



*Republic of the Philippines*

**COMMISSION ON AUDIT**

*Commonwealth Avenue, Quezon City, Philippines*

**INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors**

Philippine Amusement and Gaming Corporation  
PAGCOR Corporate Office  
Hyatt Hotel and Casino Manila  
M.H. Del Pilar cor. Pedro Gil Streets, Malate, Manila

We have audited the accompanying financial statements of the Philippine Amusement and Gaming Corporation (PAGCOR) which comprise the balance sheet as at December 31, 2008, and the statement of income and expenses, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of the Philippine Amusement and Gaming Corporation as at December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Philippines.

*Emphasis of Matter*

We draw attention to Notes 23 and 24 to the financial statements as well as comments and observations (C and O) No. 1 on the varied definitions of income for purposes of computing PAGCOR's aggregate gross earnings subject to the five percent franchise tax and 50 percent government share. A decision of the Supreme Court on the payment of value added tax and corporate income tax as well as ruling from government agencies mandated to decide on taxes and the composition of gross income and income from related services might affect the financial position and the results of the financial performance of PAGCOR. In addition, as discussed under C and O No. 4, the limitations and procedural lapses in the implementation of the Player Tracking System (PTS) and Rebate on Bets Program resulted in erroneous charges of amenities of players to Marketing Expenses. Since the PTS databases of the various branches were not yet consolidated, the rebate points earned from a branch but availed of in another branch were not properly monitored. The monetary equivalent of amenities granted to players qualified to avail themselves thereof were not charged against the points earned from their plays but were directly charged to Marketing Expenses. To rectify the said incorrect charges which resulted in high Marketing Expenses, management credited the money value of unutilized earned points to Marketing Expenses instead of reverting it to Income. These procedural lapses may have an effect on the financial position and results of operation of PAGCOR.

**COMMISSION ON AUDIT**



**JOSE R. ROCHA JR.**

Director IV

Cluster C – Agricultural, Trading, Promotional  
Social and Cultural  
Corporate Government Sector

May 18, 2009

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**

**BALANCE SHEET**

**December 31, 2008**

(With corresponding figures for 2007)

(In Philippine Peso)

	Notes	2008	2007 (As Restated)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	3,691,737,885	3,882,796,218
Receivables - Net	4	975,734,711	1,274,962,621
Inventories	2.5, 2.6 & 5	355,712,877	332,433,842
Prepayments	6	371,188,257	411,125,308
Guaranty Deposits		-	222,575,168
<b>Total Current Assets</b>		<b>5,394,373,730</b>	<b>6,123,893,157</b>
<b>Non-Current Assets</b>			
Investments	7	223,108,780	42,808,780
Receivables	8	50,778,695	64,845,401
Property, Plant and Equipment - Net	2.7 & 9	16,238,710,842	10,406,237,996
Other Assets	10	2,224,284,507	837,400,569
<b>Total Non-Current Assets</b>		<b>18,736,882,824</b>	<b>11,351,292,746</b>
<b>TOTAL ASSETS</b>		<b>24,131,256,554</b>	<b>17,475,185,903</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts Payable	11	1,388,398,435	1,414,294,510
Inter-Agency Payables	12	2,226,124,440	2,176,849,582
Intra-Agency Payables	13 & 26.d	146,141,972	239,320,996
Other Liability Accounts	14	625,734,497	677,105,745
<b>Total Current Liabilities</b>		<b>4,386,399,344</b>	<b>4,507,570,833</b>
<b>Non-Current Liabilities</b>			
Long-Term Liabilities	15	12,984,676,970	7,801,738,694
Deferred Credits	16	8,292,981	7,237,435
<b>Total Non-Current Liabilities</b>		<b>12,992,969,951</b>	<b>7,808,976,129</b>
<b>TOTAL LIABILITIES</b>		<b>17,379,369,295</b>	<b>12,316,546,962</b>
<b>EQUITY</b>		<b>6,751,887,259</b>	<b>5,158,638,941</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24,131,256,554</b>	<b>17,475,185,903</b>

The notes on pages 7 to 28 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the year ended December 31, 2008**  
(With corresponding figures for 2007)  
(In Philippine Peso)

	Notes	2008	2007 (As Restated)
<b>Business Income</b>			
Winnings		23,288,340,726	21,957,126,851
Bingo Operations-Franchisees		1,567,129,155	1,518,836,351
Bingo Operations - In-House		131,837,673	150,939,690
Rent Income		416,091,665	514,995,292
Management Fees	18	207,551,060	186,994,012
Entertainment Income	19	(22,559,754)	(98,544,799)
Hotel Operations		2,158,554	1,133,437
Gasoline Service Operations		2,818,445	1,152,945
<b>Other Income</b>	20	3,980,826,160	3,621,458,805
<b>Gain (Loss) on Foreign Exchange</b>	2.8	42,965,789	(45,749,469)
		29,617,159,473	27,808,343,115
<b>Expenses</b>			
Operating Expenses	21	12,765,934,118	11,460,914,875
Franchise Tax	23	1,164,417,036	1,097,856,343
		13,930,351,154	12,558,771,218
Contributions to the Government	25		
50% Government Share		11,061,961,845	10,429,635,254
Office of the President		1,350,165,241	1,476,747,127
5% Philippine Sports Commission's Share		553,098,092	521,481,763
Subsidy to LGUs: Host Cities' Share		496,082,500	472,120,000
Early Childhood Care & Development Fund		458,892,963	392,205,425
Gasoline Station Training & Loan Fund		-	76,500,000
Barangay Micro Business Enterprises		100,000,000	51,041,667
1% Board of Claims' Share		15,932,483	18,555,109
National Endowment Fund for Children's TV		-	-
Mandated Contribution to the National Government - Others		57,426,877	17,876,827
		14,093,560,001	13,456,163,172
		28,023,911,155	26,014,934,390
<b>NET INCOME</b>		<b>1,593,248,318</b>	<b>1,793,408,725</b>

The notes on pages 7 to 28 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2008**  
(With corresponding figures for 2007)  
(In Philippine Peso)

	Notes	2008	2007 (As Restated)
<b>Capital Stock</b>		71,430,752	71,430,752
<b>Restricted Capital</b>			
Balance, Beginning		1,219,735,148	1,014,610,305
Current Appropriations		(61,483,618)	205,124,843
Balance, End		1,158,251,530	1,219,735,148
<b>Retained Earnings</b>			
Balance, Beginning	27	3,781,966,586	2,193,682,704
Current Appropriations			
Slot Machine Demo Units - Net of Reversions		(40,387,000)	597,258,000
Construction of Building at PAGCOR City		-	(625,000,000)
Acquisition of Other Property, Plant & Equipment		167,910,618	(177,382,843)
Additional Treasury Capital for Expanded Operation		(66,040,000)	-
Total Current Appropriations		61,483,618	(205,124,843)
Net Income for the Year		1,593,248,318	1,793,408,725
Balance, End		5,436,698,522	3,781,966,586
<b>Appraisal Capital</b>	17	85,506,455	85,506,455
<b>TOTAL EQUITY</b>		<b>6,751,887,259</b>	<b>5,158,638,941</b>

The notes on pages 7 to 28 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

(All amounts in Philippine Peso unless otherwise stated)

**1. GENERAL INFORMATION**

The Philippine Amusement and Gaming Corporation (PAGCOR), with business address at Hyatt Hotel and Casino Manila, M. H. Del Pilar cor. Pedro Gil Streets, Malate, Manila, is a 100 percent government-owned and-controlled corporation domiciled in the Republic of the Philippines. It was created on January 1, 1977 by virtue of Presidential Decree (PD) No. 1067-A. This was amended under PD Nos. 1067-B, 1067-C, 1399 and 1632 which were subsequently consolidated into one statute, PD No. 1869 (PAGCOR's Charter), on July 11, 1983. PAGCOR was created with a three-pronged mandate: to regulate all games of chance, particularly casino gaming in the country, to raise funds for the government's socio-civic and national developmental efforts, and to help boost the country's tourism industry. PAGCOR's 25-year franchise, which expired last July 11, 2008, has been renewed by Congress for another 25 years or until July 11, 2033 under R.A. No. 9487.

PAGCOR currently operates 13 casino branches in major cities in the country, aside from slot machine arcades and VIP clubs. These casinos are PAGCOR Heritage in Pasay City, PAGCOR Hyatt and PAGCOR Pavilion in Manila, PAGCOR Paranaque, PAGCOR Angeles, PAGCOR Bacolod, PAGCOR Cebu, PAGCOR Davao, PAGCOR Laoag, PAGCOR Mactan, PAGCOR Mimosa in Clark, Pampanga, PAGCOR Olongapo, and PAGCOR Tagaytay.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Accounting**

From July 15 to December 31, 1986, PAGCOR followed the accrual basis of accounting. However, in 1987, the corporation shifted to the modified cash basis of accounting on account of PAGCOR's commitment to directly transfer its net cash income to the Social Fund under the Office of the President. Under this method of accounting, the company recognized winnings, rental and other income when collected, regardless of when they were earned. Likewise, operating and other expenses were generally recognized when paid regardless of when they were incurred. Capital expenditures were also immediately charged to expense so that depreciation was no longer provided.

Subsequently, in compliance with (a) COA Circular No. 2004-002 dated April 29, 2004 - Prescribing the Chart of Accounts Under the New Government Accounting System (NGAS) for Government-Owned and/or - Controlled Corporations, and (b) COA Circular Letter No. 2004-001 dated May 7, 2004 - Accounting Guidelines and Procedures on the Adoption of the Chart of Accounts under the New Government Accounting System (NGAS) by Government-Owned and/or Controlled Corporations, PAGCOR adopted the NGAS and shifted from the modified cash to accrual basis of accounting, effective January 1, 2005, as approved by the Board of Directors on May 25, 2004.

## **2.2 Combined Financial Statements**

The combined financial statements of PAGCOR reflect the financial position and results of operations of the Home Office and its branches. Inter-branch accounts have been eliminated in the consolidation.

## **2.3 Presentation Currency**

PAGCOR's financial statements are presented/reported in Philippine peso, its functional currency, or the currency of the primary economic environment in which the company operates.

## **2.4 Revenue Recognition**

Income is generally recognized when realized or earned, except for revenues where the accrual method is impractical, such as table games and slot machine winnings, since these cannot be measured reliably until cash is actually received.

## **2.5 Inventory Procedure and Valuation Method**

Supplies and materials purchased for stock, whether these are consumed or not within the accounting period, are recorded using the Perpetual Inventory System. The cost of inventory issued and its ending balance is computed using the Moving Average Method.

## **2.6 Change in Accounting Policy for Chips and Tokens**

Under the modified cash basis of accounting adopted by PAGCOR prior to CY 2005, purchases of chips and tokens were immediately charged to expense upon payment. Subsequently, when PAGCOR shifted to the accrual basis of accounting under NGAS on January 1, 2005, purchases of chips and tokens were capitalized under the account Other Property, Plant and Equipment: Chips and Tokens.

This accounting policy was further amended in CY 2007, when all chips and tokens actually on hand at the Corporate Vaults and Tokens Storeroom as of September 30, 2007 were taken up in PAGCOR's books of accounts as Other Supplies Inventory: Chips and Tokens. The book value of said inventory was determined based on the following:

- a. Physical count per Finance and Treasury Department's (FTD's) Location Summary Report generated from its Vault Inventory System for Chips and Tokens as of September 30, 2007.
- b. Insurable value per unit of chips and tokens based on FTD's memorandum to Accounting Department (AD) dated September 5, 2007 on the subject Supplies Inventory – Vault Inventory System Interface (SIS-VIS), submitting to AD the summary of estimated purchase cost of chips and tokens used by FTD in computing insurable value as of May 23, 2007.

Insurable value per unit was adopted by PAGCOR as basis since no complete records of the acquisition costs of chips and tokens are available.

Insurable value is either the actual acquisition cost, if available, or an estimated cost based on the latest purchase price for similar items.

After the booking as inventory of chips and tokens on hand at Corporate as of September 30, 2007, all issuances starting October 1, 2007 are now being charged to the receiving branches using weighted average cost and taken up as Other Supplies Expenses: Chips and Tokens. Any returns from the branches to Corporate are added back at zero cost to the quantity on hand at FTD.

## 2.7 Property, Plant and Equipment

Depreciation Method - As required under NGAS, particularly COA Circular No. 2003-007 dated December 11, 2003, the straight-line method of computing depreciation for property, plant and equipment is followed by PAGCOR.

Subsequent Acquisitions - Except for the initial set-up of existing property, plant and equipment following the shift from modified cash to accrual basis of accounting on January 1, 2005, property, plant and equipment are recorded at historical cost.

Estimated Useful Lives - PAGCOR has generally complied with COA Circular No. 2003-007 on the Revised Estimated Useful Life in Computing Depreciation for Government Property, Plant and Equipment (PPE). However, in view of the nature of the company's business and specialized equipment used (e.g. CCTV, slot machines and gaming tables), different estimated useful lives for certain assets have been adopted. The Commission on Audit's approval has been sought on this in PAGCOR's memo to COA - PAGCOR dated October 29, 2004. The schedule of estimated useful lives of PPE is shown below:

Particulars	Estimated Useful Life (in years)
Buildings	30*
Leasehold Improvements	30, or term of lease, or expiry of PAGCOR's franchise on July 11, 2033, whichever is shorter
Office Equipment	5 to 10
Office Furniture and Fixtures	10
Gaming Furniture and Fixtures	4 to 10
Communication Equipment	10
Firefighting Equipment and Accessories	10
Medical, Dental and Laboratory Equipment	10
Military and Police Equipment	10
Sports Equipment	10
Gaming Equipment	4 to 5
Bingo Equipment	5
Other Machinery and Equipment	10
Transportation Equipment	7 to 10
Other Property, Plant and Equipment	5



\* For subsequent acquisitions after PAGCOR's shift to the New Government Accounting System (NGAS) / Accrual Basis of Accounting effective January 1, 2005, estimated useful life is 30 years. Existing buildings and structures as of December 31, 2004 were set up in our books of accounts in January, 2005 using appraised values and estimated remaining useful lives, per Appraisal Reports of Land Bank of the Philippines dated August 6 and 7, 2004, which ranged from 25 to 35 years for buildings and from 20 to 32 years for other structures.

## 2.8 Foreign Exchange Transactions

Foreign currency transactions, such as dollar pit winnings, are recorded on initial recognition in PAGCOR's functional currency (Philippine peso) by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the transaction, which is defined as the date on which the transaction first qualifies for recognition in accordance with Philippine Financial Reporting Standards (PFRS). In the case of dollar pit winnings, this is the actual date on which the winnings are generated from the tables.

At each subsequent balance sheet date henceforth, foreign currency monetary items, such as "Cash in Bank – Foreign Currency" and dollar-denominated "Treasury Capital" and "Guarantee Deposits Payable" accounts, are revalued/translated using the closing rate (spot exchange rate at the balance sheet date), with the difference recognized as Foreign Exchange Gain or Loss.

## 3. CASH AND CASH EQUIVALENTS

This account includes the following:

Particulars	2008	2007
Cash on Hand	81,539,649	97,878,995
Cash in Bank - Local Currency	2,831,213,853	2,975,740,114
Cash in Bank - Foreign Currency	208,661,966	355,270,776
Treasury Fund Capital	570,322,417	453,906,333
<b>Total Cash and Cash Equivalents</b>	<b>3,691,737,885</b>	<b>3,882,796,218</b>

Cash on Hand – This consists of collections and deposits made by Collecting Officers, amount of cash advances granted to Regular and Special Disbursing Officers for payment of salaries and disbursements made in payment of authorized official expenditures including Intelligence Fund and Discretionary Fund. It also includes Petty Cash Funds and various revolving funds maintained in the Home Office and branches.

Cash in Bank – Local/Foreign Currency - This account represents the bank accounts with the Philippine National Bank, Hongkong and Shanghai Banking Corporation and Land Bank of the Philippines maintained by the Home Office and branches. It includes placements in time deposits which can be pre-terminated when necessary, except for ₱135,000,000 which has been set aside for the Early

Childhood Care and Development (ECCD) and ₱75,000,000 for the Gasoline Station Training and Loan Fund.

Treasury Fund Capital - This account pertains to the cash capital for gaming operations kept in the vault of the branches' Treasury and back-up capital deposited in the banks.

#### 4. CURRENT RECEIVABLES – NET

This account is broken down as follows:

Particulars	2008	2007 (As Restated)
<b>Accounts Receivable</b>		
Officers and Employees	8,245,290	3,114,414
Others	591,633,844	727,817,741
Allowance for Doubtful Accounts	(319,490,832)	(318,210,854)
Net	272,143,012	409,606,887
<b>Due from Officers and Employees</b>	48,944,987	52,099,235
<b>Interest Receivable</b>	2,495,156	2,023,346
	<b>331,828,445</b>	<b>466,843,882</b>
<b>Inter-Agency Receivables</b>		
Due from National Government Agencies		
Philippine Sports Commission	203,242,709	288,850,217
Office of the President	-	166,512,000
Due from Government-Owned and -Controlled Corporation		
Social Security System	1,632,250	2,250,224
Others	4,600	4,600
	<b>204,879,559</b>	<b>457,617,041</b>
<b>Other Receivables</b>		
Advances to Officers and Employees	14,105,518	6,500,770
Others	424,921,189	344,000,928
	<b>439,026,707</b>	<b>350,501,698</b>
<b>Total Current Receivables-Net</b>	<b>975,734,711</b>	<b>1,274,962,621</b>

In conformity with Philippine Accounting Standard (PAS) No. 8, Accounts Receivable - Others, Due from Officers and Employees, Interest Receivable and Other Receivables are restated as follows:

Unrestated amount as of December 31, 2007	720,105,343
Adjustment on 5% increment on rent income, PAGCOR Laoag	(4,492,511)
Various receivables from mobile games, licensees	12,204,909
<b>Restated as of December 31, 2007 – Accounts Receivable-Others</b>	<b>727,817,741</b>
Unrestated amount as of December 31, 2007	(321,985,409)
Adjustment	3,774,555
<b>Restated as of December 31, 2007–Allowance for Doubtful Accounts</b>	<b>(318,210,854)</b>

Unrestated amount as of December 31, 2007	51,697,537
Various unreplenished petty cash expenses	401,698
<b>Restated as of December 31, 2007 – Due from Officers and Employees</b>	<b>52,099,235</b>
Unrestated amount as of December 31, 2007	1,115,111
Interest receivable from Player Tracking System	908,235
<b>Restated as of December 31, 2007 – Interest Receivable</b>	<b>2,023,346</b>
Unrestated amount as of December 31, 2007	6,456,141
Reversal of liquidation of cash advance re: prize payout on Mobile bingo	44,629
<b>Restated as of December 31, 2007 – Advances to Officers and Employees</b>	<b>6,500,770</b>
Unrestated amount as of December 31, 2007	321,173,162
Receivable from Jazzbeme, Casa Blanca and Clark Resort Travel	22,827,766
<b>Restated as of December 31, 2007–Other Receivables-Others</b>	<b>344,000,928</b>

Accounts Receivable–Officers and Employees – This account represents amount due from officers and employees for the sale of bingo and show tickets, souvenir shop items and gas charges from PAGCOR’s gasoline station.

Accounts Receivable–Others – This refers to trade receivables from other companies, individuals and organizations, such as gasoline/oil withdrawals by the National Parks Development Committee and amount due from bingo franchises.

Due from Officers and Employees – This includes the personal accounts of officers and employees such as death benefits, telephone charges and meal charges.

Interest Receivable – This represents accrued interest income from Peso and Dollar time deposits as of December 31, 2008.

Due from National Government Agencies - This account consists of the outstanding balance of the amounts advanced to the Philippine Sports Commission for various sports events and operational requirements and the advances to the Office of the President which are deductible from their monthly share/remittance due from PAGCOR.

Due from GOCCs – This account pertains to the amount advanced by PAGCOR for the maternity and sickness benefits of officers and employees from the Social Security System and the receivable account of PAGCOR Pavilion from the Government Service Insurance System for the cost of vehicle repair.

Advances to Officers and Employees – This pertains to cash advances granted for official travel and other special/time-bound undertakings to establish the accountability of the recipient.

Other Receivables – This account consists of the amounts due from the following:

Particulars	2008	2007 (As Restated)
Car plan/Comprehensive Insurance	157,186,385	118,979,581
Healthcare	62,958,642	59,254,935
National Convention Network	50,000,000	-
Grand Boulevard Hotel	42,247,047	42,247,047
Waterfront Hotel	34,269,480	34,269,480
Employee-Funded Mutual Assistance Program	25,728,278	21,343,413
Megaworld Corporation	13,432,500	13,432,500
Romeo Bauzon	12,600,000	12,600,000
Adriatico Consortium, Inc.	7,667,520	7,667,520
Baler	3,760,890	-
Evercrest Golf Club	720,000	720,000
Pryce Plaza	687,290	687,290
Century Resort Hotel Corp	613,163	580,130
Others	13,049,994	32,219,032
<b>Total Other Receivables</b>	<b>424,921,189</b>	<b>344,000,928</b>

## 5. INVENTORIES

This account consists of the following:

Particulars	2008	2007 (As Restated)
Chips and Tokens	182,874,468	178,365,073
Office Supplies	25,438,843	22,523,087
Spare Parts	23,051,541	16,344,972
Food Supplies	12,586,185	12,005,633
Merchandise	8,041,319	20,443,650
Raw Materials	7,258,780	4,351,136
Construction Materials	3,787,919	4,140,066
Work - In Process	1,944,453	3,470,083
Drugs and Medicines	1,910,710	4,625,131
Finished Goods	1,826,606	3,550,790
Accountable Forms	968,700	800,882
Medical, Dental and Laboratory Supplies	557,677	640,250
Other Supplies	85,465,676	61,173,089
<b>Total Inventories</b>	<b>355,712,877</b>	<b>332,433,842</b>

In conformity with PAS No. 8, some inventory accounts are restated as follows:

Unrestated amount as of December 31, 2007	26,974,906
Adjustment in supplies inventory issuance	(4,451,819)
<b>Restated as of December 31, 2007– Office Supplies Inventory</b>	<b>22,523,087</b>

Unrestated amount as of December 31, 2007	26,970,733
Adjustment in beginning balance of SM spare parts	(10,625,761)
<b>Restated as of December 31, 2007 – Spare Parts Inventory</b>	<b>16,344,972</b>
Unrestated amount as of December 31, 2007	12,974,541
Adjustment in supplies inventory issuance	(968,908)
<b>Restated as of December 31, 2007 – Food Supplies Inventory</b>	<b>12,005,633</b>
Unrestated amount as of December 31, 2007	20,452,141
Adjustment on supplies inventory issued for bingo operation	(8,491)
<b>Restated as of December 31, 2007 – Merchandise Inventory</b>	<b>20,443,650</b>
Unrestated amount as of December 31, 2007	4,363,667
Reclassification, repairs of furniture and fixtures	(12,531)
<b>Restated as of December 31, 2007 – Raw Materials Inventory</b>	<b>4,351,136</b>
Unrestated amount as of December 31, 2007	4,752,601
Adjustment in construction materials inventory issuance used for repairs	(612,535)
<b>Restated as of December 31, 2007 – Construction Materials Inventory</b>	<b>4,140,066</b>
Unrestated amount as of December 31, 2007	3,519,765
Reclassification, repairs of furniture and fixtures	(49,682)
<b>Restated as of December 31, 2007 – Work-In-Process Inventory</b>	<b>3,470,083</b>
Unrestated amount as of December 31, 2007	4,630,779
Adjustment in drugs and medicines inventory issuance	(5,648)
<b>Restated as of December 31, 2007 – Drugs &amp; Medicines Inventory</b>	<b>4,625,131</b>
Unrestated amount as of December 31, 2007	1,026,434
Overhead cost for fabrication of various gaming equipment and other items	2,524,356
<b>Restated as of December 31, 2007 – Finished Goods Inventory</b>	<b>3,550,790</b>
Unrestated amount as of December 31, 2007	696,018
Adjustment in medical, dental, and laboratory supplies inventory issuance	(55,768)
<b>Restated as of December 31, 2007 – Medical, Dental and Laboratory Supplies Inventory</b>	<b>640,250</b>
Unrestated amount as of December 31, 2007	238,274,366
Adjustment in other supplies issuance	1,263,796
<b>Restated as of December 31, 2007 – Other Supplies Inventory</b>	<b>239,538,162</b>

The following issuances from inventory during CY 2008 were recognized as expense and charged to various accounts:

Particulars	Amount
Office Supplies	97,786,122
Food Supplies	66,383,898
Merchandise	21,573,255
Drugs and Medicines	13,243,346
Construction Materials	6,783,392
Medical, Dental and Laboratory Supplies	1,141,564
Accountable Forms	946,410
Military and Police Supplies	9,528
Spare Parts – Slot Machine	5,015,193
Spare Parts – CCTV	1,335,029
Spare Parts – Vehicle	1,218,921
Spare Parts – Others	609,421
Other Supplies – Gaming	69,891,272
Other Supplies – Others	34,898,252
Other Supplies – Bingo	315,403
<b>Total Issuances from Inventory</b>	<b>321,151,006</b>

Obsolete slot machine spare parts with a book value of ₱10,628,049 were written off in CY 2008, as well as 3,598,750 pieces of Instant Charity Bingo Game 1 tickets amounting to ₱10,432,114 which were found to be slow-moving and physically damaged due to wear and tear.

## 6. PREPAYMENTS

This account includes the following:

Particulars	2008	2007 (As Restated)
Rent	279,796,447	362,760,549
Deferred Charges	77,052,310	29,826,804
Insurance	13,868,057	14,468,628
Host Cities' Share (City of Manila)	-	2,000,000
Clothing and Uniform Allowance	-	608,027
Others	471,443	1,461,300
<b>Total Prepayments</b>	<b>371,188,257</b>	<b>411,125,308</b>

In conformity with PAS No. 8, prepaid insurance account is restated as follows:

Unrestated amount as of December 31, 2007	14,449,879
Reclassification of bond premium	18,749
<b>Restated as of December 31, 2007 – Prepaid Insurance</b>	<b>14,468,628</b>

## 7. INVESTMENTS

This pertains to the following:

Particulars	2008	2007
<b>A. Investments in Stock</b>		
Wack-Wack Golf and Country Club	20,500,000	20,500,000
Rockwell Land Corporation	4,222,000	4,222,000
Cebu Golf and Country Club	2,500,000	2,500,000
Alabang Country Club	2,167,500	2,167,500
Tagaytay Highlands International Golf Club	1,475,000	1,475,000
The Orchard Golf and Country Club	1,350,000	1,350,000
Alta Vista Golf & Country Club/Vista Mar Beach Resort	1,070,000	1,070,000
Baguio Country Club/Golfers Club Shares, Inc.	1,067,000	1,067,000
Tagaytay Midlands Golf Club	950,000	950,000
Riviera Golf and Country Club	910,000	910,000
Manila Southwoods Golf and Country Club	900,000	900,000
Banyan Tree Nasugbu Evercrest	800,000	800,000
Subic Bay Country Club	726,400	726,400
Fairways and Bluewater Resort & Country Club	704,000	704,000
Eagle Ridge Golf and Country Club	640,000	340,000
Mimosa Golf and Country Club	622,500	622,500
Apo Golf and Country Club	400,000	400,000
Tagaytay Royale Estate	148,500	148,500
Greenland Resort	70,000	70,000
Romeo G. Guanzon Recreation Center	50,000	50,000
Philippine Columbian Association	32,000	32,000
<b>Total Investments in Stock</b>	<b>41,304,900</b>	<b>41,004,900</b>
<b>B. Other Investments &amp; Marketable Securities</b>		
DBP – Money Placements	100,000,000	-
LBP – Special Deposit Accounts	80,000,000	-
Philippine Long Distance Telephone Co.	1,790,500	1,790,500
Philippine Telephone Corporation	13,380	13,380
<b>Total Other Investments &amp; Marketable Securities</b>	<b>181,803,880</b>	<b>1,803,880</b>
<b>Total Investments</b>	<b>223,108,780</b>	<b>42,808,780</b>

## 8. NON-CURRENT RECEIVABLES

This account consists of the following:

Particulars	2008	2007
Century Resort Hotel Corporation – remaining balance of financial accommodation for the general finishing works on the new building of Casino Filipino Angeles	37,571,195	48,120,401
Century Resort Hotel Corporation – financial accommodation for the construction of the rent-free basement parking area	12,000,000	15,000,000
Felina Luna - remaining balance of account which is being paid in monthly amortizations of ₱43,125 per Compromise Agreement of Civil Case No. 97-31299	1,207,500	1,725,000
<b>Total Non-Current Receivables</b>	<b>50,778,695</b>	<b>64,845,401</b>

## 9. PROPERTY, PLANT AND EQUIPMENT – NET

This account consists of the following:

	Land & Improvements	Buildings & Other Structures	Leasehold Improvements	Construction in Progress	Furniture & Equipment	Total
<b>COST</b>						
Jan. 1, 2008	8,330,211,234	90,638,338	295,987,070	23,188,751	2,216,532,515	10,956,557,908
Additions	5,751,199,159	348,201	7,015,712	57,803,225	1,533,676,150	7,350,042,447
Disposals/ Retirement	-	-	-	-	(2,468,410)	(2,468,410)
Reclassification	(878,301,690)	-	-	-	(25,272,256)	(903,573,946)
Dec. 31, 2008	13,203,108,703	90,986,539	303,002,782	80,991,976	3,722,467,999	17,400,557,999
<b>ACCUMULATED DEPRECIATION</b>						
Jan.1, 2008 As Restated	-	7,109,142	18,465,646	-	524,745,124	550,319,912
Depreciation	644	2,599,259	18,124,216	-	590,803,126	611,527,245
Dec. 31, 2008	644	9,708,401	36,589,862	-	1,115,548,250	1,161,847,157
<b>NET BOOK VALUE, Dec. 31, 2008</b>	<b>13,203,108,059</b>	<b>81,278,138</b>	<b>266,412,920</b>	<b>80,991,976</b>	<b>2,606,919,749</b>	<b>16,238,710,842</b>
<b>NET BOOK VALUE, Dec. 31, 2007 As Restated</b>	<b>8,330,211,234</b>	<b>83,529,196</b>	<b>277,521,424</b>	<b>23,188,751</b>	<b>1,691,787,391</b>	<b>10,406,237,996</b>



In conformity with PAS No. 8, Accumulated Depreciation - Land & Improvements and Accumulated Depreciation - Furniture and Equipment are restated as follows:

	Land & Improvements	Buildings & Other Structures	Leasehold Improvements	Construction in Progress	Furniture & Equipment	Total
<b>COST</b>						
Dec. 31, 2007	8,330,211,234	90,638,338	295,987,070	23,188,751	2,216,532,515	10,956,557,908
Unrestated						
Accumulated						
Depreciation						
Dec. 31, 2007	146,724	7,109,142	18,465,646	-	524,687,319	550,408,831
Various						
Adjustments						
	(146,724)	-	-	-	57,805	(88,919)
Restated Balance						
Accumulated						
Depreciation						
Dec. 31, 2007	-	7,109,142	18,465,646	-	524,745,124	550,319,912
<b>RESTATED NET</b>						
<b>BOOK VALUE,</b>						
Dec. 31, 2007	8,330,211,234	83,529,196	277,521,424	23,188,751	1,691,787,391	10,406,237,996

The following real estate properties were purchased in CY 2008:

CBPI Island, Bay City, Central Business Park1-B&C(161,937 sq.m)	4,534,236,000
Bay City (2.2 hectares)	616,000,000
Asiaworld East Aguinaldo Blvd., Paranaque City (14,899 sq.m)	362,939,640
Tagaytay City property (42,040 sq.m.)	172,418,343
Imus, Cavite (22,328.7 sq.m.)	56,913,187
	<b>5,742,507,170</b>

Other Additions to Land and Improvements are as follows:

Documentary stamps tax and transfer fee (Tagaytay City property)	5,352,000
Topographic and relocation survey (Bay City property)	3,324,539
Fencing of Imus property	15,450
	<b>8,691,989</b>
<b>Total Additions to Land and Improvements</b>	<b>5,751,199,159</b>

Real estate properties intended for employees' housing projects with an aggregate carrying value of ₱878,301,690 were reclassified from Land and Improvements to Other Assets: Real Estate for Employees' Housing. There were also certain gaming and office equipment, furniture and fixtures, such as slot machines, gaming table and computers, with an aggregate value of ₱2,468,410 which were retired and donated. Also, in line with PAS 38 on Intangible Assets, previously acquired IT software with a carrying value of ₱25,272,256 was reclassified to Other Assets: Intangible Assets from IT Equipment and Software account.

## 10. OTHER ASSETS

This account consists of the following:

<b>Particulars</b>	<b>2008</b>	<b>2007 (As Restated)</b>
Real Estate for Employees' Housing	1,145,468,220	-
Miscellaneous Deposits	523,356,190	493,051,316
Advances to Provident Fund	360,364,541	235,354,335
Deferred Charges	171,765,941	107,858,604
Intangible Assets	61,285,956	-
Accumulated Amortization – Intangible Assets	(38,729,379)	-
Guarantee Deposits	385,799	340,336
Others	387,239	795,978
<b>Total Other Assets</b>	<b>2,224,284,507</b>	<b>837,400,569</b>

In conformity with PAS No. 8, Miscellaneous Deposits is restated as follows:

Unrestated amount as of December 31, 2007	493,252,736
Electric service deposit/advance rental	(201,420)
<b>Restated as of Dec. 31, 2007 – Other Assets: Miscellaneous Deposits</b>	<b>493,051,316</b>

In CY 2008, sixty-six (66) units at AMVEL Mansions Condominium, with an aggregate cost of ₱267,166,530, intended for employees' housing were purchased.

The following real estate properties, also intended for employees' housing were reclassified from Land and Land Improvements to Other Assets account:

<b>Particulars</b>	<b>Amount</b>
Bay City	616,000,000
Tagaytay City	177,770,343
Bayan Luma, Imus, Cavite	56,913,187
Alfonso, Cavite	26,517,719
Fencing for Alfonso property	1,100,441
	<b>878,301,690</b>

## 11. ACCOUNTS PAYABLE

This account consists of the following:

Particulars	2008	2007 (As Restated)
Accounts Payable - Contractors/Suppliers	493,129,967	514,983,568
Accounts Payable - Proponents	306,282,877	289,227,333
Accounts Payable - Others	324,891,887	429,003,455
Due to Officers and Employees – Provision for Bonuses and Other Employees' Benefits	226,761,834	159,330,297
Unclaimed Salaries and Wages	5,092,281	8,415,644
Interest Payable	32,239,589	13,334,213
<b>Total Accounts Payable</b>	<b>1,388,398,435</b>	<b>1,414,294,510</b>

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

Unrestated amount as of December 31, 2007	490,854,776
Payable to suppliers and contracted obligations	24,128,792
<b>Restated as of December 31, 2007– AP-Contractors/Suppliers</b>	<b>514,983,568</b>

Unrestated amount as of December 31, 2007	293,961,043
Adjustment in winnings/miscellaneous income payable to Proponent	(4,733,710)
<b>Restated as of December 31, 2007 – AP-Proponents</b>	<b>289,227,333</b>

Unrestated amount as of December 31, 2007	447,653,960
Voiding of financial assistance	(18,650,505)
<b>Restated as of December 31, 2007 – AP-Others</b>	<b>429,003,455</b>

Unrestated amount as of December 31, 2007	156,906,773
Closing of provision for Performance Award/Perfect Attendance/Prod Bonus	2,136,305
Adjustment in the year-end-bonus – Contractual	287,219
<b>Restated as of December 31, 2007 – Due to OE- Provision for Bonuses and Other Employees' Benefits</b>	<b>159,330,297</b>

Unrestated amount as of December 31, 2007	8,851,736
Unclaimed salaries of various employees	(436,092)
<b>Restated as of December 31, 2007 – Due to OE-Unclaimed Salaries &amp; Wages</b>	<b>8,415,644</b>

Unrestated amount as of December 31, 2007	219,459
Loan interest	13,114,754
<b>Restated as of December 31, 2007 – Interest Payable</b>	<b>13,334,213</b>

## 12. INTER-AGENCY PAYABLES

This account pertains to the following:

Particulars	2008	2007 (As Restated)
Due to National Treasury	930,468,472	902,248,359
Due to Other National Government Agencies	806,047,284	709,998,199
Due to Bureau of Internal Revenue	451,540,410	525,960,541
Due to Other Government-Owned and -Controlled Corporations	23,028,630	23,227,911
Due to Pag-IBIG	5,968,231	5,483,034
Due to Local Government Units	5,352,500	6,480,000
Due to PHILHEALTH	3,718,913	3,451,538
<b>Total Inter-Agency Payables</b>	<b>2,226,124,440</b>	<b>2,176,849,582</b>

In conformity with PAS No. 8, Due to National Treasury, Due to National Government Agencies, Due to BIR and Due to Other Government-Owned and Controlled Corporations are restated as follows:

Unrestated amount as of December 31, 2007	900,701,602
Adjustment in govt. share due to adjustment in winnings-Hyatt	1,546,757
<b>Restated as of Dec. 31, 2007 – Due to National Treasury</b>	<b>902,248,359</b>

Unrestated amount as of December 31, 2007	709,920,861
Adjustment in PSC share due to adjustment in winnings – Hyatt	77,338
<b>Restated amount as of December 31, 2007 – Due to Other National Government Agencies</b>	<b>709,998,199</b>

Unrestated amount as of December 31, 2007	524,578,821
Franchise Tax, W/Tax-expanded / GMP / VAT adjustment	1,381,720
<b>Restated as of Dec. 31, 2007–Due to Bureau of Internal Revenue</b>	<b>525,960,541</b>

Aging of the Due to Bureau of Internal Revenue account as of December 31, 2008 is presented below:

Nature	Balance	Date Remitted**	Reference Code	Amount Remitted
Franchise Tax	422,160,212	Jan. 20, 2009	Manual Payment	422,160,212
Compensation*	(21,935,159)			
Expanded	49,079,843	Jan. 16, 2009	020900002706905/ 0200900002706933	49,079,843
GMP	852,101	Jan. 9, 2009	170900002673384	852,101
VAT	1,383,413	Jan. 9, 2009	170900002673384	1,383,413
<b>TOTAL</b>	<b>451,540,410</b>			<b>473,475,569</b>

\* Net of tax refund due to increase in personal exemption (effected in Dec. 16-31, 2008 payroll).

\*\* Except for franchise tax which is remitted quarterly, all other taxes are remitted monthly.

### 13. INTRA-AGENCY PAYABLES

This account consists of the following:

<b>Particulars</b>	<b>2008</b>	<b>2007</b>
Due to PAGCOR Retirement Fund	145,655,757	238,834,781
Due to Retired/Separated Employees	486,215	486,215
<b>Total Intra-Agency Payables</b>	<b>146,141,972</b>	<b>239,320,996</b>

### 14. OTHER LIABILITY ACCOUNTS

These are the following:

<b>Particulars</b>	<b>2008</b>	<b>2007</b> <b>(As Restated)</b>
Guarantee Deposits Payable	70,816,491	113,455,367
Other Payables	554,918,006	563,650,378
<b>Total Other Liabilities</b>	<b>625,734,497</b>	<b>677,105,745</b>

In conformity with PAS No. 8, Other Payables is restated as follows:

Unrestated amount as of December 31, 2007	498,635,252
Interest on PAGCOR loan for PRA property purchase	65,015,126
<b>Restated as of December 31, 2007 – Other Payables</b>	<b>563,650,378</b>

### 15. LONG-TERM LIABILITIES

PAGCOR has the following long-term liabilities:

<b>Particulars</b>	<b>2008</b>	<b>2007</b>
Loans Payable – Domestic	1,185,454,528	142,528,045
Guarantee Deposits Payable	182,517,181	159,210,649
Others	11,616,705,261	7,500,000,000
<b>Total Long-term Liabilities</b>	<b>12,984,676,970</b>	<b>7,801,738,694</b>

Loans Payable – Domestic pertains to the credit accommodations extended by Land Bank of the Philippines, Philippine National Bank and PAGCOR Provident Fund to finance/refinance the major construction projects of PAGCOR Angeles, purchase of real estate properties of the Philippine Reclamation Authority (PRA) at Central Business Park I in Parañaque City, and payment of earnest money for the purchase of the 40-hectare property of PRA.

Guarantee Deposits Payable consists of deposits made by suppliers, bingo franchises and others, as required by PAGCOR, to ensure the delivery of supplies or services, and are refundable upon fulfillment of the contract. Also included are cash deposits from proponents of certain gaming operations.

Others – This refers to the outstanding balance of the obligations of PAGCOR to the Philippine Reclamation Authority for the purchase of real estate properties at the Central Business Park 1, Bay City Paranaque, viz: (a) the 2.2 hectare parcel of land at Island A (₱410,666,666.67), (b) the 40 – hectare parcel of land located at Islands B and C (₱7,125,226,193.97) per deed of Conditional Sale dated November 29, 2007 and (c) the additional 161,937 sq.m. parcel of land also located at Islands B and C (₱4,080,812,400.00).

#### **16. DEFERRED CREDITS**

This account pertains to the amount collected for revenues not yet earned, set-up of development cost of Imus Housing Project payable by employee-availees over five years, training accountabilities of PAGCOR employees, and set-up of lost assets for restitution.

#### **17. APPRAISAL CAPITAL**

This refers to the increase in the value of buildings and other structures as a result of the appraisal conducted by Land Bank of the Philippines, contained in its Appraisal Reports dated August 6 and 7, 2004.

#### **18. MANAGEMENT FEES**

This refers to the income share received by PAGCOR equivalent to a certain percentage of winnings for the month from the Clark Development Corporation's casino in Mimosa and Pachinko/Pachisuro operations in PAGCOR Paranaque.

#### **19. ENTERTAINMENT INCOME**

This refers to the income from ticket sales for revenue-generating entertainment shows, net of production cost, marketing and related expenses. For CY 2008, a net loss of ₱22,559,754.03 was registered from entertainment, which is accounted for mainly by the Wanders show. Due to the show's success in reaching the goal of management in creating a new image for PAGCOR from gaming to entertainment, the Board approved on February 11, 2009 and June 10, 2009 the extension of its staging from January 21 to March 31, 2009 (26 shows) and April 1 to June 30, 2009 (34 shows), respectively.

## 20. OTHER INCOME

This account is composed of the following:

Particulars	2008	2007 (As Restated)
Income from SM Demo Units	1,776,128,294	1,921,591,412
Share in the Income of		
Internet Casino	491,701,939	291,739,052
Fontana Casino	472,399,395	434,583,790
East Bay Casino	253,734,515	204,847,837
Poro Point Casino	216,769,064	181,895,372
Casa Blanca Casino	143,584,426	89,359,590
Poker Operations In-House	104,602,645	-
Poker Operations Off-Site	42,123,971	53,598,487
Internet Sports betting	25,918,678	19,310,527
Kit Plan	10,398,611	26,522,483
Others	1,174,262	104,300
Minimum Guaranteed Fee/ Reimbursement of Salaries	204,851,055	140,858,998
Interest Income	100,020,380	83,245,738
Rental of Equipment/Facilities	69,774,674	65,772,348
Discounts from Rooms and F & B Charges	23,853,352	44,442,037
Commissions	6,236,624	2,230,096
Other Fines and Penalties	4,268,410	-
Application Fee for Gaming License at Bagong Nayong Pilipino	2,084,000	11,045,250
Commission from Soccer Internet Sportsbetting	-	9,733,333
Dividend Income	103,636	112,334
Others	31,098,229	40,465,821
<b>Total Other Income</b>	<b>3,980,826,160</b>	<b>3,621,458,805</b>

Other income consists of (a) income from other related services, defined as revenues generated from operations where PAGCOR is not the House (e.g. Fontana and other licensed casinos), and (b) income earned from other sources aside from those classified as gaming operations (winnings) and other related services. Income from slot machine demo units refers to revenues generated from certain slot machines sent by suppliers for demonstration purposes only. These units may or may not be purchased by PAGCOR depending on their performance. Whatever revenues are generated from these machines during the demo period are earmarked for their acquisition.

## 21. OPERATING EXPENSES

This account consists of the following:

<b>Particulars</b>	<b>2008</b>	<b>2007 (As Restated)</b>
<b>Personal Services</b>		
Salaries and Wages	1,354,072,753	1,204,948,629
Other Compensation	1,799,698,676	1,709,864,305
Personnel Benefits Contribution	164,623,204	158,775,429
Other Personnel Benefits	3,177,328,712	3,040,093,714
	<b>6,495,723,345</b>	<b>6,113,682,077</b>
<b>Maintenance and Other Operating Expenses</b>		
Marketing Expenses	1,628,640,835	1,521,226,322
Rent Expenses	1,303,615,904	1,294,268,415
Non-Cash Expenses	625,847,258	382,599,352
Utility Expenses	401,689,858	436,903,643
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses	351,847,752	372,464,100
Professional Services	349,639,876	252,726,937
Advertising Expenses	291,372,018	222,358,122
Supplies and Materials Expenses	262,687,760	237,607,104
Subsidies and Donations	215,247,714	89,509,374
Repairs and Maintenance	136,008,872	125,722,307
Public Relations Expenses	99,031,431	74,391,035
Representation Expenses	85,242,335	62,819,826
Traveling Expenses	59,131,777	40,856,525
Taxes, Insurance Premiums & Other Fees	57,277,236	52,771,009
Entertainment Expenses	56,580,656	44,034,727
Communication Expenses	42,351,384	41,678,340
Training and Scholarship Expenses	24,672,430	19,419,283
Printing and Binding Expenses	9,353,657	357,920
Transportation & Delivery Expenses	5,745,412	6,103,888
Subscription Expenses	3,892,017	3,107,377
Membership, Dues & Contributions	2,628,508	2,451,874
Other Maintenance and Operating Expenses	72,055,832	35,289,482
Financial Expenses	185,650,251	28,565,836
	<b>6,270,210,773</b>	<b>5,347,232,798</b>
<b>Total Expenditures</b>	<b>12,765,934,118</b>	<b>11,460,914,875</b>

## 22. RENT EXPENSES

Lease payments under PAGCOR's operating leases are recognized as expense on a straight-line basis over the lease term in line with PAS 17 (*Leases*), except for Tagaytay, Parañaque, Heritage, Laoag, and Davao whose contracts are still under negotiation for renewal or amendment. Olongapo's lease contract has a term of one year, renewable annually. Hyatt and Mimosa, on the other hand, have no lease contracts except for the parking area and staff house whose terms are only for one year.



## **23. FRANCHISE TAX**

This pertains to the five percent franchise tax (computed on winnings net of payouts), as provided under Section 12 of Presidential Decree No. 1869 (PAGCOR's Charter), which was amended by Republic Act No. 9487. PAGCOR's income may be classified into three categories:

1. Income (winnings) from gaming operations - pertains to revenues generated by PAGCOR-operated land-based gaming facilities where PAGCOR is the House, e.g., main casinos, arcades, PAGCOR Clubs.
2. Income from other related services - pertains to revenues generated from operations where PAGCOR is not the House, e.g., income share from its licensees.
3. Other Income - refers to revenues earned from other sources aside from those classified as gaming operations and other related services.

Government agencies like the Bureau of Internal Revenue (BIR) and Department of Finance (DOF) which are the authorities on taxation have varying opinion on the matter as to what taxes should be paid by PAGCOR. The BIR believes that PAGCOR should pay value added tax (VAT) and corporate income tax instead of franchise tax. In fact, the issue on the payment of VAT was brought by PAGCOR on April 17, 2006 to the Supreme Court (SC) in its petition for Certiorari and Prohibition with Prayer for the Issuance of a Temporary Restraining Order and/or Preliminary Injunction. On the other hand, the DOF believes that income of PAGCOR from all forms of gaming or gambling should form part of gross revenue which should be the basis of the 5 percent franchise tax and 50 percent government share and only the non-gaming/gambling income should be considered as other income subject to the corporate income tax and VAT. However, the Commission on Audit (COA) opines that all income from gaming operations/games of chance, including income share from its licensees, should form part of PAGCOR's earnings subject to the 5 percent franchise tax and the 50 percent government share pursuant to the aforementioned section of PD 1869; hence, COA recommended to seek a ruling from the proper authority on the correct taxes to be imposed on PAGCOR and the composition of its gross earnings.

## **24. CORPORATE INCOME TAX**

As provided for under Section 27 (C) of Republic Act No. 8424 (The National Internal Revenue Code of 1997), PAGCOR, together with the Government Service Insurance System, Social Security System (SSS), Philippine Health Insurance Corporation, and the Philippine Charity Sweepstakes Office, was exempted from the payment of corporate income tax. Subsequently, however, under Republic Act No. 9337 dated July 1, 2005, said provision was amended by excluding PAGCOR from the government-owned and-controlled corporations exempted from corporate income tax payment.

In view of this, PAGCOR filed a Petition for Certiorari and Prohibition with the Supreme Court per G.R. No. 172087 on April 17, 2006, but to date no decision yet has been rendered. Should the court's decision become unfavorable, PAGCOR will have to pay corporate income tax, but only on income not subject to the five percent franchise tax.

## 25. CONTRIBUTIONS TO THE GOVERNMENT

- a. The share of the National Government from PAGCOR income is computed at 50 percent of winnings, net of payouts and after the five percent franchise tax has been remitted directly to the Bureau of the Treasury.
- b. Office of the President contribution pertains to the net cash income due to the President's Social Fund.
- c. The Philippine Sports Commission's share from PAGCOR income is computed at five percent of winnings, net of payouts after five percent franchise tax and 50 percent Government share.
- d. Cities and provinces hosting the casinos are granted donations/financial assistance in amounts approved by the Board of Directors.
- e. Early Childhood Care and Development Fund represents PAGCOR's contribution of up to ₱2 billion as mandated by Section 10 of Republic Act (RA) 8980, Early Childhood Care and Development (ECCD) Act of 2000. PAGCOR allocated ₱458.89 million in CY 2008, bringing the total accumulated allocation from CY 2003 to CY 2008 to P1.523 billion. Of the P458.89 million allocation in CY 2008, ₱196.31 million remains to be released upon receipt of the letter-request/liquidation from the Council for the Welfare of Children.
- f. Gasoline Station Training and Loan Fund (GSTLF) refers to PAGCOR's contribution of ₱300 million required under Section 10 of RA 8479, Downstream Oil Industry Deregulation Act of 1998. PAGCOR has already allocated the entire amount of ₱300 million, ₱60 million of which has been remitted to the Department of Energy, leaving a balance of ₱240 million for release upon liquidation of the previous remittance.
- g. Barangay Micro Business Enterprises refers to PAGCOR's endowment of ₱300 million under Section 10 of RA 9178, the Barangay Micro Business Enterprises Act of 2002. As of December 31, 2008, the total funding requirement of P300 million has already been allocated and fully remitted to the Small Medium Enterprise Development Council of the Department of Trade and Industry.
- h. The Board of Claims' Share from PAGCOR income is computed at 1 percent of net income as mandated under RA No. 7309.
- i. PAGCOR contribution to the National Endowment Fund for Children's Television is provided for under Section 12 of RA 8370, Children's Television Act of 1997. The total funding requirement of ₱30 million was released by PAGCOR in November 2007.
- j. Contributions to Other Government Agencies refers to financial and other forms of assistance granted by PAGCOR to national government agencies not falling under any of the subsidies to national government agencies mandated by law.

## 26. RETIREMENT PLAN

### a. Approval of PAGCOR's Modified Retirement/Separation Benefit Plan

PAGCOR's Modified Retirement/Separation Benefit Plan (MRSBP) was approved by the Board of Directors on February 27, 2002. It is a defined benefit plan, under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

### b. Funding Requirement based on Actuarial Valuation

To ensure adequate funding for future availments under the MRSBP, PAGCOR contracted E.M. Zalamea Actuarial Services, Inc. to determine the amount to be set aside. Based on its actuarial valuation report dated November 3, 2004 for the valuation date January 1, 2005, PAGCOR should set aside the following amounts for the Retirement Fund.

- i. Past Service Liability (PSL) – ₱2,338,971,562.00
- ii. Annual Normal Cost (ANC) – ₱221,181,319.00 for CY 2005 and from CY 2006 onwards, the actuarial funding rate of 21.1% based on covered payroll shall be used until the next actuarial valuation.

### c. Setting-up of Retirement Fund

PAGCOR's Board approved on May 11, 2005 the setting up of a Retirement Fund with an initial funding/seed money of ₱60 million to be handled by Provident Fund Management Department as Fund Manager. This Fund is intended to cover funding requirements for employees availing themselves of the MRSBP.

### d. Status of Retirement Fund

As of December 31, 2008, the total amount of ₱1,895,305,393, including the initial funding of ₱60,000,000.00 has already been set up, i.e. recognized as expense and liability. Of this amount, ₱1,749,649,636.66 has been remitted to the Retirement Fund managed by the Provident Fund Management Department, leaving a balance of ₱145,655,756.52 for remittance.

## 27. RETAINED EARNINGS

In compliance with PAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the Retained Earnings as of January 1, 2007 has been restated as follows:

Unrestated balance, January 1, 2007	2,192,875,646
CY 2006 Other Supplies Expenses - Others recorded in 2008	795,150
CY 2006 Other Supplies Expenses – Gaming recorded in 2008	11,908
<b>Restated balance, January 1, 2007</b>	<b>2,193,682,704</b>