**AFP RETIREMENT AND SEPARATION BENEFITS SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

(All amounts in Philippine Peso unless otherwise stated)

# GENERAL INFORMATION

The Armed Forces of the Philippines Retirement and Separation Benefits System (AFPRSBS or the “System” for brevity) was created and duly organized under and by virtue of Presidential Decree (PD) No. 361 which was promulgated on December 30, 1973. It was established as a funding mechanism to ensure the continuous payment of retirement and separation benefits due to the members of the AFP. The System formally started its operations in 1976. To further strengthen the viability of its operations, certain provisions of PD No. 361 pertaining to membership and rate of contributions were amended by PD No. 1656 dated December 21, 1979 and PD No. 1909 dated March 22, 1984.

The System was not able to discharge its mandate originally set out in PD No. 361 because it has not paid a single peso for retirement benefits of the retiring AFP personnel. All payments of retirement benefits to AFP military personnel, before and after the promulgation of its Charter, have been made from the regular annual appropriation of AFP as set out in the General Appropriation Act (GAA). Thus, Executive Order (EO) Nos. 590 and 590A were issued in December 15, 2006 and January 31, 2007, respectively, mandating the deactivation of the AFPRSBS and directing the transfer of its assets in trust to a government financial institution (GFI).

The Board of Liquidators (BOL), originally consisting of 11 active members or retired members but currently having nine members and two seats vacancy due to resignation, is the policy making body of the System. All members were appointed by the AFP Chief of Staff who also appointed the President/Chief Executive Officer (CEO) and the Executive Vice President (EVP)/Chief Operating Officer (COO) of the System. The President/CEO, as well as the EVP/COO, takes charge of the day to day affairs of the organization. In a letter request for the Department of National Defense (DND) dated March 31, 2019, the System requested for authority not to fill up the positions vacated by the representatives from the retired AFP Officers and AFP Enlisted Personnel. The same is still pending approval. As at December 31, 2019, the System has 63 regular, 37 casual, three contractual and 12 project-hired employees or a total workforce of 115 personnel.

The financial statements of the System as of and for the year ended December 31, 2019 (including the comparative financial statements as of and for the year ended December 31, 2018) were authorized and approved for issue on June 10, 2020.

The registered business and office address of the System is at No. 424 Capinpin Avenue, Camp General Emilio Aguinaldo, Quezon City. It has no other offices within and outside the Philippines, except for a Satellite Office located at No. 70, Commission Civil Street corner Lincoln Street, Jaro, Iloilo City.

# STATUS OF OPERATIONS

In pursuance to Memorandum Order (MO) No. 90, the System continuously engages itself in various business operations necessary to wind down its operations. These include the management of funds invested in the stock market, money market, treasury bills, government bonds, corporate loans, real estate properties, and equity holdings in subsidiaries and affiliates. It also manages its interests and participation in real estate projects such as, commercial and subdivision projects, memorial parks, golf courses, and, for some, in partnership with reputable real estate developers. In the course of its management of the remaining commercial and small business loans, the System also acquires through foreclosure proceedings and *dacion en pago* arrangements on mortgaged real estate properties as payment for the full or partial settlement of the loan obligations of the borrowers. The inventory of developed lots, condominium units, and acquired assets are being offered for sale to the military personnel and to the public as well either in retail or bulk sale.

The disposal of some of the assets, however, is still hindered by the unavailability of the titles in the name of the System, some legal cases, and presence of illegal tenants on some of the raw lands that were acquired. As a result, the projected profits and returns from these ventures may not be fully realized. Related effects of adverse conditions, if any, will be reported in the financial statements, as they become known and measurable.

Management is implementing measures which are geared towards reducing operational costs, generating profits, and ensuring liquidity to fund the return of the remaining liability to the members and to meet the System’s commitments to its customers, suppliers and stakeholders, and at the same time strengthen the overall financial position of the System.

In its meeting on April 19, 2016, the BOL approved the stoppage of the collection of five per cent members’ contributions and the accrual of interests thereon effective March 31, 2016 (Board Resolution No. SPL-01-2016). The Implementation of Accelerated Refund of Members’ Contributions was approved by the BOL on June 13, 2018. Consequently, it was approved by the Governance Commission for GOCCs (GCG) En Banc, subject to several conditions, per letter from GCG dated September 7, 2018. Policies and procedures for the implementation of the Accelerated Refund Program were established in coordination with AFP Units and AFPRSBS commenced the pay-out of Accelerated Refund starting January 2019. The System stopped the granting of Advance Refund Loans as a result of the implementation of the Accelerated Refund of members’ contributions. As at December 31, 2019, a total of P3.185 billion in principal and interests was refunded to 17,140 members/claimants.

During the year, the System was not able to consummate any disposal of the major real estate assets and equity shares which were projected to earn a total income of P2.410 billion. The planned disposals of some of the major real estate assets and equity shares are still awaiting approval from the GCG, hence, the bidding process pertaining to the disposal of the same did not push through. The System conducted the biddings for the sale of two of its subsidiaries, Southern Utilities and Management Services, Inc. (SUMSI) and Enchanted Kingdom, Inc. (EKI). The sale did not push through during the year.

The financial statements have been prepared on a going-concern basis assuming that the System will continue operating in the normal course of business, and do not include any adjustment relating to the recoverability of asset carrying values or the amount of liabilities that might result in the system’s inability to continue its operations in the normal course of business. The normal operation is geared towards the winding down objective of disposal/liquidation of the assets and eventual refund of all members’ contributions.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that are used in the preparation of these financial statements are summarized below. The policies are consistently applied to all the years presented, unless otherwise stated.

# Basis of financial statement preparation

* + - 1. Statement of compliance with Philippine Financial Reporting Standards

## The accompanying financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) and approved by the Philippine Board of Accountancy (BOA) based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

* + - 1. Presentation of financial statements

## The financial statements are presented in accordance with PAS 1, *Presentation of Financial Statements.* The System presents all items of income and expenses in a single statement of comprehensive income (SCI).

* + - 1. Basis of measurement

## The financial statements are prepared on historical cost basis except for the equity securities which are measured at fair value.

* + - 1. Accrual basis of accounting

## In accordance with PAS 1, *Presentation of Financial Statements,* the financial statements, except for cash flow information, have been prepared using the accrual basis of accounting.

* + - 1. Functional and presentation currency

## The financial statements are presented in Philippine Peso, which is the System’s functional and presentation currency. All amounts are rounded off to the nearest peso, unless otherwise indicated.

# Adoption of New and Amended PFRSs

* + - 1. Effective in 2019 that are relevant to the System

The System adopted for the first time the following amendment and annual improvement to PFRS, which is mandatorily effective for annual periods beginning on or after January 1, 2019:

* PFRS 16, *Leases* - The new standard supersedes PAS 17, *Leases*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).
* For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Based on the System’s assessment, this new standard has no impact in its financial statements since the lease contracts entered into (AFPRSBS as lessee) pertains only to the lease of its photocopier and office space in Iloilo which are both short-term in nature and of low value assets.

* PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture -* The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture–to which the equity method is not applied–must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. The System has assessed that this new standard has no impact in its financial statements.
  + - 1. Effective in 2019 that are not relevant to the System

* PFRS 9 (Amendment), *Financial Instruments–Prepayment Features with Negative Compensation*-The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the Solely Payments of Principal and Interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVTOCI). Management has assessed that this amendment has no significant impact on the System’s financial statements.
* IFRIC 23, *Uncertain over Income Tax Treatments-*The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the System to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the System has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management has assessed that this amendment has no significant impact on the System’s financial statements since all income derived by AFPRSBS from its operations is exempt from income tax pursuant to PD No. 361.
* PAS 19 (Amendments), *Employee Benefits-*The amendments in Plan, Amendment, Curtailment or Settlement 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; and in addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

* Annual Improvements to PFRS 2015 to 2017 Cycle:
  + PAS 12 (Amendments), *Income taxes–Tax Consequences of Dividends*. The amendments clarify that all income tax consequences on dividend payments should be recognized in profit or loss.
  + PAS 23 (Amendments), *Borrowing costs–Eligibility for Capitalization -* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity’s general borrowings when calculating the capitalization rate for capitalization purposes.
  + PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements*–*Remeasurement of Previously Held Interests in a Joint Operation-*The amendments clarify that previously held interest in a joint operation shall be remeasured when the System obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the System obtains joint control of the business.

* + - 1. New and Amended PFRSs issued but not yet effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2019 and have not been applied in preparing the financial statements are summarized below:

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

* Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the Revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
* PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors-*Clarifies the definition of ‘material’ to align the definition used in Conceptual Framework and the standards themselves. It provides that Information is material if omitting, misstating or obscuring, it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the System.

# Revenue recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or overtime. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the System performs its obligations; (b) the System’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the System’s performance does not create an asset with an alternative use to the System and the System has an enforceable right to demand payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

Revenue from contracts with customers is recognized when control of the goods and services is transferred to the customer in an amount that reflects the consideration to which the System expected to be entitled in exchange for those goods and services.

The following specific recognition criteria must also be met before revenue is recognized:

* + - 1. Revenue from Real estate sales

Real estate sales are accounted for under the full accrual method of accounting where revenue is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the System does not have substantial continuing involvement with the subject properties.

The collectability of the sales price is considered reasonably assured when: (a) the buyers have actually confirmed the acceptance of the related loan applications after the same have been delivered to and approved by either the Home Development Mutual Fund (HDMF), banks, or other financing institutions for externally-financed accounts; or (b) the full down payment required in the sales contract or comprising a substantial portion of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the installment and deferred cash payment arrangement.

* + - 1. Rental income

Rental income from investment property is accounted for on a straight-line basis over the lease term.

* + - 1. Interest income

Interest income is recognized as the interest accrues, taking into account the effective yield of the financial instrument or the installment receivable from real estate sales.

* + - 1. Gain from sale of investment

Revenue is recognized upon consummation of the sale transaction. Under this method, gross profit is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process and sales documentation are virtually complete; and (c) the System does not have substantial continuing involvement with the subject investment.

* + - 1. Dividend income

Dividend income is recognized when the right to receive payment is established.

* + - 1. Share from income of equity holdings

Revenue is recognized equal to the System’s percentage of ownership from its subsidiaries and controlled entities’ declared net income for a specific period.

# Cash and cash equivalents

### Cash includes cash on hand and in banks. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amount of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

# Financial assets

* + - 1. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

These financial assets are carried at fair values and are presented in the non-current assets section of the System’s Statement of Financial Position. Changes in the fair value of such assets are recognized in other comprehensive income and presented within reserves in the unrealized gain or loss on FVOCI financial assets portion. When an equity instrument classified at FVOCI is derecognized, the cumulative gains or losses cannot be transferred/recycled to profit or loss anymore. While when debt instrument classified at FVOCI is derecognized, the gain or loss is transferred to profit or loss. For the remaining stock investments of AFPRSBS, the System elected to measure these financial assets at FVOCI.

* + - 1. Financial Assets at Amortized Cost

These instruments are financial assets with fixed or determinable payments and fixed maturities. It meets both of the following conditions and is not designated as at fair value through profit or loss (FVPL):

* It is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
* Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The System’s cash and cash equivalents, short-term investments (money market placement and treasury bills), and long-term bonds are included under this category.

* + - 1. Loans and receivables

Loans and receivables are stated at the outstanding balance reduced by an allowance for doubtful accounts. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as non-current assets except for those reclassified under the current portion.

Unearned interest is amortized to income over the term of the loan, using the effective interest method. Interest on loans is accrued as earned.

Allowance for expected credit losses is measured in accordance with the provisions of PFRS 9.

* + - 1. Impairment of financial assets

AFPRSBS assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. The System adopts the expected credit loss (ECL) model in measuring credit impairment in accordance with PFRS 9. In this respect, it shall recognize credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. The amount of the loss shall be recognized in profit or loss.

* + - 1. Derecognition of financial assets

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

* The rights to receive cash flow from the asset have expired; and
* The System has transferred its rights to receive cash flows from the 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.

Where the System has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the System’s continuing involvement in the 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 or the maximum amount of consideration that the System could be required to repay.

In the event that the transaction qualifies for the derecognition of equity instruments classified as FVOCI by the System, the difference between the consideration received and the carrying amount of financial assets is recognized as realized gain/loss and reported in the profit or loss statement while the cumulative unrealized gain/loss reported in other comprehensive account remains within the equity.

# Real estate inventories

Inventories are carried at the lower of cost and net realizable value (NRV). The average cost method is used in calculating the actual cost per square meter (sqm) of the inventories. The average cost method is calculated by dividing the actual total cost by the total number of sellable area for each project.

# Supplies and materials inventory

### Supplies and materials inventory are valued at cost determined on a moving average basis.

# Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at carrying amounts equivalent to the percentage of the entities’ net assets or equity since the System prepares separate financial statements from its subsidiaries and associates. The System does not prepare consolidated financial statements as required by PFRS since majority of the audited financial statements of the System’s subsidiaries which are either closed or have ceased operations are not available.

The System recognizes, in its statements of comprehensive income, its equity share in the net earnings or losses of subsidiaries and associates since dates of acquisition. Dividends received are recognized in profit or loss section of the separate financial statements of the System when the right to receive the dividend is established.

An allowance is set up for any substantial and presumably permanent decline in the carrying values of the investments in shares of stock.

# Investments in real estate

Investments in real estate are carried at cost and presented in the statement of financial position. These consist of raw land properties which are not available for sale.

# Investment property

The investment account is carried at cost less any accumulated depreciation and any impairment in value. Depreciation is computed using the straight-line method over its estimated useful life. The average useful life of the asset is 20 years.

# Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and to the location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to expenses in the period the costs are incurred. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| **Assets** | **Estimated useful life** |
| --- | --- |
| Building and improvements/land improvements | 10–30 years |
| Furniture and equipment, computer hardware | 5–10 years |
| Machinery and equipment | 10 years |
| Transportation equipment (motor vehicle) | 7 years |

# Acquired assets

Assets acquired in full or partial settlement of loans are recorded at the book value or bid price, whichever is lower. Holding costs subsequent to the foreclosure, acquisition or consolidation of the properties are charged to operations if the book value is already equal or higher than the market value. These assets are shown under either “Investments in real estate” or “Other assets” account, depending on the Management’s intention.

The System closes the loan account in AFPRSBS books after consolidation and consequently records the foreclosed property as newly acquired asset.

An allowance for probable losses is set up for any anticipated significant decline in value of the property based on the appraisal reports and current negotiations and programs to dispose of these properties to interested parties.

# Provisions

Provisions are recognized under the following conditions: (a) when the System has a present obligation, whether legal or constructive, as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

In prior years, provisions for contingencies were accrued when it is probable that a liability had been incurred at statement of financial position date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed only.

# Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

# Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

# Events after the reporting date

Post year-end events that provide additional information about the System’s financial position at the end of reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

# CASH AND CASH EQUIVALENTS

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| Cash on hand | **543,002** | 645,959 |
| Cash in banks | **31,837,538** | 31,404,613 |
| Cash equivalents | **866,000,000** | 130,000,000 |
|  | **898,380,540** | 162,050,572 |

Cash in banks earn interest at the respective bank deposit interest rates. Cash equivalents consist of money market placements and other fixed-income securities with maturities of three months or less and which earn interest at the respective short-term deposit interest rates.

In 2015, the System recorded a Provision for Garnishment Loss amounting to P45.657 million as a result of the garnishment of the System’s deposits with the bank due to the civil case that was filed by a Developer against Matrix Realty and Development Corporation (MRDC), a closed subsidiary of AFPRSBS. A corresponding liability was set-up for the same amount. The provision was approved by the Board of Trustees in its February 15, 2016 meeting. Although the System is not a party to the case, it was held liable for the judgment obligation of MRDC by virtue of the Alias Writ of Execution dated August 6, 2015 and the Order issued on May 7, 2015 piercing the veil of corporate fiction of MRDC, both issued by the Quezon City Regional Trial Court (RTC) Branch 93.

On January 22, 2016, the Branch Manager of the private bank issued a Manager’s Check with the same amount in favor of the complainant Developer. The bank account amounting to P45.657 million was closed after the release of the fund by the private bank.

The System appealed the decision of Quezon City RTC Branch 93 with the Court of Appeals (CA). The CA thru a Notice of Judgment dated May 31, 2016 decided in favor of the AFPRSBS stating that the System is not liable to the said civil case. Subsequently, said Developer filed a motion for reconsideration (MR) with the CA on June 22, 2016. As at December 31, 2019, the case is still awaiting further resolution/disposition of the Honorable CA with regard to the MR filed by adverse party.

# SHORT-TERM INVESTMENTS

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| Government securities | **2,272,365,014** | 4,280,787,493 |
| Marketable securities | **1,101,000,000** | 1,811,958,600 |
|  | **3,373,365,014** | 6,092,746,093 |

Short-term investments include money market placements and treasury bills that earn interest at quoted rates ranging from 0.60 to 6.45 per cent per annum for calendar year (CY) 2019.

# RECEIVABLES – NET

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Receivable from sale of real estate properties in  JV projects | **5,213,860** | 5,213,860 |
| (Forward)  Receivable from JV partner *(note 27.2)* | **29,222,384** | 20,127,108 |
| Accrued interest on loans and investments | **57,253,215** | 69,681,920 |
| Non-trade receivables | **16,156,306** | 16,154,550 |
| Receivable from employees/others | **5,317,608** | 5,205,009 |
| Advances to contractors | **1,750,452** | 1,750,452 |
| Management fees *(note 27.2)* | **2,673,074** | 2,673,074 |
| Other receivables | **531,009,473** | 525,987,957 |
|  | **648,596,372** | 646,793,930 |
| Allowance for doubtful accounts | **(73,879,623)** | (73,879,623) |
|  | **574,716,749** | 572,914,307 |

Receivable from JV partner includes collections made by various JV partners and the regrouping of Installment Contracts Receivable (ICR)–current to ICR Past due particularly Village East III accounts.

Management fees refer to royalty fees received by the System from various subsidiaries.

Other receivables include receivables from Industrial Park lessees and advances to employees and suppliers. This also includes the System’s receivable from the persons liable amounting to P266.589 million resulting in the audit disallowance and charge which have become final and executory under Supreme Court (SC) Decision in GR No. 217948 dated January 12, 2016. Accordingly, a Notice of Finality of Decision (NFD) and COA Order of Execution (COE) were issued. In 2019, however, the Notice of Charge (NC) amounting to P16.271 million was reversed by the System based on the Notice of Settlement of Suspension/Disallowance/Charge (NSSDC) No. 18-001/NC 2010-07-001 (1996) dated June 27, 2018 that was issued by COA. As at December 31, 2019, the receivable has a balance of P248.153 million or a decrease of P18.436 million from the original amount. The account likewise includes interests on loans and investments that were accrued on various commercial papers whose interests are payable, quarterly, annually, or upon maturity.

# LOANS RECEIVABLE – NET

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Accounts under litigation | **776,535,403** | 526,629,004 |
| Medium-term loans *(note 27.2)* | **145,801,793** | 80,527,822 |
| Past due loans | **124,603,879** | 374,820,444 |
| Short-term loans | **1,453,823** | 71,561,750 |
|  | **1,048,394,898** | 1,053,539,020 |
| Allowance for doubtful accounts | **(349,323,950)** | (349,323,950) |
| Unearned interest income | **(117,267,326)** | (117,267,326) |
|  | **581,803,622** | 586,947,744 |
| Current portion of short-term and medium-term loans | **(147,255,615)** | (152,089,572) |
|  | **434,548,007** | 434,858,172 |

Short-term loans represent the remaining outstanding balance of the multi-purpose and discounting of commutation of leave credits loans that were extended by the System to its members. These loans bear interest rates comparable to the prevailing market rates. After the issuance of MO No. 90 on April 8, 2016, the System stopped the granting of all loans to members except the advance refunds. The same, however, was also eventually terminated starting January 2019 due to implementation of the accelerated refund of members’ contributions both to retired and active military personnel.

Medium-term loans represent outstanding balances of loans granted by the System to its members and employees and some private companies.

Past due loans represent uncollected balances of loans that remained unpaid for more than 180 days. These loans, including accounts under litigation, are secured by mortgages on real estate, except on a few accounts. The amount is not fully provided with allowance.

# REAL ESTATE INVENTORIES - NET

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Club share inventories | **1,006,170,705** | 1,004,632,596 |
| Other inventories | **2,931,439,533** | 2,946,941,976 |
|  | **3,937,610,238** | 3,951,574,572 |
| Allowance for decline in value of inventories | **(78,904,016)** | (76,203,580) |
|  | **3,858,706,222** | 3,875,370,992 |

This account consists of real estate inventories held for sale in the ordinary course of business.

Club share inventories represent the System’s shareholdings in golf clubs and sports and country clubs. These clubs were built inside the premises of the System’s commercial and residential subdivision projects and serve as additional amenities of the project. The System exercises the voting rights of the shares during the annual stockholder’s meeting of the club.

Other inventories consist of commercial and residential subdivision projects which represents the real estate projects which were developed either by the System or under a JV arrangement with reputable real estate developers. These projects include residential estates, memorial parks, golf courses and commercial areas. The System sells its inventories from these projects through accredited marketing companies and real estate brokers.

Member-related projects represent the condominium and apartment units in various AFP camps which were built by the System. These units are being leased by the AFP to qualified AFP officers and enlisted personnel whose quarters allowance are being used to pay for the monthly rentals. The rental fees being remitted by the AFP to the System are recognized as income. Once the AFP pays the System the cost of a building, the ownership is then transferred to the AFP. As at December 31, 2019, the remaining units for transfer to the AFP are those located in Gamu Isabela, Fort Magsaysay, Manaoag Pangasinan, Jamindan Capiz, Bukidnon, Cagayan De Oro, Zamboanga Del Sur and Awang Maguindanao.

As at December 31, 2019, there are still possible remaining deliverables of the System to the Riviera Golf Club, Inc. and the Riviera Sports and Country Club, Inc.

# OTHER CURRENT ASSETS

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| Prepaid tax | **16,803,259** | 14,273,642 |
| Prepaid commissions | **10,324,667** | 13,234,630 |
| Prepaid supplies and materials | **961,824** | 1,216,052 |
| Prepaid insurance | **341,979** | 473,227 |
| Prepaid rental | **101,400** | 101,400 |
| Prepaid subscriptions/membership | **0** | 368,360 |
| Prepaid repairs and maintenance | **0** | 95,354 |
|  | **28,533,129** | 29,762,665 |

Prepaid tax pertains to advance payments for real property taxes for the various properties of the System.

Prepaid commissions pertains to the partial payments of commissions to brokers/ marketing agents relative to the sale of the System’s real estate inventories.

Prepaid insurance pertains to the payments made for insurance premium of the System’s properties which are being amortized over the covered period.

The prepaid rental pertains to the System’s security deposit for the office space being leased by the System in Iloilo City.

# INSTALLMENT CONTRACTS RECEIVABLE – NET

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| ICR from sale of real estate inventory | **740,692,660** | 1,169,326,743 |
| ICR from sale of acquired assets | **4,143,599** | 4,143,599 |
| Past due ICR | **79,608,831** | 139,830,368 |
|  | **824,445,090** | 1,313,300,710 |
| Allowance for doubtful accounts | **(165,323,009)** | (165,323,009) |
|  | **659,122,081** | 1,147,977,701 |

ICR accounts represent the balances of contract receivables arising from the sale of real estate inventories and acquired assets which were financed by the System through in-house financing scheme. The receivables are collectible within a period of one to 15 years with interest at prevailing market rates. The transactions are covered with contracts to sell. Corresponding titles to the real estate sold are transferred to the buyers only upon full payment of the contract price.

The decrease in ICR from sale of real estate inventory pertains primarily to the collection of quarterly amortizations from sale of the Green Meadows Iloilo Phase 2 Project amounting to P355.679 million. As at December 31, 2019, the outstanding balance of the receivables from Sta. Lucia Land, Inc. is P431.821 million payable quarterly until March 2021.

All real estate sales of the System in 2019 are on spot cash and one-year cash bases and maximum two years term for deferred sales in line with the three-year winding down of AFPRSBS.

Past due ICRs represent the uncollected balance that remained unpaid for more than 180 days. The amount is not fully provided with allowance.

# INVESTMENT IN BONDS

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
|  |  |  |
| Retail treasury bonds | **3,075,621,273** | 1,629,900,970 |
| Development Bank of the Philippines (DBP) long-term commercial paper (LTCP) | **1,000,000,000** | 500,000,000 |
| Treasury bonds | **999,663,957** | 2,779,091,843 |
| Landbank of the Philippines (LBP) LTCP | **0** | 300,000,000 |
|  | **5,075,285,230** | 5,208,992,813 |

The investments earn an average yield of 4.28 per cent interest per annum with terms ranging from two to 10 years for CY 2019.

# NON-CURRENT INVESTMENTS

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Stock investments | **29,750,541** | 9,851,502 |
| Money market placement (MMP) | **2,495,730** | 2,449,903 |
|  | **32,246,271** | 12,301,405 |

Stock investments are measured at FVOCI which is inclusive of the cumulative unrealized gain/(loss) on financial assets in the amount of P13.826 million and (P6.073 million) for 2019 and 2018, respectively. All of the stock investments are listed and traded in the Philippine Stock Exchange (PSE).

The account also includes the restricted MMP with DBP in the amount of P2.496 million which was used as collateral in the pending case with Department of Labor and Employment (DOLE). The System is a respondent to the labor case filed by the employees of a security agency whose services was contracted by the System. As at December 31, 2019, the case is still awaiting resolution.

The following table shows the fair value of each stock investment at the end of the reporting period:

|  | **2019** | 2018 |
| --- | --- | --- |
|  |  |  |
| Philippine Airlines, Inc, (PAL) | **23,407,108** | 2,839,991 |
| PSE | **5,040,000** | 5,184,000 |
| Premium Leisure Corp. (PLC) | **1,145,700** | 1,608,000 |
| Ionics Manufacturing, Inc. (IONICS, Inc.) | **156,000** | 217,200 |
| Metro Pacific, Inc. (MPI) | **1,733** | 2,311 |
| **Total** | **29,750,541** | 9,851,502 |

Dividends on FVOCI equity instruments are recognized in profit or loss when the right to receive payments is established. The following table shows the cash dividends recognized during the period:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Stock | Ex date | Record date | Date payable | Rate | No. of shares | Dividends |
| PLC | 22-Feb-19 | 08-Mar-19 | 22-Mar-19 | 0.05024 | 2,010,000 | 100,982 |
| MPI | 15-Mar-19 | 20-Mar-19 | 3-Apr-19 | 0.076 | 498 | 38 |
| PSE | 27-Mar-19 | 30-Apr-19 | 10-May-19 | 8.8000 | 28,800 | 253,440 |
| Total |  |  |  |  |  | **354,460** |

# ADVANCES TO SUBSIDIARIES AND ASSOCIATES – NET

This account consists of non-interest bearing cash advances to the following subsidiaries of the System:

|  | **2019** | 2018 |
| --- | --- | --- |
| Bay Resources and Development Corporation (BRADCO) | **12,960,480** | 12,960,480 |
| Monterrosa Development Corporation (MDC) | **12,953,745** | 12,683,745 |
| Matrix Realty and Development Corporation (MRDC) | **5,894,093** | 5,894,093 |
| Veterans Electronics Communications, Inc. (VECI) | **1,768,761** | 1,768,761 |
| (Forward)  Public Securities Corporation | **0** | 1,420,991 |
| Others | **877,041** | 659,520 |
|  | **34,454,120** | 35,387,590 |
| Allowance for doubtful accounts | **(16,416,120)** | (17,837,110) |
|  | **18,038,000** | 17,550,480 |

The audited financial statements of BRADCO as at December 31, 2017 reflected a liability to AFPRSBS representing interest amounting to P10.211 million for the advances that it acquired from the System in previous years. The amount is not yet included in the System’s books pending submission of the relevant supporting documents.

A 100 per cent allowance was provided for advances to subsidiaries which have already been closed and ceased operations, such as the VECI and the MRDC. Allowances were also provided for advances that remained uncollected for more than a year.

# INVESTMENTS IN SUBSIDIARIES–NET

Investments in subsidiaries which are booked at carrying amounts equivalent to the percentage of the entities’ net assets or equity consist of the following:

|  | **Percentage of ownership** | | **2019** | 2018 |
| --- | --- | --- | --- | --- |
| **Investment in subsidiaries-acquisition cost** |  | |  |  |
| Monterrosa Development Corporation | 100.00 | | **873,927,445** | 873,927,445 |
| Bay Resources and Development Corporation | 50.00 | | **402,000,000** | 402,000,000 |
| Veterans Electronics Communications, Inc. | 90.65 | | **126,738,598** | 126,738,598 |
| Aguinaldo Theater Enterprises, Inc. | 50.00 | | **120,000,000** | 120,000,000 |
| Resources Investment House | 100.00 | | **102,123,549** | 102,123,549 |
| Matrix Realty Development Corporation | 100.00 | | **35,931,250** | 35,931,250 |
| Goodfit Manufacturing Corporation (GMC) | 79.99 | | **25,556,920** | 25,556,920 |
| Fashion Link Corporation (FLC) | 100.00 | | **20,100,000** | 20,100,000 |
| Globan Fruits and Development Corporation (GFDC) | | 100.00 | **10,000,000** | 10,000,000 |
| Southern Utility Management and Services, Inc. | 100.00 | | **10,000,000** | 10,000,000 |
| General Satellite Communications, Inc. (GSC) | 62.00 | | **2,906,238** | 2,906,238 |
| RSBS Enterprises, Inc. (REI) | 100.00 | | **2,500,000** | 2,500,000 |
| RSBS Land, Inc. (RLI) | 100.00 | | **994,170** | 994,170 |
|  |  | | **1,732,778,170** | 1,732,778,170 |
|  |  | |  |  |
| **Investment in associates-acquisition cost** |  | |  |  |
| Marilaque Land, Inc. (MLI) | 40.00 | | **609,000,000** | 609,000,000 |
| Amtrust Holdings, Inc. | 10.92 | | **127,000,000** | 127,000,000 |
| Advent Capital and Finance Corporation | 14.02 | | **71,183,811** | 71,183,811 |
| First Dominion Prime Holdings, Inc. | 00.93 | | **15,418,269** | 15,418,269 |
| CEMX, Inc. | 24.00 | | **6,000,000** | 6,000,000 |
| Cyquest, Inc. | 40.00 | | **2,000,000** | 2,000,000 |
|  |  | | **830,602,080** | 830,602,080 |
| **Net adjustments** |  | |  |  |
| Accumulated equity in net losses, beginning |  | | **(310,398,516)** | (523,645,805) | |
| Equity in net earnings for the year |  | | **8,112,085** | 213,247,289 | |
| Accumulated equity in net losses, ending |  | | **(302,286,431)** | (310,398,516) | |
| (Forward)  Cumulative liquidating dividends - SUMSI |  | | **(20,500,000)** | (20,500,000) | |
| Liquidating Dividend – RICH & CEMX |  | | **(13,031,947)** | (10,031,947) |
| Deferred income |  | | **(196,508,125)** | (196,508,125) |
| Allowance for decline in value |  | | **(453,242,681)** | (453,242,682) |
|  |  | | **(985,569,184)** | (990,681,270) |
|  |  | | **1,577,811,066** | 1,572,698,980 |

Deferred income represents the System’s 40 per cent share in the unrealized gain arising from the transfer in 1995 of certain real estate property of the System to MLI in exchange for the latter’s shares of stock.

On October 22, 2014, RLI officially obtained an approval from the Securities and Exchange Commission (SEC) shortening the term of its existence thereby dissolving the corporation as of said date. In July 2015, the Notes Payable by the System to RLI of P40.400 million and the corresponding accrued interest expense of P16.590 million in the System’s books were already closed to the balance of the investment recorded in the said subsidiary after Management approved the turnover/transfer of the receivables of the dissolved subsidiary to the System. The System is already in the process of closing the remaining RLI investment in its books and the corresponding adjustment will be made upon approval by Management.

The other subsidiaries and associates which have closed and/or ceased operations are the GMC, FLC, GFDC, CEMX, Inc., GSC, REI and Cyquest, Inc. Some of these companies have not been formally dissolved pending completion of certain documentary requirements of the SEC and the Bureau of Internal Revenue (BIR).

The disposal of the shares owned by the System in EKI has undergone two failed public biddings in 2019 and the negotiated sale that was undertaken for the same also failed since there was no interested buyer. On the disposal of SUMSI shares, a protest was filed by the losing bidder and resolved later in 2019. Hence, the re-bidding was scheduled in the first quarter of CY 2020 and a winning bidder was declared on March 12, 2020.

# INVESTMENTS IN REAL ESTATE - NET

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Landbanking assets | **1,771,613,029** | 1,771,807,854 |
| Allowance for decline in value of investment in real estate | **(41,559,544)** | (41,559,544) |
|  | **1,730,053,485** | 1,730,248,310 |

The landbanking assets refer to undeveloped real estate properties of the System located in various parts of the country. These assets are not yet being offered for sale to the public.

The System’s member-related projects, which consist of on-base housing units under lease-purchase arrangement with the AFP, are depreciated using straight-line method over their estimated useful lives at an average of 25 years.

# INVESTMENT PROPERTY – NET

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| Building and building improvements at the Industrial Park | **122,661,551** | 122,661,551 |
| Accumulated depreciation | **(107,862,572)** | (107,862,572) |
| Direct cost, net of amortization | **5,088,000** | 5,344,000 |
|  | **19,886,979** | 20,142,979 |

Investment property consists of the cost of buildings and building improvements constructed inside the System’s Industrial Park located in Taguig City, Metro Manila. The buildings constructed are being leased at competitive rental rates to private companies. The System does not own the land but has acquired perpetual rights from the Philippine Government to use the property for its own use and purpose.

In 2014, the System executed a contract with HMRID Property Inc. (HMRID) for the lease of a 40,000 sqm open space located in the System’s Industrial Park. The term of the lease is for a period of 25 years for a monthly rental of P800.00 per sqm or a total of P3.200 million. The System incurred a direct cost of P6.400 million for the lease of the said property which was added to the cost of the project to be amortized monthly over the term of the lease in accordance with PFRS 16 on Leases.

The minimum rentals for the remaining lease term on the System’s operating lease with the said lessee as at December 31, 2019 amounted to P1.261 billion. In 2018, HMRID leased the remaining area of Industrial Park Management Office of 33,762 sqm more or less, including open spaces, buildings and improvements found therein for a period of one year effective October 1, 2018 for a rental fee of P3.883 million per month. The Board of Liquidators (BOL), however, approved the extension of the lease contract with HMRID up to three years during the BOL meeting held on February 21, 2019.

# PROPERTY AND EQUIPMENT - NET

This account consists of the following:

|  | **Building and improvements** | **Office equipment** | **Transportation equipment** | **Furniture**  **and fixtures** | **Total** |
| --- | --- | --- | --- | --- | --- |
| **Cost** |  |  |  |  |  |
| Balance, 1/1/2019 | 91,429,579 | 146,859,173 | 8,283,853 | 15,016,631 | 261,589,236 |
| (Forward) |  |  |  |  |  |
| Additions (Deductions) | 0 | 97,500 | 0 | (117,610) | (20,110) |
| Balance, 12/31/2019 | 91,429,579 | 146,956,673 | 8,283,853 | 14,899,021 | 261,569,126 |
| **Accumulated depreciation**  **and amortization** |  |  |  |  |  |
| Balance, 1/1/2019 | 82,286,621 | 127,353,359 | 7,413,036 | 12,079,542 | 229,132,558 |
| Depreciation/amortization | 0 | 142,277 | 0 | 3,150 | 145,427 |
| Balance, 12/31/2019 | 82,286,621 | 127,495,636 | 7,413,036 | 12,082,692 | 229,277,985 |
| **Net book value, 12/31/2019** | **9,142,958** | **19,461,037** | **870,817** | **2,816,329** | **32,291,141** |
| Balance, 1/1/2018 | 91,429,579 | 149,267,091 | 8,283,853 | 15,873,766 | 264,854,289 |
| Additions (deductions) | 0 | (2,407,918) | 0 | (857,136) | (3,265,054) |
| Balance, 12/31/2018 | 91,429,579 | 146,859,173 | 8,283,853 | 15,016,630 | 261,589,235 |
| **Accumulated depreciation**  **and amortization** |  |  |  |  |  |
| Balance, 1/1/2018 | 82,286,621 | 129,921,154 | 7,413,036 | 12,546,958 | 232,167,769 |
| Depreciation/amortization | 0 | (2,567,795) | 0 | (467,416) | (3,035,211) |
| Balance, 12/31/2018 | 82,286,621 | 127,353,359 | 7,413,036 | 12,079,542 | 229,132,558 |
| Net book value, 12/31/2018 | 9,142,958 | 19,505,814 | 870,817 | 2,937,088 | 32,456,677 |

The System’s Internal Appraiser under the Office of Special Concerns (OSC) conducted an investigation and appraisal of the System’s owned buildings including improvements located at the System’s Compound and the report was contained under Disposition Form dated July 11, 2016. Based on the investigation and analysis of all factors, OSC puts the fair market value of the properties appraised consisting of 15 structures/improvements subject to the attached limiting conditions at P33.569 million.The System, however, is using cost method in the recording of its properties and equipment.

# OTHER NON-CURRENT ASSETS – NET

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Acquired assets *(note 3.12)* | **486,188,726** | 490,388,033 |
| Allowance for probable losses | **(38,960,432)** | (38,960,432) |
|  | **447,228,294** | 451,427,601 |
| Deposits and others | **7,489,423** | 7,548,483 |
|  | **454,717,717** | 458,976,084 |

Acquired assets include residential lots, memorial parks, condominium units, machineries and equipment which the System foreclosed to satisfy outstanding unpaid balances of loans granted to various companies and individuals.

The acquired assets include five condominium units that were used as security for the counter-attachment bond applied by MRDC. As of February 2016, the System has already requested the Office of the Government Corporate Counsel (OGCC) in its letter dated February 23, 2016 to undertake the release/cancellation of the mortgage on the subject condominium units considering that the judgment amount in the civil case between MRDC and a Developer has been fully satisfied. The same was reiterated by the System to OGCC in its letter dated February 21, 2017. On April 4, 2017, AFPRSBS sent a letter to the Insurance Commission (IC) requesting for the release of mortgage covering the condominium units located at Ciana Plaza Condominium and the immediate release of Owner’s Duplicate Copy of condominium certificate of title (CCT) Nos. 51527, 51528, 51529, 51530, and 51534. On December 6, 2018, the System received a letter from the IC conveying the release of mortgage and the return of Owner’s Duplicate copies of the five CCTs owned by AFPRSBS subject to compliance with certain requirements. Subsequently, the motion for the lifting/release of bond was filed by the System with RTC, Branch 93, Quezon City on January 25, 2019.

On February 18, 2019, the motion for lifting/release of Bond on the five condominium units as security for the issuance of counter-attachment bond of AFPRSBS in favor of the insurance company filed in RTC Branch 93, Quezon City was granted. Hence, the IC on July 10, 2019 ordered the release of mortgage on AFPRSBS regarding the subject condominium units.

The IC, however, certified that the five condominium units covered by subject CCTs were not in their possession and upon due diligence search made by the System on the whereabouts of the said CCTs, it cannot be found and such are considered lost. As at December 31, 2019, an Affidavit of Loss was executed on the subject five CCTs and such was annotated in the Registry of Deeds (RD) at Makati City on January 22, 2020 as a requirement for the filing of the Petition for the Issuance of New Owners Copies of said five CCTs that were lost.

# ACCOUNTS PAYABLE AND ACCRUED EXPENSES

These accounts consist of the following:

|  | **2019** | 2018  (As restated) |
| --- | --- | --- |
|  |  |  |
| Trade payables | **122,079,003** | 150,985,503 |
| Non-trade payables | **363,141,253** | 256,263,195 |
| Accrued employee benefits | **115,491,125** | 126,363,431 |
| Accrued operating expenses | **29,393,632** | 28,611,042 |
| Reserve for real estate development | **28,478,888** | 35,030,296 |
| Payable to real estate brokers | **28,431,059** | 27,307,418 |
| Retention payable | **20,803,173** | 20,823,033 |
| Buyer’s refund payable | **14,552,620** | 11,644,866 |
| Payable to landowners | **1,593,400** | 6,851,650 |
| Other payables | **12,112,721** | 9,004,239 |
|  | **736,076,874** | 672,884,673 |

Trade payables account includes the remaining payables to various tenants for the lot acquisitions made for the Riviera raw lands in the previous years and the balance for the acquisition of lots in the General Santos property.

Reserve for real estate development account is composed of the remaining liabilities of the System to its various contractors and the estimated costs to complete the Sta. Rosa Homes Subdivision (SRHS) and San Lorenzo South Subdivision (SLSS) projects of the System. The amount of estimated costs to complete that was included in the said account is being reviewed periodically to assess the sufficiency of the estimates and to account for other costs that may arise in the course of completing the projects.

Included in the accrued employee benefits are the accruals made for the provision for employee separation benefits in the total amount of P69.422 million, of which, P32.231 million pertains to accruals for 2018. The amount is net of the P3.786 million separation costs that were paid to 10 separated employees in 2016 and 2017. In August 2018, the BOL approved the separation of 27 personnel on December 31, 2018. The implementation, however, was moved to March 15, 2019 and only 10 personnel out of the 27, was approved to be separated since some of the targeted/projected disposals for 2018 were not met.

# MEMBERS’ CONTRIBUTIONS PAYABLE

This account pertains to estimated amount of refund of contributions payable to retiring members of the AFP within a one-year period. In April 2016, contributions that will not be refunded/paid within one year, which were previously lodged in equity, were all reclassified to liability. The transfer was made since the contributions of the members are all due for refund upon their retirements. In June 2018, the Board of Liquidators (BOL) approved the implementation of the Accelerated Refund of Members’ Contributions (MC). This covers the refund of contribution to an estimated 105,200 members for a period of three years.

MCs are stated based on the remittance reports on actual deductions from the compensation of officers and enlisted personnel in the active service. This account also includes contributions from the retirees covered by PD No. 1909, which is equivalent to five per cent of their gross monthly pension. However, no new contributions are being received from the retirees covered by PD No. 1909. The last contribution received by the System from the retirees was in November 2014.

On April 19, 2016, the BOL approved the stoppage of the collection of five per cent MCs effective March 31, 2016 as per Board Resolution No. SPL -01-2016. Hence, no new contributions were received by the System, except for some supplementary contributions pertaining to prior months.

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018  (As restated) |
| MC payable-current | **3,929,006,302** | 3,105,136,462 |
| MC payable-net of current portion | **3,339,216,962** | 6,497,455,511 |
|  | **7,268,223,264** | 9,602,591,973 |

# ESTIMATED LIABILITY ON EARNINGS OF MEMBERS’ CONTRIBUTIONS

Movements in estimated liability on earnings of MCs are as follows:

|  | **2019** | 2018 |
| --- | --- | --- |
| Balance at beginning of year | **3,215,686,877** | 3,488,286,669 |
| Payments made (net of adjustments) | **(922,102,763)** | (272,599,792) |
| Balance at end of year | **2,293,584,114** | 3,215,686,877 |
| Current portion | **(1,573,815,083)** | (1,274,236,641) |
| **Non-current portion** | **719,769,031** | 1,941,450,236 |

The System started granting four per cent interest on MCs as per Standard Operating Procedure (SOP) No. 11-92 which shall be compounded yearly effective January 1992 and that will accrue up to the time the member retires or is separated from the service. The interests will be paid out together with the refund of MCs to the System. Effective January 1996, the interest on MCs was increased to six per cent per annum compounded annually.

In November 2010, the Board of Trustees (BOT) approved the adoption of simple interest per annum on MCs from 1992 onwards. The approval is effective to those who will retire from January 2011 onwards.

In April 2016, the System stopped computing for interests on MCs in compliance with the provision of MO No. 90 providing for the abolition of the System.

The current portion of estimated liability on earnings of MCs for 2019 was based on the projected refund payments to be made in CY 2020.

# DEPOSITS AND OTHER LIABILITIES

This account includes interest collected but not yet earned from certain investments and deposits received from installment buyers of real estate properties prior to completion of the required down payments and those amortizations that are not yet applied in the subsidiary ledgers of the respective buyers.

# FUND EQUITY

Pursuant to PD No. 361, the System was established for the purpose of providing a separate fund or scheme to ensure payment of retirement and separation benefits to the members of the AFP.

Accordingly, the System was funded mainly through the following: (a) appropriation remitted by the Philippine Government, the total commitment of which amounted to P200 million; (b) the contributions from officers and enlisted personnel in the active service which was pegged at four per cent of their basic and longevity pay; and (c) income from investment operations.

On December 21, 1979, PD No. 1656 was promulgated amending certain provisions of PD No. 361. Under PD No. 1656, the fund of the System shall be allowed to grow in order to provide perpetually the cash requirement covering the retirement and separation benefits payment to military members of the AFP on a self-sustaining basis. Prior to the time when perpetual self-sufficiency of the fund is attained as determined by actuarial valuation, the yearly requirement for the retirement and separation benefits of military personnel as provided by RA No. 340 as amended, PD No. 1638, as amended by PD No. 1650, and such other similar laws as may be enacted, shall be included in and funded out of the annual appropriations for the AFP.

Pursuant to PD No. 1656 amending Section 4 of PD No. 361, the rate of MCs became five per cent of basic pay effective January 1, 1980. The total contributions including the earned interest shall be refunded in lump sum to the officer or enlisted personnel upon separation or retirement from military service.

On March 22, 1984, PD No. 1656 was further amended by PD No. 1909, which considered military personnel who retired from the active service prior to September 10, 1979 and are receiving annual retirement pension from the AFP, as additional members of the System. Hence, they have been required to contribute an amount equivalent to five per cent of their gross monthly pension as adjusted pursuant to PD No. 1909. On December 17, 1990, it was ruled that their contributions shall be stopped upon reaching the age of 65 when they become entitled to the refund of their accumulated contributions.

Further, under PD No. 1909, the System shall support the payment of the increase in pension rate of retired personnel prior to September 10, 1979. This is for the purpose of aligning the prevailing pay scale of the officers and enlisted men in active service so that they will be given the same means and support as those who recently retired to meet the increasing cost of living and demand for better social and economic life. Such equalization was initially funded from savings out of the P200 million AFPRSBS appropriation mentioned above, and it had been incorporated subsequently into the AFPRSBS’ annual budget for pension.

On August 12, 2003, the Supreme Court (SC) declared the System as a government entity and that its funds are in the nature of public funds. The decision became final and executory on December 10, 2003. The SC likewise stated that the System was created by PD No. 361 whose purpose and function are similar to those of Government Service and Insurance System (GSIS) and Social Security System (SSS).

In April 2016, the System has already reclassified the members’ contributions as part of its liabilities (previously treated as equity) in the 2016 Financial Statements. It was embodied in the issued MO No. 90 that the said contributions will be refunded as they fall due, however, the GCG approved the request of the System to accelerated the refund of MCs to both retiring and active military personnel in view of the three-year winding down activities of AFPRSBS. The implementation of the same was made effective January 2019.

As at December 31, 2019, the remaining Fund Equity of the System is composed of the P200 million government contributions, retained earnings of P8.230 billion and other comprehensive income of P13.826 million representing the cumulative gain on changes in fair value of stocks.

# REVENUES

Revenues consist of the following:

|  | **2019** | 2018  (As restated) |
| --- | --- | --- |
| **Fund management operations** |  |  |
| Interest on MMP/deposit in banks/treasury bills | **211,898,562** | 122,534,966 |
| Income from long-term investments | **214,751,913** | 195,694,886 |
| Income from stocks/dividends | **354,460** | 347,514 |
| Gain (loss) on sale of stocks | **0** | 1,114,001 |
|  | **427,004,935** | 319,691,367 |
|  |  |  |
| **Real estate rentals** |  |  |
| Rentals from IPMO–net | **126,465,704** | 104,292,865 |
| Rentals from real estate properties – net | **9,334,849** | 13,897,812 |
|  | **135,800,553** | 118,190,677 |
|  |  |  |
| **Lending operations** |  |  |
| Interest on ICRs | **65,216,352** | 42,442,989 |
| Interest on advance refunds | **169,886** | 10,639,777 |
| Interest on commercial loans | **5,508,426** | 3,668,659 |
| Interest on employee loans | **517,854** | 650,122 |
| Interest on discounting of commutation of leave | **(498)** | 78,899 |
| Other income | **14,667,363** | 4,133,144 |
|  | **86,079,383** | 61,613,590 |
| **Real estate operations** |  |  |
| Sale of real estate inventories – net | **36,477,397** | 5,336,589,629 |
| Income from acquired assets – net | **4,967,398** | 3,211,531 |
| Other income | **32,065,147** | 15,609,076 |
|  | **73,509,942** | 5,355,410,236 |
|  |  |  |
| **Equity holdings in subsidiaries and associates** | **8,112,085** | 6,376,717 |
|  | **730,506,898** | 5,861,282,587 |

Other income from lending and real estate operations consists of recoveries from defaulting loan accounts, fines and penalties from accounts in default, forfeiture of payments from cancelled sales contracts, and interest income.

# DEPRECIATION AND AMORTIZATION

This account consists of the following:

|  | **2019** | 2018 |
| --- | --- | --- |
| Property and equipment (*note 17)* | **145,426** | 552,557 |
| Investments in real estate | **2,700,437** | 2,700,437 |
|  | **2,845,863** | 3,252,994 |

# EMPLOYEE BENEFITS

Included in the accrued employee benefits are the accruals made for the provision for employee separation benefits in the total amount of P69.422 million. For 2019, 10 out of the 27 personnel that were approved for separation by the AFPRSBS BOL in August 2018 were separated from the service effective March and April 2019. The separation benefits of the employees were taken from the accruals made in 2018. During the year, the System did not accrue anymore the budgeted separation cost amounting to P30.542 million since there was no separation schedule that was approved by the BOL for implementation in the first quarter of CY 2020.

# RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

The System enters into various transactions with its subsidiaries, associates and JV partners. Significant transactions with subsidiaries, associates and JV partners consist of non-interest bearing cash advances, interest bearing loans receivable and payables.

**27.1 Compensation of key management personnel**

The key management personnel refers to the executive team, with the rank of Vice President and up to the President. These individuals have the authority and responsibility for planning, directing, and controlling the activities of the System. The aggregate compensation of the executive officers and BOLs for CYs 2019 and 2018, are as follows:

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| Salaries and wages | **3,164,023** | 3,056,555 |
| Other benefits | **1,355,048** | 1,403,416 |
|  | **4,519,071** | 4,459,971 |

**27.2 Other related party transaction**

The year-end balances in respect of related parties included in the financial statements are as follows:

|  | **2019** | 2018  (As restated) |
| --- | --- | --- |
| Management Fees *(note 6)* | **2,673,074** | 2,673,074 |
| Receivable from JV partner *(note 6)* | **29,222,384** | 20,127,108 |
| Medium-term Loans *(note 7)* | **145,801,793** | 80,527,822 |
| Advances to subsidiaries and associates (*note* 13) | **34,454,120** | 35,387,590 |
| Accounts payable and accrued expenses *(note 19)* | **122,890,848** | 131,216,958 |
|  | **335,042,219** | 269,932,552 |

# CONTINGENCIES

The System was summoned by the Senate Committees on Accountability of Public Offices and Investigation (Blue Ribbon) and National Defense and Security (NDS), joined by the Joint Committees on Banks and Financial Institutions and Currencies and NDS, for an investigation regarding the deterioration of the System’s financial condition and alleged discrepancies in the purchase price of certain real estate acquisitions.

A final report was subsequently submitted by the Joint Committees recommending, among others, the establishment of a conservatorship committee to preserve the System’s assets, the further actuarial study of the System’s financial condition, the passage of a law revising or creating a new System charter, and the prosecution or censure of former or current officers of the System.

Various lawsuits, claims and proceedings, including an action filed for the cancellation of titles of certain properties, have been or may be instituted or asserted against the System. While the amounts may be substantial, the ultimate liability cannot presently be determined because of the considerable uncertainties that exist. Therefore, it is possible that the results of operations or liquidity in a particular period could be materially affected by certain contingencies.

However, based on facts currently available, Management believes that the disposition of matters that are pending or asserted will not have a material effect on the financial position of the System.

# RETAINED EARNINGS

The Retained Earnings is presented as net of prior period adjustments to reflect sales and expense transactions of prior years. Starting the year 2016, the System has already stopped the charging of the interests earned by the contributions of the members from the Retained earnings. Movements in the account are as follows:

|  | **2019** | 2018  (As restated) |
| --- | --- | --- |
| Balance, January 1 | **7,598,631,089** | 1,872,229,130 |
| Correction of prior period errors | **0** | 22,365,252 |
| Profit for the year | **631,595,597** | 5,704,036,707 |
|  | **8,230,226,686** | 7,598,631,089 |

The correction/adjustment of prior years’ errors consists of the following: (a) adjustments on the Retained Earnings account which represent reversal of the following transactions: (i) interest income on cancelled Village East III and other ICR accounts amounting to P22.360 million, (ii) penalties of P4.754 million and (iii) interest income on long-term investments of P4.110 million; and (b) recognition of other income from real estate operations and other expenses amounting to P65.584 million as presented in the statement of changes in equity.

# RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Liabilities to the members** | **2019** | | 2018 | |
| Balance, January 1 | **12,818,278,850** | 13,732,131,791 | |
| Cash flows from financing activities |  |  | |
| payment of contributions | **(3,083,545,016)** | (542,264,524) | |
| Non-cash financing activities |  |  | |
| adjustment of matured loans/others | **0** | (371,915,070) | |
| set-up of unreleased checks/other adjustments | **(172,951,860)** | 0 | |
| Balance, December 31 | **9,561,781,974** | 12,817,952,197 | |

# RESTATEMENTS

The following is the summary of the financial impact of the restatement of the 2018 financial statements:

| **Prior period adjustments** | **Income** | **Expenses** | **Assets** | **Liabilities** | **Net worth** |
| --- | --- | --- | --- | --- | --- |
| Adjustment on interest income on investment in bonds and other long-term investment | (4,109,890) | 0 | 0 | 4,109,890 | (4,109,890) |
| Adjustment on interest income on cancelled Village East III and other ICR accounts | (22,360,475) | 0 | 0 | 22,360,475 | (22,360,475) |
| Adjustment on the Retained Earnings account which  represents reversal of penalties | (4,753,934) | 0 | 0 | 4,753,934 | (4,753,934) |
| (Forward) |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Adjustment due to recognition of other income from real  estate operations and other expenses as presented in the statement of changes in equity | 38,047,465 | (15,542,085) | 0 | (53,589,551) | 53,589,551 |
|  | 6,823,166 | (15,542,085) | 0 | (22,365,252) | 22,365,252 |

# EXEMPTION FROM TAX

Pursuant to Section 2(c) of PD No. 361, as amended by PD No. 1656, all earnings of the System shall not be subject to any tax whatsoever. The System has likewise secured an affirmation of its tax exemption from the BIR pursuant to Section 60(B) of the National Internal Revenue Code. The latest affirmation was issued on August 11, 2009.

# COMPLIANCE WITH REVENUE REGULATIONS (RR) NO. 15-2010

In compliance with the requirements set forth in BIR RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable years 2019 and 2018.

* 1. Withholding Taxes

|  |  |  |
| --- | --- | --- |
|  | **2019** | 2018 |
| Tax on compensation and benefits | **6,277,968** | 7,070,608 |
| Value-added taxes | **1,907,245** | 2,580,794 |
| Expanded withholding taxes | **3,494,767** | 3,491,714 |
| Percentage taxes | **138,195** | 68,766 |
|  | **11,818,175** | 13,211,882 |

* 1. Other Taxes

|  | **2019** | 2018  (As restated) |
| --- | --- | --- |
| **Local** |  |  |
| Real property taxes | **22,800,827** | 27,192,435 |
| Capital gains taxes | **25,545,753** | 388,196,088 |
| Transfer taxes/others | **744,686** | 323,495 |
|  |  |  |
| **National** |  |  |
| BIR annual registration | **500** | 500 |
|  | **49,091,766** | 415,712,518 |

On August 10, 2017, the System received the Preliminary Assessment Notice (PAN) arising from the extra-judicial foreclosure of the land and 329 condominium units. On August 18, 2017, the System filed a protest/opposition to the PAN asserting no liability to pay deficiency taxes, penalties, and surcharges. The System filed on June 17, 2013 a request for re-zonal or re-evaluation considering that the subject property is composed of finished and unfinished condominium units.

1. **STATUS OF LAWSUITS**

The System is involved as a defendant in several lawsuits pending for resolution that could materially affect its financial position. Among these lawsuits are the following:

| Case no./ Court | Description | Pecuniary amount or liability involved | Status |
| --- | --- | --- | --- |
| RTC, Branch 10, Davao City March 12 1997 | Specific Performance, Injunction & Damages arising from the property bought by AFPRSBS from co-defendant which were allegedly sold to the plaintiff. | 15.200 million | The RTC decided against the defendants. The Office of Solicitor General appealed the said decision before CA. |
| CA, Cagayan de Oro CA- GR CV No. 02822-MIN |  |  | CA rendered decision last October 21, 2016. AFPRSBS filed MR to said decision on November 17, 2016. Petition for Certiorari was filed by Office of Solicitor General before the SC on June 19, 2018. |
| Civil Case No. 988 RTC, Nasugbu, Batangas | Reconveyance of property with damages in relation to the joint venture entered into by AFPRSBS and a developer for the construction and marketing of a 24- storey condominium building. | 353.721 million | Decision rendered in favor of GDI. The OGCC, on behalf of the defendants, filed the appeal to the CA on June 9, 2017. |

The System is involved as party litigant to 29 ejectment cases and 18 of which achieved finality and are currently for execution/implementation. On the other hand, there are nine Land Registration/Reconveyance/Foreclosure of Mortgage cases which are still pending. In other civil cases, 10 are still ongoing and three criminal cases are likewise pending. In HLURB-related cases, 14 cases are for execution. Lastly, there are 31 various cases that are being handled by the OGCC.