

**PHILIPPINE RETIREMENT AUTHORITY**  
**STATEMENTS OF FINANCIAL POSITION**  
As at December 31, 2019 and 2018  
(In Philippine Peso)

	Note	2019	2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	115,893,033	75,435,917
Investment in time deposits	6	2,329,414,503	1,504,520,890
Receivables - net	7	162,813,930	142,728,268
Inventories	8	2,762,886	2,071,171
Other current assets	9	9,143,119	11,907,696
<b>Total Current Assets</b>		<b>2,620,027,471</b>	<b>1,736,663,942</b>
<b>Non-Current Assets</b>			
Investment in time deposits	6	-	552,982,500
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,525,779	7,631,860
Property, plant and equipment	12	59,465,397	48,507,294
Intangible assets	13	3,089,175	3,805,945
Deferred tax assets	31	553,157,823	340,375,316
Other non-current assets	14	17,349,184,104	15,517,158,599
<b>Total Non-Current Assets</b>		<b>17,975,922,278</b>	<b>16,473,961,514</b>
<b>Total Assets</b>		<b>20,595,949,749</b>	<b>18,210,625,456</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial liabilities	15	87,056,479	75,776,441
Inter-agency payables	16	42,990,857	49,077,678
Intra-agency payables	17	9,417	9,417
Other payables	19	427,579	427,579
<b>Total Current Liabilities</b>		<b>130,484,332</b>	<b>125,291,115</b>
<b>Non-Current Liabilities</b>			
Trust liabilities	18	17,650,391,310	15,670,321,511
Deferred credits/unearned income	20	357,669,824	307,750,610
Provisions	21	6,929,021	6,504,765
Deferred tax liabilities	31	381,981,055	206,521,256
<b>Total Non-Current Liabilities</b>		<b>18,396,971,210</b>	<b>16,191,098,142</b>
<b>Total Liabilities</b>		<b>18,527,455,542</b>	<b>16,316,389,257</b>
<b>EQUITY</b>			
Government equity	22	63,217,089	63,217,089
Retained earnings	23	2,002,377,118	1,828,119,110
Other comprehensive income	10	2,900,000	2,900,000
<b>Total Equity</b>		<b>2,068,494,207</b>	<b>1,894,236,199</b>
<b>Total Liabilities and Equity</b>		<b>20,595,949,749</b>	<b>18,210,625,456</b>

The notes on pages 10 to 52 form part of these statements.

**PHILIPPINE RETIREMENT AUTHORITY**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2019 and 2018  
(In Philippine Peso)

	Note	2019	2018
<b>Income</b>			
Service income	24.1	896,581,600	787,050,163
Business income	24.2	142,496,653	126,010,870
Gains on forex	24.3	584,898,743	749,703,301
Other non-operating income	24.4	138,334	197,902
<b>Total Income</b>		<b>1,624,115,330</b>	<b>1,662,962,236</b>
<b>Expenses</b>			
Personnel services	26	70,408,310	64,998,489
Maintenance and other operating expenses	27	164,889,537	108,217,309
Financial expenses	29	65,045	40,942
Direct costs	25	139,851,089	110,200,881
Loss on foreign exchange (FOREX)	30	670,648,742	773,283,104
Non-cash expenses	28	21,112,863	7,050,642
<b>Total Expenses</b>		<b>1,066,975,586</b>	<b>1,063,791,367</b>
Profit before tax		557,139,744	599,170,869
Income tax expense	31.2	124,392,927	141,960,605
Profit after tax		432,746,817	457,210,264
Net assistance/subsidy(financial assistance/subsidy/contribution)		-	-
Net income		432,746,817	457,210,264
Other comprehensive income(loss) for the period	10	-	2,900,000
<b>Total Comprehensive Income</b>		<b>432,746,817</b>	<b>460,110,264</b>

The notes on pages 10 to 52 form part of these statements.

**PHILIPPINE RETIREMENT AUTHORITY**  
**STATEMENTS OF CHANGES IN EQUITY**  
For the years ended December 31, 2019 and 2018  
(In Philippine Peso)

		Retained Earnings	Other Comprehensive Income	Government Equity	Total
	Note	23	10	22	
<b>BALANCE AT JANUARY 1, 2018</b>		<b>1,370,908,846</b>	-	<b>63,217,089</b>	<b>1,434,125,935</b>
CHANGES IN EQUITY FOR 2018					
Add/(deduct):					
Comprehensive income	10	457,210,264	2,900,000	-	460,110,264
Dividends		-	-	-	-
Other adjustments		-	-	-	-
<b>BALANCE AT DECEMBER 31, 2018</b>		<b>1,828,119,110</b>	<b>2,900,000</b>	<b>63,217,089</b>	<b>1,894,236,199</b>
CHANGES IN EQUITY FOR 2019					
Add/(deduct):					
Comprehensive income		432,746,817	-	-	432,746,817
Dividends	23	(258,488,809)	-	-	(258,488,809)
<b>BALANCE AT DECEMBER 31, 2019</b>		<b>2,002,377,118</b>	<b>2,900,000</b>	<b>63,217,089</b>	<b>2,068,494,207</b>

The notes on pages 10 to 52 form part of these statements.

**PHILIPPINE RETIREMENT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2019 and 2018  
(In Philippine Peso)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash inflows</b>		
Collection of income/revenue	1,039,911,492	812,040,716
Collection of receivables	391,979	188,638
Trust receipts	203,550	913,094
Receipt of interest earned	-	132,781
Other receipts	1,455,290	1,493,910
<b>Total cash inflows</b>	<b>1,041,962,310</b>	<b>814,769,139</b>
Adjustments	12,696,393	4,342,704
<b>Adjusted cash inflows</b>	<b>1,054,658,703</b>	<b>819,111,843</b>
<b>Cash outflows</b>		
Payment of expenses	268,574,193	211,186,829
Purchase of inventories	20,000	20,000
Grant of cash advances	9,649,233	6,873,368
Prepayments	420,955	3,058,797
Refund of deposits	262,335	1,338,367
Payments of accounts payable	52,279,099	30,499,542
Remittance of personnel benefit contributions	53,689,240	24,890,533
Other disbursements	155,655,341	151,732,662
<b>Total cash outflows</b>	<b>540,550,396</b>	<b>429,600,098</b>
Adjustments	9,841,914	42,206,692
<b>Adjusted cash outflows</b>	<b>550,392,310</b>	<b>471,806,790</b>
<b>Net cash provided by (used in) operating activities</b>	<b>504,266,393</b>	<b>347,305,053</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Cash inflows</b>		
Proceeds from sale/disposal of property, plant and equipment	-	135,352
Proceeds from matured investments	632,260,478	241,126,398
<b>Total cash inflows</b>	<b>632,260,478</b>	<b>241,261,750</b>
Adjustments	-	-
<b>Adjusted cash inflows</b>	<b>632,260,478</b>	<b>241,261,750</b>
<b>Cash outflows</b>		
Purchase of property, plant and equipment	7,877,204	6,976,596
Purchase of investments	828,129,052	405,383,415
<b>Total cash outflows</b>	<b>836,006,256</b>	<b>412,360,011</b>
<b>Net cash provided by (used in) investing activities</b>	<b>(203,745,778)</b>	<b>(171,098,261)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Cash outflows</b>		
Payment of cash dividends	258,488,809	208,885,482
<b>Total cash outflows</b>	<b>258,488,809</b>	<b>208,885,482</b>
<b>Net cash provided by (used in) financing activities</b>	<b>(258,488,809)</b>	<b>(208,885,482)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>42,031,806</b>	<b>(32,678,690)</b>
Effects of exchange rate changes on cash and cash equivalents	(1,574,690)	3,108,315
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>5 75,435,917</b>	<b>105,006,292</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>5 115,893,033</b>	<b>75,435,917</b>

The notes on pages 10 to 52 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 of December 31, 2019, 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 29<sup>th</sup> 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](http://www.pra.gov.ph).

## **2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

### **2.1. Statement of Compliance**

The financial statements of the PRA have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs), which includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC).

### **2.2. Basis of Preparation**

The financial statements of the PRA have been prepared on a historical cost basis unless otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### **2.3. Presentation and Functional Currency**

The financial statements are presented in Philippine Peso, which is also the currency of the primary economic environment in which the PRA operates. All amounts are rounded off to the nearest peso, unless otherwise stated.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Presentation of Financial Statements**

The financial statements have been prepared in compliance with the PFRSs prescribed by the Commission on Audit through COA Circular No. 2017-004 dated December 13, 2017 and Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*.

### **3.2 Changes in accounting policies and disclosures**

#### ***a. New Standards effective for reporting periods beginning on or after January 1, 2019 relevant to the PRA***

- 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.

The application of this amendment had no material impact on the financial statements of the PRA.

**b. New Standards effective in 2019 that are not relevant or not applicable to the PRA**

- 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 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.
- 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*.
- 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.

*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.

This amendment is not applicable to the PRA.

- 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.

The application of this amendment had no material impact on the Authority's financial statements.

- 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.

This amendment is not applicable to the PRA.

**c. *New and amended standards and interpretations that have been issued but not yet effective as of December 31, 2019 (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 fulfilment 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.

The application of this amendment had no impact on the financial statements of PRA.

- 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.



The application of this amendment had no impact on the financial statements of the PRA.

- Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

The application of this amendment had no impact on the financial statements of the PRA.

- 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 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.

Management is currently assessing the impact of this new standard in its financial statements.

**d. Issued standards with 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 until further notice in December 2015 but earlier application is still permitted.

This standard is not applicable to the PRA.

### **3.3 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. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. For purposes of presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities, PAS 32, *Financial Instruments: Presentation* is applied to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and liabilities should be offset.

## **Financial Assets**

Financial assets are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of the PRA's financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

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, the 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.

## ***Classification and Subsequent Measurement***

The PRA classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). The classification of a financial instrument largely depends on the PRA's business model and its contractual cash flow characteristics.

## ***Financial Assets at Amortized Cost***

Financial assets shall be measured at amortized cost if the following conditions are both met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if their realization or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the PRA's receivables, short term investments and long term investments are classified under this category.

### ***Financial Assets at FVOCI – debt investments***

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the PRA may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the Statements of Financial Position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at December 31, 2019 and 2018, the PRA has no externally managed funds, hence, no financial assets have been classified under this category.

Below is the Corporation's accounting policy on the classification and subsequent measurement of financial assets applicable before January 1, 2018:

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 5*).

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%

The PRA's aging of receivable is presented below:

<b>Age</b>	<b>2019</b>	<b>2018</b>
Less than 90 days	12,948,094	14,970,898
91-365 days	19,355,469	12,943,474
Over one year	15,089,558	20,444,811
Over three years	39,788,131	26,668,914
<b>Total</b>	<b>87,181,252</b>	<b>75,028,097</b>

c. Investments in time deposits

Surplus peso and dollar cash funds of the 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 of P50.821 per US\$1.

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

Investments classified as non-current are those with original maturities of more than one year and are not maturing within 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 the PRA are proprietary club shares. These shares were accounted for as Investment at Fair Value through Other Comprehensive Income under PFRS 9.

### ***Impairment of Financial Assets***

Below is the PRA's accounting policy on 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 PRA 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.

PRA 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.

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

It 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 Corporation 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 PRA'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.

#### ***Derecognition of Financial Assets***

The PRA 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.

### ***Financial Liabilities and Equity Instruments***

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 PRA's financial statements when it 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.

#### ***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.

#### **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.

### **3.4 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.

### **3.5 Property, Plant and Equipment (PPE)**

The 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 the 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 per cent (10%) 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
Leasehold improvements	5 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 derecognizes 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.

Leasehold improvements are generally charged over a useful period of five (5) years or the term of the lease. Generally, the lease of the PRA at its main office in Citibank Tower Makati can be renewed every five (5) years.

### **3.6 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 asset 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

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

- 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 (see Note 13) to the extent that content is developed for purposes other than to advertise and promote the products and services of the PRA.
- c. Content developments are charged to expense.
- d. Operating the web site or application is also charged to expense.

The estimated useful life used by the PRA in amortizing the intangible assets is as follows:

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

### **3.7 Income Taxes**

Income tax expense represents the sum of the current tax and deferred tax expense.

#### **Current Tax**

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statements of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The PRA's current tax liability is calculated using 30% regular corporate income tax (RCIT) rate or 2% minimum corporate income tax rate, whichever is higher. 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**

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.

#### **Current and Deferred Tax for the Year**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

### **3.8 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. In case the 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 reversed, 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.

### **3.9 Leases**

#### The 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 fulfilment 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) There is a renewal option 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 fulfilment 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 PRA 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.

The PRA enters into operating leases with Metropolitan Bank and Trust Company (MBTC) – Trust Banking Group for Citibank Tower 29<sup>th</sup> Floor quadrants A & D which

would expire on December 31, 2019 and with BDO Unibank, Inc. – Trust and Investment Group for quadrant C which will expire on February 29, 2020. In compliance with PFRS 16, these contracts will be recorded as right of use and depreciated using straight-line method over the lease period upon renewal.

Below are the current lease contracts of the PRA (see Note 33):

	<b>2019</b>	<b>2018</b>
Within one (1) year	1,908,373	17,621,540
Within five (5) years	1,096,600	2,415,540
Five (5) years and up	-	-
	<b>3,004,973</b>	<b>20,037,080</b>

### **3.10 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.

### **3.11 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 the 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 – *Service Income*.

#### Service Income

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

Income from operations pertains mainly to the following fees (see Note 24.1):

**Annual PRA Fee (APF)** pertains to the annual fee collected from active members at US\$360 for the principal retiree and two (2) qualified dependents and US\$100 for every additional dependent. Qualified dependents include the legal spouse and children below 21 years old.

**Passport and Visa/Application Fees (PVAF)** are one-time processing/service fees paid by retiree-applicants as initial requirement for their SRRV applications in the program at US\$1,400 for the principal applicant and US\$300 for each qualified dependent applicant.

**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 and 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 the 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 collected from active retiree-member (principal plus dependents) for the issuance of the 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
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 the PRA's right to receive payments are established.

However, the PRA has not received any dividends from its investment of one proprietary membership share of the Baguio Country Club Corporation.

### 3.12 Employee Benefits

The employees of the 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.

### 3.13 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.

Advanced payments in foreign currencies received by the 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.

### **3.14 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 in CY 2019 and monetary items as at December 31, 2019 in foreign currencies as required by the standard.

### **3.15 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, trustees, 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.

The PRA related parties' transaction pertains to the remuneration of the Key Management Personnel as discussed in *Note 32.2*.

### **3.16 Provisions**

Provisions are recognized when the 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 the 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.

### **3.17 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.

### **3.18 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.

### **3.19 Use of Judgment and Estimates**

The preparation of financial statements requires the use of judgement 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.

The accounting policies have been consistently applied throughout the year presented.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

### 4.1 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 the 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.

The 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. The 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 Statements of Financial Position, as summarized in the following tables:

	Note	2019	2018
<b>Financial Assets:</b>			
Cash and cash equivalents	5	115,893,033	75,435,917
Investment in time deposits	6	2,329,414,503	2,057,503,390
Receivables, net	7	162,813,930	142,728,268
Investment in stocks	10	3,500,000	3,500,000
Other receivables	11	7,525,779	7,631,860
Restricted fund	14	17,344,761,592	15,512,878,746
		<b>19,963,908,837</b>	<b>17,799,678,181</b>

	Note	2019	2018
<b>Financial Liabilities:</b>			
Financial liabilities-current	15	87,056,479	75,776,441
Inter-agency payables	16	42,990,857	49,077,678
Intra-agency payables	17	9,417	9,417
Trust liabilities	18	17,650,391,310	15,670,321,511
Other payables	19	427,579	427,579
		<b>17,780,875,642</b>	<b>15,795,612,626</b>

## 4.2 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. The 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, the 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, 2019 and 2018, without considering the effects of credit risk mitigation techniques.

	Note	2019	2018
<b>Financial Assets:</b>			
Cash and cash equivalents	5	115,893,033	75,435,917
Investment in time deposits	6	2,329,414,503	2,057,503,390
Receivables – gross	7	202,602,061	169,397,180
Investment in stocks	10	3,500,000	3,500,000
Other receivables – gross	11	12,055,136	12,161,217
		<b>2,663,464,733</b>	<b>2,317,997,704</b>

### 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. The Credit Committee provides advice, guidance, and specialized skills to business units to promote best practices throughout the Authority in the management of credit risk.

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

The 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 behaviour 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.

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

### **4.3 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.

### **4.4 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.

### **4.5 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.

## 5. CASH AND CASH EQUIVALENTS

This account consists of:

	<b>2019</b>	<b>2018</b>
Cash on hand	1,493,423	1,472,807
Cash in bank-local currency	2,119,247	11,104,595
Cash in bank-foreign currency	112,280,363	62,858,515
	<b>115,893,033</b>	<b>75,435,917</b>

Cash on hand is composed of various accounts but mainly: (a) cash collecting officer – local currency which amounted to P725,604 and P0 for the years ended December 31, 2019 and 2018, respectively, and (b) cash collecting officer – foreign currency which amounted to \$14,448.39 and \$10,684.88 as of December 31, 2019 and 2018, respectively, and translated into peso amounts using the corresponding year-end closing rates of P50.821:\$1 and P52.665:\$1 to arrive at the year-end balances of P734,282 and 562,719.21.

Cash in bank – local currency consists of checking and savings accounts with the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP).

Cash in bank – foreign currency consists of savings account with the LBP and the DBP which amounted to \$2,209,330.06 and \$1,193,553.88 for the years ended December 31, 2019 and 2018, respectively, and translated into peso amounts using the corresponding year-end closing rates of P50.821:\$1 and P52.665:\$1.

Regular deposits accounts with Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) earn interest at rates ranging from 0.15 to 0.25 per cent.

## 6. INVESTMENTS IN TIME DEPOSITS

This account consists of:

	Current		Non-current	
	2019	2018	2019	2018
Foreign currency time deposits	2,134,109,636	1,255,105,223	-	421,320,000
Investment in high-yield deposits	195,304,867	249,415,667	-	131,662,500
	<b>2,329,414,503</b>	<b>1,504,520,890</b>	<b>-</b>	<b>552,982,500</b>

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

Current foreign currency time deposits with LBP and DBP amounted to US\$41,992,673 and US\$23,831,866 for CYs 2019 and 2018, respectively, and were converted to peso at year-end using the closing rates of P50.821:US\$1 for CY 2019 and P52.665:US\$1 for CY 2018.

Current Investments in high-yield deposits in CY 2019 are deposits with the LBP yielding interest rates of 1.125 per cent to two (2%) per cent.

Included in the foreign currency time deposits is the account Investments in Time Deposits – Restricted amounting to US\$2,751,228 and US\$7,692,280 as of December 31, 2019 and 2018, respectively. The Investment in Time Deposits - Restricted pertains to the portion of the accumulated interest earned on Visa Deposits (VDs) that are payable to retirees under Note 14 – Restricted Funds. This account including the Restricted Fund - Interest on Visa Deposits are contra accounts of the interest on VDs payable to retiree, as disclosed in Note 18.

Non-current foreign currency time deposits in CY 2018 pertain to 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. The time deposits will mature on October 08, 2020.

Non-current Investment in high yield deposits in CY 2018 pertained to LBP Investment yielding interest rate of 2.125 per cent with face amount of US\$2.5 million which will mature on November 04, 2020. Hence, these were reclassified to current account as of December 31, 2019.

## 7. RECEIVABLES - NET

This account consists of the following:

	2019	2018
Accounts receivable	47,393,121	48,359,185
Due from officers and employees	158,470	67,314
Interest receivable	115,262,339	94,301,769
	<b>162,813,930</b>	<b>142,728,268</b>

### 7.1 Accounts receivable consists of:

	2019	2018
Visitorial fees (VF)	40,331,149	37,123,045
Allowance for impairment-VF	(36,062,060)	(26,668,912)
<i>Visitorial fees – net</i>	<i>4,269,089</i>	<i>10,454,133</i>
Management fees	12,804,585	13,808,902
Harmonization fees	1,846,733	686,591
Allowance for impairment-HF	(466,587)	-
<i>Harmonization fees – net</i>	<i>1,380,146</i>	<i>686,591</i>
Annual PRA fees	32,198,784	23,409,559
Allowance for impairment-APF	(3,259,483)	-
<i>Annual PRA fees – net</i>	<i>28,939,301</i>	<i>23,409,559</i>
	<b>47,393,121</b>	<b>48,359,185</b>

- 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 per cent (Section 16, EO No. 1037 IRR of Rule VIII-A) of the visa deposit amount converted into active investment. From SRRV No. 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 by Board Resolution No. 24, series of 2006 on May 2, 2006 affirmed further by Res No. 38, s. 2007), the 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 (see Note 11), 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 the 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 for principal retiree and two (2) qualified dependents and US\$100 for every additional dependent. Qualified dependents include the legal spouse and children below 21 years old.

## 8. INVENTORIES

This account consists of the following:

	<b>2019</b>	<b>2018</b>
Office supplies inventory	1,113,980	1,118,767
Accountable forms, plates and stickers	326,986	855,604
Information material inventory	1,321,920	96,800
	<b>2,762,886</b>	<b>2,071,171</b>

The account office supplies inventory pertains to cost of office and information technology supplies purchased and/or received for use in operations.

Other inventory held for consumption pertains to Visa stickers, accountable forms and plates while the Information material inventory pertains to promotional supplies.

## 9. OTHER CURRENT ASSETS

This account consists of the following:

	<b>2019</b>	<b>2018</b>
Creditable withholding tax at source	6,585,330	6,406,017
Advances to special disbursing officers	1,547,414	113,320
Advances to officers and employees	199,139	-
Prepaid insurance	68,247	68,247
Other prepayments	742,989	5,320,112
	<b>9,143,119</b>	<b>11,907,696</b>

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

Advances to special disbursing officers (SDOs) pertain to cash advances granted to various disbursing officers in December 2019 which remained unliquidated. The increase was due to advances relating to PRA Yuletide celebration at the Head Office and corresponding travel to Satellite Offices which were granted towards the end of December 2019.

Other prepaid expenses include purchases of supplies from Procurement Service (PS) which were already paid but not yet delivered as of December 31, 2019.

## 10. INVESTMENT IN STOCKS

This account is an investment in proprietary shares of stock of the Baguio Country Club Authority. The proprietary shares were purchased on July 23, 2015 in the amount of P600,000. The fair value of the club shares amounted to P3.500 million as at December 31, 2019 and 2018, resulting in unrealized gains of P2.900 million presented under other comprehensive income recognized in CY 2018.

## 11. OTHER RECEIVABLES

This account consists of:

	<b>2019</b>	<b>2018</b>
COA disallowances	6,330,574	6,257,527
Due from officers and employees	1,633,624	1,812,558
Marketers accreditation	677,331	677,331
Other receivables	3,413,607	3,413,801
	<b>12,055,136</b>	<b>12,161,217</b>
Allowance for impairment	(4,529,357)	(4,529,357)
	<b>7,525,779</b>	<b>7,631,860</b>

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.

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

Other receivables include the receivable from Bankwise, Inc. of P3,273,327.11 as of December 31, 2008 for management fees (see *Note 7.1b*), the collection of which had already been endorsed to the OGCC for legal actions considering that the bank is now under receivership by the PDIC.

## 12. 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
<b>Cost:</b>					
Balance, January 1, 2019	56,014,982	37,958,085	18,529,724	4,999,043	117,501,834
Additions	12,332,903	5,353,275		548,800	18,234,978
(Disposals/adjustments)	-	-	-	-	-
<b>Balance, December 31, 2019</b>	<b>68,347,885</b>	<b>43,311,360</b>	<b>18,529,724</b>	<b>5,547,843</b>	<b>135,736,812</b>
<b>Accumulated depreciation:</b>					
Balance, January 1, 2019	36,635,128	16,981,018	10,910,762	4,467,632	68,994,540
Additions	1,966,301	4,518,373	750,827	41,374	7,276,875
(Disposals/adjustments)	-	-	-	-	-
<b>Balance, December 31, 2019</b>	<b>38,601,429</b>	<b>21,499,391</b>	<b>11,661,589</b>	<b>4,509,006</b>	<b>76,271,415</b>
<b>Net book value, Dec. 31, 2019</b>	<b>29,746,456</b>	<b>21,811,969</b>	<b>6,868,135</b>	<b>1,038,837</b>	<b>59,465,397</b>
<b>Net book value, Dec. 31, 2018</b>	<b>19,379,854</b>	<b>20,977,067</b>	<b>7,618,962</b>	<b>531,411</b>	<b>48,507,294</b>

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.

## 13. INTANGIBLE ASSETS

The details of the account are as follows:

	Computer software	Website	Total
<b>Cost:</b>			
Balance, January 1, 2019	2,796,000	1,335,000	4,131,000
Additions	-	-	-
(Disposals/adjustments)	-	-	-
<b>Balance, December 31, 2019</b>	<b>2,796,000</b>	<b>1,335,000</b>	<b>4,131,000</b>
<b>Accumulated depreciation:</b>			
Balance, January 1, 2019	262,377	62,678	325,055
Additions	479,073	237,697	716,770
(Disposals/adjustments)	-	-	-
<b>Balance, December 31, 2019</b>	<b>741,450</b>	<b>300,375</b>	<b>1,041,825</b>
<b>Net book value, Dec. 31, 2019</b>	<b>2,054,550</b>	<b>1,034,625</b>	<b>3,089,175</b>
<b>Net book value, Dec. 31, 2018</b>	<b>2,533,623</b>	<b>1,272,322</b>	<b>3,805,945</b>

This account consists of computer software and website acquired during CY 2018 and amortized over five (5) years using the straight-line method.

#### 14. OTHER NON-CURRENT ASSETS

This account consists of:

	2019	2018
Restricted fund	17,344,761,592	15,512,878,746
Guaranty deposits	4,422,512	4,279,853
	<b>17,349,184,104</b>	<b>15,517,158,599</b>

Restricted fund (RF) represents the required visa deposit from the retiree-members which are deposited with the DBP totalling US\$341,291,229.85 and US\$294,557,652.07 for CYs 2019 and 2018, and translated into peso amounts using the corresponding year-end closing rates of P50.821:US\$1 and P52.665:US\$1, respectively. Details are as follows:

	2019		2018	
	Amount (in USD)	Amount (In Peso)	Amount (In USD)	Amount (In Peso)
RF-Visa Deposits-Receiving	338,136,508.20	17,184,435,483	292,489,818.27	15,403,976,279
RF-Visa Deposits-Disbursing	2,706,434.82	137,543,724	2,067,833.80	108,902,467
RF-Interest on Visa Deposits	448,286.83	22,782,385	-	
Total Restricted Fund	<b>341,291,229.85</b>	<b>17,344,761,592</b>	<b>294,557,652.07</b>	<b>15,512,878,746</b>

RF-Visa Deposits-Receiving account pertains to visa deposit remittances to PRA by active members which are placed in Time Deposits (TDs) whereas the RF-Visa Deposits-Disbursing account pertains to the unreleased visa deposits of members who withdrew from the PRA program and had pre-terminated the corresponding TDs. The RF-Visa Deposits-Disbursing is exclusively for funds ready for payment to the retirees.

The RF-Visa Deposits-Receiving and Disbursing are the contra-accounts of Visa Deposits of Retiree-Members account under Note 18 – Trust Liabilities.

RF-Interest on Visa Deposits account pertains to the accumulated interests earned from the Restricted Funds placed in TDs. Part of the previous years' interest earned was placed to another short term TDs under the Investments in Time Deposits-Foreign Currency-Restricted account in Note 6 – Investments in Time Deposits. The RF-Interest on Visa Deposits is the contra-account of the Interest on Visa Deposits under Note 18 – Trust Liabilities.

Guaranty deposits pertain mainly to the security deposits paid to Metrobank-Trust Banking Group for the lease by the PRA of office space at the Citibank Tower and other service providers such as PLDT.

#### 15. FINANCIAL LIABILITIES

This account consists of the following:

	2019	2018
Accounts payable	86,038,718	73,097,677
Due to officers and employees	1,017,761	2,678,764
	<b>87,056,479</b>	<b>75,776,441</b>

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

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

## 16. INTER-AGENCY PAYABLES

This account consists of:

	<b>2019</b>	<b>2018</b>
Due to BIR	39,627,811	46,512,095
Due to GSIS	2,444,167	1,757,084
Due to Pag-IBIG Fund	162,238	55,333
Due to PhilHealth	110,373	123,419
Due to NGAs	646,268	629,747
	<b>42,990,857</b>	<b>49,077,678</b>

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 the PRA regular employees.

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

## 17. INTRA-AGENCY PAYABLES

Due to other funds pertains to contributions to the PRA employee's cooperative amounting to P9,417 as of December 31, 2019 and 2018.

## 18. TRUST LIABILITIES

This account consists of:

	<b>2019</b>	<b>2018</b>
Visa deposits of retiree-members	17,474,184,411	15,525,996,117
Interest on visa deposits	170,415,050	138,621,249
Customers' deposit payable	5,572,286	5,424,440
Guaranty/security deposits payable	219,563	279,705
	<b>17,650,391,310</b>	<b>15,670,321,511</b>

Visa deposit of retiree-members account pertains to the outstanding visa deposits of Retiree-Members which shall be payable to the Members/SRRV holders upon their withdrawal/early termination due to cancellation of membership from the PRA Program, or conversion of deposit into active investment.

This account is the counter liability account of the RF-Visa Deposits - Receiving and RF-Visa Deposits - Disbursing under Note 14 – Restricted Funds. This account amounted to US\$343,837,870.38 and US\$3,353,240.79 for the years ended December 31, 2019 and 2018, respectively, and was translated into peso amounts using the corresponding year-end closing rates of P50.821:US\$1 and P52.665:US\$1.

Interest on visa deposits pertains to the liability of the PRA to Members/SRRV holders for their accumulated interest share on the interest income earned from their visa deposits with the DBP.

Interest on visa deposits is the contra account of the Investments in Time Deposits-Foreign Currency-Restricted and RF-Interest on Visa Deposits accounts under Note 6 – Investment in Time Deposits and Note 14 – Restricted Funds, respectively. The account with balance of US\$3,353,240.79 and US\$2,632,132.33 as of December 31, 2019 and 2018, respectively, was translated to peso amounts using the corresponding year-end closing rates of P50.821:US\$1 and P52.665:US\$1.

## 19. OTHER PAYABLES

Other payables pertain to unclaimed refunds by clients and employees prior to CY 2014 amounting to P427,579 for CYs 2019 and 2018.

## 20. DEFERRED CREDITS/UNEARNED INCOME

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

	<b>2019</b>	<b>2018</b>
Annual PRA fee	335,799,378	283,430,368
Visitorial fee	13,086,570	15,414,199
Registration/ID fee	6,855,233	7,266,996
Harmonization fee	1,785,319	1,609,676
Accreditation fee	143,324	29,371
	<b>357,669,824</b>	<b>307,750,610</b>

Some retiree-members opt to pay the required fees in advance for maximum of three (3) years as allowed to avoid hassle of yearly SRRV ID renewal.

## 21. PROVISIONS

This account pertains mainly to money value of unused leave benefits of regular employees amounting to P6.929 million and P6.505 million as of December 31, 2019 and 2018.

## 22. GOVERNMENT EQUITY

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

## 23. RETAINED EARNINGS

	<b>Amount</b>
<b>Retained Earnings, December 31, 2018</b>	<b>1,828,119,110</b>
Dividend paid for CY 2018	(258,488,809)
Net income for 2019	432,746,817
<b>Retained earnings, December 31, 2019</b>	<b>2,002,377,118</b>

## 24. INCOME

This account consists of the following:

	<b>2019</b>	<b>2018</b>
Service income	896,581,600	787,050,163
Business income	142,496,653	126,010,870
Gains on forex	584,898,743	749,703,301
Other non-operating income	138,334	197,902
	<b>1,624,115,330</b>	<b>1,662,962,236</b>

### 24.1 Service Income

This account consists of:

	<b>2019</b>	<b>2018</b>
Annual PRA fee	353,732,220	311,902,895
Visa application fee	336,848,838	279,779,205
Management fee	160,872,597	158,417,075
Visitorial fee	26,706,460	21,404,002
Registration/ID fee	6,548,025	7,606,048
Processing fee	8,380,279	4,388,741
Harmonization fee	3,493,181	3,552,197
	<b>896,581,600</b>	<b>787,050,163</b>

Annual PRA fee pertains to the annual fee collected from active members at US\$360 for the principal retiree and two (2) qualified dependents and US\$100 for every additional dependent (in excess of two).

Visa Application fee is a one-time processing/service fee paid by retiree-applicants for their application in the program at US\$1,400 for principal applicant and inclusion fee of US\$300 for each dependent of the 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 nine (9) accredited private banks maintaining visa deposits of retiree-members and sixteen (16) previously accredited private banks that still have some retirees' visa deposits remaining with them and not yet transferred including that of Bankwise Inc. (see Note 11).

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 the 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:

	<b>2019</b>	<b>2018</b>
Interest income	142,496,653	125,968,850
Other business income	-	42,020
	<b>142,496,653</b>	<b>126,010,870</b>

## 24.3 Gains on Forex

This account consists of:

	<b>2019</b>	<b>2018</b>
Realized gains on forex	32,747	61,802,131
Unrealized gains on forex	584,865,996	687,901,170
	<b>584,898,743</b>	<b>749,703,301</b>

## 24.4 Other Non-operating Income

Other Non-operating income account pertains to Miscellaneous Income amounting to P138,334 and P197,902 in CYs 2019 and CY 2018, respectively.

## 25. DIRECT COST

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

	<b>2019</b>	<b>2018</b>
Marketers' fee	86,329,578	68,849,964
Bureau of Immigration (BI) fee	45,451,441	35,319,450
Medical examination fee	6,570,568	4,966,000
Visa stickers and IDs	1,499,502	1,065,467
	<b>139,851,089</b>	<b>110,200,881</b>

Marketers' fee refers to payments made by the PRA to its accredited marketers for enrolment services rendered to retiree-applicants at US\$500 per applicant. The PRA has 268 and 256 accredited marketers in CYs 2019 and 2018, respectively, that were



able to enroll a total of 3,276 principal retiree-applicants in CY 2019 and 2,514 principal retiree-applicants in CY 2018.

Bureau of Immigration (BI) fee pertains to amounts paid to the BI on the processing of the retiree-applicants' visa at P5,080 for every principal applicant or spouse and P4,080 for dependents aged 15 years old and below. This also includes the express lane fee at BI of P500 per application.

Medical examination fee pertains to payment by the 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 the following:

	<b>2019</b>	<b>2018</b>
Salaries and wages	46,243,531	42,708,865
Other compensation	15,356,215	13,187,820
Benefits contribution	5,852,080	5,437,551
Other benefits	2,956,484	3,664,253
	<b>70,408,310</b>	<b>64,998,489</b>

### 26.1 Other Compensation

	<b>2019</b>	<b>2018</b>
Year-end bonus	3,896,277	3,417,177
Mid-year bonus	3,623,197	3,604,956
Personnel economic relief allowance	1,945,817	1,983,297
Overtime pay	1,812,788	373,623
Representation allowance	1,110,272	1,246,199
Transportation allowance	866,864	915,068
Longevity pay	788,000	255,000
Clothing/uniform allowance	498,000	500,000
Cash gift	408,000	463,500
Productivity incentive allowance	407,000	429,000
	<b>15,356,215</b>	<b>13,187,820</b>

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

	<b>2019</b>	<b>2018</b>
Retirement and life insurance premium	5,205,203	4,789,628
PhilHealth contribution	454,352	455,149
Pag-IBIG fund contribution	95,700	99,274
Employees compensation insurance premium	96,825	93,500
	<b>5,852,080</b>	<b>5,437,551</b>

Other benefits account pertains to terminal leave benefits of retired/resigned PRA regular employees.

## 27. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2019	2018
Professional services	25,711,218	19,506,611
Repairs and maintenance	16,429,067	6,328,458
Traveling expenses	9,490,191	4,186,243
Communication expenses	5,778,935	2,596,786
Supplies and materials	2,335,793	264,528
Utility expenses	866,279	1,234,115
Training and scholarship expenses	423,039	1,044,868
Taxes, insurance premiums and other fees	457,045	456,166
General services	412,183	405,694
Confidential, intelligence and extraordinary expenses	67,758	85,234
Other maintenance and operating expenses	102,918,029	72,108,606
	<b>164,889,537</b>	<b>108,217,309</b>

### 27.1 Professional services

	2019	2018
Auditing services	3,158,485	2,772,534
Consultancy services	1,529,136	1,361,501
Legal services	944,360	35,100
Other professional services	20,079,237	15,337,476
	<b>25,711,218</b>	<b>19,506,611</b>

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

### 27.2 Repairs and maintenance

	2019	2018
Machinery and equipment	14,891,993	4,722,036
Buildings and other structures	233,627	523,556
Furniture and fixtures	988,080	491,802
Transportation equipment	283,297	422,032
Other PPE	-	125,000
Leasehold improvement	32,070	44,032
	<b>16,429,067</b>	<b>6,328,458</b>

### 27.3 Traveling expenses

	2019	2018
Traveling expenses – local	4,227,223	2,528,838
Traveling expenses – foreign	5,262,968	1,657,405
	<b>9,490,191</b>	<b>4,186,243</b>

Local marketing traveling expenses includes P941,745.24 and P1,751,708.93 for CYs 2019 and 2018, respectively.

## 27.4 Communication expenses

	2019	2018
Internet subscription expenses	4,036,580	1,218,869
Telephone expenses	1,242,471	947,453
Postage and courier services	475,684	401,563
Cable, satellite, telegraph and radio expenses	24,200	28,900
	<b>5,778,935</b>	<b>2,596,786</b>

## 27.5 Supplies and materials

	2019	2018
Office supplies expenses	1,629,573	-
Fuel, oil and lubricants expenses	584,588	144,287
Accountable forms expenses	88,346	79,131
Drugs and medicines expenses	33,286	29,510
Textbooks and instructional materials expenses	-	400
Other supplies and materials expenses	-	11,200
	<b>2,335,793</b>	<b>264,528</b>

## 27.6 Utility expenses

Utility expenses represent those incurred by the Authority for electric consumption during CYs 2019 and 2018 totalling to P866,279 and P1,234,115, respectively.

## 27.7 Training and scholarship expenses

Training and scholarship expenses pertain to various seminars and conferences attended by employees amounting P423,039 and P1,044,868 for CYs 2019 and 2018, respectively.

## 24.1 Taxes, insurance premiums and other fees

	2019	2018
Fidelity bond premiums	277,191	234,962
Taxes, duties and licenses	11,130	160,415
Insurance expenses	168,724	60,789
	<b>457,045</b>	<b>456,166</b>

## 27.8 General Services

	2019	2018
Security services	412,183	401,109
Others	-	4,585
	<b>412,183</b>	<b>405,694</b>

## 27.9 Confidential, intelligence and extraordinary expenses

Confidential, intelligence and extraordinary expenses consist of extraordinary and miscellaneous expenses incurred by the Authority in CYs 2019 and 2018 amounting to P67,758 and P85,234, respectively.

## 27.10 Other maintenance and operating expenses

	2019	2018
Advertising, promotional and marketing expenses	64,206,219	41,432,565
Rent/lease expenses	24,061,027	17,407,499
Representation expenses	8,597,078	7,648,568
Membership dues and contributions to organizations	5,150,681	4,606,487
Major events and convention expenses	388,552	281,614
Transportation and delivery expenses	156,694	113,587
Printing and publication expenses	311,261	113,558
Subscription expenses	46,517	38,463
Other maintenance and operating expenses	-	466,265
	<b>102,918,029</b>	<b>72,108,606</b>

## 28. NON-CASH EXPENSES

	2019	2018
Depreciation		
Machinery and equipment	4,518,373	4,447,893
Building and other structures	1,966,301	1,708,967
Furniture and fixtures	41,374	201,671
Transportation equipment	750,827	25,510
	<b>7,276,875</b>	<b>6,384,041</b>
Amortization-Intangible assets	716,770	325,055
Impairment loss-loans and receivables	13,119,218	307,430
Loss on sale of PPE	-	34,116
	<b>21,112,863</b>	<b>7,050,642</b>

## 29. FINANCIAL EXPENSES

Financial expenses pertain to bank charges amounting to P65,045 and P40,942 in CYs 2019 and CY 2018, respectively.

## 30. LOSS ON FOREIGN EXCHANGE (FOREX)

This account consists of:

	2019	2018
Realized loss on forex	24,412,153	-
Unrealized loss on forex	646,236,589	773,283,104
	<b>670,648,742</b>	<b>773,283,104</b>

Unrealized loss on foreign exchange amounting to P646.237 million and P773.283 million as at December 31, 2019 and 2018, resulted in the translation of monetary assets and liabilities denominated in US Dollars using the year-end closing rates of P50.821:US\$1 and P52.665:US\$1, respectively.

## 31. TAXES

### 31.1 Payment of Taxes and Exemption from VAT.

Section 12 of Executive Order 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, the 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 the PRA belongs, to just withhold the final VAT of five per cent (5%) and remit the same to the BIR, to wit:

*“(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%) per cent of the gross payment thereof...”*

### 31.2 Income Tax Expense

This account consists of provisions for income taxes for:

	<b>2019</b>	<b>2018</b>
Income tax expense – current	161,715,635	183,321,871
Income tax expense – deferred	(37,322,708)	(41,361,266)
<b>Total</b>	<b>124,392,927</b>	<b>141,960,605</b>

The details of statutory reconciliation are provided below:

	<b>2019</b>	<b>2018</b>
Income tax at statutory rate	167,141,923	179,751,261
Permanent differences:		
Interest income subject to final tax	(42,748,996)	(37,790,656)
<b>Income tax expense</b>	<b>124,392,927</b>	<b>141,960,605</b>

### 31.3 Deferred Tax Assets

This account consists of the following:

	<b>2019</b>	<b>2018</b>
Unrealized loss on FOREX	432,561,629	238,690,652
Unearned income	107,300,948	92,325,183
Allowance for impairment	13,295,246	9,359,481
<b>Total</b>	<b>553,157,823</b>	<b>340,375,316</b>

### 31.4 Deferred Tax Liabilities

This account consists of:

	<b>2019</b>	<b>2018</b>
Unrealized gain on forex	381,981,055	206,521,256
<b>Total</b>	<b>381,981,055</b>	<b>206,521,256</b>

## 32. RELATED PARTY TRANSACTIONS

### 32.1 Key Management's Personnel

The key management personnel of the PRA are the General Manager and 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 and Chief Executive Officer, his deputy, and four (4) department heads of administration and finance, marketing, servicing, and management services.

### 32.2 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:

	<b>2019</b>	<b>2018</b>
Salaries and wages	8,342,733	7,302,932
Other compensation	2,570,990	1,056,641
Other personnel benefits	67,749	2,264,779
	<b>10,981,472</b>	<b>10,624,352</b>

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

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

### 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:

	2019	2018
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	-	-
<b>Total</b>	<b>20,037,080</b>	<b>36,066,955</b>

### 34. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION (RR) NO. 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year:

#### a. Withholding Taxes:

The details of total withholding taxes for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Creditable (Expanded)	17,275,992	13,019,153
Compensation and benefits	5,913,627	5,742,952
Creditable (VAT)	6,652,604	5,895,782
<b>Total</b>	<b>29,842,223</b>	<b>24,657,887</b>

#### b. Other Taxes & Licenses:

	2019	2018
<u>Local</u>		
Community Tax	11,130	11,130
<u>National</u>		
BIR annual registration (Exempted)	-	-

### 35. LEGAL CASES

The Authority has a pending case which is Civil Case No. R-MKT-17-01543-CV vs. former employees for the cause of action to Recover Sum of Money. As of December 31, 2019, parties entered into compromise agreements except for one (1) employee whose case was parked pending re-entry from Canada.