**PHILIPPINE CHARITY SWEEPSTAKES OFFICE**

**NOTES TO FINANCIAL STATEMENTS**

(All amounts in Philippine Peso unless otherwise stated)

1. **GENERAL INFORMATION**

The Philippine Charity Sweepstakes Office (PCSO) was created under Philippine Legislature Act No. 4130 on October 30, 1934 and later amended by Republic Act (RA) No. 1169 in 1954 and Batas Pambansa Blg. 42 on September 24, 1979. The PCSO is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character.

In adherence to its main thrust of providing funds for health programs and other charities of national character, the PCSO is engaged in various social welfare and development programs. The main programs of the Agency are as follows: endowment fund/quality health care program; individual medical assistance program; community outreach program; ambulance donation program; national calamity and disaster program; and hospital renovation and improvement of health care facilities.

To support and sustain the foregoing mandated tasks, the PCSO holds and conducts charity sweepstakes, races, and lotteries and engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs. It also undertakes other activities to enhance and expand such fund-generating operations as well as strengthen the Agency’s fund-management capabilities.

The main products of the PCSO are the Sweepstakes and the Lottery games. The Sweepstakes game has steadily been evolving through the years to be able to conform with the changing demand of times, to keep the game interesting to all Sweepstakes enthusiasts, to attract more clients, and to maintain a variety of Sweepstakes products readily available in the market. Various game types have been introduced and other game innovations are constantly being conceptualized, particularly the traditional; and scratch and match variety**.**

1. **Lotto Games**

The PCSO offers five (5) 6-pick number games namely; Lotto 6/42, Mega Lotto 6/45, Super Lotto 6/49, Grand Lotto 6/55 and the Ultra Lotto 6/58. All of these number games can be played using the system play (systems 7 to 12), 5 Roll, and Lucky Pick.

The PCSO Board of Directors approved the implementation of the grant of one per cent (1%) share on Jackpot Winnings to Lotto Agents who had sold the Jackpot winning Ticket, not to exceed the amount of One Million Pesos (P1,000,000), to be taken from the Jackpot Prizes of the winners as per Board Resolution No. 223, Series of 2017 dated September 28, 2017.

The national games operated by the Corporation covers the areas of Luzon, Visayas and Mindanao. Each game has scheduled draw dates and being drawn at PCSO Main Office Draw Court in Mandaluyong City. The new Lotto Minimum Jackpot Prize (net of 1% Agent’s Share) was implemented effective October 15, 2017 as per Memorandum Order No. 2017-192. (See table below)

| **Type of Game** | **Days** | **Minimum Jackpot**  **Prize (before October 15, 2017)** | **Minimum Jackpot**  **Prize (on October 15, 2017)** |
| --- | --- | --- | --- |
| Lotto 6/42 | Tuesday/Thursday/Saturday | P 6 million | P 5.94 million |
| Mega Lotto 6/45 | Monday/Wednesday/Friday | P 9 million | P 8.91 million |
| Super Lotto 6/49 | Tuesday/Thursday/Sunday | P16 million | P15.84 million |
| Grand Lotto 6/55 | Monday/Wednesday/Saturday | P30 million | P 29.7 million |
| Ultra Lotto 6/58 | Tuesday/Friday/Sunday | P50 million | P 49.5 million |

The following are digit games being operated by the Corporation. Draws are being conducted at PCSO Main Office Draw Court in Mandaluyong City.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Type of Game** | **Frequency of draws** | **Coverage** | **Days** | **Minimum Guaranteed Amount**  **(per Php 10 play)** |
| 6 Digit | Once (every 9PM) | Luzon | Tuesday/ Thursday/ Saturday | P 150,000 |
| 4 Digit | Once (every 9PM) | Luzon, Visayas  and Mindanao | Monday/ Wednesday/ Friday | P 10,000 |
| 3 Digit (Suertres) | Three times (3x) daily (11AM-4PM-9PM) | Monday to Sunday | P 4,500 |
| 2 Digit (EZ2) | Three times (3x) daily (11AM-4PM-9PM) | Monday to Sunday | P 4,000 |

1. **Lotto Prize Fund and Revenue Allocation**

The PCSO Board of Directors approved the restructuring of the Lotto Prize Fund as per Board Resolution No. 295, Series of 2012 dated September 10, 2012 and the pari-mutuel prize system on all digit games with capping on the First Prize as per Board Resolution No. 320, Series of 2012 dated October 04, 2012.

The new Lotto price increase per bet and new prize structure were implemented effective May 17, 2013 as per Lotto Circular 2013-02.

|  |  |  |
| --- | --- | --- |
| **GAME** | **AMOUNT PER SHARE (BASED ON NUMBER OF WINNERS)** | |
| **5 WINNING NUMBERS** | **4 WINNING NUMBERS** |
| 6/42 | Up to P 25,000.00 | Up to P 1,000.00 |
| 6/45 | Up to P 50,000.00 | Up to P 1,500.00 |
| 6/49 | Up to P 70,000.00 | Up to P 2,000.00 |
| 6/55 | Up to P200,000.00 | Up to P 3,000.00 |
| 6/58 | Up to P280,000.00 | Up to P 3,800.00 |

Revenue Allocation for Lotto Games are as follows:

For PGMC Old and New Agents and POSC Agents

Allocation starting July 23, 2018

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **6/49** | **6/45** | **6/42** | **6/55** | **6/58** |
| **Gross Receipts** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Printing Cost | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Net Receipts** | **98.00%** | **98.00%** | **98.00%** | **98.00%** | **98.00%** |
|  |  |  |  |  |  |
| **I. Prize Fund (55% of NR)** | **53.90%** | **53.90%** | **53.90%** | **53.90%** | **53.90%** |
| Agent's Commission | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| Direct Cost - ELA | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% |
| Tax | 2.70% | 2.70% | 2.70% | 2.70% | 2.70% |
| Prize Margin/Reserved Fund | **8.01%** | **8.01%** | **8.01%** | **8.01%** | **8.01%** |
| Jackpot Prize Pool | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% |
| Lower Prizes | 12.00% | 12.00% | 12.00% | 12.00% | 12.00% |
| 2nd Prize with Capping | 5% up to | 5% up to | 5% up to | 5% up to | 5% up to |
|  | P 70,000.00 | P 50,000.00 | P 25,000.00 | P 200,000.00 | P 280,000.00 |
| 3rd Prize with Capping | 4% up to | 4% up to | 4% up to | 4% up to | 4% up to |
|  | P 2,000.00 | P 1,500.00 | P 1,000.00 | P 3,000.00 | P 3,800.00 |
| 4th Prize with Capping | P 20.00 | P 20.00 | P 20.00 | P 20.00 | P 20.00 |
|  |  |  |  |  |  |
| **II. Charity Fund (30% of NR)** | **29.40%** | **29.40%** | **29.40%** | **29.40%** | **29.40%** |
| Education | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Direct Cost - ELA | 2.02% | 2.02% | 2.02% | 2.02% | 2.02% |
| Financial Assistance | 26.38% | 26.38% | 26.38% | 26.38% | 26.38% |
|  |  |  |  |  |  |
| **III. Operating Fund (15% of NR)** | **14.70%** | **14.70%** | **14.70%** | **14.70%** | **14.70%** |
| Direct Cost - ELA | 0.96% | 0.96% | 0.96% | 0.96% | 0.96% |
| Net Operating Fund | 13.74% | 13.74% | 13.74% | 13.74% | 13.74% |

Revenue Allocation for 6-digit (6D), 4-digit (4D), 3-digit (3D), and 2-digit (2D) lotto games:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **EZ2** | **3D** | **4D** | **6D** |
| **Gross Receipts** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |
| Printing Cost | 2.00% | 2.00% | 2.00% | 2.00% |
| **Net Receipts** | **98.00%** | **98.00%** | **98.00%** | **98.00%** |
|  |  |  |  |  |
| **I. Prize Fund (55% of NR)** | **53.90%** | **53.90%** | **53.90%** | **53.90%** |
| Agent's Commission | 5.00% | 5.00% | 5.00% | 5.00% |
| Direct Cost - ELA | 3.69% | 3.69% | 3.69% | 3.69% |
| Tax | 2.70% | 2.70% | 2.70% | 2.70% |
| Prize Margin/Reserved Fund | 6.51% | 6.51% | 6.51% | 6.51% |
| Jackpot Prize Pool | 30.00% | 30.00% | 30.00% | 30.00% |
| Lower Prizes | 6.00% | 6.00% | 6.00% | 6.00% |
|  |  |  |  |  |
| **First Prize** | **30% up to** | **30% up to** | **30% up to** | **30% up to** |
|  | **P 4,000.00** | **P 4,500.00** | **P 10,000.00** | **P 150,000.00** |

1. **PCSO Lotto Express (KENO)**

The PCSO Lotto Express (Keno) started its selling and draw operations on March 6, 2006 with only six (6) outlets in the National Capital Region (NCR).

The Keno game can be played from choosing your numbers or Lucky Pick from Spot 1 to Spot 10, Hi or Low. Twenty (20) Keno winning numbers, out of eighty (80) numbers, are electronically drawn thru an application program called “Random Number Generator” which is being simultaneously displayed in every outlet nationwide. The Keno draw is being held every 10 minutes’ interval, from 7:00 am to 12:00 mn, from Monday to Sunday. With the base price of P10 only, jackpot prizes can be won ranging from a minimum of P25 (Spot 1) to as high as P1,000,000 (Spot 10).

Revenue Allocation of PCSO Lotto Express (KENO) is as follows:

|  |  |  |
| --- | --- | --- |
|  | **Revenue Allocation from Jan 1- Aug 22** | **BR NO. 0331 s. 2019** |
| **Retail Receipts (RR)** | **100.000%** | **100.000%** |
| Less: Printing Cost - PCSO | 2.000% | 2.000% |
| **Net Receipts** | **98.000%** | **98.000%** |
|  |  |  |
| **Net PCSO Share:** |  |  |
| **Prize Fund (55% of NR)** | **53.900%** | **53.900%** |
| Keno Prizes | 55.000% | 38.000% |
| 5% Prize Fund Tax | 2.695% | 2.695% |
| Direct Cost - ELA (16.80% of RR\*55%) | 9.240% | 0.000% |
| Agent's Commission | 5.000% | 5.000% |
| Prize Margin/Reserved Fund (may vary based on actual lower prizes) | -18.035% | 8.205% |
| **Sub - Total** | **53.900%** | **53.900%** |
| Prize Fund Deficit | - | - |
|  |  |  |
| **Charity Fund (30% of NR)** | **29.400%** | **29.400%** |
| Direct Cost - ELA (16.80% of RR\*30%) | 5.040% | 0.000% |
| Charity Fund Share | 24.360% | 29.400% |
| **Sub - Total** | **29.400%** | **29.400%** |
|  |  |  |
| **Operating Fund (15% of NR)** | **14.700%** | **14.700%** |
| Direct Cost - ELA (16.80% of RR\*15%) | 2.520% | 13.000% |
| Operating Fund Share | 12.180% | 1.700% |
| **Sub - Total** | **14.700%** | **14.700%** |
| \*KENO Revenue Allocation Board Resolution (BR) No. 0331, s. 2019 covered the period August 23, 2019 - present | | |

**D. Small Town Lottery**

In pursuit of its mandate and directives of the President of the Philippines, the PCSO Board of Directors conducted experimental test-run for the Small Town Lottery (STL) Operation, and thereafter evaluated its feasibility. Through Board Resolution No. 2433, Series of 2009, approved on December 18, 2009, the STL was declared as one of the regular products of the PCSO. Further, Board Resolution No. 019, Series of 2016, approved the expansion of STL operations in other provinces and cities.

The STL shall be implemented locally all over the country through Authorized Agent Corporations (AACs), taking into consideration the manpower of the PCSO and other relevant factors, as may be determined by the PCSO Board of Directors. It shall be the only legal and authorized numbers game nationwide, and the PCSO AACs are the only entities or persons authorized to operate and conduct the STL in their areas of operation.

The STL shall be implemented with the following objectives:

1. To raise additional funds for PCSO’s health programs, medical assistance and services, and charities of national character;
2. To provide funds to various local government units for their health programs and medical assistance and services;
3. To provide an alternative to illegal number games/operations and to aid their eradication (to stamp out jueteng and “masiao”); and
4. To provide additional opportunities for employment.

The STL area of Operation applied for by the AAC could be a province or a chartered city; provided, however, that in the case of Metro Manila, the STL area of Operation shall be in accordance with the following districts:

1. Southern District comprising of the Cities of Makati, Pateros, Taguig, Muntinlupa, Las Piñas, Paranaque, and Pasay;
2. Western District comprising the City of Manila only;
3. Central District comprising Quezon City only;
4. Northern District comprising the Cities of Caloocan, Malabon, Navotas and Valenzuela; and
5. Eastern District comprising the Cities of Pasig, Mandaluyong, San Juan and Marikina.

As of December 31, 2019, there were 59 operational STL AACs nationwide:

|  |  |
| --- | --- |
| National Capital Region | 1 |
| Northern and Central Luzon | 19 |
| Southern Tagalog and Bicol Region | 8 |
| Visayas Region | 11 |
| Mindanao Region | 20 |
| **Total** | **59** |

The STL Games are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Number Range** | **Description** | **Bet:Pay-Out** |
| Swer2 | 1 – 31 | A combination of two (2) numbers is drawn, one from each set within the number range. | P1:P400 |
| Swer3 | 0 – 9 | A combination of three (3) numbers is drawn, one from each set within the number range. | P1:P450 |
| Pares | 1 – 38 | A combination of two (2) numbers is drawn, one from each set within the number range. | P1:P800 |
| A player wins if his chosen combination matches that of the drawn combination in exact order. Other variations or games with designs and features which may hereafter be requested by the AAC and authorized by the PCSO Board of Directors. | | | |

The monthly share from STL sales is equivalent to 21.20% of the Gross Receipts for the STL Charity Fund and 0.70% for the Operating Fund. On September 6, 2018, under Board Resolution No. 0282, s. 2018, the PCSO’s monthly share for the STL Charity Fund increased to 21.20% on the third quarter of 2018 to extend allotment to Philippine National Police (PNP) Health Services and National Bureau of Investigation (NBI).

The revised STL Implementing Rules and Regulations (IRR) aims to improve the STL operations and cover the nationwide expansion of STL operations.

Hereunder are the changes in Revenue Allocation based on Board Resolution No. 511, series of 2014 and its revised version under Board Resolution No. D-0020, s. 2016. The PNP share was further revised on November 24, 2016 because of the PNP-intensified activities. Also under Board Resolution No. 0063, s. 2017, Congressional District and Provincial Government shares were revised on April 24, 2017. This was further amended in compliance with RA No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN law) and for the purpose of enhancing and strengthening cooperation in curbing the operation of illegal number games under Board Resolution No. 0282, s. 2018. In 2019, STL Circular No. 2019-003 was issued to be implemented upon the resumption of the STL operations which was suspended under the directive of President Rodrigo Duterte, as shown in the table below:

|  | **BR No.** | **BR No.** | **BR No.** | **BR No.** | **BR No.** | **STLC No.** |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **511** | **D-0020** | **D-0063** | **D-0063** | **282** | **003** |
|  | **s. 2014** | **s. 2016** | **s. 2016** | **s. 2017** | **s. 2018** | **s. 2019** |
| **I. Gross Sales** | 100.00% | 100.00% | 100.00% | 100.00% | 100.000% | 100.000% |
| Printing Cost-PCSO | 2.00% | 2.00% | 2.00% | 2.00% | 1.500%\* | 0.500%\* |
| Printing Cost-AAC |  |  |  |  | 0.500%\* | 1.500%\* |
| 2% EWT – Printing Cost - ASA |  |  |  |  |  | 0.030% |
| 5% VAT – Printing Cost - ASA |  |  |  |  |  | 0.075% |
| Net Printing Cost to AAC |  |  |  |  |  | 1.395% |
| Documentary Stamp Tax | 0.00% | 0.00% | 0.00% | 0.00% | 20.000% | 0.000% |
| **II. Net Sales** | 98.00% | 98.00% | 98.00% | 98.00% | 78.000% | 98.000% |
| **III. PRIZE FUND (55% of Net Sales)** | 53.90% | 53.90% | 53.90% | 53.90% | 42.900% | 53.900% |
| Agency Commission | 10.00% | 10.00% | 10.00% | 10.00% | 10.000% | 10.000% |
| Expanded withholding tax from  agency commission |  |  |  |  | 1.000% | 1.500% |
| VAT withholding from agency  commission |  |  |  |  |  | 0.500% |
| Net Agency Fee | 9.00% | 9.00% | 9.00% | 9.00% | 9.000% | 8.000% |
| Commission of Sales Force |  |  |  |  |  | 10.000% |
| Expanded withholding tax from  agency commission |  |  |  |  |  | 1.000% |
| Net of Sales Force Commission |  |  |  |  |  | 9.000% |
| BIR Tax (5% of PF) | 2.70% | 2.70% | 2.70% | 2.70% | 2.145% | 2.695% |
| Net Prize Fund | 41.21% | 41.21% | 41.21% | 41.21% | 30.755% | 31.205% |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **IV. CHARITY FUND (30% of Net Sales)** | 29.40% | 29.40% | 29.40% | 29.40% | 23.400% | 29.400% |
| City/Municipality | 7.00% | 3.00% | 3.00% | 3.00% | 0.500% | 0.500% |
| Congressional District | 1.00% | 0.25% | 0.25% | 0.75% | 0.000% | 0.000% |
| Provincial Government | 1.50% | 0.75% | 0.75% | 1.00% | 0.500% | 0.200% |
| National Bureau of Investigation | 0.00% | 0.00% | 0.00% | 0.00% | 0.200% | 0.200% |
| Philippine National Police | 3.00% | 2.50% | 2.50% | 2.50% | 0.000% | 0.000% |
| PNP Health Services | 0.00% | 0.00% | 0.00% | 0.00% | 1.000% | 0.500% |
| National Headquarters | 0.50% | 0.40% | 0.40% | 0.40% | 0.000% | 0.000% |
| Police Regional Office | 0.50% | 0.40% | 0.40% | 0.40% | 0.000% | 0.000% |
| Police Provincial Office | 1.00% | 0.60% | 0.50% | 0.50% | 0.000% | 0.000% |
| Local Police Station | 1.00% | 0.60% | 0.70% | 0.70% | 0.000% | 0.000% |
| CIDG-National | 0.20% | 0.20% | 0.20% | 0.20% | 0.000% | 0.000% |
| CIDG-Regional | 0.20% | 0.20% | 0.20% | 0.20% | 0.000% | 0.000% |
| CIDG-Provincial | 0.10% | 0.10% | 0.10% | 0.10% | 0.000% | 0.000% |
| Documentary Stamp Tax | 10.00% | 10.00% | 10.00% | 10.00% | 0.000% | 20.000% |
| Universal Health Care |  |  |  |  |  | 3.760% |
| PCSO Charity Fund | 6.90% | 12.90% | 12.90% | 12.15% | 21.200% | 4.240% |
| **V. OPERATING FUND (15% of Net Sales)** | 14.70% | 14.70% | 14.70% | 14.70% | 11.700% | 14.700% |
| Operating Fund Expenses (AAC) | 10.00% | 10.00% | 10.00% | 10.00% | 11.000% | 0.000% |
| Provision for STL Automation |  |  |  |  |  | 5.000% |
| Operating Fund Expenses (PCSO) | 4.70% | 4.70% | 4.70% | 4.70% | 0.700% | 9.700% |
| **TOTAL** | **98.00%** | **98.00%** | **98.00%** | **98.00%** | **78.000%** | **98.000%** |

\*Allocation of Printing Cost is subject to adjustment upon acquisition of STL system (automation)

1. **National Instant Sweepstakes Program**

The PCSO Board of Directors approved the introduction and operation of the Instant Sweepstakes project to generate continuing additional revenues for the Agency.

The National Instant Sweepstakes Program is being conducted with the Instant Sweepstakes Authorized Corporation/s (ISACs) under a non-exclusive all-in contracts involving production, distribution, marketing, advertising and selling of the said Instant Sweepstakes tickets nationwide on a considered sold basis.

Powerball Marketing and Logistics Corporation (PMLC) is the PCSO’s Instant Sweepstakes Authorized Corporation (ISAC) through Board Resolution No. 0226 (2017).

The PMLC guarantees Instant Sweepstakes sales of five billion pesos (P5,000,000,000.00) in five (5) years term. In the guaranteed sales of P5 billion, the PCSO is guaranteed a 13% share in the net proceeds of the sale of the Instant Sweepstakes tickets. In the event that there is an excess in the guaranteed sales, PCSO will receive its corresponding share in the excess sales.

At the reopening of the Instant Sweepstakes after the suspension of PCSO operations on July 26, 2019, the following changes are incorporated in the existing Guidelines of the Instant Sweepstakes:

1. PCSO shall have full control and supervision of the warehouse housing the Instant Sweepstakes tickets;
2. PCSO shall have possession of the access keys to the warehouse, and
3. PCSO shall be notified of the withdrawal and deliveries of the tickets to and from the warehouse.

The foregoing changes were done to strengthen PCSO’s control over the distribution of the game tickets.

1. **PERYAHAN**

The Peryahan game is on a one year experimental/test run period, approved by virtue of a Deed of Authority (DOA) dated April 2, 2014 executed by PCSO and Globaltech Mobile Online Corporation (Globaltech). It started its selling operation on June 28, 2014 until June 27, 2015. It has three games namely: “Hulog Holen”, “Throw Coins” and “Gulong ng Swertes.”

The games shall be conducted nationwide through authorized agents/retailers, but it will be implemented on a local government level, e.g. Autonomous Region, Region, Province, City, Municipality and Barangay. The draw will be held daily in all draw centers every 11am, 4pm and 9pm.

As of December 31, 2015, there were 15 Peryahan draw centers and more than 185 active agents nationwide.

The Board approved the request of Globaltech for an extension of the experimental/test run period three times in order to give them ample time to evaluate the feasibility of regularizing the said game. However, during the evaluation, it was established that on several times between July to December 2015, Globaltech failed to remit Peryahan Sales.

PCSO Board Resolution No. 51, series of 2016, terminated Globaltech’s DOA effective February 17, 2016. The game concluded its experimental/test run operation on February 24, 2016.

Order dated October 11, 2016 of the Regional Trial Court (RTC) of Pasig City, Branch 161 in Civil Case No. 75148 (Globaltech Online Corporation vs PCSO), suspending the termination of Globaltech’s DOA was deferred and instead referred to arbitration.

On October 29, 2019, the Peryahan Games resumed operation following the decision of the Court of Appeals and the Arbitration Proceeding reached by PCSO and Globaltech.

Eleven (11) of the original fifteen (15) Peryahan draw centers were found to be compliant after having passed the PCSO’s initial technical evaluation. Peryahan will be played at the following areas with no STL operations: Cebu City, NCR-Quezon City or Central District, Province of Rizal, Province of Pangasinan, Province of Oriental Mindoro, Province of Bohol, Province of Palawan, Puerto Princesa City, Zamboanga City and Province of Zamboanga del Sur.

On July 26, 2019, President Rodrigo Duterte, declared the suspension of all PCSO games due to alleged “massive corruption”. Presidential Spokesperson Salvador Panelo said that the decision was reached by President Duterte as a report of a “grand conspiracy among the major players and enforcers of these government-sanctioned gaming activities and enterprises to cheat the government of its rightful shares, depriving therefore the masses of our people of receiving basic services needed by them."

It was established after a thorough review of lotto games process that the integrity of the games is intact and the suspension was lifted on July 30, 2019. The STL operation on the other hand was put into rigorous specific condition before the suspension was lifted on August 22, 2019. The Keno and National Instant Sweepstakes Program was the last to be back on operation on September 28, 2019.

**Personnel Complement**

Shown below is the number of PCSO employees as of December 31, 2019:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Head Office** | **Branch Offices** | **Total** |
| Permanent Employees | 617 | 441 | 1,058 |
| Co -Terminous | 53 | 4 | 57 |
| Confidential Agents | 200 | - | 200 |
| Consultants | 64 | - | 64 |
| Job Order | 163 | 149 | 312 |
| **Total** | **1,097** | **594** | **1,691** |

The Board of Directors is composed of: Anselmo Simeon P. Pinili, the Chairman who assumed office on January 17, 2018; Royina M. Garma, the General Manager and Vice-Chairman, who was appointed and assumed office on July 15, 2019; the members of the Board are Marlon U. Balite, Sandra M. Cam and Ramon Ike V. Señeres. Atty. Wesley A. Barayuga is the Board Secretary.

The PCSO’s registered office, which is also its principal place of business, is located at Sun Plaza Building,1507 Shaw Boulevard corner Princeton St., Mandaluyong City 1552. It has five branch operations departments, namely: National Capital Region (NCR), Northern and Central Luzon (NCL), Southern Tagalog and Bicol Region (STBR), Visayas, and Mindanao.

Below is the composition of the 68 Branch Offices as of December 31, 2019:

|  |  |
| --- | --- |
| Northern and Central Luzon | Apayao, Aurora, Bataan, Benguet, Bulacan, Cagayan, Ilocos Norte, Ilocos Sur, Ifugao, Isabela, Kalinga, La Union, Mountain Province, Nueva Ecija, Nueva Viscaya, Pampanga, Pangasinan, Tarlac and Zambales |
| Southern Tagalog and Bicol Region | Albay, Batangas, Camarines Norte, Camarines Sur, Catanduanes, Cavite, Laguna, Marinduque, Masbate, Occidental Mindoro, Oriental Mindoro, Palawan, Quezon, Rizal, Romblon and Sorsogon |
| Visayas  Mindanao | Aklan, Antique, Bohol, Capiz, Cebu, Guimaras, Iloilo, Leyte, Negros Occidental, Negros Oriental, Northern Samar, Southern Leyte, Western Samar, Biliran, and Eastern Samar  Agusan del Norte, Agusan del Sur, Bukidnon, Davao del Norte, Davao del Sur, Davao Oriental, Lanao Del Norte, Maguindanao, Misamis Occidental, Misamis Oriental, North Cotabato, South Cotabato, Sultan Kudarat, Surigao del Norte, Surigao del Sur, Zamboanga del Norte, Zamboanga del Sur, and Zamboanga Sibugay. |

The financial statements of the PCSO for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on July 7, 2020.

1. **FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION**
2. **Statement of Compliance with Philippine Financial Reporting Standards (PFRSs)**

The financial statements of the PCSO have been prepared in accordance with PFRSs, which includes all applicable PFRSs, Philippine Accounting Standards (PAS), 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).

1. **Basis of Preparation**

The financial statements of the PCSO have been prepared on the 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.

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 PCSO takes into account the characteristics of the asset or liability if market participants 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 are 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.

1. **Functional and Presentation Currency**

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the PCSO operates. All amounts are rounded to the nearest peso, except when otherwise indicated.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
2. **New Amendments and Interpretations to Existing Standards**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of certain new PFRS and amendments to existing PFRS and PAS which became effective for current period on or after January 1, 2019. Unless otherwise stated, the adoption of the following new standards, interpretations and amendment does not have a material effect on the financial statements:

Effective in CY 2019

**STANDARDS**

* PFRS 15, *Revenue from Contracts with Customers*

The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g., the point at which revenue is recognized, accounting for variable consideration, cost of fulfilling and obtaining a contract, etc.).

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

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

* PFRS 16, *Leases*

This standard replaces the current guidance in PAS 17 and is a far-reaching change in accounting by lessees in particular.

Under PAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). PFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts.

The International Accounting Standards Board (IASB) has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Effective annual periods beginning on or after January 1, 2019 with earlier application permitted if PFRS 15, *Revenue from Contracts with Customers*, is also applied.

**INTERPRETATIONS**

* IFRIC 23, *Uncertainty over income tax treatments*

The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities’ examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

**AMENDMENTS**

* Applying PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4)

Amendments to PFRS 4, *Insurance Contracts* provide two options for entities that issue insurance contracts within the scope of PFRS 4: an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The amendments are not applicable to the Company.

* Amendment to PFRS 9, *Financial Instruments*, on prepayment features with negative compensation

Amends the existing requirements in PFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

* Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28)

Clarifies that an entity applies PFRS 9, *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendment is not applicable to the Company.

* Annual Improvements to PFRS Standards 2015–2017 Cycle

Makes amendments to the following standards:

* PFRS 3 and PFRS 11 - The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments are not applicable to the Company

* PAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
* PAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
* Plan Amendment, Curtailment or Settlement (Amendments to PAS 19)

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to PAS 19) are:

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

***Future Changes in Accounting Policies***

The Company will adopt the following revised standards, interpretations and amendments when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

**Effective in CY 2023**

* PFRS 17, *Insurance contracts*

PFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts.

These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. PFRS 17 supersedes PFRS 4, *Insurance Contracts* as of January 1, 2023.

The standard is not applicable to the Company.

1. **Financial Instruments**

Financial assets or financial liabilities are recognized in the Corporation’s Statement of Financial Position when, and only when, the entity becomes 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 instruments 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 financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

*“Day 1” Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the PCSO recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the PCSO deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the PCSO determines the appropriate method of recognizing the “Day 1” difference.

Financial assets and liabilities at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

* it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
  + on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
  + it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes equity instruments which the PCSO had not irrevocably elected to classify at fair value through other comprehensive income (FVOCI) at initial recognition. This category includes debt instruments whose cash flows are not “solely for payment of principal and interest” assessed at initial recognition of the assets, or which are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The PCSO may, at initial recognition, designate a financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

As at December 31, 2019 and 2018, the PCSO does not have financial assets and liabilities classified as FV.

1. **Financial Assets**

***Classification and Measurement of Financial Assets***

The PCSO 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 FVOCI. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the PCSO’s business model and its contractual cash flow characteristics.

***Financial Assets at Amortized Cost***

Financial assets shall be measured at amortized cost 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
* 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, financial assets at amortized cost 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 realizability 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 PCSO’s cash and cash equivalents, receivables, short term investments and long term investments (except externally managed funds recorded as Financial Assets – Available for Sale Securities) are classified under this category.

***Financial Assets at FVOCI***

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 PCSO 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 impairmentlosses 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 other comprehensive income 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 other comprehensive income 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 PCSO’s externally managed funds (included in the long term investment account) are classified as FVOCI.

*Impairment of Financial Assets*

Below is the Corporation’s accounting policy on the impairment of financial assets applicable starting January 1, 2018.

The PCSO records an allowance for “expected credit loss” (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the PCSO expects to receive. The difference is then discounted at an approximation to the asset’s original effective interest rate.

For trade receivables, the PCSO has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The PCSO has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the PCSO compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than two years past due.

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

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

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

At each reporting date, the Corporation assesses whether financial assets carried at amortized cost and debt securities at FVOCI 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 Corporation’s accounting policy on the impairment of financial assets applicable for the current period:

|  |  |
| --- | --- |
| **Age of Accounts Receivable** | **Percentage (%)** |
| 11 years and over | 100 |
| 7 to 10 years | 75 |
| 4 to 6 years | 50 |
| 2 to 3 years | 25 |

*Derecognition of Financial Assets*

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

* the right to receive cash flows from the asset has expired;
* the PCSO retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
* the PCSO has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the PCSO has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the PCSO’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the PCSO could be required to repay.

1. **Financial Liabilities and Equity Instruments**

***Classification as Debt or Equity***

Debt and equity instruments issued by the Corporation 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 categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the PCSO having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2019 and 2018, the PCSO’s accounts payable and inter-agency payables (except statutory payables) are classified under this category.

*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 Corporation 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 Corporation’s documented risk management or investment strategy, and information about the Corporation 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.

*Derecognition of Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Statements of Comprehensive Income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the PCSO could raise debt with similar terms and conditions in the market.  The difference between the carrying value of the original liability and fair value of the new liability is recognized in the Statements of Comprehensive Income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified.  In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

**Offsetting of Financial Assets and Liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the Statements of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the Statements of Financial Position.

**Classification of Financial Instrument between Liability and Equity**

A financial instrument is classified as liability if it provides for a contractual obligation to:

* Deliver cash or another financial asset to another entity;
* Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the PCSO; or
* Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the PCSO does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

***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. The equity of the PCSO consists of the following:

1. *Retained Earnings*

Retained Earnings represent accumulated profit attributable to equity holders of the Corporation after deducting dividends declared. The Corporation remits 50% of its annual earnings to the national government as mandated under RA No. 7656 and its Revised Implementing Rules and Regulations (IRR). Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

1. *Charity Fund*

Charity Fund represents the thirty per cent (30%) share of net receipts (Gross sales less 2% printing cost) from which the Board of Directors, in consultation with the Ministry of Human Settlements on identified priority programs, needs, and requirements in specific communities and with approval of the Office of the President, shall make payments or grants for health programs, including the expansion of existing ones, medical assistance and services and/or charities of national character such as the Philippine National Red Cross, under such policies and subject to such rules and regulations as the Board may from time establish and promulgate. The Board may apply part of the contributions to the charity fund to approved investments of the Office pursuant Section 1(B) hereof, but in no case shall such application to investments exceed ten per cent (10%) of the net receipts from the sale of sweepstakes tickets in any given year

1. *Prize Fund*

Prize Fund represents the fifty-five per cent (55%) share of net receipts (Gross sales less 2% printing cost) set aside for the payment of prizes, including those for the owners, jockeys of running horses, and sellers of winning tickets.

Prizes not claimed by the public within one (1) year from date of draw shall be considered as forfeited, and shall form part of the charity fund for disposition as stated.

1. *Operating Fund*

Operating Fund represents the fifteen per cent (15%) share of net receipts (Gross sales less 2% printing cost) set aside as contributions to the operating expenses and capital expenditures of the Office.

All balances of any funds shall revert to and form part of the charity fund and shall be subject to dispositions as stated.

1. **Inventories**

Inventories include Drugs and Medicines for Distribution, Office Supplies Inventory, Accountable Forms, Plates and Stickers Inventory, Medical, Dental and Laboratory Supplies, Play/Bet Slips and Thermal Rolls Inventory and Other Supplies and Materials Inventory.

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the weighted average method.

When the net realizable value of the inventories is lower than the cost, the PCSO recognizes an impairment loss for the decline in the value of the inventory. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized in profit or loss in the period in which the reversal occurs.

When inventories are consumed, the carrying amount of those inventories is recognized as an expense in the Statement of Comprehensive Income.

1. **Prepayments and Other Current Assets**

Prepayments and other current assets represent assets of the PCSO that are expected to be realized or consumed within one year from the reporting dates. These are initially recorded at the amount of cash paid and are charged to profit or loss as they are consumed in operations or expire with the passage of time.

1. **Investment Property**

Investment properties are properties that are held to earn rentals or for capital appreciation or both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.  Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment property is measured at cost less any accumulated depreciation. Depreciation is computed on a straight-line basis over an estimated life of 30 years.

Transfers to, or from, investment property is made only when there is a change in use.  Transfers to or from investment property is recognized at the carrying amount of the asset transferred. Accordingly, no gain or loss is recognized from these transfers.

1. **Property and Equipment**

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

* its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
* any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
* the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

At the end of each reporting period, items of property and equipment are measured at cost less any subsequent accumulated depreciation and impairment losses

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalized in accordance with the PCSO’s accounting policy. Depreciation of these assets, on the same basis as other property assets, commences at the time the assets become ready for their intended use.

1. **Intangible Assets**

Intangible Assets include computer software that are not integral part of the computer. These are initially recorded at cost and are subsequently measured at cost less accumulated amortization and any accumulated impairment loss. These are amortized over estimated useful life of 1 year and 3 years using the straight–line method. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

1. **Impairment of Non-financial Assets**

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

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

*Derecognition of Non-financial assets*

Items of non-financial assets are derecognized when these 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 net proceeds from derecognition is recognized in profit or loss.

1. **Related Parties**

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

1. **Revenue Recognition**

***Revenue***

Prior to adoption of PFRS 15, revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Company, and the revenue incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized.

Upon adoption of PFRS 15, revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services based on a five-step model:

* Identify the contract(s) with a customer
* Identify the performance obligations in the contract
* Determine the transaction price
* Allocate the transaction price to the performance obligations in the contract
* Recognise revenue when (or as) the entity satisfies a performance obligation

Depending on whether the PCSO is acting as a principal or as an agent, its main revenue arises from the sale of the following:

1. *Lotto / Keno tickets*

As principal, the contract is established between the betting customer and the PCSO at the time the customer places his bet. The bettor places his bet for a consideration of his choice which ranges from P10 to P20 per numbers combination, with the expectation that the PCSO issues the corresponding ticket for the bet. Revenue is recognized only when both the performance obligations (an exchange of bet price and bet ticket) of the betting customer and the PCSO are satisfied.

Revenue from the sale of tickets is recognized at the time of sale, except for advance sales. These advance sales are recognized as revenue at the time lotteries were drawn.

Of the total revenue, fifty-five per cent (55%) is allocated to the Prize Fund for payment of prizes, including those for the owners, jockeys of running horses, and sellers of winning tickets. Another thirty per cent (30%) is allocated to the Charity Fund from which identified priority programs, needs and requirements in specific communities take payments or grants for health programs, including the expansion of existing ones, medical assistance and services, and/or charities of national character. The remaining fifteen per cent (15%)’, meanwhile, is set aside to the Operating Fund as contributions to the operating expenses and capital expenditures of PCSO.

1. *STL tickets*

As principal, the contract is established between the AAC and the PCSO, with the latter authorizing the AAC to operate its own localized lottery game/s, upon agreeing to the terms set by the PCSO. The transaction price involves a guaranteed minimum monthly retail receipts which the AAC commits to remit. Revenue is recognized when the AAC declares its reported sales for the month.

1. *Instant Sweepstakes (Scratch-it)*

As principal, the contract is established between the ISAC and the PCSO, whereby the PCSO remains to have full operational control and supervision of the Instant Sweepstakes. ISAC will have the authority, granted by PCSO, to produce, distribute, market, advertise and sell Instant Sweepstakes tickets. The transaction price is the guaranteed five billion pesos (P5,000,000,000.00) in a 5-year term. Revenue is recognized based on the guaranteed sales per year.

***Interest Revenue***

Interest revenue is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Under prevailing circumstances, the adoption of the PFRS 15 is not expected to have any material effect on the financial statements of the Corporation.

1. **Expense Recognition**

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the Statements of Financial Position as an asset.

Expenses in the Statement of Comprehensive Income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the PCSO.

1. **Leases**

The following amendments to existing standards have been adopted by the PCSO effective January 1, 2019:

PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17*, Leases*. The standard includes two recognition exemptions for lessees - leases of ’low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

The PCSO assesses whether a contract is or contains a lease at inception of the contract. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the PCSO obtains substantially all the economic benefits from the use of that asset, and whether the PCSO has the right to direct the use of the asset.

The PCSO recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date, except for short-term leases of 12 months or less which are expensed in the income statement on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of 5.18% based on the issued T-Bills of BSP with a similar term, as the implicit rate cannot be determined in the lease contract.

The ROU asset is depreciated over the lease term.

ROU assets are included in the heading Property, Plant and Equipment – Leased Assets, and the lease liability is included in the headings Current Financial Liabilities.

The PCSO adopted PFRS 16 using the modified retrospective approach effective for reporting periods beginning on or after January 1, 2019 and to apply the new standard to contracts that were previously identified as leases under PAS 17. Likewise, the PCSO will not apply the standard to contracts that were not previously identified as lease under PAS 17.

The following are the amounts recognized in statement of comprehensive income:

|  |  |  |
| --- | --- | --- |
|  |  | **Amount** |
| Depreciation expense of leased assets, building and other structures |  | P100,457,764 |
| Interest expense on finance lease liability |  | 8,166,381 |
| **Total amount recognized in statement of comprehensive income** |  | **P108,624,145** |

The roll forward analysis of finance lease liability follows:

|  |  |  |
| --- | --- | --- |
|  |  | **Amount** |
| At January 1, as previously reported |  | P - |
| Effect of adoption of PFRS 16 |  | 200,915,528 |
| As at January 1, as restated |  | 200,915,528 |
| Interest expense |  | 8,166,381 |
| Payments |  | (103,448,397) |
| **As at December 31, 2019** |  | **P 105,633,512** |

The following is a reconciliation of the financial statement items from PAS 17 to PFRS 16 at January 1, 2019:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account Name** | **PAS 17** | **Reclassification** | **Recognition and Measurement** | **PFRS 16** |
| Assets | | | | |
| Leased assets, building and other structures | - |  | P200,915,528 | P200,915,528 |
| **Total Current Assets** | **-** |  | **P200,915,528** | **P200,915,528** |
|  | | | | |
| Liabilities | | | | |
| Finance lease payable | - |  | P200,915,528 | P200,915,528 |
| **Total Current Liabilities** | **-** |  | **P200,915,528** | **P200,915,528** |

1. **Employee Benefits**

Under PAS 19-*Employee Benefits*, an entity is required to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

**Short-term Benefits**

The PCSO recognizes an expense for services rendered by employees during the accounting period. A liability is recognized for the amount expected to be paid if the PCSO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**Terminal Leave Benefits**

Terminal leave benefits are computed based on the actual leave credits earned by employees as of reporting date. The amount reported as liability in the Statement of Financial Position is based on the employee’s salary grade as of reporting dates.

The total terminal leave liability as of December 31, 2019 amounted to P193,901,378 recorded in the account Leave Benefits Payable.

1. **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 PCSO’s current tax liability is calculated using 30% regular corporate income tax (RCIT) rate of PCSO as a taxable entity. Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) law excluded PCSO from the list of exempted corporations in paying income tax.

**Deferred Tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the PCSO expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**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.

1. **Foreign Currency Transactions and Translation**

The accounting records of the PCSO are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

1. **Judgment and Estimates**

The preparation of the financial statements in accordance with PFRSs requires the PCSO to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

**Judgments**

In the process of applying the PCSO’s accounting policies, Management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

*Classification of Financial Instruments*

The PCSO classifies a financial instrument, or its component parts, on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument.

The substance of a financial instrument, rather than its legal form, governs its classification in the Statements of Financial Position.

**Estimates**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Estimating Useful Lives of Property and Equipment*

The PCSO estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

| **PPE Account** | **Estimated Life in Years** |
| --- | --- |
| Land improvements | 10 |
| Building – those that are predominantly |  |
| Wood | 10 |
| Mixed | 20 |
| Concrete | 30 |
| Leasehold improvement |  |
| Land | 10 |
| Building |  |
| Wood | 10 |
| Mixed | 20 |
| Concrete | 30 |
| Office equipment | 5 |
| Furniture and fixtures | 10 |
| IT equipment and software | 5 |
| Library books | 5 |
| Machineries | 10 |
| Communication equipment | 10 |
| Medical, dental & laboratory equipment | 10 |
| Military and police equipment | 10 |
| Sports equipment | 10 |
| Motor vehicle | 7 |
| Other PPE | 5 |

The carrying amounts of the PCSO’s property and equipment as at December 31, 2019 and 2018, totaled to P931,243,608 and P795,340,105, respectively. Depreciation cost charged to operation amounts to P39,996,043 and P105,021,608 in 2019 and 2018, respectively.

1. **Provisions**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the Statement of Financial Position date, including the risks and uncertainties associated with the present obligation. In those cases, when the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

1. **Events after Reporting Date**

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to financial statements.

On March 17, 2020, the operation of the PCSO was suspended due to Presidential Proclamation Nos. 922 and 929 (2020) declaring a state of public health emergency throughout the Philippines due to Corona Virus Disease 2019 or COVID-19.

The closures are expected to reduce some of the expenses of the PCSO such as the equipment rent expenses for the lotto terminals, utility and communication expenses and other maintenance and operating expenses.

On April 15, 2020, the PCSO resumes the processing of requests for medical assistance in its effort to reach out to people and assist the national government in its fight against the COVID-19.

1. **RISK MANAGEMENT OBJECTIVES AND POLICIES**
2. **Risk Management Framework**

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

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

PCSO’s risk management policies are established to identify and analyze the risks faced by the Corporation, 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. PCSO, 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 Corporation audit committee is responsible for monitoring compliance with PCSO’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 below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **2019** | **2018** |
| **Financial Assets:** |  |  |  |
| Cash and cash equivalents | 5 | 14,839,776,776 | 9,814,627,510 |
| Receivables | 7 | 2,030,375,474 | 2,157,128,342 |
| Financial assets-held to maturity | 10 | 200,000,000 | 200,000,000 |
| Financial assets at FVOCI | 10 | 2,383,880,071 | 2,602,512,704 |
| Other investments – current portion | 6 | 1,837,414,461 | 1,606,912,432 |
| Other investments – non-current portion | 10 | 226,825,493 | 385,538,351 |
| **Total** |  | **21,518,272,275** | **16,766,719,339** |
|  |  |  |  |
| **Financial Liabilities:** |  |  |  |
| Financial liabilities - current portion | 16 | 9,770,565,093 | 8,217,714,734 |
| Inter-agency payables \* | 17 | 16,873,199 | 20,259,687 |
| Trust liabilities | 21 | 5,463,058,792 | 4,056,921,242 |
| **Total** |  | **15,250,497,084** | **12,294,895,663** |

*\* excluding statutory payables amounting to P378,898,722 and P700,567,118 as of December 31, 2019 and 2018, respectively*

1. **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. PCSO 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, PCSO manages its credit risk by depositing its cash with high credit quality banking institutions.

1. Management of Credit Risk

The PCSO Board of Directors has approved guidelines/implementing rules and regulations to manage the credit risk exposure. The PCSO has adopted the Revised Rules and Regulations (RRR) Governing the Conduct and Operations of the Philippine On-Line Lottery and the Revised Implementing Rules and Regulations (RIRR) Governing the Conduct and Operations of the Small Town Lottery (STL). The implementing rules and regulations explicitly state the provisions for the Imposition of Penalties and Procedures in case of agents’ default on the remittance of sales.

It also requires imposition of security/cash bonds to Lotto/Keno agents and Authorized STL Agents (ASA) in order to ensure remedial collection of unremitted sale

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

1. **Liquidity Risk**

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

a.Management of Liquidity Risk

The Corporation’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 Corporation’s reputation.

The Corporation 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 Corporation 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 Corporation 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.

1. **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 Corporation’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 Corporation’s financial assets and liabilities to various standard and non-standard interest rate scenarios.

1. **Operational Risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation’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 behavior. Operational risks arise from all of the Corporation’s operations and are faced by all business entities.

The Corporation’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation’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 Directors.

1. **CASH AND CASH EQUIVALENTS**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Cash in bank | 14,829,310,035 | 9,809,056,062 |
| Cash - collecting officers | 9,121,823 | 4,402,637 |
| Petty cash fund | 1,344,918 | 1,168,811 |
| **Total** | **14,839,776,776** | **9,814,627,510** |

Cash – Collecting Officers represents amount of collections made by the Collecting Officers that are deposited at the end of the day.

Petty Cash Fund is the working fund wherein small expenses are being disbursed.

Cash in Bank represents the bank accounts (savings and current accounts) with the Land Bank of the Philippines (LBP) and other government depository banks maintained by the Home Office and branches.

Cash Equivalent consists of time deposits with other government banks with a maturity period of 90 days and below.

Interest income from these accounts amounted to P21,645,761 and P19,162,176 for the period 2019 and 2018, respectively.

1. **OTHER INVESTMENTS**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Investments in time deposits-local currency | 1,729,100,623 | 1,495,518,028 |
| Investments in time deposits-foreign currency cash in bank - foreign currency, time deposits | 108,313,838 | 111,394,404 |
| **Total** | **1,837,414,461** | **1,606,912,432** |

Short-term investments consist of high-yield savings account (LBP) and premium savings (DBP) with maturity period of 91-182 days. The acquisition cost and maturity value of investments in foreign currency amounted to $2,139,110.07 and $2,159,849.41, respectively, were translated to peso based on Bangko Sentral ng Pilipinas month-end rate of USD1=50.635 on December 31, 2019.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Investment Date** | **Maturity Date** | **Acquisition Cost** | **Interest Receivable** | **Present Value** | **Maturity Value** |
| **Investment in Time Deposits-Local Currency** | | |  |  |  |
| November 19, 2019 | May 19, 2020 | 495,257,728 | 1,340,498 | 496,598,226 | 501,066,551 |
| November 19, 2019 | May 19, 2020 | 314,970,166 | 852,519 | 315,822,686 | 318,664,416 |
| November 19, 2019 | May 19, 2020 | 11,464,004 | 31,029 | 11,495,033 | 11,598,464 |
| November 19, 2019 | May 19, 2020 | 11,464,004 | 31,029 | 11,495,033 | 11,598,464 |
| July 11, 2019 | January 08, 2020 | 570,634,436 | 7,678,203 | 578,312,639 | 578,667,701 |
| October 28, 2019 | January 27, 2020 | 325,310,285 | 1,850,654 | 327,160,938 | 327,941,683 |
|  |  | **1,729,100,623** | **11,783,932** | **1,740,884,555** | **1,749,537,279** |
| **Investment in Time Deposits-Foreign Currency** | | |  |  |  |
| January 04, 2019 | January 4, 2020 | 108,313,838 | 1,038,628 | 109,352,467 | 109,363,975 |
|  |  | **108,313,838** | **1,038,628** | **109,352,467** | **109,363,975** |

Interest income from these accounts are P49,253,160 and P46,493,326 for CYs 2019 and 2018, respectively.

1. **RECEIVABLES**

This account consists of:

|  |  | **2018** |
| --- | --- | --- |
|  | **2019** | **As Restated** |
| Accounts receivable | 1,259,395,132 | 1,381,641,169 |
| Allowance for impairment | (163,863,597) | (163,863,597) |
|  | 1,095,531,535 | 1,217,777,572 |
| Due from officers and employees | 109,744,451 | 77,154,047 |
| Due from branch offices | 16,932,476 | 16,742,476 |
| Receivables - disallowance | 3,750,073 | 3,877,567 |
| Other receivables | 804,423,724 | 841,576,680 |
| Allowance for impairment-other receivables | (6,785) | - |
| **Total** | **2,030,375,474** | **2,157,128,342** |

In conformity with PAS No. 8, the Receivables accounts are restated as follows:

|  | **Amount** |
| --- | --- |
| Unrestated amount as of December 31, 2018 | 1,381,360,212 |
| Adjustments-Accounts receivables-Peryahan | 280,957 |
| **Restated amount as of December 31, 2018 - Accounts receivables** | **1,381,641,169** |
|  |  |
| Unrestated amount as of December 31, 2018 | 77,127,679 |
| Adjustment/Recording of Accounts receivable -Head Office | 26,368 |
| **Restated amount as of December 31, 2018 - Due from officers and employees** | **77,154,047** |
| Unrestated amount as of December 31, 2018 | 862,507,014 |
| Adjustment/Recording of Interest income-Branches | 809,850 |
| Adjustment/Recording of Interest income-Head Office | 8,416,579 |
| Adjustment/Recording of Other service income-Head Office | (34,125,000) |
| Adjustment/Recording of Other service income-Branches | 399,500 |
| Adjustment/Recording of PCSO shares-Peryahan | 495,032 |
| Adjustment/Recording of Miscellaneous income-Branches | (40,003) |
| Adjustment/Recording of Miscellaneous income-Head Office | 865,148 |
| Adjustment/Recording of Other fines and penalties-Branches | 516 |
| Adjustment/Recording of Other fines and penalties-Head Office | 2,248,044 |
| **Restated amount as of December 31, 2018 - Other receivables** | **841,576,680** |

Accounts Receivable account pertains to unremitted sales of Sweepstakes, Keno and Lotto Agents, STL AAC, and Peryahan (Globaltech Mobile Online Corporation).

Due from Officers and Employees are personal accounts of officers and employees, such as but not limited to car loan assistance program (CLAP) and tax deficiencies.

Due to/from Home Office/Branch Offices are reciprocal accounts which are still subject for reconciliation caused by the adoption of centralized accounting system in CY 2013.

Receivables-Disallowance this account includes COA disallowances on the payment of various benefits to the employees of PCSO Branch Offices.

Other Receivables represents accruals of interest income from various bank accounts for the period ended December 31, 2018 and the garnished amount pertaining to the case filed by TMA Group of Companies to PCSO under Civil Case No. 11-310 in the amount of P707,223,555.44.

1. **INVENTORIES**

Thisaccount consists of the following:

|  | **2019** | **2018**  **As Restated** |
| --- | --- | --- |
| **Drugs and medicines for distribution** |  |  |
| Carrying amount January 1 | 6,198,249 | 5,220,972 |
| Additional acquisition during the year | 10,572,683 | 11,498,870 |
| Expensed during the year | (9,756,291) | (10,930,353) |
| Other adjustment / accruals | (2,532,098) | 408,760 |
| **Carrying Amount December 31** | **4,482,543** | **6,198,249** |
| **Office supplies inventory** |  |  |
| Carrying amount January 1 | 9,861,356 | 17,149,877 |
| Additional acquisition during the year | 9,637,659 | 7,530,379 |
| Expensed during the year | (8,286,616) | (8,919,316) |
| Other adjustment / accruals | (1,773,586) | (5,899,584) |
| **Carrying Amount December 31** | **9,438,813** | **9,861,356** |
| **Accountable forms, plates and stickers inventory** | |  |
| Carrying amount January 1 | 2,357 | 1,335 |
| Additional acquisition during the year | - | 7,200 |
| Expensed during the year | - | (20,885) |
| Other adjustment / accruals | (2,357) | 14,707 |
| **Carrying Amount December 31** | **-** | **2,357** |
| **Medical, dental and laboratory supplies** |  |  |
| Carrying amount January 1 | 22,765 | 41,679 |
| Additional acquisition during the year | 375,943 | 67,272 |
| Expensed during the year | (410,769) | (587,594) |
| Other adjustment / Accruals | 29,200 | 501,408 |
| **Carrying Amount December 31** | **17,139** | **22,765** |
| **Play/bet slips and thermal rolls inventory** |  |  |
| Carrying amount January 1 | 134,980,912 | 8,580,057 |
| Additional acquisition during the year | 250,604,167 | 308,996,717 |
| Expensed during the year | (382,480,671) | (296,618,830) |
| Other adjustment / accruals | 139,349,824 | 114,022,968 |
| **Carrying Amount December 31** | **142,454,232** | **134,980,912** |
|  |  |  |
| **Other supplies and materials inventory** |  |  |
| Carrying amount January 1 | 5,870,542 | 5,751,355 |
| Additional acquisition during the year | 303,109 | 486,691 |
| Expensed during the year | (258,425) | (436,629) |
| Other adjustment / accruals | 105,120 | 69,125 |
| **Carrying Amount December 31** | **6,020,346** | **5,870,542** |
| **Semi-expendable machinery and equipment** |  |  |
| Carrying amount January 1 | - | - |
| Additional acquisition during the year | 445,263 | - |
| Expensed during the year | (254,835) | - |
| Other adjustment / accruals | 109,253 | - |
| **Carrying Amount December 31** | **299,681** | **-** |
| **Total** | **162,712,754** | **156,936,181** |

In conformity with PAS No. 8, the Inventories accounts are restated as follows:

|  | **Amount** |
| --- | --- |
| Unrestated amount as of December 31, 2018 | 15,477,903 |
| Adjustment/Recording of Office supplies inventory-Branch | 1,667 |
| Adjustment/Recording of Office supplies inventory-Head Office | (5,618,214) |
| **Restated amount as of December 31, 2018 - Office supplies inventory** | **9,861,356** |
| Unrestated amount as of December 31, 2018 | 5,565 |
| Adjustment/Recording of Office supplies inventory-Head Office | 17,200 |
| **Restated amount as of December 31, 2018 - Medical, dental and laboratory supplies inventory** | **22,765** |

Drugs and Medicines Inventory pertains to the cost of drugs and medicines purchased/received for stock/use in office operations/projects. It also includes Medical, Dental and Laboratory supplies.

The Office Supplies Inventory pertains to the cost of office supplies purchased/received for use in office operations.

Play/Bet Slips and Thermal rolls Inventory consist of lotto supplies used in betting for various lotto games.

1. **OTHER CURRENT ASSETS**

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018**  **As Restated** |
| **ADVANCES** |  |  |
| Advances for payroll | - | 4,044,773 |
| Advances to officers and employees | 12,295,749 | 13,446,594 |
| Advances for operating expenses | 4,994,188 | - |
| Advances to special disbursing officer | 12,413,417 | 16,199,002 |
| Sub-Total | **29,703,354** | **33,690,369** |
|  |  |  |
| **PREPAYMENTS** |  |  |
| Prepaid insurance | 4,108,428 | 3,940,286 |
| Other prepayments | 319,773,461 | 616,301,301 |
| Sub-Total | **323,881,889** | **620,241,587** |
| **Total** | **353,585,243** | **653,931,956** |

In conformity with PAS No. 8, the Other Current Assets accounts are restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated amount as of December 31, 2018 | 13,563,744 |
| Adjustment/Recording of Advances to officers and employees-Head Office (HO) | (117,150) |
| **Restated amount as of December 31, 2018 – Advances to officers and employees-HO** | **13,446,594** |

Advances are used to recognize the amount of advances granted to accountable officers for payment of salaries, wages, personnel benefits; special purpose/time-bound undertakings; and for official travel.

Prepayments include Prepaid Insurance which are unused portion of insurance paid to the GSIS-General Insurance Group for PCSO’s motor vehicles, facilities, properties, and insurances of PCSO officials as bonds to cover any liability that the officials may incur. Other Prepayments include overpayment of corporate income tax amounting to P313,877,405.

1. **FINANCIAL ASSETS**

This account consists of the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **2019** | **2018** |
| **Financial Assets** | |  |  |
| Financial assets-held to maturity (Investments in bonds - local) | | 200,000,000 | 200,000,000 |
| Financial assets-available for sale securities | | 2,383,880,071 | 2,602,512,704 |
| Sub-Total | | **2,583,880,071** | **2,802,512,704** |
| **Other Investments** | |  |  |
| Investments in time deposits - local currency | | - | 150,000,000 |
| Investments in time deposits - foreign currency | | 226,825,493 | 235,538,351 |
| Sub-Total | | **226,825,493** | **385,538,351** |
| **Total** | | **2,810,705,564** | **3,188,051,055** |

The Financial Assets at Fair Value through Other Comprehensive Income are externally managed funds which include the P2.5 billion allocated for the construction of PCSO Building that was placed in PCSO Trust Fund Account pursuant to Board Resolution No. 158, series of 2014 with amendments under Board Resolution No. 352, series of 2016. These are managed by the Land Bank Trust Banking Group based on the PCSO’s Investment Policy Statement.

Investments in Time Deposits-Foreign Currency consist of dollar placements with Land Bank of the Philippines (LBP) amounting to $4,479,618.70 with a maturity period of two (2) years which were translated based on the Bangko Sentral ng Pilipinas month-end rate of USD1=P50.635 on December 31, 2019.

The Interest Receivable of the Investments in Time Deposits – Foreign Currency in the amount of $131,958.73 was translated to peso at the rate of USD1 = P50.635. The acquisition cost and maturity value of the investments in foreign currency amounted to $4,479,618.70 and $4,633,220.34, respectively, and were translated to peso based on the Bangko Sentral ng Pilipinas month-end rate of USD1=P50.635.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Investment Date** | **Maturity Date** | **Acquisition Cost** | **Interest Receivable** | **Present Value** | **Maturity Value** |
| April 12, 2018 | April 13, 2020 | 226,825,493 | 6,681,730 | 233,507,223 | 234,603,112 |

Interest income from the long term investments are as follows:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Investment in bonds | 9,750,000 | 9,750,000 |
| Financial assets at fair value through other comprehensive Income | 120,007,363 | 81,510,995 |
| Investments in time deposits - local currency | 2,343,750 | 4,687,500 |
| **Total** | **132,101,113** | **95,948,495** |

1. **INVESTMENT PROPERTY**

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Investment property, land | 274,642,026 | 274,642,026 |
| Investment property, building (net) | 5,728,408 | 6,059,340 |
| **Total** | **280,370,434** | **280,701,366** |

The PCSO uses the following criteria to distinguish investment property from owner-occupied property:

1. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations; and

1. Land held for currently undetermined future use.

Investment Property account is composed of thirty-one (31) land properties and two (2) buildings. The investment properties are land and building acquired through foreclosed properties from defaulted sweepstakes agents.

| **LAND PROPERTIES** | **2019** | | **2018** | |
| --- | --- | --- | --- | --- |
| Brgy. Concepcion Uno, Marikina City | 1,664,000 | 1,664,000 | |
| Brgy. Salvacion, La Loma, Quezon City | 4,080,000 | 4,080,000 | |
| Tigbe, Norzagaray, Bulacan | 864,000 | 864,000 | |
| Brgy. Pabanlag, Floridablanca, Pampanga | 1,797,000 | 1,797,000 | |
| Brgy. Kataasan, Dinalupihan, Bataan | 238,000 | 238,000 | |
| Brgy. Pagalanggang, Dinalupihan, Bataan | 804,000 | 804,000 | |
| Brgy. Sto. Domingo, Capas, Tarlac | 4,290,000 | 4,290,000 | |
| Brgy. Tibag, Tarlac City | 3,669,000 | 3,669,000 | |
| Maliwalo, Tarlac City | 21,000 | 21,000 | |
| Brgy. Maginoo, Gapan, Nueva Ecija | 544,000 | 544,000 | |
| Brgy. Sangitan West, Cabanatuan, Nueva Ecija | 244,000 | 244,000 | |
| Peñafrancia Hills Subd, Brgy. Cupang, Antipolo City | 415,599 | 415,599 | |
| Brgy. San Isidro, Taytay, Rizal | 105,733,000 | 105,733,000 | |
| Brgy. San Roque, Antipolo City | 111,206,000 | 111,206,000 | |
| Brgy. Cupang, Antipolo City | 268,000 | 268,000 | |
| Brgy. Macabud, Montalban, Rizal | 67,000 | 67,000 | |
| Brgy. Galicia III, Mendez, Cavite | 720,000 | 720,000 | |
| Brgy. 26 Caridad, Cavite City | 749,000 | 749,000 | |
| Brgy. Cawayan, II, San Francisco, Quezon | 865,000 | 865,000 | |
| Brgy. Sambat, San Pascual, Batangas | 1,142,000 | 1,142,000 | |
| Lobo, Batangas | 1,705,000 | 1,705,000 | |
| Brgy. Bagumbayan Sur, Naga City | 636,000 | 636,000 | |
| Brgy. Almendras-Cogon, Sorsogon City | 778,000 | 778,000 | |
| Brgy. Bical, Libmanan, Sorsogon City | 2,203,000 | 2,203,000 | |
| Brgy. Basak, Lapu-lapu City, Cebu | 1,425,000 | 1,425,000 | |
| Bunga, Abuyog, Leyte | 844,000 | 844,000 | |
| Brgy, Sicayab, Dipolog City | 14,739,000 | 14,739,000 | |
| Poblacion Lubao, Pampanga | 25,000 | 25,000 | |
| Agdahon, Cuartero, Capiz | 368,000 | 368,000 | |
| Right of Way – Flamingo Land Subd, Antipolo | 4,500,000 | 4,500,000 | |
| Right of Way – Manuel Uy & Sons – Antipolo City | 8,038,427 | 8,038,427 | |
| **Total** | **274,642,026** | **274,642,026** | |

The amount in the investment property, land account is a mere transfer from land account amounting to P274,642,026 for year 2017. There are no additions and disposal made for the years 2019 and 2018. The PCSO elects to measure the investment property, land on the date of transition (January 1, 2017) to this Framework at its fair value and use that fair value as its deemed cost at that date.

The value in the investment property is a transfer from building account with the amount of P6,059,340 for 2018 and P5,728,408 for 2019. The carrying value is computed at cost less accumulated depreciation and depreciated using the straight-line method. No additions/acquisitions or disposal happened for the year 2019.

**Schedule of Investment Property (Building)**

|  | **No. 72 Bulusan Street, Brgy. Salvacion, La Loma, Quezon City** | **Barangay Sangitan West, Cabanatuan City, Province of Nueva Ecija** | **TOTAL** |
| --- | --- | --- | --- |
| Cost | 7,122,000 | 592,000 | 7,714,000 |
| Salvage value (5%) | (356,100) | (29,600) | (385,700) |
| Depreciable cost | **6,765,900** | **562,400** | **7,328,300** |
| Estimated useful life | 27 | 7 |  |
| Depreciation |  |  |  |
| 2014 | 250,589 | 80,343 |  |
| 2015 | 250,589 | 80,343 |  |
| 2016 | 250,589 | 80,343 |  |
| 2017 | 250,589 | 80,343 |  |
| 2018 | 250,589 | 80,343 |  |
| 2019 | 250,589 | 80,343 |  |
| Total Accumulated depreciation as of 12-31-2019 | **1,503,534** | **482,058** | **1,985,592** |
| Net book value as of December 31, 2019 | **5,618,466** | **109,942** | **5,728,408** |

1. **PROPERTY, PLANT AND EQUIPMENT**

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018, of property and equipment is shown below:

**2019**

|  | **Land and land improvements** | **Building & leasehold improvements** | **Office furniture, equipment and machineries** | **Information and communication technology equipment** | **Motor vehicles** | **Construction in-progress** | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Costs** |  |  |  |  |  |  |  |
| January 1, 2019 | 482,898,000 | 82,804,129 | 339,513,499 | 123,242,528 | 116,664,586 | 4,231,495 | 1,149,354,237 |
| Additions | 1,500,000 | 108,030,558 | 4,483,557 | 10,397,257 | 55,497,100 | - | 179,908,472 |
| Disposals | - | - | (13,687,798) | (15,056,366) | (1,833,800) | - | (30,577,964) |
| PPE reclassification | - | - | 1,285,085 | (468,271) | - | (547,785) | 269,029 |
| Adjustments | - | (1,189,062) | (1,768,838) | 350,797 | - | - | (2,607,103) |
| **December 31, 2019** | **484,398,000** | **189,645,625** | **329,825,505** | **118,465,945** | **170,327,886** | **3,683,710** | **1,296,346,671** |
|  |  |  |  |  |  |  |  |
| **Accumulated Depreciation:** | | |  |  |  |  |  |
| January 1, 2019 | - | (42,504,614) | (140,853,381) | (79,689,066) | (90,967,071) | - | (354,014,132) |
| Depreciation expense | - | (5,527,429) | (16,213,663) | (10,453,710) | (7,801,240) | - | (39,996,042**)** |
| Disposals | - | - | 12,030,780 | 13,771,468 | 1,742,110 | - | 27,544,358 |
| Adjustments | - | 201,319 | 375,077 | 786,557 | (200) | - | 1,362,753 |
| **December 31, 2019** | **-** | **(47,830,724)** | **(144,661,187)** | **(75,584,751)** | **(97,026,401)** | **-** | **(365,103,063)** |
| **Carrying Amount - 12/31/19** | **484,398,000** | **141,814,901** | **185,164,318** | **42,881,194** | **73,301,485** | **3,683,710** | **931,243,608** |

**2018**

|  | **Land and land improvements** | **Building & leasehold improvements** | **Office**  **furniture, equipment and machineries** | **Information and communication technology equipment** | **Motor vehicles** | **Construction in-progress** | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Costs** |  |  |  |  |  |  |  |
| January 1, 2018 | 482,898,000 | 65,751,601 | 324,241,088 | 118,893,402 | 107,716,586 | - | 1,099,500,677 |
| Additions | - | 16,596,976 | 12,956,795 | 12,979,613 | 6,950,000 | 16,315,006 | 65,798,390 |
| Disposals | - | - | - | (32,813) | - | - | (32,813) |
| PPE Reclassification | - | (153,600) | 174,600 | 1,185,626 | - | (12,083,511) | (10,876,885) |
| Adjustments | - | 609,152 | 1,948,382 | (9,783,300) | 1,998,000 | - | (5,227,766) |
| **December 31, 2018** | **482,898,000** | **82,804,129** | **339,320,865** | **123,242,528** | **116,664,586** | **4,231,495** | **1,149,161,603** |
|  |  |  |  |  |  |  |  |
| **Accumulated Depreciation:** | |  |  |  |  |  |  |
| January 1, 2018 | - | (32,552,113) | (121,645,500) | (17,269,840) | (84,540,899) | - | (256,008,352) |
| Depreciation expense | - | (10,278,775) | (19,734,310) | (67,400,367) | (7,608,156) | - | (105,021,608) |
| Adjustments | - | 396,358 | 630,722 | 4,989,121 | 1,181,984 | - | 7,198,185 |
| **December 31, 2018** | **-** | **(42,434,530)** | **(140,749,088)** | **(79,681,086)** | **(90,967,071)** | **-** | **(353,831,775)** |
| **Carrying Amount - 12/31/18** | **482,898,000** | **40,369,599** | **198,571,777** | **43,561,442** | **25,697,515** | **4,231,495** | **795,329,828** |
|  |  |  |  |  |  |  |  |
| **December 31, 2018 (Unrestated)** | 482,898,000 | 40,369,599 | 198,571,777 | 43,561,442 | 25,697,515 | 4,231,495 | 795,329,828 |
| Restatements | - | (70,084) | 88,341 | (7,980) | - | - | 10,278 |
| **December 31, 2018 (As Restated)** | **482,898,000** | **40,299,515** | **198,660,118** | **43,553,462** | **25,697,515** | **4,231,495** | **795,340,105** |

Included in the line items under Building & Leasehold Improvements account are right of use assets, as follows:

|  |  |
| --- | --- |
| **Leased assets, building and other structures** | **Amount** |
| Cost |  |
| At January 1, as previously reported | - |
| Effect of adoption of PFRS 16 | 200,915,528 |
| As at January 1, as restated | 200,915,528 |
| Accumulated depreciation and amortization |  |
| At January 1, as previously reported | - |
| Depreciation | 100,457,764 |
| At December 31 | 100,457,764 |
| **Net Book Value** | **100,457,764** |

In conformity with PAS No. 8, the Property, Plant and Equipment accounts are restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated amount as of December 31, 2018 | 40,369,599 |
| Adjustment/Recording of Depreciation expenses-lease assets improvements-Branch | (67,959) |
| Adjustment/Recording of Depreciation expenses-other leasehold improvements-Branch | (2,125) |
| **Restated amount as of December 31, 2018 -Building & leasehold improvements** | **40,299,515** |
|  |  |
| Unrestated amount as of December 31, 2018 | 198,571,777 |
| Adjustment/Recording of Depreciation expenses- office equipment-Branch | (46,211) |
| Adjustment/Recording of Depreciation expenses- furniture and fixtures-Branch | (259) |
| Adjustment/Recording of Depreciation expenses- other property, plant and equipment-Branch | (57,823) |
| Adjustment/Recording of Sale on disposal of unserviceable properties | 192,634 |
| **Restated amount as of December 31, 2018 -Office furniture, equipment and machineries** | **198,660,118** |
| Unrestated amount as of December 31, 2018 | 43,561,442 |
| Adjustment/Recording of Depreciation expenses-information and communication technology equipment -Branch | (7,980) |
| **Restated amount as of December 31, 2018 -Information and communication technology equipment** | **43,553,462** |

The land account for the year 2019 increased to P484,296,000 from its 2018 balance of P482,796,000. The increase was due to the two lots donated by the Province of Northern Samar with a total fair value of P1,500,000. The lands donated to PCSO had an attached condition to construct a building within five years from the execution of the Deed of Donation.

Building and Leasehold Improvement significantly increased due to the construction of perimeter fence with steel gate at Antipolo Property amounting to P3,651,898 and Lease Asset, buildings worth P100,457,764.

The Office Furniture, Equipment and Machineries included, among others, the purchases of supply and installation of thirteen (13) airconditioning units of P1,194,688, two (2) sets of office partition of P642,000, supply & installation of Combi blinds of P248,631 and supply & installation of generator sets amounting to P900,000.

Additions to Information and Communication Technology account consist of, among others, 85 units of biometrics machine of P4,034,000; 45 units of laptop amounting to P2,364,485; 11 units of desktop worth P523,700 and two (2) units of Heavy Duty Camera Videocam Camcoder amounting to P185,998.

Motor Vehicle additions consist of 38 units of vehicle with total amount of P55,497,100.

Fixed Assets recorded as Office Equipment and Other Property, Plant and Equipment were identified and reclassified for proper identification to which account they belong. Uniform classification of Account Code and Class description was made due to recording of same asset description to different account codes for prior period purchases. A meeting was held last June 5, 2017 together with the Asset and Supply Management Department (ASMD), Accounting and Budget Department (ABD), Branch Operations Sector (BOS) and Internal Audit Services (IAS) to come up with detailed asset description that must be recorded in each account codes. The account codes and their examples are consolidated and agreed to be implemented as follows:

* Office Equipment - airconditioning units (ACU), binding machine (BIN), typewriter (TYP), checkwriter (CKW), duplicating machine (DUP), punching machine (PUN), stamping machine (STP), shredder machine (SHR), bill counting machine (BCM) and laminating machine (LAM).
* Furniture and Fixtures - blinds (BLI), cashier/teller booth (CTB), cabinet (CAB), chairs (CHA), divider (DIV), partition/workstation (PNW), racking system (RAC), table (TAB), vault (VLT) and table accessories (TBA).
* Information and Communication Technology Equipment - computer desktop in set (DES), Ipod (IPD), computer parts and accessories (CPA), data center equipment (DCE), printer (PRI), projector and accessories (PRO), scanner (SCA), network devices (NTD), storage devices (STD), server (SVR) and software (SFW).
* Books - hardbound/electronic books (BKS).
* Other Machinery and Equipment - draw equipment and accessories (DEA).
* Communication Equipment - camera and accessories (CAM), handheld radio and accessories (RAD), lapell (LPL), telephone apparatus (TEL), mobile phone (MOB), voice recorder (VOI), sound system (SSM), television accessories (TVN), cassette recorder (CAS), CD player (CPD), DVD player (DVD) and VHS player.
* Medical Equipment – dental equipment/apparatus/instrument (DEN), medical equipment/apparatus/Instrument (MED) and laboratory equipment (LAB).
* Military and Police Security Equipment - firearms and accessories (FNA) and CCTV system in set (CTV).
* Sports Equipment - sports equipment and accessories (SEA).
* Printing Equipment - printing equipment and accessories (PEA).
* Motor Vehicle - motor vehicle (VEH).
* Other Property, Plant and Equipment - container van (CVN), generator set (GEN), fan (FAN), kitchen appliances (KAP), kitchen articles (KNA) and general services tools and equipment (GST), such as signage, tent, GST tools, air ionizer, air compressor, dehumidifier, forklift and other unidentified items.
* Construction in Progress includes uncompleted major repair and renovation of PCSO Cebu Branch Office Building.

1. **INTANGIBLE ASSETS**

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018, of computer software is shown below:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| **Costs** |  |  |
| Beginning balance | 195,451,603 | 174,782,505 |
| Additions | 82,093,876 | 13,104,820 |
| Adjustments | - | 7,564,278 |
| **Total** | **277,545,479** | **195,451,603** |
| **Accumulated depreciation:** |  |  |
| Beginning balance | (158,963,951) | (106,082,319) |
| Depreciation expense | (19,357,578) | (450,480) |
| Adjustments | - | (52,431,152) |
| **Total** | **(178,321,529)** | **(158,963,951)** |
| **Carrying Amount** | **99,223,950** | **36,487,652** |

Intangible assets pertain to Computer Software with a carrying value of P36,487,652 for the year 2018 and P99,223,950 for the year 2019. The amortization is computed using straight line method with a useful life of three years. However, there are included software with 12-month subscription and these are amortized over one year.

Additions for the year 2019 included one (1) Lot Digital Signature worth P14,996,100 and License purchased from the Department of Budget and Management – Procurement Service (DBM-PS) for Modernizing Workplace and Office Productivity amounting to P67,097,776. The start of Microsoft volume licensing agreement was on December 28, 2019. However, no disposal was made for 2019.

1. **OTHER NON-CURRENT ASSETS**

This account consists of the following:

|  | **2019** | **2018** |
| --- | --- | --- |
|  | **As Restated** |
| **Prepaid rent** | **26,436,672** | **26,473,793** |
| Guaranty deposits | 31,197,610 | 31,263,310 |
| Other deposits | 5,518,621,545 | 4,116,438,094 |
| **Total Deposits** | **5,549,819,155** | **4,147,701,404** |
|  |  |  |
| Foreclosed property/assets-net | 26,300 | 26,300 |
| Deferred assets/losses | 780 | 780 |
| Abandoned/surrendered properties-net | 384,524 | 384,524 |
| Other assets | 46,829,848 | 39,770,990 |
| **Total Other Assets** | **47,241,452** | **40,182,594** |
| **TOTAL** | **5,623,497,279** | **4,214,357,791** |

In conformity with PAS No. 8, the Other Non-Current Assets account is restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated amount as of December 31, 2018 | 4,116,458,793 |
| Adjustment/Recording of Other deposits-Head Office | (20,699) |
| **Restated Amount as of December 31, 2018 - Other deposits** | **4,116,438,094** |

Prepayments include prepaid rent which pertains to the advance deposits for lease/rentals of property, plant and equipment used in operations. These can be used as rental payments only at the end of the term of the contract

Deposit includes guaranty deposits and other deposits. Guaranty deposits are paid to utility companies, namely: Manila Electric Company and Philippine Long Distance Telephone Company. It also includes guaranty deposits for lease/rentals of the buildings located in Shaw Blvd., Mandaluyong City, that are currently being occupied by the PCSO. Other deposits represent the cash bond of STL ASA, Lotto and Keno and the Prize Seed Fund entrusted/deposited to PCSO bank account by Pacific Online System Company, Philippine Gaming Management Corporation and Powerball Management Corporation for payment of prizes for Scratch and Match. Also included is the escrow deposit of Mark Sensing Ltd. retained by PCSO in compliance with the court order to withhold 24.5 per cent commission of CISCO on PCSO’s lotto supplies purchases with Mark Sensing Ltd. (*Reference:* *Civil Case No. Q-05-54756*).

Other Assets include foreclosed property/assets, deferred assets/losses, abandoned/surrendered properties and other assets.

1. **TAXES**

Income Tax Expense

This account consists of provisions for income taxes for:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Income tax expense - current | 1,832,499,316 | 627,822,438 |
| Income tax expense - deferred | (107,160,609) | (5,583,636) |
| **Total** | **1,725,338,707** | **622,238,802** |

The details of statutory reconciliation are provided below:

|  | **2019** | **2018** |
| --- | --- | --- |
| Income tax at statutory rate | 1,865,564,660 | 640,028,332 |
| Tax effect on income subject to final tax | (49,140,468) | (36,530,304) |
| Tax effect of lease liability-net of ROU asset | (1,552,724) | - |
| Tax effect on forex | (5,141,940) | - |
| Tax effect on retirement benefits | (35,231,742) | - |
| Tax effect on allowance for impairment of A/R | (49,159,079) | - |
| Tax effect of non-deductible expense | - | 18,740,774 |
| **Total** | **1,725,338,707** | **622,238,802** |

Analysis of income tax payable (prepaid income tax) follows:

|  | **2019** | **2018** |
| --- | --- | --- |
| **Regular Corporate Income Tax:** | 6,218,548,867 | 2,133,427,775 |
| Net income (loss) before tax |  |  |
| Permanent Differences: |  |  |
| Interest income subject to final tax | (163,801,560) | (121,767,680) |
| Tax Assessment | - | 62,469,246 |
| Temporary Differences: |  |  |
| Provision for retirement benefits | 40,710,318 | 35,751,918 |
| Unrealized gain/loss on foreign exchange | 12,873,427 | (17,139,799) |
| **Taxable income** | **6,108,331,052** | **2,092,741,460** |
| Tax rate | 30% | 30% |
| **Tax Due** | **1,832,499,316** | **627,822,438** |

15.1 Deferred Taxes

Deferred Tax Assets

|  |  |  |
| --- | --- | --- |
|  | **Balance** | **Deferred Tax** |
| Allowance for Impairment of AR | 163,863,597 | 49,159,080 |
| Lease Liability-Net of ROU Asset | 5,175,748 | 1,552,724 |
| Leave Benefit Payable | 193,901,378 | 58,170,413 |
| Unrealized Loss on Forex | 12,873,427 | 3,862,028 |
| **Deferred Tax Asset** |  | **112,744,245** |

Details of DTA and DTL follows:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| DTA: |  |  |
| DTA arising from Allowance for impairment of AR | 49,159,080 | - |
| DTA arising from Lease liability-Net of ROU Asset | 1,552,724 | - |
| DTA arising from Leave benefit payable | 58,170,413 | 10,725,576 |
| DTA arising from Unrealized loss on Forex | 3,862,028 | - |
| DTL: |  |  |
| DTL arising from Unrealized gain on Forex | - | 5,141,940 |
|  | **112,744,245** | **5,583,636** |

**16.**

1. **FINANCIAL LIABILITIES**

Details of Payable accounts are as follows:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018**  **As Restated** |
| Accounts payable | 9,651,701,187 | 8,206,253,371 |
| Due to officers and employees | 13,230,394 | 11,461,363 |
| Finance lease payable | 105,633,512 | - |
| **Total** | **9,770,565,093** | **8,217,714,734** |

Accounts Payable includes the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
|  | **As Restated** |
| Miscellaneous accounts payable | 6,921,993,118 | 5,909,148,963 |
| Vouchers payable-charity fund | 2,033,721,376 | 1,902,162,164 |
| Vouchers payable-operating fund | 551,855,938 | 124,342,114 |
| Vouchers payable-prize fund | 28,052,207 | 99,164,218 |
| Rental and maintenance | 116,078,548 | 171,435,912 |
| **Total Accounts Payable** | **9,651,701,187** | **8,206,253,371** |

In conformity with PAS No. 8, the Payable accounts are restated as follows:

|  | **Amount** |
| --- | --- |
| Unrestated amount as of December 31, 2018 | 5,340,239,149 |
| Adjustment/Recording of Miscellaneous accounts payable-operating fund | (755,248) |
| Adjustment/Recording of Miscellaneous accounts payable-charity fund | (50,759,987) |
| Adjustment/Recording of Miscellaneous accounts payable-prize fund | 620,425,049 |
| **Restated amount as of December 31, 2018-Miscellaneous accounts payable** | **5,909,148,963** |
|  |  |
| Unrestated amount as of December 31, 2018 | 2,047,761,732 |
| Adjustment/Recording of Accounts payable-Branch | (257,226,037) |
| Adjustment/Recording of Accounts payable-Head Office | 111,626,469 |
| **Restated amount as of December 31, 2018-Vouchers payable-charity fund** | **1,902,162,164** |
|  |  |
|  |  |
|  |  |
| Unrestated amount as of December 31, 2018 | 94,008,028 |
| Adjustment/Recording of Personnel expenses-Branch | 16,237 |
| Adjustment/Recording of Personnel expenses-Head Office | 520,370 |
| Adjustment/Recording of Maintenance and other operating expenses-Branch | 140,620 |
| Adjustment/Recording of Maintenance and other operating expenses-Head Office | 29,656,859 |
| **Restated amount as of December 31, 2018-Vouchers payable-operating fund** | **124,342,114** |
|  |  |
| Unrestated amount as of December 31, 2018 | 99,109,724 |
| Adjustment/Recording of Accounts payable-Head Office | 54,494 |
| **Restated amount as of December 31, 2018-Vouchers payable-prize fund** | **99,164,218** |

The Miscellaneous Accounts Payable refers to various obligations being accrued every year end. Majority of its components were accrual of Prize Fund expenses, Performance Based Bonus, Employer’s Provident Fund share, Collective Negotiation Agreement (CNA) bonus, Advertising Expenses, and various Charity Fund expenses.

The Vouchers Payable-Charity Fund refers to various unpaid processed vouchers payable to hospitals and other institutions/agencies as payment for financial assistance under the Individual Medical Assistance Program, Mandatory Contributions and Other Health and Welfare Programs of PCSO.

The Vouchers Payable-Operating Fund pertains to processed vouchers for various operating expenses that remain unpaid at year-end. This account also includes the payables of the Branch Offices.

The Vouchers Payable-Prize Fund refers to various unpaid processed vouchers for the payment of Prize Fund expenses.

The Vouchers Payable-Rentals and Maintenance pertains to the amount payable to the service providers of the lottery system, Philippine Gaming Management Corp., Pacific Online System Corp., and Total Gaming Technology, Inc., as payment for the cost of equipment lease rental and maintenance.

1. **INTER-AGENCY PAYABLES**

Inter-Agency payables include the following accounts:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
|  | **As Restated** |
| Due to BIR | 359,243,851 | 681,580,145 |
| Due to other NGAs | 17,267,291 | 19,813,951 |
| Due to GSIS | 15,759,152 | 15,855,751 |
| Due to PhilHealth | 1,920,161 | 2,032,225 |
| Due to Pag-IBIG | 1,975,558 | 1,098,997 |
| Due to other GOCCs | (394,092) | 445,736 |
| **Total** | **395,771,921** | **720,826,805** |

In conformity with PAS No. 8, the Inter-agency Payable account is restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated amount as of December 31, 2018 | 672,955,650 |
| Adjustment/Recording of Due to BIR-tax on winnings-Lotto | 7,223,830 |
| Adjustment/Recording of Due to BIR-tax on winnings-Keno | 1,400,665 |
| **Restated amount as of December 31, 2018-Due to BIR** | **681,580,145** |

1. **PROVISIONS**

This account consists of liabilities to the following:

|  | **2019** | **2018** |
| --- | --- | --- |
| Current provisions | 6,734,449 | 4,836,933 |
| Non-current provisions | 187,166,929 | 171,536,519 |
| **Total** | **193,901,378** | **176,373,452** |

This account consists of leave benefits of employees. Employees retiring the following year are categorized as current provisions.

1. **OTHER CURRENT LIABILITIES**

This account is composed of the following:

|  | **2019** | **2018**  **As Restated** |
| --- | --- | --- |
| **Dividends payable** | **2,219,816,648** | **744,232,770** |
| **Trustee payable** | **202,160** | **-** |
| **Withholding tax payable** | **2,793,062** | **-** |
| PCSO Provident fund contributions | 14,675,493 | 14,133,563 |
| Amount held in trust for "Scratch and Match"/NISP prizes | 9,716,089 | 7,501,859 |
| Withheld payment of employees payable to Sweepstakes Cooperative | 6,427,587 | 5,337,636 |
| Withheld amount payable to thermal roll supplier | (228,192) | (228,191) |
| Share of the PNP in STL | 169,785,406 | 261,005,368 |
| Share of Charity Fund in STL | 605,692,858 | 768,239,601 |
| Other payables | 73,690,983 | 165,553,491 |
| **Total Other Payables** | **879,760,224** | **1,221,543,327** |
| **Total Other Current Liabilities** | **3,102,572,094** | **1,965,776,097** |

In conformity with PAS No. 8, the Other Current Liabilities account is restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated amount as of December 31, 2018 | 755,594,486 |
| Reclassification and reversal of over accrual of dividends payable for the year 2018 | (11,361,716) |
| **Restated amount as of December 31, 2018-Dividends payable** | **744,232,770** |

Share of Charity Fund in STL includes the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Share of charity fund in STL of chartered cities | 957,081 | 957,081 |
| Share of charity fund in STL of municipalities | 347,213,037 | 442,037,861 |
| Share of charity fund in STL of provinces | 105,604,242 | 165,670,872 |
| Share of charity fund in STL of Congressional | 151,918,498 | 159,573,787 |
| **Total Share of Charity Fund in STL** | **605,692,858** | **768,239,601** |

The account Amount Held in Trust for “Scratch and Match”/NISP prizes pertains to the amount entrusted to PCSO by the operators of the “Scratch and Match”/NISP project for the payment of prizes.

1. **TRUST LIABILITIES**

This account consists of:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
|  | **As Restated** |
| Performance/bidders bonds | 5,461,074,055 | 4,054,936,506 |
| Guaranty deposits payable | 1,984,737 | 1,984,736 |
| **Total Trust Liabilities** | **5,463,058,792** | **4,056,921,242** |

In conformity with PAS No. 8, the Trust Liabilities account is restated as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Unrestated Amount as of December 31, 2018 | 4,044,936,506 |
| Adjustments/Recordings of STL cash bond | 10,000,000 |
| **Restated amount as of December 31, 2018-Performance/bidders bonds** | **4,054,936,506** |

The performance/bidders bonds consist of retention fees from suppliers and cash bond for STL, Lotto and Keno agents. Abrupt change in the amount was due to increase in number of approved STL Authorized Agent Corporations.

1. **DEFERRED CREDITS/UNEARNED INCOME**

This account represents advance sales of sweepstakes, keno and lotto tickets and advance remittances of lotto agents.

1. **EQUITY**

This account consists of the following:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Cumulative changes in fair Value of investments** | **Operating fund** | **Charity fund** | **Prize fund** | **Retained earnings/ (Deficit)** | **Total** |
| **BALANCE AT JANUARY 01, 2018** | **(27,788,717)** | **7,170,092,574** | **1,279,057,348** | **1,654,364,240** | **10,103,514,162** | **10,075,725,445** |
| CHANGES IN EQUITY FOR 2018 |  |  |  |  |  |  |
| Add/(Deduct): |  |  |  |  |  |  |
| Forfeitures of unclaimed prizes | - | - | 494,638,022 | (494,638,022) | - | - |
| Payment of dividends | - | (2,535,289,114) | - | - | (2,535,289,114) | (2,535,289,114) |
| Subsidy to Charity funds | - | (500,000,000) | 500,000,000 | - | - | - |
| Transfer to Charity funds | - | (3,170,609,934) | 3,170,609,934 | - | - | - |
| Provision for dividends  Payable | - | (712,295,026) | - | (43,299,460) | (755,594,486) | (755,594,486) |
| Comprehensive income | (62,791,067) | 3,887,604,441 | (3,153,409,718) | 278,320,998 | 1,012,515,721 | 949,724,654 |
| Other adjustments | - | 11,361,716 | - | - | 11,361,716 | 11,361,716 |
| **RESTATED BALANCE AT DECEMBER 31, 2018** | **(90,579,784)** | **4,150,864,657** | **2,290,895,586** | **1,394,747,756** | **7,836,507,999** | **7,745,928,215** |
| CHANGES IN EQUITY FOR 2019 |  |  |  |  |  |  |
| Add/(Deduct): |  |  |  |  |  |  |
| Forfeitures of unclaimed prizes | - |  | 741,564,982 | (741,564,982) | - | - |
| Subsidy to Charity funds | - | (963,253,012) | 963,253,012 | - | - | - |
| Provision for dividends  payable | - | (1,054,178,739) | (1,038,743,172) | (126,894,737) | (2,219,816,648) | (2,219,816,648) |
| Comprehensive Income | 95,547,933 | 2,116,941,040 | 2,116,050,009 | 260,219,111 | 4,493,210,160 | 4,588,758,093 |
| **BALANCE AT DECEMBER 31, 2019** | **4,968,149** | **4,250,373,946** | **5,073,020,417** | **786,507,148** | **10,109,901,511** | **10,114,869,660** |

The Other adjustment in the Changes in Equity for 2018 was the excess amount provided for in the Provision for Dividends Payable. Payment made on May 15, 2019 for dividend amounted only to 744,232,768.64.

1. **INCOME**

The PCSO’s income consists of:

**2019**

|  |  |  | | **Operating** | | **Charity** | **Prize** | **2019** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service and Business Income** | | | |  | |  |  |  |
|  | **Service Income** | | | |  |  |  |  |
|  |  | | Processing/application fee | | 4,451,250 | - | - | 4,451,250 |
|  |  | | Other service income | | 51,330,508 | - | - | 51,330,508 |
|  |  | | **Total Service Income** | | **55,781,758** | **-** | **-** | **55,781,758** |
|  |  | |  | |  |  |  |  |
|  | **Business Income** | | | |  |  |  |  |
|  |  | | Income from gaming operations | | 9,679,937,897 | 12,122,988,607 | 22,225,479,115 | 44,028,405,619 |
|  |  | | Seminar/training fees | | 719,440 | - | - | 719,440 |
|  |  | | Fines and penalties | | 14,201,108 | - | - | 14,201,108 |
|  |  | | Interest income | | 126,253,994 | 71,580,303 | 5,165,737 | 203,000,034 |
|  |  | | Other business income | | - | 1,054,737,850 | - | 1,054,737,850 |
|  |  | | **Total Business Income** | | **9,821,112,439** | **13,249,306,760** | **22,230,644,852** | **45,301,064,051** |
| **Total Service and Business Income** | | | | **9,876,894,197** | | **13,249,306,760** | **22,230,644,852** | **45,356,845,809** |
|  |  |  | |  | |  |  |  |
|  | |  | |  | |  |  |  |
| **Gains** | |  | |  | |  |  |  |
|  | Gain or loss on foreign exchange (FOREX) | | | | - | (12,873,427) | - | (12,873,427) |
|  | Other losses - Provision for credit losses | | | | (6,785) | - | - | (6,785) |
| **Total Gains** | | | | **(6,785)** | | **(12,873,427)** | **-** | **(12,880,212)** |
|  |  |  | |  | |  |  |  |
| **Other Non-Operating Income** | | | |  | |  |  |  |
|  | **Sale of Assets** | | |  | |  |  |  |
|  |  | Sale of unserviceable property | | (3,200,196) | | - | - | (3,200,196) |
|  |  | **Total Sale of Assets** | | **(3,200,196)** | | **-** | **-** | **(3,200,196)** |
|  |  |  | |  | |  |  |  |
|  | **Miscellaneous Income** | | |  | |  |  |  |
|  |  | Miscellaneous income | | 702,410,924 | | - | - | 702,410,924 |
|  |  | **Total Miscellaneous Income** | | **702,410,924** | | **-** | **-** | **702,410,924** |
| **Total Non-Operating Income** | | | | **699,210,728** | | **-** | **-** | **699,210,728** |
| **Total Income** | | | | **10,576,098,140** | | **13,236,433,334** | **22,230,644,851** | **46,043,176,325** |

**2018**

|  |  |  | **Operating** | **Charity** | **Prize** | **2018** |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **(As Restated)** | **(As Restated)** | **(As Restated)** | **(As Restated)** |
| **Service and Business Income** | | |  |  |  |  |
|  | **Service Income** | |  |  |  |  |
|  |  | Processing/Application fee | 11,465,182 | - | - | 11,465,182 |
|  |  | Other service income | 109,740,239 | - | - | 109,740,239 |
|  |  | **Total Service Income** | **121,205,421** | **-** | **-** | **121,205,421** |
|  |  |  |  |  |  |  |
|  | **Business Income** | |  |  |  |  |
|  |  | Income from gaming operations | 11,406,201,160 | 18,280,433,142 | 33,050,015,396 | 62,736,649,698 |
|  |  | Seminar/training fees | 958,800 | - | - | 958,800 |
|  |  | Fines and penalties | 6,571,728 | - | - | 6,571,728 |
|  |  | Interest income | 97,681,848 | 56,849,041 | 7,073,108 | 161,603,997 |
|  |  | Other business income | - | 2,403,662 | - | 2,403,662 |
|  |  | **Total Business Income** | **11,511,413,536** | **18,339,685,845** | **33,057,088,504** | **62,908,187,885** |
| **Total Service and Business Income** | | | **11,632,618,957** | **18,339,685,845** | **33,057,088,504** | **63,029,393,306** |
|  |  |  |  |  |  |  |
| **Gains** | | |  |  |  |  |
|  | Gain or loss on foreign Exchange (FOREX) | | - | 17,139,799 | - | 17,139,799 |
|  | Other Losses - Provision for Credit Losses | |  |  |  |  |
| **Total Gains** | | | **-** | **17,139,799** | **-** | **17,139,799** |
|  |  |  |  |  |  |  |
| **Other Non-Operating Income** | | |  |  |  |  |
|  | **Sale of Assets** | |  |  |  |  |
|  |  | Sale of Unserviceable Property | (29,594) | - | - | (29,594) |
|  |  | **Total Sale of Assets** | **(29,594)** | **-** | **-** | **(29,594)** |
|  |  |  |  |  |  |  |
|  | **Miscellaneous Income** | |  |  |  |  |
|  |  | Miscellaneous Income | 29,989,976 | - | - | 29,989,976 |
|  |  | **Total Miscellaneous Income** | **29,989,976** | **-** | **-** | **29,989,976** |
| **Total Non-Operating Income** | | | **29,960,382** | **-** | **-** | **29,960,382** |
|  |  |  |  |  |  |  |
| **Total Income** | | | **11,662,579,339** | **18,356,825,644** | **33,057,088,504** | **63,076,493,487** |

In conformity with PAS No. 8, the Income accounts are restated as follows:

|  | **Amount** |
| --- | --- |
| Unrestated amount as of December 31, 2018 | 143,465,739 |
| Adjustment/Recording of Other service income | (33,725,500) |
| **Restated amount as of December 31, 2018 - Other service income (Operating fund)** | **109,740,239** |
| Unrestated amount as of December 31, 2018 | 4,323,168 |
| Adjustment/Recording of Fines and penalties | 2,248,560 |
| **Restated amount as of December 31, 2018 - Fines and penalties (Operating fund)** | **6,571,728** |
|  |  |
| Unrestated amount as of December 31, 2018 | 88,368,682 |
| Adjustment/Recording of Interest income | 9,313,166 |
| **Restated amount as of December 31, 2018 - Interest income (Operating Fund)** | **97,681,848** |
|  |  |
| Unrestated amount as of December 31, 2018 | 29,164,831 |
| Adjustment/Recording of Miscellaneous income | 825,145 |
| **Restated amount as of December 31, 2018 - Miscellaneous income (Operating fund)** | **29,989,976** |
|  |  |
| Unrestated amount as of December 31, 2018 | 56,841,133 |
| Adjustment/Recording of Interest income | 7,908 |
| **Restated amount as of December 31, 2018 - Interest income (Charity fund)** | **56,849,041** |
|  |  |
| Unrestated amount as of December 31, 2018 | 7,070,803 |
| Adjustment/Recording of Interest income | 2,305 |
| **Restated amount as of December 31, 2018 - Interest income (Prize fund)** | **7,073,108** |
|  |  |
| Unrestated amount as of December 31, 2018 | 11,405,706,127 |
| Adjustment/Recording of Income from gaming operations-Peryahan | 495,033 |
| **Restated amount as of December 31, 2018 - Income from gaming operations (Operating fund)** | **11,406,201,160** |

Income from Gaming Operations consists of the following:

**2019**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Operating** | **Charity** | **Prize** | **Total** |
| **Retail Receipts** | **6,604,260,843** | **13,208,521,685** | **24,215,623,091** | **44,028,405,619** |
| Less: Printing cost | 132,085,217 | 264,170,434 | 484,312,462 | 880,568,113 |
| Documentary stamp tax | 410,681,322 | 821,362,644 | 1,505,831,514 | 2,737,875,480 |
|  | 542,766,539 | 1,085,533,078 | 1,990,143,976 | 3,618,443,593 |
| **Net Retail Receipts** | **6,061,494,304** | **12,122,988,607** | **22,225,479,115** | **40,409,962,026** |
| Add: 2% Printing cost | 880,568,112 | - | - | 880,568,112 |
| Additional 20% for payment  of DST | 2,737,875,481 | - | - | 2,737,875,481 |
| **Gross Revenue** | **9,679,937,897** | **12,122,988,607** | **22,225,479,115** | **44,028,405,619** |

**2018**

|  | **Operating**  **(As Restated)** | **Charity**  **(As Restated)** | **Prize**  **(As Restated)** | **Total**  **(As Restated)** |
| --- | --- | --- | --- | --- |
| **Retail Receipts** | **9,535,549,348** | **19,070,108,632** | **34,961,865,826** | **63,567,523,806** |
| Less: Printing cost | 190,701,086 | 381,402,173 | 699,237,317 | 1,271,340,576 |
| Documentary stamp tax | 170,237,501 | 340,475,001 | 624,204,169 | 1,134,916,671 |
|  | 360,938,587 | 721,877,174 | 1,323,441,486 | 2,406,257,247 |
|  |  |  |  |  |
| **Net Retail Receipts** | **9,174,610,761** | **18,348,231,458** | **33,638,424,340** | **61,161,266,559** |
| Add: 2% Printing cost | 1,248,358,096 | - | - | 1,248,358,096 |
| Additional 20% for payment  of DST | 1,134,916,671 | - | - | 1,134,916,671 |
| Total Income from Operations | 11,557,885,528 | 18,348,231,458 | 33,638,424,340 | 63,544,541,326 |
| Less: Share of ISAC from NISP | 151,684,368 | 67,798,316 | 588,408,944 | 807,891,628 |
| **Gross Revenue** | **11,406,201,160** | **18,280,433,142** | **33,050,015,396** | **62,736,649,698** |

PCSO’s retail receipts:

|  |  |  |
| --- | --- | --- |
|  | **2019** | **2018** |
| Sweepstakes | 11,250,000 | 4,867,500 |
| NISP | 961,013,774 | 1,149,124,000 |
| STL | 19,875,355,747 | 26,112,538,884 |
| Keno | 1,753,286,419 | 4,397,969,030 |
| Lotto | 21,358,729,500 | 31,902,529,360 |
| Peryahan | 68,770,179 | 495,032 |
| **Total** | **44,028,405,619** | **63,567,523,806** |

In accordance with the provision of PCSO Charter, specifically Section 6 of RA No. 1169, as amended by Batas Pambansa Bilang 42, the gross receipts generated from the sale of tickets whether for sweepstakes, lotteries or similar activities, shall be deducted the printing cost of such tickets, which in no case shall exceed two per cent (2%) of such gross receipts to arrive at the net receipts. The net receipts shall be allocated as follows:

1. Fifty-five per cent (55%) shall be set aside as Prize Fund.
2. Thirty per cent (30%) shall be set aside as contributions to the Charity Fund.
3. Fifteen per cent (15%) shall be set aside as contributions to Operating Expenses and Capital Expenditures of the Office.
4. **EXPENSES**

**2019**

|  |  |  | **Operating** | **Charity** | **Prize** | **2019** |
| --- | --- | --- | --- | --- | --- | --- |
| **Personnel Services** | | |  |  |  |  |
| Salaries and wages | | | 431,794,903 | - | - | 431,794,903 |
| Personnel economic relief allowance (PERA) | | | 23,575,526 | - | - | 23,575,526 |
| Representation and transportation allowance (RATA) | | | 18,972,059 | - | - | 18,972,059 |
| Clothing/Uniform allowance | | | 6,612,000 | - | - | 6,612,000 |
| Subsistence allowance | | | 505,500 | - | - | 505,500 |
| Laundry allowance | | | 67,500 | - | - | 67,500 |
| Hazard pay | | | 3,401,037 | - | - | 3,401,037 |
| Longevity pay | | | 2,837,754 | - | - | 2,837,754 |
| Overtime and night pay | | | 2,951,835 | - | - | 2,951,835 |
| Year -end bonus | | | 75,375,751 | - | - | 75,375,751 |
| Cash gift | | | 5,305,500 | - | - | 5,305,500 |
| Other bonuses and allowances | | | 95,517,563 | - | - | 95,517,563 |
| Retirement and life insurance premiums | | | 51,183,341 | - | - | 51,183,341 |
| Pag-IBIG contributions | | | 1,227,997 | - | - | 1,227,997 |
| PhilHealth contributions | | | 4,373,997 | - | - | 4,373,997 |
| Employees compensation insurance premiums | | | 1,181,548 | - | - | 1,181,548 |
| Provident/Welfare fund contributions | | | 86,981,863 | - | - | 86,981,863 |
| Terminal leave benefits | | | 42,211,414 | - | - | 42,211,414 |
| Retirement gratuity | | | - | - | - | - |
| Other personnel benefits | | | (572,920) | - | - | (572,920) |
| **Total Personal Services** | | | **853,504,168** | **-** | **-** | **853,504,168** |
|  |  |  |  |  |  |  |
|  |  |  | **Operating** | **Charity** | **Prize** | **2019** |
| **Maintenance and Other Operating Expenses** | | | |  |  |  |
| Traveling expenses | | | 14,456,173 | - | - | 14,456,173 |
| Training expenses | | | 12,189,312 | - | - | 12,189,312 |
| Office supplies expenses | | | 14,341,903 | - | - | 14,341,903 |
| Drugs and medicines expenses | | | - | 10,712,000 | - | 10,712,000 |
| Medical, dental and laboratory supplies expenses | | | - | 733,347 | - | 733,347 |
| Fuel, oil and lubricants expenses | | | 5,727,527 | - | - | 5,727,527 |
| Military & police supplies expenses | | | - | - | - | - |
| Play/Bet slips and thermal rolls supplies expenses | | | 382,480,671 | - | - | 382,480,671 |
| Electrical supplies and materials expenses | | | 175,608 | - | - | 175,608 |
| Semi-expendable furniture, Fixtures and books expenses | | | 4,426,678 | - | - | 4,426,678 |
| Semi-expendable machinery and equipment expenses | | | 694,522 |  | - | 694,522 |
| Accountable forms expenses | | | 1,125 |  | - | 1,125 |
| Other supplies and materials expenses | | | 6,249,162 | - | - | 6,249,162 |
| Utility expenses | | | 33,416,970 | - | - | 33,416,970 |
| Communication expenses | | | 14,258,667 | - | - | 14,258,667 |
| Extraordinary and miscellaneous expenses | | | 537,499 | - | - | 537,499 |
| Professional services | | | 170,751,766 | - | - | 170,751,766 |
| General services | | | 67,393,675 | - | - | 67,393,675 |
| Repairs and maintenance | | | 6,575,205 | - | - | 6,575,205 |
| Taxes, duties and licenses | | | 24,177,656 | 14,093,583 | 950,566 | 39,221,805 |
| Fidelity bond premiums | | | 1,074,931 | - | - | 1,074,931 |
| Insurance expenses | | | 4,955,840 | - | - | 4,955,840 |
| Other maintenance and operating expenses | | |  |  |  |  |
|  | Rent expenses | | 299,496,131 | 505,336,347 | 926,449,971 | 1,731,282,449 |
|  | Advertising expenses | | 132,340,146 | - | - | 132,340,146 |
|  | Donation expenses | | 17,639,843 | - | - | 17,639,843 |
|  | Documentary stamps expenses | | 2,737,875,481 | 1,443,152,459 | - | 4,181,027,940 |
|  | Transportation and delivery expenses | | 4,025,540 | - | - | 4,025,540 |
|  | Printing and publication expenses | | 197,540,640 | - | - | 197,540,640 |
|  | Representation expenses | | 399,521 | - | - | 399,521 |
|  | Membership dues & contribution to organization | | 833,439 | - | - | 833,439 |
|  | Subscription expenses | | 262,812 | - | - | 262,812 |
|  | Directors and committee members' fees | | 4,934,400 | - | - | 4,934,400 |
|  | Lottery draws expenses | | 478,780,089 | - | - | 478,780,089 |
|  | Fees and commission - seller's share/commission (sweepstakes) | | - | - | - | - |
|  | Fees and commission - commission expenses | | - | - | 3,954,499,586 | 3,954,499,586 |
|  | Other maintenance and operating expenses | | 1,980,608,657 | 56,699,813 | - | 2,037,308,470 |
| Prize Expenses | | |  |  |  |  |
|  | Jackpot prizes | | - | - | 2,441,086,343 | 2,441,086,343 |
|  | Low Tier prizes | | - | - | 13,608,479,347 | 13,608,479,347 |
|  | Winning tickets - sweepstakes | | - | - | 2,805,375 | 2,805,375 |
|  | 5% Prize fund tax | | - | - | 936,906,925 | 936,906,925 |
|  | Seller's share (Lotto) | | - | - | - | - |
| **Total Maintenance and Other Operating Expenses** | | | **6,618,621,589** | **2,030,727,549** | **21,871,178,113** | **30,520,527,251** |
|  | | |  |  |  |  |
| **Financial Expenses** | | |  |  |  |  |
|  | **Financial charges** | | **14,347,047** | **1,036,462** | **74,800** | **15,458,309** |
|  | | |  |  |  |  |
| **Non-Cash Expenses** | | |  |  |  |  |
|  | Depreciation expenses | | 140,784,738 | - | - | 140,784,738 |
|  | Amortization-intangible assets | | 19,357,578 | - | - | 19,357,578 |
| **Total Non-Cash Expenses** | | | **160,142,316** | **-** | **-** | **160,142,316** |
| **Financial Assistance/Subsidy/Contribution** | | |  |  |  |  |
|  | Individuals | | - | 6,196,895,790 | - | 6,196,895,790 |
|  | National government agencies | | - | 949,281,875 | - | 949,281,875 |
|  | Local government units | | - | 441,002,858 | - | 441,002,858 |
|  | Non-government organizations/People's organizations | | - | 2,191,473 | - | 2,191,473 |
|  | Other charity expenses | | - | 685,623,418 | - | 685,623,418 |
| **Total Financial Assistance/Subsidy/Contribution** | | | - | **8,274,995,414** | - | **8,274,995,414** |
| **TOTAL OPERATING EXPENSES** | | | **7,646,615,120** | **10,306,759,425** | **21,871,252,913** | **39,824,627,458** |

**2018**

|  | | **Operating** | **Charity** | **Prize** | **2018** |
| --- | --- | --- | --- | --- | --- |
|  | | **(As Restated)** | **(As Restated)** | **(As Restated)** | **(As Restated)** |
| **Personnel Services** | |  |  |  |  |
| Salaries and wages | | 465,865,101 | - | - | 465,865,101 |
| Personnel economic relief allowance (PERA) | | 27,335,642 | - | - | 27,335,642 |
| Representation and transportation allowance (RATA) | | 19,799,448 | - | - | 19,799,448 |
| Clothing/Uniform allowance | | 6,962,000 | - | - | 6,962,000 |
| Subsistence allowance | | 649,200 | - | - | 649,200 |
| Laundry allowance | | 86,850 | - | - | 86,850 |
| Hazard pay | | 3,926,501 | - | - | 3,926,501 |
| Longevity pay | | 2,830,115 | - | - | 2,830,115 |
| Overtime and night pay | | 4,497,808 | - | - | 4,497,808 |
| Year -end bonus | | 78,438,580 | - | - | 78,438,580 |
| Cash gift | | 5,736,250 | - | - | 5,736,250 |
| Other bonuses and allowances | | 98,652,641 | - | - | 98,652,641 |
| Retirement and life insurance premiums | | 56,280,121 | - | - | 56,280,121 |
| Pag-IBIG contributions | | 1,397,712 | - | - | 1,397,712 |
| PhilHealth contributions | | 5,148,807 | - | - | 5,148,807 |
| Employees compensation insurance premiums | | 1,461,592 | - | - | 1,461,592 |
| Provident/Welfare fund contributions | | 93,806,450 | - | - | 93,806,450 |
| Terminal leave benefits | | 38,015,855 | - | - | 38,015,855 |
| Retirement gratuity | | 2,618,743 | - | - | 2,618,743 |
| Other personnel benefits | | (1,120,231) | - | - | (1,120,231) |
| **Total Personal Services** | | **912,389,185** | **-** | **-** | **912,389,185** |
| **Maintenance and Other Operating Expenses** | | |  |  |  |
| Traveling expenses | | 20,715,488 | - | - | 20,715,488 |
| Training expenses | | 20,958,634 | - | - | 20,958,634 |
| Office supplies expenses | | 22,044,077 | - |  | 22,044,077 |
| Drugs and medicines expenses | | - | 9,166,055 | - | 9,166,055 |
| Medical, dental and laboratory supplies expenses | | (17,200) | 606,653 | - | 589,453 |
| Fuel, oil and lubricants expenses | | 6,011,749 | - |  | 6,011,749 |
| Military & police supplies expenses | | 948 | - |  | 948 |
| Play/Bet slips and thermal rolls supplies expenses | | 297,429,220 | - | - | 297,429,220 |
| Electrical supplies and materials expenses | | 94,287 | - |  | 94,287 |
| Semi-expendable furniture, fixtures and books expenses | | 5,409,671 | - |  | 5,409,671 |
| Other supplies and materials expenses | | 6,535,743 | - | - | 6,535,743 |
| Utility expenses | | 32,807,119 | - | - | 32,807,119 |
| Communication expenses | | 15,992,573 | - | - | 15,992,573 |
| Extraordinary and miscellaneous expenses | | 5,271,826 | - | - | 5,271,826 |
| Professional services | | 149,056,510 | - | - | 149,056,510 |
| General services | | 66,807,473 | - |  | 66,807,473 |
| Repairs and maintenance | | 7,424,898 | - | - | 7,424,898 |
| Taxes, duties and licenses | | 118,401,164 | 12,250,126 | 1,414,622 | 132,065,912 |
| Fidelity bond premiums | | 1,187,272 |  |  | 1,187,272 |
| Insurance expenses | | 4,501,109 |  |  | 4,501,109 |
| Other maintenance and operating expenses | |  |  |  | - |
|  | Rent expenses | 610,628,668 | 1,021,808,798 | 1,873,316,131 | 3,505,753,597 |
|  | Advertising expenses | 149,956,068 | - | - | 149,956,068 |
|  | Donation expenses | 23,878,488 | - | - | 23,878,488 |
|  | Documentary stamps expenses | 1,134,916,671 | 8,306,939,740 | - | 9,441,856,411 |
|  | Transportation and delivery expenses | 4,450,546 | - | - | 4,450,546 |
|  | Printing and publication expenses | 130,834,334 | - | - | 130,834,334 |
|  | Representation expenses | 404,956 | - | - | 404,956 |
|  | Membership dues & contribution to organization | 954,446 | - | - | 954,446 |
|  | Subscription expenses | 325,648 | - | - | 325,648 |
|  | Directors and committee members' fees | 7,697,920 | - | - | 7,697,920 |
|  | Lottery draws expenses | 495,443,223 | - | - | 495,443,223 |
|  | Fees and commission - seller's share/commission (sweepstakes) | - | - | 1,216,875 | 1,216,875 |
|  | Fees and commission - commission expenses | - | - | 4,861,087,834 | 4,861,087,834 |
|  | Other maintenance and operating expenses | 2,859,695,057 | - | 736,812 | 2,860,431,869 |
| Prize Expenses | |  |  |  |  |
|  | Jackpot prizes | - | - | 3,772,567,635 | 3,772,567,635 |
|  | Low tier prizes | - | - | 20,790,587,255 | 20,790,587,255 |
|  | Winning tickets - sweepstakes | - | - | 1,466,364 | 1,466,364 |
|  | 5% Prize fund tax | - | - | 1,419,019,623 | 1,419,019,623 |
|  | Seller's share (lotto) | - | - | 21,452,956 | 21,452,956 |
| **Total Maintenance and Other Operating Expenses** | | **6,199,818,586** | **9,350,771,372** | **32,742,866,107** | **48,293,456,065** |
| **Financial Expenses** | |  |  |  |  |
|  | **Financial charges** | **5,800,901** | **40,180** | **243,908** | **6,084,989** |
| **Non-Cash Expenses** | |  |  |  |  |
|  | Depreciation expenses | 70,384,915 | - | - | 70,384,915 |
|  | Amortization-intangible assets |  |  |  |  |
| **Total Non-Cash Expenses** | | **70,384,915** | **-** | **-** | **70,384,915** |
| **Financial Assistance/Subsidy/Contribution** | | |  |  |  |
|  | Individuals | - | 9,991,746,580 | - | 9,991,746,580 |
|  | National government agencies | - | 885,425,422 | - | 885,425,422 |
|  | Local government units | - | 1,286,871,404 | - | 1,286,871,404 |
|  | Non-government organizations/People's organizations | - | (77,876,040) | - | (77,876,040) |
|  | Other charity expenses | - | 73,256,444 | - | 73,256,444 |
| **Total Financial Assistance/Subsidy/Contribution** | | - | **12,159,423,810** | - | **12,159,423,810** |
| **TOTAL OPERATING EXPENSES** | | **7,188,393,587** | **21,510,235,362** | **32,743,110,015** | **61,441,738,964** |

In conformity with PAS No. 8, the Expenses are restated as follows:

|  | **Amount** |
| --- | --- |
| Unrestated amount as of December 31, 2018 | 463,753,170 |
| Adjustment/Recording of Salaries and wages -regular-Head Office | (407,882) |
| Payment of Salaries and wages - regular-Head Office | 2,519,813 |
| **Restated amount as of December 31, 2018 - Salaries and wages (Operating fund)** | **465,865,101** |
|  |  |
| Unrestated amount as of December 31, 2018 | 27,273,915 |
| Adjustment/Recording of Personnel economic relief allowance-Head Office | (22,273) |
| Payment of Personnel economic relief allowance-Head Office | 84,000 |
| **Restated amount as of December 31, 2018 - PERA (Operating fund)** | **27,335,642** |
|  |  |
| Unrestated amount as of December 31, 2018 | 19,806,948 |
| Adjustment/Recording of Transportation allowance-Head Office | (3,000) |
| Adjustment/Recording of Representation allowance-Head Office | (3,000) |
| Payment of Transportation allowance-Branches | (250) |
| Payment of Representation allowance-Branches | (250) |
| Payment of Representation allowance-Head Office | (500) |
| Payment of Transportation allowance-Head Office | (500) |
| **Restated amount as of December 31, 2018 - Representation and Transportation allowance (Operating fund)** | **19,799,448** |
|  |  |
| Unrestated amount as of December 31, 2018 | 6,946,000 |
| Payment of Clothing/Uniform allowance-Head Office | 16,000 |
| **Restated Amount as of December 31, 2018 - Clothing/Uniform allowance (Operating fund)** | **6,962,000** |
|  |  |
| Unrestated amount as of December 31, 2018 | 4,302,200 |
| Payment of Overtime and night pay-Head Office | 195,608 |
| **Restated amount as of December 31, 2018 - Overtime and night pay (Operating fund)** | **4,497,808** |
|  |  |
| Unrestated amount as of December 31, 2018 | 78,001,468 |
| Payment of 13th Month pay-Head Office | 80,241 |
| Payment of Mid-year bonus-Head Office | 356,871 |
| **Restated amount as of December 31, 2018 – Year-end bonus (Operating fund)** | **78,438,580** |
|  |  |
| Unrestated amount as of December 31, 2018 | 5,716,250 |
| Payment of Cash gift-Head Office | 20,000 |
| **Restated amount as of December 31, 2018 - Cash gift (Operating fund)** | **5,736,250** |
|  |  |
| Unrestated amount as of December 31, 2018 | 98,440,644 |
| Payment of Rice allowance-Head Office | 211,997 |
| **Restated amount as of December 31, 2017 - Other bonuses and allowances (Operating fund)** | **98,652,641** |
|  |  |
| Unrestated amount as of December 31, 2018 | 55,903,113 |
| Adjustment/Recording of Retirement and life insurance premiums-Branches | (3,472) |
| Payment of Retirement and life insurance premiums-Head Office | 380,480 |
| **Restated amount as of December 31, 2018 - Retirement and life insurance premiums (Operating fund)** | **56,280,121** |
|  |  |
| Unrestated amount as of December 31, 2018 | 1,398,842 |
| Adjustment/Recording of Pag-IBIG contributions-Branches | (1,564) |
| Payment of Pag-IBIG contributions-Head Office | 434 |
| **Restated amount as of December 31, 2018 - Pag-IBIG contributions (Operating fund)** | **1,397,712** |
|  |  |
| Unrestated amount as of December 31, 2018 | 5,125,366 |
| Payment of PhilHealth contributions-Head Office | 100 |
| Payment of PhilHealth contributions-Branches | 33,450 |
| Adjustment/Recording of PhilHealth contributions-Branches | (10,109) |
| **Restated amount as of December 31, 2018 - PhilHealth Contributions (Operating Fund)** | **5,148,807** |
| Unrestated amount as of December 31, 2018 | 1,458,760 |
| Payment of Employees compensation insurance premium-Head Office | 4,400 |
| Adjustment/Recording of Employees compensation insurance premium-Branches | (1,568) |
| **Restated amount as of December 31, 2018 - Employees compensation insurance premium (Operating fund)** | **1,461,592** |
|  |  |
| Unrestated amount as of December 31, 2018 | 93,359,759 |
| Payment of Provident/Welfare fund contributions-Head Office | 446,691 |
| **Restated amount as of December 31, 2018 - Provident/Welfare Fund Contributions (Operating Fund)** | **93,806,450** |
|  |  |
| Unrestated amount as of December 31, 2018 | 37,824,706 |
| Adjustment/Recording of Terminal leave benefits-Branches | (4,541) |
| Adjustment/Recording of Terminal leave benefits-Head Office | 123,913 |
| Payment of Terminal leave benefits-Head Office | 71,777 |
| **Restated amount as of December 31, 2018 - Terminal leave benefits (Operating fund)** | **38,015,855** |
|  |  |
| Unrestated amount as of December 31, 2018 | 134,731 |
| Adjustment/Recording of Special legal counsel allowance-Head Office | 5,000 |
| Payment of Other personnel benefits-Carplan-Head Office | (1,259,962) |
| **Restated amount as of December 31, 2018 - Other personnel benefits (Operating fund)** | **(1,120,231)** |
|  |  |
| Unrestated amount as of December 31, 2018 | 20,278,442 |
| Adjustment/Recording of Travelling expenses - local - Branch | 83,415 |
| Adjustment/Recording of Travelling expenses - local - Head Office | 161,020 |
| Payment of Travelling expenses - local - Branch | (13,224**)** |
| Payment of Travelling expenses - local - Head Office | 205,835 |
| **Restated amount as of December 31, 2018 - Traveling expenses (Operating fund)** | **20,715,488** |
|  |  |
| Unrestated amount as of December 31, 2018 | 20,936,187 |
| Adjustment/Recording of Training expenses - Head Office | (92,053) |
| Adjustment/Recording of Training expenses - Branch | (0) |
| Payment of Training expenses - Local - Head Office | 114,500 |
| **Restated amount as of December 31, 2018 - Training expenses (Operating fund)** | **20,958,634** |
|  |  |
| Unrestated amount as of December 31, 2018 | 16,364,984 |
| Adjustment/Recording of Reclassification of Office supplies expenses - Branch | 28,419 |
| Adjustment/Recording of Reclassification of Office supplies expenses - Head Office | 5,648,188 |
| Payment of Office supplies expenses - Head Office | 2,486 |
| **Restated amount as of December 31, 2018 - Office supplies expenses (Operating fund)** | **22,044,077** |
|  |  |
| Unrestated amount as of December 31, 2018 | 5,896,842 |
| Adjustment/Recording of Fuel, Oil and Lubricants Expenses - Branch | (0) |
| Payment of Fuel, Oil and Lubricants Expenses - Branch | 71,076 |
| Payment of Fuel, Oil and Lubricants Expenses - Head Office | 43,831 |
| **Restated amount as of December 31, 2018 - Fuel, Oil and Lubricants Expenses (Operating Fund)** | **6,011,749** |
|  |  |
| Unrestated amount as of December 31, 2018 | 5,475,247 |
| Adjustment/Recording of Semi-expendable expenses - Branch | (65,576) |
| **Restated amount as of December 31, 2018 - Semi-expendable furniture, fixtures and books expenses (Operating fund)** | **5,409,671** |
|  |  |
| Unrestated amount as of December 31, 2018 | 4,999,818 |
| Adjustment/Recording of Other supplies and materials expenses - Head Office | 758,366 |
| Adjustment/Recording of Other supplies and materials expenses - Branch | 15,298 |
| Payment of Other supplies and materials expenses - Branch | (161,405) |
| Payment of Other supplies and materials expenses - Home Office | 923,666 |
| **Restated amount as of December 31, 2018 - Other supplies and materials expenses (Operating fund)** | **6,535,743** |
| Unrestated amount as of December 31, 2018 | 31,054,755 |
| Adjustment/Recording of Electricity expenses - Branch | 20,296 |
| Payment of Water expenses - Branch | 2,656 |
| Adjustment/Recording of Water expenses - Branch | (3,100) |
| Payment of Electricity expenses - Head Office | 1,610,004 |
| Payment of Water expenses - Head Office | 122,508 |
| **Restated amount as of December 31, 2017 - Utility expenses (Operating fund)** | **32,807,119** |
|  |  |
| Unrestated amount as of December 31, 2018 | 93,587 |
| Payment of Electrical supplies and materials expense - Head Office | 700 |
| **Restated amount as of December 31, 2018 - Electrical supplies and materials expenses (Operating fund)** | **94,287** |
|  |  |
| Unrestated amount as of December 31, 2018 | 14,976,713 |
| Adjustment/Recording of Postage and courier services expenses - Branch | (4,926) |
| Adjustment/Recording of Postage and courier services expenses - Head Office | (122,100) |
| Payment of Postage and courier services expenses - Head Office | 130,696 |
| Payment of Telephone expenses - landline - Head Office | 303,510 |
| Adjustment/Recording of Telephone expenses - landline - Branch | 9,971 |
| Adjustment/Recording of Telephone expenses - mobile - Branch | (24,332) |
| Payment of Telephone expenses - mobile - Head Office | 40,987 |
| Payment of Internet expenses - Head Office | 682,054 |
| **Restated amount as of December 31, 2018 - Communication expenses (Operating fund)** | **15,992,573** |
|  |  |
| Unrestated amount as of December 31, 2018 | 256,727 |
| Adjustment/Recording of Confidential expenses - Head Office | 5,000,000 |
| Payment of Extraordinary and miscellaneous expenses - Head Office | 15,099 |
| **Restated amount as of December 31, 2018 - Extraordinary and miscellaneous expenses (Operating fund)** | **5,271,826** |
|  |  |
| Unrestated amount as of December 31, 2018 | 944,068 |
| Adjustment/Recording of Membership dues & contribution to organization - Branch | (1,000) |
| Adjustment/Recording of Membership dues & contribution to organization - Head Office | 11,378 |
| **Restated amount as of December 31, 2018 - Membership dues & contribution to organization (Operating fund)** | **954,446** |
|  |  |
| Unrestated amount as of December 31, 2018 | 146,519,525 |
| Adjustment/Recording of Auditing services expenses - Branch | (926) |
| Payment of Auditing services expenses - Head Office | 9,190 |
| Adjustment/Recording of legal services expenses - Branch | (180) |
| Adjustment/Recording of consultancy services expenses - Head Office | (40,500) |
| Payment of Other professional services - Head Office | 2,250,310 |
| Payment of Consultancy services expenses - Head Office | 319,091 |
| **Restated amount as of December 31, 2018 - Professional services (Operating fund)** | **149,056,510** |
|  |  |
| Unrestated amount as of December 31, 2018 | 58,112,005 |
| Adjustment/Recording of Janitorial services - Head Office | (436,513) |
| Payment of Janitorial services - Head Office | 825,095 |
| Payment of Security services - Head Office | 8,306,886 |
| **Restated amount as of December 31, 2018 - General services (Operating fund)** | **66,807,473** |
|  |  |
| Unrestated amount as of December 31, 2018 | 7,379,964 |
| Adjustment/Recording of Repairs & maintenance-motor vehicles - Branch | (18,400) |
| Adjustment/Recording of Repairs & maintenance-motor vehicles - Head Office | (976,755) |
| Adjustment/Recording of Repairs & maintenance-other machinery and equipment - Head Office | (16,618) |
| Adjustment/Recording of Repairs and maintenance-office equipment - Head Office | (5,600) |
| Adjustment/Recording of Repairs and maintenance-leasehold improvements, buildings - Head Office | 330,572 |
| Adjustment/Recording of Repairs and maintenance-leasehold improvements, buildings - Branch | 55,411 |
| Payment of Repairs & maintenance expenses - leasehold improvements, buildings - Head Office | 77,753 |
| Payment of Repairs & maintenance-other machinery and equipment - Head Office | 10,786 |
| Payment of Repairs & maintenance-motor vehicles - Head Office | 587,785 |
| **Restated amount as of December 31, 2018 - Repairs and maintenance Expenses (Operating fund)** | **7,424,898** |
|  |  |
| Unrestated amount as of December 31, 2018 | 118,266,392 |
| Adjustment/Recording of Taxes, duties and fees - Branch | 284 |
| Adjustment/Recording of Taxes, duties and fees - Head Office | 134,338 |
| Payment of Taxes, duties and fees - Head Office | 150 |
| **Restated amount as of December 31, 2018 - Taxes, duties and licenses (Operating fund)** | **118,401,164** |
|  |  |
| Unrestated amount as of December 31, 2018 | 12,153,637 |
| Adjustment/Recording of Taxes, duties and fees - Head Office | 96,489 |
| **Restated amount as of December 31, 2018 - Taxes, duties and licenses (Charity fund)** | **12,250,126** |
|  |  |
| Unrestated amount as of December 31, 2018 | 1,414,161 |
| Adjustment/Recording of Taxes, duties and fees - Head Office | 461 |
| **Restated amount as of December 31, 2018 – Taxes, duties and licenses (Prize fund)** | **1,414,622** |
|  |  |
| Unrestated amount as of December 31, 2018 | 609,890,784 |
| Adjustment/Recording of Rent expenses - building - Branches | 90,552 |
| Payment of Rent expenses - copier - Head Office | 647,332 |
| **Restated amount as of December 31, 2018 - Rent (Operating fund)** | **610,628,668** |
|  |  |
| Unrestated amount as of December 31, 2018 | 147,914,867 |
| Payments of Advertising expenses - Head Office | 3,256,201 |
| Adjustments/Recording of Advertising expenses - Head Office | (1,215,000) |
| **Restated amount as of December 31, 2018 - Advertising expenses (Operating fund)** | **149,956,068** |
|  |  |
| Unrestated amount as of December 31, 2018 | 24,100,994 |
| Adjustment/Recording of Donation expenses - Head Office | (242,506) |
| Payment of Donation expenses - Head Office | 20,000 |
| **Restated amount as of December 31, 2018 - Donation expenses (Operating fund)** | **23,878,488** |
|  |  |
| Unrestated amount as of December 31, 2018 | 4,456,223 |
| Payment of Transportation & delivery expenses - Branch | (1,805) |
| Adjustment/Recording of Transportation & delivery expenses - Branch | (3,872) |
| **Restated amount as of December 31, 2018 - Transportation and delivery expenses (Operating fund)** | **4,450,546** |
|  |  |
| Unrestated amount as of December 31, 2018 | 7,365,120 |
| Payment of COLA and amelioration-Board of Directors - Head Office | 332,800 |
| **Restated amount as of December 31, 2018 - Directors and committee members' fees (Operating fund)** | **7,697,920** |
|  |  |
| Unrestated amount as of December 31, 2018 | 383,146 |
| Adjustment/Recording of Representation expenses - Head Office | 21,810 |
| **Restated amount as of December 31, 2018 - Representation expenses (Operating fund)** | **404,956** |
|  |  |
| Unrestated amount as of December 31, 2018 | 303,546 |
| Payment of Subscription expenses - Head Office | 22,102 |
| **Restated amount as of December 31, 2017 - Subscription expenses (Operating fund)** | **325,648** |
|  |  |
| Unrestated amount as of December 31, 2018 | 495,337,823 |
| Adjustment/Recording of Holding of Lottery draws - STL - Branch | 21,675 |
| Payment of Holding of Lottery draws - STL - Head Office | 83,725 |
| **Restated amount as of December 31, 2018 - Lottery draws expenses (Operating Fund)** | **495,443,223** |
|  |  |
| Unrestated amount as of December 31, 2018 | 2,857,461,453 |
| Adjustment/Recording of Job order – Head Office | (202,835) |
| Payment of Job order - Head Office | 420,229 |
| Payment of Lotto draw allowance - Head Office | 833,919 |
| Payment of Miscellaneous expenses - Operating fund - Branch | 25,000 |
| Adjustment/Recording of Miscellaneous expenses - Operating fund - Branch | (102,065) |
| Adjustment/Recording of Miscellaneous expenses - Operating fund - Head Office | 1,005,488 |
| Payment of Miscellaneous expenses - Operating fund - Head Office | 253,868 |
| **Restated amount as of December 31, 2018 - Other maintenance and operating expenses (Operating fund)** | **2,859,695,057** |
|  |  |
| Unrestated amount as of December 31, 2018 | 1,419,032,123 |
| Adjustment/Recording of 5% Prize fund tax - sweepstakes - Head Office | (12,500) |
| **Restated amount as of December 31, 2018 - 5% Prize fund tax (Prize fund)** | **1,419,019,623** |
|  |  |
| Unrestated amount as of December 31, 2017 | 3,819,831,848 |
| Adjustment/Recording of Prizes-Lotto-Jackpot-Head Office | (47,264,213) |
| **Restated amount as of December 31, 2018 - Jackpot prizes (Prize fund)** | **3,772,567,635** |
|  |  |
| Unrestated amount as of December 31, 2017 | 20,781,925,789 |
| Adjustment/Recording of Prizes-Keno-Lower Prize Above 10,000 -Branches | 17,000 |
| Adjustment/Recording of Prizes-Keno-Lower Prize Above 10,000 -Head Office | 1,451,706 |
| Adjustment/Recording of Prizes-Lotto-Lower Prize Above 10,000 -Branches | (40,582) |
| Adjustment/Recording of Prizes-Lotto-Lower Prize Above 10,000 -Head Office | 7,185,342 |
| Payment of Prizes-Keno-Lower Prize Above 10,000 -Head Office | 48,000 |
| **Restated amount as of December 31, 2017 - Low tier prizes (Prize fund)** | **20,790,587,255** |
|  |  |
| Unrestated amount as of December 31, 2018 | 1,436,364 |
| Adjustment/Recording of Prizes-Sweepstakes-Lower Prize Above 10,000-Head Office | 30,000 |
| **Restated amount as of December 31, 2018 – Winning tickets - sweepstakes (Prize fund)** | **1,466,364** |
|  |  |
| Unrestated amount as of December 31, 2018 | 5,715,592 |
| Adjustment/Recording of Other financial charges - Head Office | 67,100 |
| Adjustment/Recording of Bank charges - Head Office | 9,261 |
| Adjustment/Recording of Bank charges - Branch | 8,948 |
| **Restated amount as of December 31, 2018 - Financial charges (Operating fund)** | **5,800,901** |
|  |  |
| Unrestated amount as of December 31, 2018 | 70,202,559 |
| Adjustment/Recording of Depreciation expenses - furniture and fixtures - Branch | 259 |
| Adjustment/Recording of Depreciation expenses - machinery & equipment - office equipment - Branch | 46,210 |
| Adjustment/Recording of Depreciation expenses - other leasehold improvements - Branch | 2,125 |
| Adjustment/Recording of Depreciation expenses - lease assets improvements - Branch | 67,959 |
| Adjustment/Recording of Depreciation expenses - machinery & equipment - other property, plant & equipment - Branch | 57,823 |
| Adjustment/Recording of Depreciation expenses - machinery & equipment - information & communication equipment - Branch | 7,980 |
| **Restated amount as of December 31, 2018 - Depreciation expenses (Operating fund)** | **70,384,915** |
|  |  |
| Unrestated amount as of December 31, 2018 | 606,653 |
| Adjustment/Recording of Reclassification of Medical, dental & laboratory supplies expenses - Head Office | (17,200) |
| **Restated amount as of December 31, 2018 - Medical, dental & laboratory supplies expenses** | **589,453** |
|  |  |
| Unrestated amount as of December 31, 2017 | 8,999,843,302 |
| Adjustment/Recording of EMAP-Branch | (297,708) |
| Adjustment/Recording of EMAP-Head Office | 1,704,107 |
| Adjustment/Recording of IMAP-Branch | (18,994,726) |
| Adjustment/Recording of IMAP-Head Office | 962,333,525 |
| Adjustment/Recording of Endowment fund-Head Office | (3,963,197) |
| Adjustment/Recording of IMAP Help Desk-Head Office | (91,375) |
| Payment of EMAP-Branch | 58,677 |
| Payment of EMAP-Head Office | 2,456,299 |
| Payment of IMAP-Branch | (315,892) |
| Payment of IMAP-Head Office | 32,626,417 |
| Payment of IMAP Help Desk-Head Office | 16,387,151 |
| **Restated amount as of December 31, 2018 - Individuals (Charity fund)** | **9,991,746,580** |
|  |  |
| Unrestated amount as of December 31, 2018 | 1,050,751,644 |
| Adjustment/Recording of Congressional share-Head Office | (22,261,407) |
| Adjustment/Recording of National Bureau of Investigation-Head Office | (29,866) |
| Adjustment/Recording of Philippine National Police-Head Office | (74,354,023) |
| Adjustment/Recording of National Commission of Indigenous Peoples-Head Office | (44,000,000) |
| Adjustment/Recording of National Voluntary Blood Services Program-Head Office | (25,000,000) |
| Payment of Quezon Institute (RA No. 4703)-Head Office | 319,074 |
| **Restated amount as of December 31, 2018 - National government agencies (Charity fund)** | **885,425,422** |
|  |  |
| Unrestated amount as of December 31, 2018 | 1,428,031,121 |
| Adjustment/Recording of Share of LGU on Charity fund-Head Office | (140,819,365) |
| Payment of Share of LGU on Charity fund-Head Office | (340,352) |
| **Restated amount as of December 31, 2018 - Local government units (Charity fund)** | **1,286,871,404** |
|  |  |
|  |  |
| Unrestated amount as of December 31, 2018 | 771,137 |
| Adjustment/Recording of CMW Scholarship Foundation-Head Office | (78,647,177) |
| **Restated amount as of December 31, 2018 - Non-government organizations/People's organizations (Charity fund)** | **(77,876,040)** |
|  |  |
| Unrestated amount as of December 31, 2018 | 198,977,833 |
| Adjustment/Recording of Other Health and Welfare Related Programs-Head Office | 315,803 |
| Adjustment/Recording of National Shelter Program-Head Office | (83,876,582) |
| Adjustment/Recording of Purchase of Medical dental/hospital equipment and supplies-Head Office | (29,564,950) |
| Adjustment/Recording of Regular Beneficiary - Head Office | (22,129,500) |
| Adjustment/Recording of Charity fund - Peryahan/STL | 9,719,045 |
| Payment of Aids for Victims of National Calamities-Head Office | (185,205) |
| **Restated amount as of December 31, 2018 - Other charity expenses (Charity Fund)** | **73,256,444** |

1. **LEASE AGREEMENTS**

*PCSO as a lessee*

**Variable lease payments based on sales**

The PCSO entered into equipment lease agreement with Philippine Gaming Management Corporation (PGMC), Pacific Online and Systems Corporation and Total Gaming Technologies, Inc., as lessee covering the on-line lottery equipment and accessories for PCSO’s on-line lottery operation nationwide. PCSO paid the following rates of the gross amount of tickets purchased through the respective terminals of the service providers as lease fee.

**Right-of-use Assets**

PCSO entered into lease agreement with the following companies for PCSO’s Main Office and the PCSO has determined that all significant risks and rewards of ownership of this property remain with the lessor.

The PCSO shall pay the lessor the total amount of rental and with an escalation rate of 5% per annum.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Conservatory Building** | **Sun Plaza Building** | **Parking Slot** |
| Amount of Rent | 4,318 sq.m. at initial rate of P1,029.00/sq.m. | 3,803.5 sq.m. at initial rate of P1,029.00/sq.m. | 56 slots at P4,708.5045 |
| Remaining Lease term | 2 years | 2 years | 2 years |
| Total | 109,303,261 | 96,279,517 | 6,486,436 |
| Discount rate | 5.18% | 5.18% | 5.18% |
| Net Present Value | 103,554,505 | 91,215,738 | 6,145,285 |
| Balance at January 1, 2019 | 103,554,505 | 91,215,738 | 6,145,285 |
| Depreciation charge for the year | 51,777,252 | 45,607,869 | 3,072,642 |
| **Balance at December 31, 2019** | **51,777,253** | **45,607,869** | **3,072,643** |

The amounts of principal and interest that comprised of each rental payments are shown in the amortization table below:

| **Period** | **Opening Balance** | **Interest Expense** | **Principal Payment** |
| --- | --- | --- | --- |
| 1-Jan-19 | P 200,915,528 | P - | P - |
| 30-Jan-19 | 193,162,113 | 867,285 | 7,753,415 |
| 28-Feb-19 | 185,375,230 | 833,816 | 7,786,883 |
| 30-Mar-19 | 177,554,733 | 800,203 | 7,820,497 |
| 30-Apr-19 | 169,700,478 | 766,445 | 7,854,255 |
| 30-May-19 | 161,812,319 | 732,540 | 7,888,159 |
| 30-Jun-19 | 153,890,109 | 698,490 | 7,922,210 |
| 30-Jul-19 | 145,933,702 | 664,292 | 7,956,407 |
| 30-Aug-19 | 137,942,949 | 629,947 | 7,990,753 |
| 30-Sep-19 | 129,917,703 | 595,454 | 8,025,246 |
| 30-Oct-19 | 121,857,815 | 560,812 | 8,059,888 |
| 30-Nov-19 | 113,763,134 | 526,019 | 8,094,681 |
| 30-Dec-19 | 105,633,512 | 491,078 | 8,129,622 |
| **Total** |  | **P8,166,381** | **P95,282,016** |

1. **SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE UNDER REVENUE REGULATION NOS. 15-2010 AND 19-2011**

The following information are presented for purposes of filing with the BIR and are not a required part of the basic financial statements:

**Revenue Regulation No. 15-2010**

Withholding Taxes for 2019

Withholding taxes paid and accrued during the year is as follows:

|  |  |
| --- | --- |
|  | **Amount** |
| Withholding tax on compensation | 52,358,641 |
| Withholding tax at source (expanded) | 517,894,598 |
| **Total** | **570,253,239** |

Other Taxes and Licenses for 2019

Details of the PCSO’s documentary stamp tax paid or accrued are as follows:

|  |  |
| --- | --- |
| **Tax Type** | **Amount** |
| Final tax | 1,695,900,615 |
| Final VAT withheld | 222,940,838 |
| Documentary stamp tax | 9,123,882,853 |
| Fringe benefit tax | - |
| Corporate income tax | 2,146,376,721 |
| **Total** | **13,189,101,027** |

1. **RELATED PARTY TRANSACTIONS**

The Corporation’s related parties include the Corporation’s key management personnel as described below.

**Compensation of Key Management Personnel of the Corporation**

The compensation of key management personnel included in the Administrative Expenses in the Statements of Comprehensive Income amounted to P5,552,080.01 and P10,553,231.70 for the years 2019 and 2018, respectively, as short-term employee benefits.

Short-term employee benefits include annual salaries, allowances, honoraria, and other non-monetary benefits.

1. **PENDING LEGAL CASES**

Presently, there are 38 pending cases at the PCSO Legal Department related to lotto, sweepstakes and other gaming operations. These are categorized into civil, criminal and other cases against erring sweepstakes and lotto agents.

|  |  |  | **No. of Cases** | **Total Amount  (Principal/Interest/MRR)** |
| --- | --- | --- | --- | --- |
| I. Criminal Cases | | |  |  |
|  | A. Sweepstakes Defaulted Accounts | |  |  |
|  |  | Provincial Distributors | 2 | 5,799,486.06 |
|  |  | Sales Representatives | 3 | 5,603,767.75 |
|  |  | Authorized Agents | 3 | 4,140,000.00 |
|  |  | Sales Manager | 1 | 15,319.20 |
|  |  | Sub-total | 9 | 15,558,573.01 |
|  | B. Lotto Defaulted Accounts | |  |  |
|  |  | National Capital Region (NCR) Department | 11 | 12,936,052.77 |
|  |  | Northern and Central Luzon (NCL) Department | 2 | 5,349,524.91 |
|  |  | Visayas and Mindanao Department | 7 | 10,080,357.57 |
|  |  | Sub-total | 20 | 28,365,935.25 |
|  | Total | | 29 | 43,924,508.26 |
| II. Civil Cases | | |  |  |
|  | A. Sweepstakes Defaulted Accounts | |  |  |
|  |  | Provincial Distributors | 5 | 7,901,224.49 |
|  |  | Sales Supervisors | 1 | 548,895.66 |
|  |  | Sub-total | 6 | 8,450,120.15 |
|  | B. Lotto Defaulted Accounts | |  |  |
|  |  | National Capital Region (NCR) | 3 | 6,398,424.98 |
|  |  | Sub-total | 3 | 6,398,424.98 |
|  | Total | | 9 | 14,848,545.13 |
| **Grand Total** | | | **38** | **58,773,053.39** |
| Other Cases | | |  |  |
|  | A. TMA Group of Companies Pty. Ltd. | |  |  |
|  | B. Philippine Gaming and Management Corporation | |  |  |
|  | C. DFNN Inc. | |  |  |
|  | D. Globaltech Mobile Online Corporation | |  |  |

**Status Report of PCSO Cases**

| **Case Title** | **Nature** | **Cause of Action** | **Status** |
| --- | --- | --- | --- |
| **TMA** |  |  |  |
| TMA Group of Companies Pty. Ltd., et al vs. PCSO, Chairman Margarita P. Juico, et al. (Civil Case No. 11-310, RTC-Makati City, Branch 66) | Specific Performance and Mandatory Prohibitory Injunction with Prayer for TRO and/or Preliminary Injunction | PCSO suspended and later on, terminated the Contractual Joint Venture Agreement with TMA for the supply of paper in PCSO’s gaming operations. | Decision dated 05 December 2017.  Order of Execution dated 18 January 2018 and 13 February 2018.  Garnishment of P707,223,555.41.  PCSO filed a Notice of Appeal as of December 2017. |
| TMA Group of Companies Pty. Ltd. vs. PCSO, Dirs. Joaquin, Mamba, Nantes & Tolentino (Special Civil Case No. 11-569, RTC-Makati City, Branch 66) | Indirect contempt | The alleged purchase of paper supply by PCSO to POSC and PGMC during the existence of a writ of preliminary injunction dated 16 May 2011 | Awaiting Order resetting the hearing on Plaintiff’s initial presentation of evidence. |
| PCSO, et al. vs. TMA Group of Companies Pty., Ltd. et al. (G.R. No. 212143) | Petition for Review on Certiorari with Urgent Motion for Issuance of a TRO and/or writ of preliminary injunction | Assails the issuance of the writ of preliminary injunction dated 16 May 2011 | Filed Petition for Review on Certiorari with Urgent Motion for Issuance of TRO and WPI. A TRO dated 20 October 2014 was issued against TMA to stop it from unloading paper and at prices fixed by the 6 November 2013 Order the in Civil Case No. 11-310. Parties filed a Joint Motion for Suspension of Proceedings on 18 June 2015. SC’s 20 January 2016 Resolution noted Respondents’ Manifestation to immediately inform the Court once the parties have arrived at mutually acceptable Compromise Agreement. |
| PCSO et al vs. TMA Group of Companies Pty. Ltd. (G.R. No. 225457) | Petition for Review on Certiorari | Assails the Decision and Resolution of the Court of Appeals dismissing PCSO’s petition for certiorari and affirming the orders of the RTC-Makati City, Branch 133 in Civil Case No. 11-310 granting TMA’s Motion for the Issuance of Writ of Execution against PCSO for the amount of P82,354,037.32 representing the deliveries of lotto paper supply pursuant to the 6 November 2013 Order. | Filed on 22 August 2016 |
| PCSO et. al vs. RTC et al. (CA G.R. No. SP No. 143220) | Certiorari | Assailing the Orders dated 18 May 2016 and 20 September 2016 of RTC-Makati City, Branch 66 directing PCSO to order paper from TMA. | Filed on 05 December 2016. Filed Reply to Comment on 10 April 2017 |
| PCSO vs. Hon. Judge Joselito Villarosa (G.R. No. 236888) | Petition for Certiorari | TRO and Injunction application on the Order of Execution dated 18 January 2018 of RTC-Makati 66 | Consolidated with the two other SC petitions ((G.R. No. 212143 and G.R. No. 225457)  Decision dated 28 August 2019:  WHEREFORE, the Court rules as follows:  (1) In G.R. No. 212143, the Petition for Review on Certiorari is GRANTED. The Court of Appeals' Decision dated March 27, 2014 in CA-G.R. SP No. 132655, is REVERSED and SET ASIDE. The Orders dated May 13, 2011, September 4, 2013 and November 6, 2013 of the Regional Trial  Court of Makati City, Branch 59, in Civil Case No. 11-310 are DECLARED VOID AND OF NO FORCE AND EFFECT;  (2) In G.R. No. 225457, the Petition for Review on Certiorari is GRANTED. The Court of Appeals' Decision dated February 4, 2016 and Resolution dated June 27, 2016 are REVERSED and SET ASIDE. The Orders dated June 11, 2014 and August 12, 2014 of the Regional Trial Court of Makati City, Branch 133 in Civil Case No. 11-310 are DECLARED VOID AND OF NO FORCE AND EFFECT; and  (3) In G.R. No. 236888, the Petition for Certiorari is GRANTED. The Order dated January 18, 2018 of the Regional Trial Court of Makati City, Branch 66 in Civil Case No. 11-310 is ANNULLED and SET ASIDE.  (4) TMA Group of Companies Pty Ltd. (now known as TMA Australia Pty Ltd.), and TMA Group Philippines, Inc., are ORDERED to RETURN the amount of P707,223,555.44 representing the amount garnished under the Order dated January 18, 2018 of the Regional Trial Court of Makati City, Branch 66 in Civil Case No. 11-310.  SO ORDERED.  TMA filed Motion for Reconsideration dated 20 November 2019  PCSO filed in March 2020 a Manifestation and Urgent Motion to Resolve. |
| Verified Complaint against Judge Villarosa  Supplemental Complaint | Admin before the OCA | Assailing the propriety of issuing order of execution as it run counters to rules of COA. Supplemental was filed with respect to garnishment of P707,223.555.41. | Judge Villarosa was required to submit Comment on the Verified Complaint |
| PCSO v. Judge Joselito Villarosa, TMA Group of Companies, Pty. Ltd. and TMA, CA-G.R.SP. No. 156017 (Petition for Certiorari and Mandamus)before the Court of Appeals | Petition for Certiorari and Mandamus | Assailing the 21 March 2018 Order of RTC-Makati granting the Motion for Execution of the Decision dated 05 December 2017 with prayer to direct Judge Villarosa to transmit the records of the case to the Court of Appeals as a result of the filing of a Notice of Appeal by PCSO. | Filed on 01 June 2018. Pending with the CA. Resolution dated 10 July 2018 requiring:   1. Respondent to Comment and petitioners to file a Reply, if necessary. 2. As to the prayer for TRO/WPI, await Comment and/or Reply. 3. Directed to inform the court of other cases filed involving these parties and issues. |
| TMA Australia Pty Ltd. & TMA Group Philippines, Inc, v. Philippine Charity Sweepstakes Office  R-MKT-19-02461-SC | Indirect Contempt |  | Comment/Opposition filed on 8 August 2019  TMA filed Request for Admission of Documents  PCSO filed a Manifestation before the Court of the 28 August 2019 Supreme Court Decision |
| Verified Complaint against Judge Winlove Dumayas | Admin before the OCA | Assailing the propriety of issuing the 13 May 2011 Order and 16 May 2011 Writ of Preliminary Injunction and the 6 November 2013 Order | Pending before the OCA |
| TMA Group of Companies Pty. Ltd. (Now Known as TMA Australia Pty. Ltd.) and TMA Group Philippines, Inc., *Plaintiffs-Appellees* vs. Philippine Charity Sweepstakes Office, Margarita P. Juico, Ma. Aleta Tolentino, Mabel V. Mamba, Francisco G. Joaquin III, Betty B. Nantes, and Jose Ferdinand M. Rojas II  CA-G.R. CV No. 112683 | Appeal | Assailing the Decision dated 5 December 2017 in Civil Case No. 11-310 | PCSO has submitted its Appellant’s Brief dated 1 August 2019.  TMA submitted Consolidated Appellees’ Brief |
| **PGMC** |  |  |  |
| Consolidated cases: Philippine Gaming Management Corporation vs. PCSO, et al. (Civil Case No. 12530 and Civil Case No. 12-011, RTC-Makati City, Branch 143) | Indirect contempt with application for TRO and/or Preliminary Injunction | PCSO allegedly violated the Order dated 22 December 2005 and Writ of Execution dated 02 February 2006 of RTC-Makati City, Branch 143 confirming the Arbitral Decision granting exclusivity to PGMC to operate online lotto terminals in Luzon | PCSO filed Manifestation and Motion on the dismissal of the case in light of the Arbitral Decision dated 20 February 2018.  Confirmed Arbitral Award dated May 25, 2018  PGMC filed a Motion for Reconsideration and a Motion for Inhibition. PCSO filed its Comment.  PCSO filed a Motion for Execution of the confirmed Arbitral Award.  Order of Inhibition was issued by RTC-Br. 143.  -Re-raffled to Branch 135  -Petition to Vacate Award filed by PGMC. In an Order dated 02 April 2018, the court required PCSO to file Comment/Opposition on the Petition to Vacate Arbitral Award of PGMC filed before RTC-Branch 148 (Judge Soriano)  Order dated 18 September 2019 denying PCSO Motion for Reconsideration on Joint Order dated 22 March 2019.  Motion to Withdraw Petition was filed by PGMC on 25 September 2019    Motion to Withdraw Petition for Indirect Contempt filed 25 September 2019 |
| PCSO vs. PGMC (CA-G.R. NO. 128259, Court of Appeals)  PCSO vs. PGMC  (G.R. No. 228801) | Petition for certiorari with TRO and/or writ of preliminary injunction  Petition for Review on Certiorari | PCSO assails the RTC’s denial of PCSO’s Motion to Dismiss and Supplemental Motion to Dismiss and its Motion for Reconsideration of the said denial in the indirect contempt cases for lack of jurisdiction and non-compliance with the condition precedent prior to arbitration, among others.  Assails the CA’s dismissal of PCSO’s petition | The CA dismissed the petition upon motion of PCSO pursuant to the agreement of PCSO and PGMC under the 2015 Supplemental and Status Quo Agreement. Considering that PGMC opposed the dismissal of the indirect contempt cases, contrary to the said Agreement, PCSO filed a Motion for Reconsideration, which was denied by CA.  After deliberating on the Petition for Review on Certiorari assailing the Resolutions dated 01 March 2016 and 2 November 2016 of the CA (CA-GR SP 128259), the Court, without necessarily giving due course, resolved to require respondent to Comment within 10 days from notice.    PCSO filed Manifestation and Motion on the dismissal of the case in light of the Arbitral Decision dated 20 February 2018. |
| **DFNN INC.** |  |  |  |
| PCSO vs. DFNN Inc. (DFNNI) (G.R. No. 234193) | Petition for Review on Certiorari before the Supreme Court | Assails the Decision dated 17 November 2016 of the Court of Appeals dismissing PCSO’s petition. The CA likewise denied PCSO’ MR.  PCSO prays for the reversal of the said Order granting DFNN’s petition for correction on the ground of lack of jurisdiction by RTC-Makati City, Branch 66 since there is no evident miscalculation of figures to justify correction. | Filed on 13 October 2017.  PCSO is awaiting the SC’s decision |
| PCSO vs. DFNN (G.R. No. 232801) | PCSO’s Petition for Review on Certiorari before the Supreme Court | Assails the Decision dated 20 February 2017 and Resolution dated 10 July 2017 of the Court of Appeals granting DFNN’s Petition assailing the Order dated 11 April 2016 of the RTC-Mandaluyong City, Branch 212 denying the motion to consolidate PCSO’s petition with DFNN Inc.’s petition before RTC-Makati City, Branch 66 and affirming its jurisdiction over PCSO’s petition for confirmation of Arbitral Award dated 21 May 2015.  The Mandaluyong RTC was directed to consolidate the Petition for Confirmation with the Petition for Correction before the Makati RTC. | PCSO Petition filed on 11 August 2017.  PCSO is now awaiting the SC’s decision. |
| COA Claim DFNN | Money Claim | In light of the Order of Execution of the corrected Arbitral Award | Filed by DFNN on 23 January 2017.  PCSO already filed the Answer on 1 March 2017.  PCSO is awaiting the COA’s Decision. |
| PCSO v. DFNN (CA-G.R. Sp No. 150401) | Petition for Certiorari  Petition for Review on Certiorari  SC | Order of Execution granted by the RTC of the corrected Arbitral Award | CA dismissed PCSO’s Petition. On 31 May 2019  PCSO filed an MR. On  18 July 2019 Resolution directed DFNN to file Comment  Motex to File Comment/Opposition dated 26 July 2019  CA denied the MR on 27 September 2019  Filed 15 November 2019 |
| **GLOBALTECH** |  |  |  |
| Globaltech Mobile Online Corporation vs. PCSO (Civil Case No. 75149-PSG, RTC-Pasig City, Branch 161) | Amended Complaint for Preliminary Injunction and Referral to Arbitration | Assails PCSO’s termination on 17 February 2016 of its Deed of Authority to Operate the Peryahan Games | Order of Execution  PCSO filed a Motion for Reconsideration |
| Remeliza Gabuyo vs. Jose Aguiling, et al. (Directors and officers of Globaltech Mobile Online Corp.) | Criminal Complaint for estafa | Estafa was filed for Globaletch’s act of misappropriating Peryahan sales due to PCSO in the amount of P708,037,074.06. | PCSO’s Motion for Reconsideration of dismissal of the criminal complaint (25 January 2017) was denied by the Office of the City Prosecutor.  Petition for Review is pending before the DOJ. |
| Global Mobile Corporation vs. PNP, Dagupan Pangasinan  Civil Case No. 2018-0001-D | Injunction and damages with prayer for TRO and WPI | TRO and Injunction to stop the PNP to arrest Globaltech employees operating Peryahan games. PCSO was impleaded.  Dismissed by Court  Resolution dated 10 May 2019 – Motion for Reconsideration of Globaltech was granted. | Fourth TRO hearing dated 23 March 2018  TRO application of Globaltech.  PCSO filed Answer and Comment to TRO.  Denied TRO - 23 March 2018  Hearing on 20 September 2018  MR on Denied TRO is Denied - Order dated 17 September 2018. |
| Globaltech v. PO3 Reynold Luspo, et al. (for Damages) docketed as Civil Case No. 2018-757 before the Regional Trial Court, Branch 39 of Cagayan de Oro |  | Case filed by Globaltech against members of the police and PCSO’s STL agent who conducted operations against the Peryahan ng Bayan within Cagayan de Oro | PCSO Motion for Intervention  The RTC admitted PCSO’s intervention. In addition, PCSO filed a Comment/Opposition against Globaltech’s Motion to Archive the case pending negotiations with the police officers and the defendants. PCSO’s position is that the negotiation, if this is illegal and the case should be dismissed for lack of cause of action. |
| Globaltech v. Saturn Gaming N’ Amusement Corp., Atty. Dante Gierran and Atty, Antonio Pagatpat, NBI (for Damages) as Civil Case Man-8009 before the Regional Trial Court, Branch 88 of Mandaue City |  | Case filed by Globaltech against members of the police and PCSO’s STL agent who conducted operations against the Peryahan ng Bayan within Mandaue City, Cebu. | PCSO’s motion for intervention with attached Answer-in-Intervention is pending resolution. The RTC required Globaltech to file Comment. The NBI has also filed its Answer. |

1. **DIVIDENDS PAYABLE**

Section 3 of RA No. 7656 dated November 9, 1993 and its Revised Implementing Rules and Regulations (IRR) require Government Owned and/or Controlled Corporations (GOCC) to declare and remit at least fifty per cent (50%) of their annual earnings as dividends to the National Government.

The Commission on Audit (COA) issued audit observations pertaining to PCSO’s non-payment of dividends for CYs 2012, 2013 and 2014 in the total amount of P4,034,319,731. However, due to the provision in R.A No. 1169, otherwise known as the “PCSO Charter”, PCSO is mandated that all balances of any funds shall regularly revert to and form part of the Charity Fund, thus, there is nothing left to be declared and remitted as dividend. This matter has been referred to the Department of Finance (DOF).

On March 16, 2016, the DOF clarified PCSO’s exemption from RA No. 7656, in its reply to the COA’s inquiry regarding the applicability of The Dividends Law to PCSO.

The DOF confirms that PCSO is not exempt from RA No. 7656, however, DOF recognizes that PCSO’s Charter, RA No. 1169, mandates that all balances of any funds will be reverted to and form part of the Charity Fund.

Likewise, DOF, through its then Asst. Secretary and Officer-in-Charge of the Corporate Affairs Group and the Privatization and Office of Special Concerns shared that *“DOF, PCSO and Governance Commission for Government-Owned and/or Controlled Corporations (GCG) on 25 August 2015, it was agreed that PCSO will have to revert all accumulated surplus to the Charity Fund in compliance with its Charter; then, DOF shall further reassess PCSO’s outstanding dividend due, if any.*”

DOF also recognized that PCSO does not have any outstanding dividends due covering prior years until 2014, since unutilized Operating Fund was transferred to the Charity Fund.

On December 20, 2016, the Office of the Government Corporate Counsel (OGCC) rendered an opinion on the applicability of the Dividends Law to PCSO. The OGCC is of the opinion that since PCSO’s earnings has already been allocated, the remittance of 50% of its income to the National Treasury is a violation of PCSO’s mandate. OGCC mentioned that “*while PCSO cannot remit dividends to the National Government, it is the public at large that in a way reaps the benefits through the vital public service that they render, funding individual and institutional assistance, as well as special programs*”. It was further recommended that any deviation from PCSO’s Charter should have corresponding amendment to the mandate of the law creating it.

In the DOF’s letter dated May 18, 2017, it was specified that PCSO has an outstanding dividend due to National Government in the amount of P4,034.32 million for Fiscal Years (FYs) 2012 to 2014 and P1,202.50 million for FY 2016 or a total of P5,236.82 million.

On January 17, 2018, the COA Legal Services Sector, rendered an Opinion on the nature and extent of the obligation of the PCSO relative to the declaration and remittance of dividends to the National Government under RA No. 7656 and its IRR.

The COA Legal Affairs Office is of the position that “*Section 3 of R.A. 7656 provides that all GOCCs shall declare and remit at least 50% of their annual earnings as cash stock or property dividends to the National Government while Section 6(D) of R.A. No. 1169 provides that all balances of any funds in the PCSO shall revert to and form part of the Charity Fund*.” It further stated that “*the provisions should be interpreted in a way that they can be harmonized in accordance with the rules on statutory construction. Thus, the interpretation that any balance from the Operating Fund will be reverted back to Charity Fund only after the declaration and remittance of the required dividends under R.A. No. 7656, is more in accord with the purposes and intents of the two laws*.”

The COA Legal Affairs Office concluded that pending the approval of the President exempting the PCSO from the unpaid dividends, the provision of RA No. 7656 on the remittance of dividends should be applied in conjunction with PCSO’s Charter.

In May 2018, PCSO remitted Pesos: Two Billion Five Hundred Thirty Five Million Two Hundred Eighty Nine Thousand One Hundred Fourteen and 49/100 (P2,535,289,114.49) to the Bureau of the Treasury, representing the Dividend due for CY 2017.

As of December 31, 2019, the PCSO is still negotiating with the DOF if indeed the PCSO would be required to remit P8.422 billion for CYs 1994 to 2016. PCSO is in close contact with the Corporate Affairs Group of the DOF, on the proposed settlement of arrears in Dividends.