delegated primary responsibility for the management of credit risk and risk management to its Credit Committee which reports to the Board meeting, providing advice, guidance and specialized skills to business units to promote best practice throughout the Authority in the management of credit risk.

Also, the Authority has currently adopted that for significant proportion of sales of goods and services, advance payment from clients are received to mitigate the risk.

PRA maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Authority's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the corporation made different judgments or utilized different estimates.

PRA will request authority from COA for the write-off of receivable balance (and any related allowances for impairment losses) when Treasury Department determines that the receivables are finally uncollectible after exhausting its efforts to collect and legal action.

5.3 Liquidity Risk

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

a. Management of Liquidity Risk

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

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

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

b. Exposure to Liquidity Risk

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

5.4 Market Risks

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

Management of Market Risk

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

5.5 Operational Risks

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorization of transaction
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risk identified

- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

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

6. PRIOR PERIOD ADJUSTMENTS

6.1 Changes in Accounting Policies

- In accordance with COA Circular Nos. 2015-007 and 2016-006, tangible properties below the capitalization threshold of P15,000 shall be accounted as semi-expendable assets. Semi-expendable assets previously recognized as property and equipment were reclassified to expense, if were issued during the year and to retained earnings, if issued in prior years. In view thereof, a total of P2,103,618 was reclassified and booked as adjustment in the previous year's financial statements.
- On January 1, 2018, PRA adopted the *PAS 18* which replaced the existing modified accrual basis on revenue recognition. The standard necessitated the restatement of 2017 reported revenue and deferral of unearned income of P307,750,610; P255,569,068; and P190,411,956 as at December 31, 2018, 2017 and 2016, respectively. The amounts were already collected from 2015 through 2018 but not yet earned (*Note 22*):

6.2 Correction of Prior Period Error

An error in recording consumptions of consumable supplies in prior year has occurred which resulted in an overstatement of Inventory on hand as at December 31, 2018. Accordingly, the Inventory Held for Consumption was reduced by P8,912,825 with the amount charged to retained earnings.

7. EXPLANATION OF TRANSITION TO PFRSs

As stated in *Note 2.1*, these are the Authority's first financial statements prepared in accordance with PFRSs.

The accounting policies set out in *Note 4 - Summary of Significant Accounting Policies* have been applied in preparing the financial statements for the year ended December 31, 2018, the comparative information presented in these financial statements for the year ended December 31, 2017 and in the preparation of an opening PFRS statement of financial position as at January 1, 2017 (the Authority's date of transition).

In preparing its opening PFRS statement of financial position, the Authority has adjusted amounts reported previously in financial statements prepared in accordance with

generally accepted accounting principles (GAAP). An explanation on how the transition from previous generally accepted accounting principles to PFRS has affected PRA's financial position, financial performance and cash flow is set out in the following tables:

Reconciliation of Equity
At January 1, 2017 (Transition Date)

	Effects of transition to PFRS			PFRS	
	Previous GAAP	Reclassification	Recognition and Measurement		
ASSETS					ASSETS
Current assets					Current assets
Cash and cash equivalents	561,190,556	(508,995,850)	-	52,194,706	Cash and cash equivalents
Short-term investments	1,060,670,791	(1,060,670,791)	-	-	Investment in time deposits
		1,569,666,641	-	1,569,666,641	Receivables - net
Receivables - net	30,893,046	-	32,008,506	62,901,552	Prepayments
Prepayments	11,513,947	-	-	11,513,947	
Total current assets	1,664,268,340	-	32,008,506	1,696,276,846	Total current assets
Non-current assets					Non-current assets
Long-term investment	600,000	(600,000)	-	-	Investment in stocks
		600,000	-	600,000	Other receivable – net
Other receivables - net	-	9,657,610	-	9,657,610	
Cash deposits from retirees-restricted	10,245,195,368	(10,245,195,368)	-	-	Property, plant and equipment – net
Property, plant and equipment - net	34,202,851	1,960,156	(1,742,000)	34,421,007	Deferred tax assets
			66,390,838	66,390,838	Other non-current assets
Other non-current assets	5,374,811	10,244,083,115	-	10,249,457,926	
Total non-current assets	10,285,373,030	10,505,513	64,648,838	10,360,527,381	Total non-current assets
TOTAL ASSETS	11,949,641,370	10,505,513	96,657,344	12,056,804,227	TOTAL ASSETS
LIABILITIES					LIABILITIES
Current liabilities					Current liabilities
	-	40,792,722	-	40,792,722	Financial liabilities
Accounts payable	39,117,868	(39,117,868)	-	-	
Dividends payable	210,435,371	(210,435,371)	-	-	Due to officers and employees
Due to officers and employees	5,437,243	(5,437,243)	-	-	Inter-agency payables
Inter-agency payables	25,212,306	-	20,724,884	45,937,190	Intra-agency payables
	-	8,217	-	8,217	
Interest payable	56,015,922	(56,015,922)	-	-	Other payables
Other payables	435,797	210,427,154	-	210,862,951	
Total current liabilities	336,654,507	(59,778,311)	20,724,884	297,601,080	Total current liabilities
Non-current liabilities					Non-current liabilities
Deferred credits	5,401,691	-	185,010,264	190,411,955	Deferred credits/unearned income
	-	3,705,522	-	3,705,522	Provisions
Trust liabilities	10,229,661,006	61,417,613	-	10,291,078,619	Trust liabilities
Total non-current liabilities	10,235,062,697	65,123,135	185,010,264	10,485,196,096	Total non-current liabilities
TOTAL LIABILITIES	10,571,717,204	5,344,824	205,735,148	10,782,797,176	TOTAL LIABILITIES
EQUITY					EQUITY
Government equity	63,217,089	-	-	63,217,089	Government equity
Retained earnings	1,314,707,077	3,678,499	-	-	
Measurement adjustments:					
Service income-CY 2016			(190,411,956)		
Deferred tax assets			66,390,838		
Addl income tax-CY 2016			(20,724,884)		
Semi-expendable PPEs			(1,742,000)		
Interest income-CY2016			38,892,388	1,210,789,962	Retained Earnings
TOTAL EQUITY	1,377,924,166	3,678,499	(107,595,614)	1,274,007,051	TOTAL EQUITY
TOTAL LIABILITIES AND EQUITY	11,949,641,370	9,023,323	98,139,534	12,056,804,227	TOTAL LIABILITIES AND EQUITY

Reconciliation of Comprehensive Income
At December 31, 2017

	Previous GAAP	Effects of transition to PFRS		PFRS	
		Reclassification	Recognition and measurement		
Income from operation	693,717,527	233,993	(42,415,302)	651,536,218	Service income
		97,915,662	6,903,298	104,818,960	Business income
		23,138,249		23,138,249	Gains on forex
Total income	693,717,527	121,287,904	(35,512,004)	779,493,427	Total income
Operating expenses					Operating expenses
Direct costs	156,040,639	(59,398,468)	-	96,642,171	Direct costs
Personnel services	47,933,661	-	-	47,933,661	Personnel services
Maintenance and other operating expenses	55,676,309	58,316,482	-	113,992,791	Maintenance & other operating expenses
	-	172,443	-	172,443	Financial expenses
	-	22,352,404	-	22,352,404	Unrealized loss on forex
	-	2,926,566	-	2,926,566	Non-cash expenses
Total operating expense	259,650,609	24,369,427	-	284,020,036	Total operating expense
Income from operations	434,066,918	96,918,477	(35,512,004)	495,473,391	Income from operations
Other Income					Other Income
Interest income	97,915,662	(97,915,662)	-	-	
Realized gain/(loss) on forex	22,635,233	(22,635,233)	-	-	
Unrealized gain/(loss) on forex	(21,849,388)	21,849,388	-	-	
Miscellaneous income	233,993	(233,993)	-	-	
Total other income	98,935,500	(98,935,500)	-	-	Total other income
Profit before tax	533,002,418	(2,017,023)	(35,512,004)	495,473,391	Profit before tax
Income tax expense-CY 2017	137,080,843	(13,329,698)	19,547,140	143,298,285	Income tax expense-current
Income tax expense-CY 2016	20,724,884	(20,724,884)	(26,101,956)	(26,101,956)	Income tax expense-deferred
Income tax expense	157,805,727	(34,054,582)	(6,554,816)	117,196,329	Income tax expense
Net income	375,196,691	32,037,559	(28,957,188)	378,277,062	Net income
	-	-	-	-	Other comprehensive income
TOTAL COMPREHENSIVE INCOME	375,196,691	32,037,559	(28,957,188)	378,277,062	TOTAL COMPREHENSIVE INCOME

Reconciliation of Equity
At December 31, 2017

	Previous GAAP	Effects of transition to PFRS		PFRS	
		Reclassification	Recognition and measurement		
ASSETS					ASSETS
Current assets					Current assets
Cash and cash equivalents	257,381,626	(152,375,334)	-	105,006,292	Cash and cash equivalents
Short-term investments	1,094,342,687	(1,094,342,687)	-	-	Short-term investments
	-	1,246,719,768	-	1,246,719,768	Investment in time deposits
Receivables - net	25,592,311	-	62,833,064	88,425,375	Receivables - net
Prepayments	16,410,242	(8,884,845)	-	7,525,397	Prepayments
Total current assets	1,393,726,866	(8,883,098)	62,833,064	1,447,676,832	Total current assets
Non-current assets					Non-current assets
Long-term investment	480,408,000	(480,408,000)	-	-	
	-	-	479,808,000	479,808,000	Investment in time deposits
	-	-	600,000	600,000	Investment in stocks
Other receivables - net	-	8,147,810	-	8,147,810	Other receivable - net
Cash deposits from retirees-restricted	12,492,011,606	(12,492,011,606)	-	-	
Property, plant and equipment - net	40,438,053	-	(2,103,618)	38,334,435	Property, plant and equipment - net
	-	-	92,643,699	92,643,699	Deferred tax asset
Other non-current assets	5,021,783	12,491,201,743	-	12,496,223,526	Other non-current assets
Total non-current assets	13,017,879,442	(473,070,053)	570,948,081	13,115,757,470	Total non-current assets
TOTAL ASSETS	14,411,606,308	(481,953,151)	633,781,145	14,563,434,302	TOTAL ASSETS

	Previous GAAP	Effects of transition to PFRS		PFRS	
		Reclassification	Recognition and measurement		
LIABILITIES					LIABILITIES
Current liabilities					Current liabilities
Accounts payable	92,474,751	96,513,658 (92,474,751)	-	96,513,658	Financial liabilities
Dividends payable	187,598,346	(187,598,346)	-	-	
Due to officers and employees	9,654,377	(9,654,377)	-	-	Due to officers and employees
Inter-agency payables	14,790,189	-	6,217,442	21,007,631	Inter-agency payables
	-	9,417	-	9,417	Intra-agency payables
Interest payable	82,230,526	(82,230,526)	-	-	
Other payables	436,997	208,876,064	-	209,313,061	Other payables
Total current liabilities	387,185,186	(66,558,861)	6,217,442	326,843,767	Total current liabilities
Non-current liabilities					Non-current liabilities
Deferred credits	5,444,934	-	250,124,154	255,569,088	Deferred credits/unearned income
	-	5,615,470	-	5,615,470	Leave benefits provisions
	-	-	150,905	150,905	Deferred tax liabilities
Trust liabilities	12,453,453,677	87,675,460	-	12,541,129,137	Trust liabilities
Total non-current liabilities	12,458,898,611	93,290,930	250,275,059	12,802,464,600	Total non-current liabilities
TOTAL LIABILITIES	12,846,083,797	26,732,069	256,492,501	13,129,308,367	TOTAL LIABILITIES
EQUITY					EQUITY
Government equity	63,217,089	-	-	63,217,089	Government equity
Retained earnings	1,502,305,422				
Adjustments to:					
Error in inventories		(8,912,825)			
Unrecognized revenue			24,403,305		
Error in CY2017 dividends		(21,287,136)			
Unearned income			(255,569,088)		
Reclass of PPEs below P15,000			(2,103,618)		
Interest income			45,795,686		
Deferred tax asset			92,643,699		
Deferred tax liabilities			(6,368,347)		
Unrecorded receipt prior to CY 2016		1,748		1,370,908,846	Retained earnings
TOTAL EQUITY	1,565,522,511	(30,198,213)	(101,198,363)	1,434,125,935	TOTAL EQUITY
TOTAL LIABILITIES AND EQUITY	14,411,606,308	(3,466,144)	155,294,138	14,563,434,302	TOTAL LIABILITIES AND EQUITY

8. CASH AND CASH EQUIVALENTS

This account consists of:

	2018	2017
Cash on hand	1,472,807	1,014,135
Cash in bank-local currency	11,104,595	31,653,895
Cash in bank-foreign currency	62,858,515	72,338,262
	75,435,917	105,006,292

Cash on hand includes the amount of US\$10,684.88 and US\$9,519.92 in foreign currency that were translated to peso amounts at the year-end closing rates of P52.665:1US\$ and P49.98:1US\$ for CYs 2018 and 2017, respectively.

Cash in bank – local and foreign currency savings accounts are with Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) that earn interest at rates ranging from 0.15 to 0.25 per cent.

9. INVESTMENTS IN TIME DEPOSITS

This account consists of:

CURRENT	2018	2017
Foreign currency time deposits	1,255,105,223	978,625,030
Investment in high-yield deposits	249,415,667	268,094,738
	1,504,520,890	1,246,719,768

These items have maturities beyond 90 days but within the next twelve (12) months.

Current foreign currency time deposits with LBP and DBP amounts to US\$23,831,866 and US\$ 19,580,333 for CYs 2018 and 2017, respectively, converted to peso at year end rate of P52.665/US\$1 for CY 2018 and P49.98/US\$1 for CY 2017.

Current Investments in high-yield deposits in CY 2018 are deposits with LBP yielding interest rates of 1.125 per cent to two (2%) per cent including the amount of US\$1.6 million.

Included in the Foreign currency time deposits is the fund for interest payable to retirees amounting to US\$7,692,280.

NON-CURRENT	2018	2017
Foreign currency time deposits	421,320,000	399,840,000
Investment in high-yield deposits	131,662,500	79,968,000
	552,982,500	479,808,000

Non-current foreign currency time deposits in CY 2018 pertains to the time deposits with LBP amounting to US\$8 million, purchased on October 9, 2017 with term of three (3) years and interest rate of 2.5 per cent.

Non-current Investment in High Yield Deposits account in CY 2018 pertains to LBP Investment yielding interest rate of 2.125 per cent with face amount of US\$2.5 million maturing on November 4, 2020.

10. RECEIVABLES - NET

This account consists of:

	2018	2017
Accounts receivable	48,359,185	34,219,548
Due from officers and employees	67,314	508,625
Interest receivable	94,301,769	53,697,202
	142,728,268	88,425,375

10.1 Accounts receivable consists of:

	2018	2017
Visitorial fees (VF)	37,123,045	51,426,410
Allowance for impairment-VF	(26,668,912)	(26,361,482)
Visitorial fees - net	10,454,133	25,064,928
Management fees	13,808,902	26,022
Harmonization fees	686,591	1,002,541
Annual PRA fees	23,409,559	7,950,271
Accreditation fees	-	12,893
Registration/ID fees	-	162,893
	48,359,185	34,219,548

- a. **Visitorial fees (VF)** represent annual fees due from retirees who have converted their requisite visa deposits into active investments.

For the old membership scheme (up to SRRV#M-002161), the visitorial fee rate is half (1/2%) or 0.5 percent (see Section 16, EO No. 1037, Implementing Rules and Regulations (IRR) of Rule VIII-A) of the visa deposit amount converted in to active investment. From SRRV Nos. M-002162 up to M-006392, the VF is one (1%) per cent of the visa deposit amount converted to investment.

Effective May 28, 2006 (PRA Circular No. 01, series of 2006 approved under Board Resolution No. 24, series of 2006 on May 2, 2006, affirmed further by Resolution No. 38, s. 2007), PRA implemented the Special Reduced Deposit (SRD) scheme wherein the visa deposits requirement was reduced to US\$50,000 from US\$75,000 for applicants aged 35 to 49 and US\$20,000 from US\$50,000 for those 50 years old and above. The VF rate was also amended as follows:

Amount of visa deposit converted	Annual VF collected
US\$20,000	US\$500 or its peso equivalent
US\$50,000	US\$750 or its peso equivalent

- b. **Management fees (MF)** represent fees due from PRA accredited banks equivalent to 1.5 per cent of the outstanding daily balance of the retirees' deposits.

This excludes receivable from Bankwise, Inc. of P3,273,327.11 as of December 31, 2008 (*Note 13*), the collection of which had already been endorsed to the Office of the Government Corporate Counsel (OGCC) for legal actions considering that the bank is now under receivership by the Philippine Deposit Insurance Corporation (PDIC).

- c. **Harmonization fees (HF)** are amounts collected for the harmonization of the old and new schemes of deposit. A management fee of 1.5 per cent per annum is levied by PRA on the retiree in consideration for the release of the amounts in excess of the required deposit under the modified SRD Scheme.

- d. **Annual PRA fees (APF)** pertains to the amount collected from active members (who have not converted their requisite visa deposit into active investment), other than those under the SRRV "Courtesy" scheme, at US\$360.00 for principal retiree and two (2) qualified dependents and US\$100.00 for every additional dependent. Qualified dependents include the legal spouse and children below 21 years old.

11. PREPAYMENTS

This account consists of:

	2018	2017
Prepaid insurance	68,247	-
Advances to special disbursing officers	113,320	27,980
Creditable withholding tax at source	6,406,017	4,275,951
Inventories	2,071,171	418,899
Other prepayments	5,320,112	2,802,567
	13,978,867	7,525,397

Creditable withholding tax at source pertains to the creditable withholding taxes from the receipt of management fees collected from accredited private banks.

Other prepaid expenses include purchases as of December 31, 2018 of information technology related items and supplies from Procurement Service (PS) which were already paid but not yet delivered.

Inventories account consists of:

	2018	2017
Office supplies	202,982	-
IT supplies	915,785	335,349
Visa stickers	846,742	-
Accountable forms	8,862	-
Promotional supplies	96,800	83,550
	2,071,171	418,899

12. INVESTMENT IN STOCKS

Investment in Stocks account pertains to investments in proprietary shares of stock of the Baguio Country Club Corporation purchased on July 23, 2015 amounting to P600,000. The fair value of the club shares amounted to P3.500 million at December 31, 2018, resulting in unrealized gains of P2.900 million presented under other comprehensive income.

13. OTHER RECEIVABLES

This account consists of:

	2018	2017
COA disallowances	6,257,527	6,416,983
Due from officers and employees	1,812,558	1,832,558
Marketers accreditation	677,331	677,331
Other receivables	3,413,801	3,750,295
	12,161,217	12,677,167
Allowance for impairment	(4,529,357)	(4,529,357)
	7,631,860	8,147,810

COA disallowances pertained to disallowed payment of allowances and expenses which were issued with COA Order of Execution (COE).

Due from officers and employees represents unliquidated cash advances of active and retired/resigned PRA officers and employees.

Other receivables include the receivable from Bankwise, Inc. of P3,273,327.11 as of December 31, 2008 (*Note 10.1b*) for management fees, the collection of which had already been endorsed to the Office of the Corporate Counsel (OGCC) for legal actions considering that the bank is now under receivership by the PDIC.

Marketers accreditation fees are accruals for renewal of marketers' accreditation from CY 1996 to 2001. The total amount is provided with allowance for impairment.

14. PROPERTY, PLANT AND EQUIPMENT

The details of the account are shown below:

	Building and other structures	Machineries and equipment	Motor vehicles	Furniture and fixtures	Total
Cost:					
Balance, January 1, 2018	55,464,982	35,590,828	13,789,399	7,172,692	112,017,901
Additions	550,000	10,902,413	6,435,000	698,714	18,586,127
Disposals/adjustments	-	(8,535,157)	(1,694,675)	(2,872,362)	(13,102,194)
Balance, December 31, 2018	56,014,982	37,958,084	18,529,724	4,999,044	117,501,834
Accumulated depreciation:					
Balance, January 1, 2018	34,926,161	18,242,441	12,410,459	6,000,787	71,579,848
Additions	1,708,967	4,447,893	25,510	201,671	6,384,041
Disposals/adjustments	-	(5,709,316)	(1,525,207)	(1,734,826)	(8,969,349)
Balance, December 31, 2018	36,635,128	16,981,018	10,910,762	4,467,632	68,994,540
Net book value, Dec. 31, 2018	19,379,854	20,977,066	7,618,962	531,412	48,507,294
Net book value, Dec. 31, 2017	20,538,821	15,906,583	1,378,940	510,091	38,334,435

Building and other structures account pertains to the condominium unit at the Citibank Tower, Makati City owned by PRA with total area of 598.20 square meters including four (4) parking slots.

The disposals/adjustments pertain to issued semi-expendable assets with acquisition cost of P15,000 and below which were reclassified to current year expense and Retained Earnings account pursuant to COA Circular Nos. 2015-007 and 2016-006,

15. INTANGIBLE ASSETS

This account consists of acquisitions during the CY 2018 of the following:

	Computer software	Website	Total
Acquisition cost	2,796,000	1,335,000	4,131,000
Accumulated amortization	262,377	62,678	325,055
Net book value, Dec. 31, 2018	2,533,623	1,272,322	3,805,945

16. OTHER NON-CURRENT ASSETS

This account consists of:

	2018	2017
Restricted fund	15,512,878,746	12,492,011,606
Guaranty deposits	4,279,853	4,211,920
	15,517,158,599	12,496,223,526

Restricted Fund represents the required visa deposit from the retiree-members which are placed in time deposits with the DBP totaling US\$294,557,652.07 and US\$249,940,208.22 for CYS 2018 and 2017, respectively. These deposits are held in trust for the account of the retiree-members, hence, a trust liability account is recognized (*Note 20*). The visa deposits can be withdrawn and refunded to retiree-members only upon termination of membership from the PRA retirement program and cancellation of the Special Resident Retiree Visa (SRRV).

Guaranty Deposits pertain mainly to the security deposits paid to METROBANK-TRUST BANKING GROUP for the lease by PRA of office space at the Citibank Tower and other service providers such as the Philippine Long Distance Telephone Company (PLDT).

17. FINANCIAL LIABILITIES

This account consists of:

	2018	2017
Accounts payable	73,097,677	92,474,751
Due to officers and employees	2,678,764	4,038,906
	75,776,441	96,513,658

Accounts payable pertains mainly to certified and outstanding obligations of PRA to its suppliers and contractors.

Due to officers and employees include payroll related certified obligations of PRA to its employees.

18. INTER-AGENCY PAYABLES

This account consists of:

	2018	2017
Due to BIR	46,512,095	20,005,809
Due to GSIS	1,757,084	403,767
Due to Pag-IBIG fund	55,333	2,386
Due to PhilHealth	123,419	23,038
Due to NGAs	629,747	572,631
	49,077,678	21,007,631

Due to BIR represents the last quarter income tax and withholding taxes on compensation, VAT and EWT for the month of December.

Due to GSIS, PhilHealth and Pag-IBIG accounts are payroll items for membership contributions and loan payments by PRA regular employees.

Due to NGAs pertains to liability to the Bureau of Immigration for the processing of applications for Special Resident Retiree Visa.

19. INTRA-AGENCY PAYABLES

Due to other funds pertains to contributions to PRA employee's cooperative amounting to P9,417 as of December 31, 2018 and 2017.

20. TRUST LIABILITIES

This account consists of:

	2018	2017
Visa deposits of retiree-members	15,525,996,117	12,453,453,677
Interest payable	138,621,249	82,230,526
Customers' deposit payable	5,424,440	5,251,686
Guaranty/security deposits payable	279,705	193,248
	15,670,321,511	12,541,129,137

Visa deposit of retiree-members is the counter liability account of the Restricted Fund under *Note 16* amounting to US\$294,806,723.96 and US\$249,168,741.04 for CY 2018 and 2017, respectively.

Interest payable pertains to unclaimed share of retiree-members in the interest income earned from their visa deposits which are placed in time deposits with DBP amounting to US\$2,632,132.32 and US\$1,645,268.63 for CYs 2018 and 2017, respectively.

21. OTHER PAYABLES

This account consists of:

	2018	2017
Dividends payable	-	208,885,482
Others	427,579	427,579
	427,579	209,313,061

Other payables pertain to unclaimed refunds.

22. DEFERRED CREDITS/UNEARNED INCOME

This account consists of collections of the following fees that are applicable to future periods:

	2018	2017
Annual PRA fee	283,430,368	232,077,022
Visitorial fee	15,414,199	13,936,221
Registration/ID fee	7,266,996	7,882,365
Harmonization fee	1,609,676	1,635,252
Accreditation fee	29,371	38,228
	307,750,610	255,569,088

23. PROVISIONS

This account pertains mainly to money value of unused leave benefits of regular employees amounting to P6.505 million and P5.615 million as of December 31, 2018 and 2017, respectively.

24. REVENUES

24.1 Service Income

This account consists of:

	2018	2017
Annual PRA fee	311,902,895	218,775,562
Visa application fee	279,779,205	242,992,923
Management fee	158,417,075	152,365,342
Visitorial fee	21,404,002	20,071,246
Registration/ID fee	7,606,048	8,439,682
Processing fee	4,388,741	5,011,031
Harmonization fee	3,552,197	3,880,432
	787,050,163	651,536,218

Annual PRA Fee pertains to the annual fee collected from active members at US\$360.00 for the principal retiree and two (2) qualified dependents and US\$100.00 for every additional dependent.

Visa Application Fee is a one-time processing/service fee paid by retiree-applicants for their application in the program at US\$1,400.00 for principal applicant and US\$300.00 for dependents of principal applicants.

Management Fees are collected from private banks where retiree-members maintain their visa deposits computed at agreed rates based on the outstanding amount of deposits. Presently there are twenty-four (24) private banks maintaining visa deposits of retiree-members.

Visitorial Fee represents the annual fee due from retirees who have converted their requisite visa deposits into active investments, at the rates ranging from 0.5 per cent to 1.5 per cent of the visa amount converted into active investment.

Processing Fees are collected for other services rendered by PRA such as cancellation, accreditation (including marketer and merchant partners), re-stamping, visa downgrading, clearances and other PRA services to retiree-members.

24.2 Business Income

This account consists of:

	2018	2017
Interest income	125,968,850	104,818,960
Other business income	42,020	-
	126,010,870	104,818,960

24.3 Gains on Forex

This account consists of:

	2018	2017
Realized gains on forex	61,802,131	22,635,233
Unrealized gains on forex	687,901,170	503,016
	749,703,301	23,138,249

25. DIRECT COST

This account consists of expenses that are directly associated with the Service Income:

	2018	2017
Marketers' fee	68,849,964	60,651,766
Bureau of Immigration (BI) fee	35,319,450	30,579,023
Medical examination fee	4,966,000	4,892,900
Visa stickers and IDs	1,065,467	518,482
	110,200,881	96,642,171

Marketers' Fee pertains to payments made by PRA to its accredited marketers for enrolment services rendered to retiree-applicants at US\$500.00 per applicant. For CY 2018, PRA has 256 accredited marketers that were able to enroll a total of 2,514 principal retiree-applicants during the year and 214 in CY 2017 that were able to enroll a total of 2,274 principal retiree-applicants.

Bureau of Immigration (BI) fees pertain to amounts paid to the BI on the processing of the retiree-applicants' visa at P5,080.00 for every principal applicant or spouse and P4,080.00 for dependents aged 15 years old and below. This also includes the express lane fee at BI of P500.00 per application.

Medical examination fee pertains to payment by PRA to its accredited merchant partners for providing medical services to retiree-applicants in relation to their application to the SRRV Program of PRA.

26. PERSONNEL SERVICES

This account consists of:

	2018	2017
Salaries and wages	42,708,865	32,036,470
Other compensation	13,187,820	9,429,829
Benefits contribution	5,437,551	3,550,781
Other benefits	3,664,253	2,916,581
	64,998,489	47,933,661

26.1 Other Compensation

	2018	2017
Mid-year bonus	3,604,956	-
Year-end bonus	3,417,177	4,858,236
Personnel economic relief allowance	1,983,297	1,698,657
Representation allowance	1,246,199	972,000
Transportation allowance	915,068	805,908
Clothing/uniform allowance	500,000	380,000
Cash gift	463,500	344,000
Productivity incentive allowance	429,000	331,500
Overtime pay	373,623	-
Longevity pay	255,000	39,528
	13,187,820	9,429,829

26.2 Benefits contribution pertains to the PRA share of the following premiums:

	2018	2017
Retirement and life insurance premium	4,789,628	3,086,405
PhilHealth contribution	455,149	293,965
Pag-IBIG fund contribution	99,274	86,811
Employees compensation insurance premium	93,500	83,600
	5,437,551	3,550,781

Other Benefits pertain to terminal leave benefits of retired/resigned PRA regular employees.

27. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2018	2017
Professional services	19,506,611	16,105,850
Repairs and maintenance	6,328,458	1,371,714
Traveling expenses	4,186,243	6,933,251
Communication expenses	2,596,786	3,046,439
Supplies and materials	264,528	1,955,706
Utility expenses	1,234,115	651,595
Training and scholarship expenses	1,044,868	627,671
Taxes, insurance premiums and other fees	456,166	321,112
General services	405,694	411,575
Confidential, intelligence and extraordinary expenses	85,234	131,025
Other maintenance and operating expenses	72,108,606	82,436,853
	108,217,309	113,992,791

27.1 Professional services

	2018	2017
Auditing services	2,772,534	2,105,511
Consultancy services	1,361,501	1,568,780
Legal services	35,100	79,375
Other professional services	15,337,476	12,352,184
	19,506,611	16,105,850

Other professional services pertain to the salaries and wages including overtime pay of temporary workers under "job order" contracts.

27.2 Repairs and maintenance

	2018	2017
Machinery and equipment	4,722,036	48,115
Buildings and other structures	523,556	30,000
Furniture and fixtures	491,802	18,131
Transportation equipment	422,032	292,776
Other PPE	125,000	-
Leasehold improvement	44,032	982,692
	6,328,458	1,371,714

27.3 Travelling expenses

	2018	2017
Travelling expenses – local	2,528,838	1,357,451
Travelling expenses - foreign	1,657,405	5,575,800
	4,186,243	6,933,251

27.4 Communication expenses

	2018	2017
Internet subscription expenses	1,218,869	1,651,885
Telephone expenses	947,454	1,128,973
Postage and courier services	401,563	241,181
Cable, satellite, telegraph and radio expenses	28,900	24,400
	2,596,786	3,046,439

27.5 Supplies and materials

	2018	2017
Office supplies expenses	-	1,608,191
Fuel, oil and lubricants expenses	144,287	347,515
Accountable forms expenses	79,131	-
Drugs and medicines expenses	29,510	-
Textbooks and instructional materials expenses	400	-
Other supplies and materials expenses	11,200	-
	264,528	1,955,706

27.6 Utility expenses

	2018	2017
Electricity expenses	1,234,115	651,595

27.7 Training and scholarship expenses

	2018	2017
Training expenses	1,044,868	627,671

27.8 Taxes, insurance premiums and other fees

	2018	2017
Fidelity bond premiums	234,962	173,927
Taxes, duties and licenses	160,415	21,266
Insurance expenses	60,789	125,919
	456,166	321,112

27.9 General Services

	2018	2017
Security services	401,109	411,575
Others	4,585	-
	405,694	411,575

27.10 Confidential, intelligence and extraordinary expenses

	2018	2017
Extraordinary and miscellaneous expenses	85,234	131,025

27.11 Other maintenance and operating expenses

	2018	2017
Advertising, promotional and marketing expenses	41,432,565	53,705,713
Rent/lease expenses	17,407,499	16,925,905
Representation expenses	7,648,568	5,241,608
Membership dues and contributions to organizations	4,606,487	6,153,354
Major events and convention expenses	281,614	69,755
Transportation and delivery expenses	113,587	65,620
Printing and publication expenses	113,558	12,445
Subscription expenses	38,463	110,332
Other maintenance and operating expenses	466,265	152,121
	72,108,606	82,436,853

28. NON-CASH EXPENSES

	2018	2017
Depreciation		
Machinery and equipment	4,447,893	1,260,672
Building and other structures	1,708,967	1,480,292
Furniture and fixtures	201,671	185,602
Transportation equipment	25,510	-
	6,384,041	2,926,566
Amortization – Intangible assets	325,055	-
Impairment loss – Receivables-Visitorial fees	307,430	-
Loss on sale of PPE	34,116	-
	7,050,642	2,926,566

29. UNREALIZED LOSS ON FOREX

Unrealized loss on foreign exchange amounting to P773.283 million and P22.352 million at December 31, 2018 and 2017, respectively, resulted from translation of monetary assets and liabilities dominated in US Dollars to year-end rate of P52.665:US\$1 for CY 2018 and P49.98:US\$1 for CY 2017.

30. GOVERNMENT EQUITY

This account pertains to the amounts released by the National Government from 1985 until 1994 for the capitalization requirements of PRA for a total of Philippine Peso Sixty-three Million Two Hundred Seventeen Thousand Eighty-nine (P63,217,089.00) only.

31. RELATED PARTY TRANSACTIONS

31.1 Key Management's Personnel

The key management personnel of the PRA are the General Manager/Chief Executive Officer, the members of the governing board, and the members of the senior management group. The governing board consists of members appointed by the

President of the Philippines. The senior management group consists of the General Manager/Chief Executive Officer, his deputy, and four (4) department heads of administration and finance, marketing, servicing, and management services.

31.2 Key Management Personnel Compensation

The aggregate remuneration of members of the governing body and the number of members determined on a fulltime equivalent basis receiving remuneration within this category, are;

	2018	2017
Salaries and wages	7,302,932	4,277,734
Other compensation	1,056,641	940,896
Other personnel benefits	2,264,779	1,159,108
	10,624,352	6,377,738

The Chairman of the Board and all board members are not currently remunerated by PRA.

There is no reportable compensation provided to close family members of key management personnel during the period.

32. TAXES

32.1 Payment of Taxes and Exemption from VAT.

Section 12 the EO No. 1037, s. 1985, states the following:

“Section 12. Exemption from Fees, Duties and Taxes. The SYSTEM is hereby declared exempt from all income and other internal revenue taxes, tariff and customs duties and all other kinds of taxes, fees, charges and assessments levied by the government and its political subdivisions, agencies and instrumentalities. The President of the Philippines, upon recommendation of the Minister of Finance, may partially or entirely lift the exemptions herein granted, if he shall find that the SYSTEM is already self-sustaining and finally capable of paying such taxes, customs duties, and fees, charges and other assessments, after providing for the debt service requirements and the projected capital and operating expenditures of the SYSTEM.”

Accordingly, after reaching self-sustainability, PRA religiously remits quarterly and yearly with the Bureau of Internal Revenue (BIR) the income tax as required under the Corporate Income Tax Law, and monthly all taxes withheld by the Authority from its suppliers/stakeholders in compliance with the existing Revenue Regulations on the taxes withheld on Government Money Payments.

Value Added Tax (VAT)

The VAT law stated in the provisions of RA No. 8424, imposition of VAT payable to Government bodies may not qualify with the provisions stated thereat as it is not expressly stated for GOCCs and other government bodies on the imposition of remitting

VAT with the BIR. As compared with the provisions stated in the Section 12 of RA No. 9337, amending Section 114 of the National Internal Revenue Code of 1997, with subsection (C), the code expressly and specifically mandates GOCCs to which PRA belongs, to just withhold the final VAT of five (5%) per cent and remit the same to the BIR, to with:

“(C) Withholding of Value-Added Tax. – The Government or any of its political subdivisions, instrumentalities or agencies, including GOCCs shall, before making payment on account of each purchase of goods and services which are subject to the value-added tax imposed in Sections 106 and 108 of this Code, deduct and withhold a final value-added tax at the rate of five (5%) percent of the gross payment thereof...”.

32.2 Requirements under Revenue Regulations (RR) 15-2010

The taxes, duties and licenses fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

a. Withholding Taxes:

The details of total withholding taxes for the year ended December 31, 2018 are as follows:

	2018	2017
Creditable (Expanded)	13,019,153	10,620,791
Compensation and benefits	5,742,952	6,818,145
Creditable (VAT)	5,895,782	6,477,255
Total	24,657,887	23,916,191

b. Other Taxes & Licenses:

	2018
<u>Local</u>	
Community Tax	11,130
<u>National</u>	
BIR annual registration (Exempted)	-

32.3 Income Tax Expense

This account consists of provisions for income taxes for:

	2018	2017
Income tax expense - current	183,321,871	148,642,017
Income tax expense - deferred	(41,361,266)	(31,445,688)
Total	141,960,605	117,196,329

The details of statutory reconciliation are provided below:

	2018	2017
Income tax at statutory rate	179,751,261	148,642,017
Permanent differences:		
Interest income subject to final tax	(37,790,656)	(31,445,688)
Income tax expense	141,960,605	117,196,329

32.4 Deferred Tax Assets

This account consists of:

	2018	2017
Unrealized loss on FOREX	238,690,652	6,705,721
Unearned income	92,325,183	76,670,726
Allowance for impairment	9,359,481	9,267,252
Total	340,375,316	92,643,699

32.5 Deferred Tax Liabilities

This account consists of:

	2018	2017
Unrealized gain on FOREX	206,521,256	150,905

33. LEASE AGREEMENTS

The schedule of minimum lease payable of the Authority related to its lease agreements with MBTC and BDO-Trust and Investment Group is shown below:

	2018	2017
Rent payable due within:		
One (1) year	17,621,540	16,769,092
More than one (1) year up to five (5) years	2,415,540	19,297,863
Beyond five (5) years	-	-
Total	20,037,080	36,066,955