AFP RETIREMENT AND SEPARATION BENEFITS SYSTEM
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. 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 Armed Forces of the Philippines (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 on December15, 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), consisting of nine (9) regular and one alternate members, 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. As at December 31, 2020, the System has 58 regular, 36 casual, 4 contractual and 14 project-hired employees or a total workforce of 112 personnel.

The financial statements of the System as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized and approved for issue on April 12, 2021.

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.

2. 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, treasury 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 land titles in the name of the System, some existing 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. The 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 percent members' contributions (MCs) and the accrual of interests thereon effective March 31, 2016 as per Board Resolution (BR) No. SPL-01-2016.

In late 2016, the System submitted its Winding Down Plan to the Governance Commission for GOCCs (GCG) which states that the primary objective of the same is to raise P16 billion to refund all the MCs by December 31, 2019. To achieve such objective, the following strategies shall be pursued within the Winding Down period of three (3) years:

1. Dispose all assets (real estate & equity investments) at their highest recoverable value;
2. Collect all receivables;
3. Complete membership database; and
4. Immediate separation of employees whose functions are no longer required.

The implementation of Accelerated Refund of MCs was approved by the BOL on June 13, 2018. Consequently, it was approved by the 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. This covers the refund of contribution to an estimated 105,200 members for a period of three years. The AFPRSBS commenced the pay-out of Accelerated Refund in January 2019, thus, effectively stopping the granting of Advance Refund Loans. As at December 31, 2020, a total of P8.850 billion in principal and interests was refunded to 56,072 members/claimants.

In 2018, the System was able to sell its lots in Aseana, Phase 2 of its Green Meadows Project, and some lots in Sta. Rosa, Laguna that generated a total of P6.396 billion.

During the year 2020, the System was able to dispose its 100,000 equity shares in Southern Utilities and Management Services, Inc. (SUMSI) to PAMANA Water Corporation for a total bid price of P151.780 million. The planned disposal of the other major real estate assets and equity shares are still awaiting approval from the GCG, hence, the bidding process pertaining to the disposals of the same did not push through.

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 in consonance with the provisions of MO No. 90 geared towards the winding down objective of disposal/liquidation of the assets and eventual refund of all members' contributions.

3. 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.

3.1 <u>Basis of financial statements preparation</u>

a. <u>Statement of compliance with Philippine Financial Reporting Standards</u>

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

b. <u>Presentation of financial statements</u>

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).

c. <u>Basis of measurement</u>

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

d. <u>Accrual basis of accounting</u>

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.

e. 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.

3.2 Adoption of new and amended PFRSs

a. New standards and amendments issued and effective for annual periods beginning on or after January 1, 2020:

- 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.

- Amendments to PAS 1. *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.

- Amendment to PFRS 16 *Leases – Corona Virus Disease 2019 (COVID-19)-Related Concessions*. The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

- Amendments to PFRS 3. *Business Combinations – Definition of a Business.* The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. In addition, it provides guidance and illustrative examples to help entities assess whether a substantive process has been acquired and remove the assessment whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendment also adds an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

- Amendments to PFRS 9. *Financial Instruments, PAS 39 Financial Instruments: Recognition and Measurement and PFRS 7 Financial Instruments: Disclosures* – Interest Rate Benchmark Reform. The amendment states:

    - Entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
    - Are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
    - Are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
    - Require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs does have any material effect on the financial statements of the System.

b. 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, 2020 and have not been applied in preparing the financial statements are summarized below:

Effective for annual periods beginning on or after January 1, 2021 and thereafter:

- Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts* and PFRS 16, *Leases – Interest Rate Benchmark Reform-Phase 2*. The amendments relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying PFRS 7 to accompany the amendments regarding modifications and hedge accounting.

- Amendments to PFRS 3. *Business Combination – Reference to the Conceptual Framework (effective January 1, 2022).* The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard as follows:

- Update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;

- Add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 of International Financial Reporting Interpretations Committee (IFRIC) 21, an acquirer applies PAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and

- Add to PFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

- Amendment to PAS 16. *Property, Plant and Equipment – Proceeds before Intended use (effective for annual periods beginning on or after January 1, 2022 with early application permitted).* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37. *Provisions, contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective for annual periods beginning on or after January 1, 2022 with an early application permitted). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Annual Improvements to PFRS Standards 2018-2020 (effective January 1, 2022)

  - PFRS 1, *First-time Adoption of PFRS – Subsidiary as a first-time adopter.* The amendment permits a subsidiary that applies paragraph D16 (a) of PFRS 1 to measure cumulative transition differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

  - PFRS 9, *Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities*. The amendment clarifies which fees an entity includes when it applies the "10 per cent" test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- PFRS 16, *Leases – Lease incentives.* The amendment to illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- PAS 41, *Agriculture – Taxation in fair value measurements.* The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

- Amendments to PAS 1, *Accounting Policies, Changes in Accounting Estimates and Errors – Classification of Liabilities as Current or Non-current).* This amendment provides a more general approach to the classification of liabilities under PAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to January 1, 2023*.*

- Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Making Material Judgments – Disclosure of Accounting Policies.* The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. This are intended to help prepares in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023.

- PFRS 17, *Insurance Contracts*. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, including reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

- Amendments to PFRS 10, *Consolidated Financial Statements*. The amendment requires that any investment the parent has in the former subsidiary after control is lost should be measured at fair value and that any resulting gain or loss should be recognized in profit or loss (full gain or loss recognition).

- Amendments to PAS 28, *Investments in Associates and Joint Ventures (JV).* The amendment requires that gains and losses resulting from upstream and downstream transactions between an investor and its associate or a JV should only be recognized to the extent of the interest attributable to the other equity holders in the associate or JV (partial gain or loss recognition).

The amendments to PFRS 10 and PAS 28 were originally effective for annual reporting periods beginning on or after January 1, 2016, however, their effectivity date has been deferred indefinitely.

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.

3.3 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:

a. 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.

b. Rental income

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

c. 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.

d. 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.

e. Dividend income

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

f. 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.

3.4 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.

3.5 Financial assets

a. 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 (SFP). 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.

b. 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), loans and receivables, and long-term bonds are included under this category.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the System's financial assets as of January 1, 2020 (in thousands):

	PAS 39 Measurement Category				PFRS 9 Measurement Category	
	Cash and Cash Equivalents	**Available for Sale**	**Held to Maturity**	**Loans ad Receivables**	**FVOCI***	**Amortized Cost**
Cash and Cash Equivalents	P 898,380					P 898,380
Stock Investment		P29,750			P 29,750	
Investment in bonds			P 5,075,285			5,075,285
Short-term investments			3,375,861			3,375,861
Loans and receivables				1,815,642		1,815,642

**Financial assets at fair value through other comprehensive income*

c. Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are subsequently measured at fair value. The unrealized gains and losses, and dividend income are recognized directly in the SCI.

d. 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.

e. 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.

3.6 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.

3.7 Supplies and materials inventory

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

3.8 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 SCI, 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.

3.9 Investments in real estate

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

3.10 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. In June 2020, the System has already stopped depreciating the property located at Industrial Park Management Office since the asset has reached its estimated useful life.

3.11 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

3.12 Acquired assets

Assets acquired in full or partial settlement of loans are recorded at 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.

3.13 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 and will still continue to accrue when it is probable that a liability had been incurred at SFP date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed only.

3.14 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.

3.15 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.

3.16 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.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2020	2019
Cash on hand	**541,209**	543,002
Cash in banks	**42,585,505**	31,837,538
Cash equivalents	**3,000,000**	866,000,000
	46,126,714	898,380,540

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. The decrease in this account of P0.863 billion during the year was due to reinvestment of the same to money market placements with terms above 90 days and some of the funds were used to finance the refunds to the members. The remaining P3 million cash equivalents pertains to the 90-day fixed-income security with AFP Savings and Loan Association, Inc. (AFPSLAI) that was used as security/ collateral to AFP General Insurance Corporation (AFPGIC) in relation to a legal case pending at the Housing and Land Use Regulatory Board (HLURB). The account, however, will be closed once the System is able to submit another security to AFPGIC as a replacement for the said collateral.

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 06, 2015 and the Order issued on May 07, 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. The MR filed by the Developer was denied by the CA. Hence, the Office of the Government Corporate Counsel filed a motion before the RTC for the issuance of order of restitution or reparation of damages. The same is awaiting resolution.

5. SHORT-TERM INVESTMENTS

This account consists of the following:

	2020	2019
Government securities	**0**	2,272,365,014
Marketable securities	**2,095,000,000**	1,101,000,000
	2,095,000,000	3,373,365,014

Short-term investments include money market placements that earn interest at quoted rates ranging from 0.40 to 3.50 per cent per annum for calendar year (CY) 2020.

6. RECEIVABLES – NET

This account consists of the following:

	2020	2019
Receivable from sale of real estate properties in JV projects	**5,213,860**	5,213,860
Receivable from JV partner *(Note 27.2)*	**30,219,293**	29,222,384
Accrued interest on loans and investments	**51,552,854**	57,253,215
Non-trade receivables	**16,154,550**	16,156,306
Receivable from employees/others	**5,291,221**	5,317,608
Advances to contractors	**1,750,452**	1,750,452
Management fees *(Note 27.2)*	**2,673,074**	2,673,074
Other receivables	**710,998,406**	531,009,473
	823,853,710	648,596,372
Allowance for doubtful accounts	**(77,934,371)**	(73,879,623)
	745,919,339	574,716,749

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, 2020, the receivable has a balance of P247.360 million or a decrease of P19.229 million from the original amount.

The account likewise includes a*ccrued interests on loans and investments* for various commercial papers whose interests are payable, quarterly, annually, or upon maturity.

In December 2020, the System derecognized in its books the value of the Lot-X properties in General Santos City. The Supreme Court's decision declaring the property as part of the Magsaysay Public Park became final and executory and the Writ of Execution was implemented in May 2020. The total investment cost of P175.070 million was dropped from the books. An amount of P153.843 million was recorded as receivables from the accountable persons and the unpaid amount of P21.227 million was reversed.

Movements in the *Allowance for doubtful accounts* for receivables are as follows:

	Balance, January 1, 2020	Additional Provision	Recovery/ Reversal	**Balance, December 31, 2020**
Accounts Receivable, 2nd REM - San Lorenzo South Project's buyers	2,667,454	0	0	**2,667,454**
Interest Receivables - Amtrust Holdings, Inc.	10,220,611	0	0	**10,220,611**
Dividend Receivable - Zenco Footstep	2,320,000	0	0	**2,320,000**
Accounts Receivable, Non-Trade	12,886,413	0	0	**12,886,413**
Accounts Receivable, Others	6,762,554	4,054,748	0	**10,817,302**
Accounts Receivable Trade	39,022,591	0	0	**39,022,591**
	73,879,623	4,054,748	0	**77,934,371**

7. LOANS RECEIVABLE – NET

This account consists of the following:

	2020	2019
Accounts under litigation	**776,535,403**	776,535,403
Medium-term loans *(Note 27.2)*	**143,914,840**	145,801,793
Past due loans	**124,430,656**	124,603,879
Short-term loans	**1,453,823**	1,453,823
	1,046,334,722	1,048,394,898
Allowance for doubtful accounts	**(349,323,950)**	(349,323,950)
Unearned interest income	**(117,267,326)**	(117,267,326)
	579,743,446	581,803,622
Current portion of loans receivable	**145,368,663**	147,255,615
Non-current portion of loans receivable	**434,374,783**	434,548,007

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 for the advance refund. The same, however, was also stopped effective January 2019 due to the 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.

Unearned interest income represents the unearned income on the dacion of finished and unfinished condominium units made by Philippine Asia Pacific Corporation to the System in CY 2001. The properties were already foreclosed and titles are already in the process of consolidation in the name of AFPRSBS.

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 accounts are not fully provided with allowance.

Movements in the *Allowance for doubtful accounts* for loans receivable are as follows:

	Balance, January 1, 2020	Additional Provision	Recovery/ Reversal	Balance, December 31, 2020
Accounts under litigation - PAPC	106,446,667	0	0	106,446,667
Commercial loans	8,488,563	0	0	8,488,563
Other loans	234,388,720	0	0	234,388,720
	349,323,950	0	0	**349,323,950**

8. REAL ESTATE INVENTORIES - NET

This account consists of the following:

	2020	2019
Club share inventories	**1,006,055,664**	1,006,170,705
Other inventories	**2,751,322,833**	2,931,439,533
	3,757,378,497	3,937,610,238
Allowance for decline in value of inventories	**(80,052,817)**	(78,904,016)
	3,677,325,680	3,858,706,222

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. As at December 31, 2020, there are still possible remaining deliverables of the System to the Riviera Golf Club, Inc. and the Riviera Sports and Country Club, Inc.

Other inventories consist of:

a. 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.

b. 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 cost of a building to the System, the ownership will be transferred to the AFP. As at December 31, 2020, 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.

   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.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2020	2019
Prepaid tax	**7,008,630**	16,803,259
Prepaid commissions	**11,041,242**	10,324,667
Prepaid supplies and materials	**1,250,353**	961,824
Prepaid insurance	**341,979**	341,979
Prepaid rental	**102,800**	101,400
Prepaid subscriptions/membership	**145,320**	0
Prepaid repairs and maintenance	**12,764**	0
	19,903,088	28,533,129

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

Prepaid commissions pertain 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 and lease of safety deposit box at Land Bank of the Philippines – Buendia Branch.

10. INSTALLMENT CONTRACTS RECEIVABLE– NET

This account consists of the following:

	2020	2019
ICR from sale of real estate inventory	**319,200,941**	740,692,660

(Forward)

ICR from sale of acquired assets	**4,143,600**	4,143,599
Past due ICR	**63,741,661**	79,608,831
	387,086,202	824,445,090
Allowance for doubtful accounts	**(149,889,676)**	(165,323,009)
	237,196,526	659,122,081

The 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 to15 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 to Sta. Lucia Land, Inc. As at December 31, 2020, the outstanding balance of the receivables is P89.170 million which is due in March 2021.

All real estate sales of the System in CY 2020 are on spot cash and one-year cash basis and maximum two years term for deferred sales in line with the three-year winding down of AFPRSBS.

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

Movements in the *Allowance for doubtful accounts* for ICR are as follows:

	Balance, January 1, 2020	Additional Provision	Recovery/ Reversal	Balance, December 31, 2020
Housing Loans	37,827,294	0	0	**37,827,294**
Village East III	25,888,443	0	0	**25,888,443**
Orchard	7,866,487	60,665	0	**7,927,152**
Riviera	33,327,568	0	(15,493,998)	**17,833,570**
Installment Contract Receivables	6,741,126	0	0	**6,741,126**
Lending	53,672,091	0	0	**53,672,091**
	165,323,009	60,665	(15,493,998)	**149,889,676**

11. INVESTMENT IN BONDS

This account consists of the following:

	2020	2019
Retail treasury bonds	**2,050,000,000**	3,075,621,273
Development Bank of the Philippines (DBP) long-term commercial paper (LTCP)	**1,000,000,000**	1,000,000,000
Treasury bonds	**1,424,471,120**	999,663,957
	4,474,471,120	5,075,285,230

The investments earn an average yield of 4.37 per cent interest per annum with terms ranging from two to 10 years. Out of the P4.474 billion portfolio, a total of P2.100 billion maturing in CY 2021 were reclassified to current assets, broken down as follows:

Retail treasury bonds	1,000,000,000
Development Bank of the Philippines (DBP) long-term commercial paper (LTCP)	500,000,000
Treasury bonds	599,717,469
	2,099,717,469

12. NON-CURRENT INVESTMENTS

This account consists of the following:

	2020	2019
Stock investments	**25,003,673**	29,750,541
Money market placement	**2,542,414**	2,495,730
	27,546,087	32,246,271

Stock investments are measured at FVOCI which is inclusive of the cumulative unrealized gain/(loss) on financial assets in the amount of P9.079 million and P13.826 million for CY 2020 and CY 2019, respectively. All of the stock investments are listed and traded in the Philippine Stock Exchange (PSE).

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

	2020	2019
Philippine Airlines, Inc. (PAL)	**19,530,772**	23,407,108
PSE	**4,432,320**	5,040,000
Premium Leisure Corp. (PLC)	**894,450**	1,145,700
Ionics Manufacturing, Inc. (IONICS, Inc.)	**144,000**	156,000
Metro Pacific Investment Corp (MPI)	**2,131**	1,733
Total	**25,003,673**	29,750,541

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

Stock	**Rate**	**No. of shares**	**Dividends**
Philippine Leisure Corporation	0.05024	2,010,000	100,982
Metro Pacific Investment Corp.	0.11050	498	55
Total			**101,037**

Money Market Placement refers to the account with DBP in the amount of P2.542 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 service was contracted by the System. As at December 31, 2020, the case is still awaiting resolution of the appeal.

13. ADVANCES TO SUBSIDIARIES AND ASSOCIATES – NET

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

	2020	2019
Bay Resources and Development Corporation (BRADCO)	**0**	12,960,480
Monterrosa Development Corporation (MDC)	**13,401,632**	12,953,745
Matrix Realty and Development Corporation (MRDC)	**5,894,093**	5,894,093
Veterans Electronics Communications, Inc. (VECI)	**1,768,762**	1,768,761
RSBS Land, Inc.	**217,520**	0
Others	**659,520**	877,041
	21,941,527	34,454,120
Allowance for doubtful accounts	**(16,416,120)**	(16,416,120)
	5,525,407	18,038,000

In September and October 2020, the System collected the P10.212 million liability of BRADCO representing interests on the advances that it acquired from AFPRSBS in previous years. The same were credited to income during the year since the amount was not previously accrued in the System's FS due to the absence of supporting documents. Subsequently, BRADCO also settled its remaining advances to the System amounting to P12.960 million on December 17, 2020.

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.

Movements in the *Allowance for doubtful accounts* for advances to subsidiaries and associates are as follows:

	Balance, January 1, 2020	**Additional Provision**	**Recovery/ Reversal**	**Balance, December 31, 2020**
Monterrosa Development Corporation (MDC)	8,093,745	0	0	**8,093,745**
Matrix Realty and Development Corporation (MRDC)	5,894,093	0	0	**5,894,093**
Veterans Electronics Communications, Inc. (VECI)	1,768,762	0	0	**1,768,762**
Others	659,520	0	0	**659,520**
	16,416,120	0	0	**16,416,120**

14. 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	**2020**	2019
Investment in subsidiaries-acquisition cost			
Monterrosa Development Corporation (MDC)	100.00	**873,927,445**	873,927,445
Bay Resources and Development Corporation (BRADCO)	50.00	**402,000,000**	402,000,000
Veterans Electronics Communications, Inc. (VECI)	90.65	**126,738,598**	126,738,598
Aguinaldo Theater Enterprises, Inc. (ATEI)	50.00	**120,000,000**	120,000,000
Resources Investment House (RIH)	100.00	**102,123,549**	102,123,549
Matrix Realty Development Corporation (MRDC)	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. (SUMSI)	100.00	**0**	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
		1,722,778,170	1,732,778,170
Investment in associates-acquisition cost			
Marilaque Land, Inc. (MLI)	40.00	**609,000,000**	609,000,000
Amtrust Holdings, Inc. (AHI)	10.92	**127,000,000**	127,000,000
Advent Capital and Finance Corporation (ACFC)	14.02	**71,183,811**	71,183,811
First Dominion Prime Holdings, Inc. (FDPHI)	00.93	**15,418,269**	15,418,269
CEMX, Inc. (CI)	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		**(302,286,431)**	(310,398,516)
Equity in net earnings for the year		**(214,022)**	8,112,085
Accumulated equity in net losses, ending		**(302,500,453)**	(302,286,431)
Cumulative liquidating dividends - SUMSI		**(50,000,000)**	(20,500,000)
Liquidating Dividend – RICH & CEMX		**(13,031,947)**	(13,031,947)
Deferred income		**0**	(196,508,125)
Allowance for decline in value		**(453,242,681)**	(453,242,681)
		(818,775,081)	(985,569,184)
		1,734,605,169	1,577,811,066

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).

During the year, the System was able to consummate the disposal of its 100,000 equity shares in SUMSI to PAMANA Water Corporation for a total income of P140.679 million.

Meanwhile, the Aguinaldo Theater Enterprises, Inc. (ATEI) is subject for shortening of its Corporate Life due to termination of the lease contract with the lessee, the AFP, last May 25, 2020. The implementation to take-over the premises and facilities of ATEI by the

AFP is pursuant to Section 38 of Act No. 141, as amended, otherwise known as the Public Land Act which mandates that upon expiration of any lease agreement on any public land, all buildings and other permanent Improvements made by the lessee, and their administrators, successors, or assigns shall become the property of the Government.

15. INVESTMENTS IN REAL ESTATE - NET

This account consists of the following:

	2020	2019
Landbanking assets	**1,771,613,029**	1,771,613,029
Allowance for decline in value of investment in real estate	**(41,559,544)**	(41,559,544)
	1,730,053,485	1,730,053,485

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.

16. INVESTMENT PROPERTY – NET

This account consists of the following:

	2020	2019
Building and building improvements at the Industrial Park	**129,061,551**	129,061,551
Accumulated depreciation/amortization	**(109,430,572)**	(109,174,572)
	19,630,979	19,886,979

Investment property consists of the cost of buildings and building improvements constructed inside the System's Industrial Park Management Office (IPMO) 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 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, 2020 amounted to P1.217 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 BOL, however, approved the extension of the lease contract with HMRID up to three years during the BOL meeting held on February 21, 2019.

17. PROPERTY AND EQUIPMENT - NET

This account consists of the following:

	Building and improvements	Office equipment	Transportation equipment	Furniture and fixtures	Total
Cost					
Balance, 1/1/2020	91,429,579	146,956,673	8,283,853	14,899,021	261,569,126
Additions	0	544,655	0	104,588	649,243
Balance, 12/31/2020	91,429,579	147,501,328	8,283,853	15,003,609	262,218,369
Accumulated depreciation					
Balance, 12/31/2020	82,286,621	127,495,636	7,413,036	12,082,692	229,277,985
Net book value, 12/31/2020	**9,142,958**	**20,005,692**	**870,817**	**2,920,917**	**32,940,384**
Cost					
Balance, 1/1/2019	91,429,579	146,859,173	8,283,853	15,016,631	261,589,236
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					
Balance, 1/1/2019	82,286,621	127,353,359	7,413,036	12,079,542	229,132,558
Depreciation during the year	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

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.

18. OTHER NON-CURRENT ASSETS –NET

This account consists of the following:

	2020	2019
Acquired assets *(Note 3.12)*	**472,183,667**	486,188,726
Allowance for probable losses	**(38,960,432)**	(38,960,432)
	433,223,235	447,228,294
Deposits and others	**7,845,706**	7,489,423
	441,068,941	454,717,717

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 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 (Unit No. 201), 51528 (Unit No. 402), 51529 (Unit No. 505), 51530 (Unit No. 702), and 51534 (Unit No. PO-1). 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 CCTs on five condominium units were not in their possession and upon due diligence search made by the System on the whereabouts of said CCTs, those 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 have them annotated in the Registry of Deeds (RD) at Makati City on January 22, 2020 as a requirement for the filing of Petition for the Issuance of New Owners Copies of the five CCTs. The System filed the said petition in RTC, Makati City on July 28, 2020. A hearing was held and the said petition was already submitted for resolution.

19. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

These accounts consist of the following:

	2020	2019
Trade payables	**29,195,583**	122,079,003
Non-trade payables	**354,141,732**	363,141,253
Accrued employee benefits	**79,559,748**	115,491,125
Accrued operating expenses	**33,286,046**	29,393,632
Reserve for real estate development	**25,707,342**	28,478,888
Payable to real estate brokers	**26,502,802**	28,431,059
Retention payable	**21,588,387**	20,803,173
Buyer's refund payable	**17,717,942**	14,552,620

(Forward)

	2020	2019
Payable to landowners	**94,146,660**	1,593,400
Other payables	**12,852,955**	12,112,721
	694,699,197	736,076,874

Payable to landowners account includes the remaining payables to various tenants for the lot acquisitions made for the Riviera raw lands in the previous years.

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 a*ccrued employee benefits* are the accruals made for the provision for employee separation benefits in the total amount of P70.720 million. The amount is net of the P8.368 million separation costs that were paid to five separated employees in CY 2020 (See Note 26).

20. 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 retirement. In June 2018, the BOL approved the implementation of the Accelerated Refund of MCs.

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 BR 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:

	2020	2019
MC payable-current	**2,376,693,809**	3,929,006,302
MC payable-non-current portion	**1,982,986,520**	3,339,216,962
	4,359,680,329	7,268,223,264

21. ESTIMATED LIABILITY ON EARNINGS OF MEMBERS' CONTRIBUTIONS

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

	2020	2019
Balance at beginning of year	**2,293,584,114**	3,215,686,877
Payments made (net of adjustments)	**(900,156,054)**	(922,102,763)
Balance at end of year	**1,393,428,060**	2,293,584,114
Current portion	**951,971,791**	1,573,815,083
Non-current portion	**441,456,269**	719,769,031

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 members. Effective January 1996, the interest on MCs was increased to six per cent per annum compounded annually.

In November 2010, the 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 2020 was based on the projected refund/payments to be made in CY 2021.

22. 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.

Also included in this category is the P196.508 million deferred income representing 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 Marilaque Land, Inc. in exchange for the latter's shares of stock. During the year, the same was reclassified from Investment in Subsidiaries to Deposits and Other Liabilities.

23. 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 percent 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 percent 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 percent 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 accelerate 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, 2020, the remaining Fund Equity of the System is composed of the P200 million government contribution, retained earnings of P8.839 billion and other comprehensive income of P9.079 million representing the cumulative gain on changes in fair value of investments.

24. REVENUES

Revenues consist of the following:

	2020	2019
Fund management operations		
Interest on MMP/deposit in banks/treasury bills	**75,739,335**	211,898,562
Income from long-term investments	**203,528,833**	214,751,913
Income from stocks/dividends	**101,037**	354,460
	279,369,205	427,004,935
Real estate rentals		
Rentals from IPMO–net	**123,628,365**	126,465,704
Rentals from real estate properties – net	**8,035,822**	9,334,849
	131,664,187	135,800,553
Lending operations		
Interest on ICRs	**28,887,417**	65,216,352
Interest on advance refunds	**60,730**	169,886
Interest on commercial loans	**6,906,576**	5,508,426
Interest on employee loans	**386,345**	517,854
Interest on discounting of commutation of leave	**24,955**	(498)
Other income	**15,066,232**	14,667,363
	51,332,255	86,079,383
Real estate operations		
Sale of real estate inventories – net	**(33,314,733)**	36,477,397
Income from acquired assets – net	**13,093,494**	4,967,398
Other income	**3,403,172**	32,065,147
	(16,818,067)	73,509,942
Equity holdings in subsidiaries and associates	**147,249,115**	8,112,085
	592,796,695	730,506,898

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

Revenues from equity holdings in subsidiaries and associates consists mainly of the income from the disposal of the System’s equity shares in SUMSI to PAMANA Water Corporation in April 2020.

25. DEPRECIATION AND AMORTIZATION

This account consists of the following:

	2020	2019
Property and equipment (*Note 17)*	**0**	145,426
Real estate inventories	**1,148,801**	2,700,437
Investment property	**256,000**	256,000
	1,404,801	3,101,863

26. EMPLOYEE BENEFITS

For CY 2019, 10 out of the 27 personnel, who 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, five employees were approved and were actually separated from the System in line with the winding down and liquidation of AFPRSBS pursuant to MO No. 90 for a separation cost amounting to P8.368 million. As at December 31, 2020, the balance of the accruals for the separation of the remaining employees is P70.720 million (See Note 19).

27. 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 refer 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 2020 and 2019, are as follows:

	2020	2019
Salaries and wages	**3,361,117**	3,164,023
Other benefits	**1,146,016**	1,355,048
	4,507,133	4,519,071

27.2 Other related party transactions

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

	2020	2019
Management fees *(Note 6)*	**2,673,074**	2,673,074
Receivable from JV partner *(Note 6)*	**30,219,293**	29,222,384
Medium-term loans *(Note 7)*	**143,914,840**	145,801,793
Advances to subsidiaries and associates *(Note 13)*	**21,941,527**	34,454,120
Accounts payable and accrued expenses *(Note 19)*	**86,959,470**	122,890,848
	285,708,204	335,042,219

28. 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's 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.

29. RETAINED EARNINGS

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

	2020	2019
Balance, January 1	**8,230,226,686**	7,598,631,089
Correction of prior period errors	**102,554,775**	0
Profit for the year	**506,555,780**	631,595,597
	8,839,337,241	8,230,226,686

The correction of prior period errors consists of the following:

Particulars	Amount
Reversal of accounts payable in AFPRSBS books outstanding for more than two years	89,003,851
Reversals of accruals made on employees benefits and consultant fees	33,892,085
Adjustment of unearned income related to advance refund transactions	(10,279,969)
Reversals of prepayments	(10,339,187)
Adjustments on other income and expenses-net	277,995
	102,554,775

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Liabilities to the members	2020	2019
Balance, January 1	**9,561,807,379**	12,818,278,850
Cash flows from financing activities payment of contributions	**(3,722,898,216)**	(3,087,196,953)
Non-cash financing activities adjustment of matured loans/others set-up of unreleased checks/other adjustments	**(85,800,774)**	(169,274,518)
Balance, December 31	**5,753,108,389**	9,561,807,379

31. 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.

32. 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 2020 and 2019.

32.1 Withholding Taxes

	2020	2019
Tax on compensation and benefits	**6,864,214**	6,277,968
Value-added taxes	**1,635,654**	1,907,245
Expanded withholding taxes	**2,726,585**	3,494,767
Percentage taxes	**138,563**	138,195
	11,365,016	11,818,175

32.2 Other Taxes

	2020	2019
Local		
Real property taxes	**21,614,781**	22,800,827
Capital gains taxes	**7,445,817**	25,545,753
Transfer taxes/others	**27,937**	744,686
National		
BIR annual registration	**500**	500
	29,089,035	49,091,766

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 that 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.

33. 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 the 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 the 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	353.721 million	Decision rendered in favor of Group Developers, Inc. The OGCC, on behalf of the defendants, filed the appeal to the CA on June 9, 2017.

Case No./Court	Description	Pecuniary amount or liability involved	Status
	developer for the construction and marketing of a 24-storey condominium building.		The Motion for reconsideration filed by MDC was denied by the CA. Awaiting the finality of the decision of the CA regarding its favorable decision on AFPRSBS that the System is not liable.

The System is involved as party litigant to 27 ejectment cases and 16 of which achieved finality and are currently for execution/implementation. On the other hand, there are 10 Land Registration/Reconveyance/Foreclosure of Mortgage cases which are still pending. In other civil cases, 13 are still ongoing and 2 criminal cases are likewise pending. Lastly, there are various cases that are being handled by the OGCC.

34. IMPACT OF COVID-19

The COVID-19 pandemic has resulted in a slowdown, if not total standstill, in almost all aspects of the System's operations. The most affected is the real estate operations. There was a suspension/slowdown of divestment activities. The bidding/procurement activities were delayed/deferred. There were delays also in the commencement of some projects, or completion of some projects were extended. The System granted ninety-day grace period to lessees of its real estate properties and to those amortizing buyers in compliance with Bayanihan Acts 1 and 2 (R.A. Nos. 11469 and 11494, respectively).

The pandemic also caused reduction in workforce reporting to office leading to reduction in refund transactions being processed and funded. The original target date of completion of the Accelerated Refund was December 2021 but adjusted to December 2022. The incidents of positive COVID-19 cases on the System's employees and in partner-banks also delayed the releases of refunds to members. The System adopted business process enhancements to limit face to face transaction with its clients.