



*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 of December 31, 2009, 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 of December 31, 2009, and 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*

Without qualifying our opinion, we draw attention to Notes to the Financial Statements Nos. 23 and 24. While the issues involved are pending resolution, the 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.

COMMISSION ON AUDIT  
  
**JOSE R. ROCHA, JR.**  
Director IV  
Cluster C  
Corporate Government Sector

May 24, 2010

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**

**BALANCE SHEET**

**December 31, 2009**

(With corresponding figures for 2008)

(In Philippine Peso)

	Notes	2009	2008 (As Restated)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	3,167,589,762	3,691,737,885
Receivables - Net	4	2,040,943,374	1,022,831,580
Inventories	2.5, 2.6 & 5	406,483,144	354,102,222
Prepayments	6	297,487,734	371,068,205
<b>Total Current Assets</b>		<b>5,912,504,014</b>	<b>5,439,739,892</b>
<b>Non-Current Assets</b>			
Investments	7	143,108,780	223,108,780
Receivables	8	91,682,627	50,778,695
Property, Plant and Equipment - Net	2.7 & 9	18,103,123,956	16,235,619,175
Other Assets	10	2,401,316,432	2,225,013,221
<b>Total Non-Current Assets</b>		<b>20,739,231,795</b>	<b>18,734,519,871</b>
<b>TOTAL ASSETS</b>		<b>26,651,735,809</b>	<b>24,174,259,763</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts Payable	11	1,705,346,618	1,445,551,139
Inter-Agency Payables	12	2,392,906,460	2,261,340,453
Intra-Agency Payables	13 & 26.d	66,599,323	146,141,972
Other Liability Accounts	14	709,035,895	629,057,113
<b>Total Current Liabilities</b>		<b>4,873,888,296</b>	<b>4,482,090,677</b>
<b>Non-Current Liabilities</b>			
Long-Term Liabilities	15	14,542,994,534	12,984,658,030
Deferred Credits	16	2,639,849	8,297,981
<b>Total Non-Current Liabilities</b>		<b>14,545,634,383</b>	<b>12,992,956,011</b>
<b>TOTAL LIABILITIES</b>		<b>19,419,522,679</b>	<b>17,475,046,688</b>
<b>EQUITY</b>		<b>7,232,213,130</b>	<b>6,699,213,075</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>26,651,735,809</b>	<b>24,174,259,763</b>

The notes on pages 7 to 29 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the year ended December 31, 2009**  
(With corresponding figures for 2008)  
(In Philippine Peso)

	Notes	2009	2008 (As Restated)
<b>Business Income</b>			
Winnings		23,211,003,371	23,288,346,769
Bingo Operations-Franchisees		1,838,590,424	1,567,125,941
Bingo Operations - In-House		272,906,952	132,809,079
Rent Income		259,013,716	416,898,065
Management Fees	18	223,189,740	207,551,060
Entertainment Income	19	217,158,928	(16,423,409)
Hotel Operations		55,874,632	2,158,554
Gasoline Service Operations		2,695,626	2,818,445
<b>Other Income</b>	2.9 & 20	4,231,854,846	4,013,870,523
<b>Gain on Foreign Exchange</b>	2.8	1,146,736	42,962,499
<b>Total Income</b>		30,313,434,971	29,658,117,526
<b>Expenses</b>			
Operating Expenses	2.9 & 21	14,827,571,598	12,873,078,984
Franchise Tax	23	1,160,550,168	1,164,417,338
		15,988,121,766	14,037,496,322
Contributions to the Government	25		
50% Government Share	23	11,025,226,601	11,061,964,716
Office of the President		1,276,606,906	1,335,673,599
5% Philippine Sports Commission's Share		551,261,330	553,098,236
Subsidy to LGUs: Host Cities' Share		511,320,000	496,082,500
Early Childhood Care and Development Fund		402,196,053	458,892,963
Barangay Micro Business Enterprises		-	100,000,000
1% Board of Claims' Share		5,330,001	15,932,483
Mandated Contribution to the National Government - Others		20,372,259	57,417,787
		13,792,313,150	14,079,062,284
<b>Total Expenses/Contributions to the Government</b>		29,780,434,916	28,116,558,606
<b>NET INCOME</b>		<b>533,000,055</b>	<b>1,541,558,920</b>

The notes on pages 7 to 29 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2009**  
(With corresponding figures for 2008)  
(In Philippine Peso)

	Notes	2009	2008 (As Restated)
<b>Capital Stock</b>		71,430,752	71,430,752
<b>Restricted Capital</b>			
Balance, Beginning		1,158,251,530	1,219,735,148
Current Appropriations		595,990,000	(61,483,618)
Balance, End		1,754,241,530	1,158,251,530
<b>Retained Earnings</b>			
Balance, Beginning	27	5,384,024,338	3,780,981,800
Current Appropriations			
Slot Machine Demo Units - Net of Reversions		(148,890,000)	(40,387,000)
Reversion of appropriation for DOE		75,000,000	-
Acquisition of Other Property, Plant and Equipment		(522,100,000)	167,910,618
Additional Treasury Capital for Expanded Operation		-	(66,040,000)
Total Current Appropriations		(595,990,000)	61,483,618
Net Income for the Year		533,000,055	1,541,558,920
Balance, End		5,321,034,393	5,384,024,338
<b>Appraisal Capital</b>	17	85,506,455	85,506,455
<b>TOTAL EQUITY</b>		<b>7,232,213,130</b>	<b>6,699,213,075</b>

The notes on pages 7 to 29 form part of these financial statements.

**PHILIPPINE AMUSEMENT AND GAMING CORPORATION**  
**CASH FLOW STATEMENT**  
**For the year ended December 31, 2009**  
(With corresponding figures for 2008)  
(In Philippine Peso)

	Note	2009	2008
<b>Cash Flows from Operating Activities</b>			
Income from Casino Customers		23,211,003,371	23,288,340,726
Income from Chip Washing Operations, Non-casino Customers and Other Income		6,727,866,879	6,306,678,623
Interest Income		77,496,766	98,640,336
Payments to Employees, Suppliers, Lessors and Other Creditors		(14,354,412,568)	(13,045,005,494)
50% Government Income Share		(11,104,100,712)	(11,032,050,674)
Other Mandated Contributions		(2,437,775,085)	(2,682,479,947)
Various Taxes Paid to the Bureau of Internal Revenue		(1,080,506,526)	(1,169,726,334)
Interest Paid on Loans		(310,067,643)	(161,759,529)
Other Operating Disbursements		(216,810,252)	419,853,031
Gain on Foreign Exchange		1,146,736	42,965,789
<b>Net Cash Provided by Operating Activities</b>		<b>513,840,966</b>	<b>2,065,456,527</b>
<b>Cash Flows from Investing Activities</b>			
Proceeds from/Purchase of Other Investments and Marketable Securities		80,000,000	(350,000,000)
Proceeds from Sale of Property, Plant and Equipment		7,550	-
Purchase of Property, Plant and Equipment		(1,845,830,526)	(3,119,141,343)
Proceeds from Sale of Marketable Stocks and Bonds		-	170,000,000
Investment in Stocks/Bonds/Treasury Bills		-	(300,000)
<b>Net Cash Used in Investing Activities</b>		<b>(1,765,822,976)</b>	<b>(3,299,441,343)</b>
<b>Cash Flows from Financing Activities</b>			
Loan Proceeds		1,025,000,000	1,147,000,000
Payment of Loans		(297,166,113)	(104,073,517)
<b>Net Cash Provided by Financing Activities</b>		<b>727,833,887</b>	<b>1,042,926,483</b>
<b>Net Decrease in Cash and Cash Equivalents</b>		<b>(524,148,123)</b>	<b>(191,058,333)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3	<b>3,691,737,885</b>	<b>3,882,796,218</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	3	<b>3,167,589,762</b>	<b>3,691,737,885</b>

The notes on pages 7 to 29 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/or-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 Republic Act 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 Parañaque, 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.

## 2.9 Change in Accounting Policy on Recording of Various Income and Related Expenses

Effective January 1, 2009, in compliance with COA recommendations and as provided under PAS 1, expenses relative to Bingo Operations, Hotel Operations, Gasoline Service Operations, Entertainment, and other revenue-generating activities are no longer offset against the income account but recorded separately under the corresponding proper accounts.

## 3. CASH AND CASH EQUIVALENTS

This account includes the following:

Particulars	2009	2008
Cash on Hand	69,631,331	81,539,649
Cash in Bank - Local Currency	2,351,821,515	2,831,213,853
Cash in Bank - Foreign Currency	76,838,054	208,661,966
Treasury Fund Capital	669,298,862	570,322,417
<b>Total Cash and Cash Equivalents</b>	<b>3,167,589,762</b>	<b>3,691,737,885</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 P135,000,000 which has been set aside for the Early Childhood Care and Development (ECCD).

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	2009	2008 (As restated)
<b>Accounts Receivable</b>		
Officers and Employees	6,365,088	8,245,740
Others	895,921,474	631,808,776
Allowance for Doubtful Accounts	(324,775,324)	(317,605,803)
Net	571,146,150	314,202,973
<b>Due from Officers and Employees</b>	44,519,547	49,534,592
<b>Interest Receivable</b>	1,285,889	2,538,711
	<b>623,316,674</b>	<b>374,522,016</b>
<b>Inter-Agency Receivables</b>		
Due from National Government Agencies		
Philippine Sports Commission	14,176,686	203,242,709
Office of the President	-	38,597
Others	1,000,002,098	-
Due from Government Owned and/or Controlled Corporation		
Social Security System	1,781,932	1,632,250
Others	-	4,600
	<b>1,015,960,716</b>	<b>204,918,156</b>
<b>Other Receivables</b>		
Advances to Officers and Employees	22,059,992	14,090,960
Others	379,605,992	429,300,448
	<b>401,665,984</b>	<b>443,391,408</b>
<b>Total Current Receivables-Net</b>	<b>2,040,943,374</b>	<b>1,022,831,580</b>

In conformity with Philippine Accounting Standard (PAS) No. 8, Accounts Receivable (A/R) – Officers and Employees, Accounts Receivable – Others, Allowance for Doubtful Accounts, Due from Officers and Employees, Interest

Receivable, Inter-Agency Receivables, Advances to Officers and Employees, and Other Receivables are restated as follows:

Unrestated amount as of December 31, 2008	8,245,290
Receivable from bingo account	450
<b>Restated as of December 31, 2008–A/R-Officers and Employees</b>	<b>8,245,740</b>
Unrestated amount as of December 31, 2008	591,633,844
Various receivables from mobile games, licensees, Wanders, Poker operators	40,174,932
<b>Restated as of December 31, 2008–Accounts Receivable- Others</b>	<b>631,808,776</b>
Unrestated amount as of December 31, 2008	(319,490,832)
Adjustment	1,885,029
<b>Restated as of December 31, 2008 – Allowance for Doubtful Accounts</b>	<b>(317,605,803)</b>
Unrestated amount as of December 31, 2008	48,944,987
Various unreplenished petty cash expenses	589,605
<b>Restated as of December 31, 2008 – Due from Officers and Employees</b>	<b>49,534,592</b>
Unrestated amount as of December 31, 2008	2,495,156
4 <sup>th</sup> quarter interest income on \$ OPEX HSBC	43,555
<b>Restated as of December 31, 2008 – Interest Receivable</b>	<b>2,538,711</b>
Unrestated amount as of December 31, 2008	204,879,559
Receivable from Office of the President for Brigada Eskwela Program	38,597
<b>Restated as of December 31, 2008–Inter-Agency Receivables</b>	<b>204,918,156</b>
Unrestated amount as of December 31, 2008	14,105,518
Liquidation of cash advances re: delivery of cards and bank personnel meals	(14,558)
<b>Restated as of December 31, 2008 – Advances to Officers and Employees</b>	<b>14,090,960</b>
Unrestated amount as of December 31, 2008	424,921,189
Receivable from poker operators, rebate fund and various concessionaires	4,379,259
<b>Restated as of December 31, 2008 –Other Receivables- Others</b>	<b>429,300,448</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 franchisees.

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, 2009.

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. The amount of P1 billion represents advance remittance to the Bureau of Internal Revenue for the 2009 4<sup>th</sup> quarter franchise tax to provide needed funds for the priority projects of the government.

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.

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:

<b>Particulars</b>	<b>2009</b>	<b>2008 (As Restated)</b>
Car plan/Comprehensive Insurance	173,282,318	157,186,385
Healthcare	71,689,751	62,958,642
Waterfront Hotel	34,269,480	34,269,480
Employee-Funded Mutual Assistance Program	30,338,071	25,728,278
National Convention Network	30,000,000	50,000,000
Megaworld Corporation	13,432,500	13,432,500
Lucky Star International Hotel and Resort Corp.	8,858,738	-
Adriatico Consortium, Inc.	7,667,520	7,667,520
Century Resort Hotel Corp	200,913	613,163
Grand Boulevard Hotel	-	42,247,047
Romeo Bauzon	-	12,600,000
Baler	-	3,760,890
Evercrest Golf Club	-	720,000
Pryce Plaza	-	687,290
Others	9,866,701	17,429,253
<b>Total Other Receivables</b>	<b>379,605,992</b>	<b>429,300,448</b>

Long outstanding security deposits and advance rentals to Romeo Bauzon, the Grand Boulevard Hotel, and the Pryce Plaza amounting to P55,534,337 were reclassified from Other Receivables to Non-Current Receivables.

## 5. INVENTORIES

This account consists of the following:

Particulars	2009	2008 (As Restated)
Chips and Tokens	193,560,359	182,874,468
Office Supplies	23,033,789	25,438,843
Spare Parts	20,672,748	23,051,541
Food Supplies	15,277,117	12,447,993
Merchandise	6,965,110	7,684,803
Raw Materials	5,526,309	7,258,600
Construction Materials	5,003,269	3,787,919
Drugs and Medicines	3,826,706	1,910,710
Work - In Process	2,568,702	1,956,724
Finished Goods	1,949,413	1,826,606
Accountable Forms	731,514	968,700
Medical, Dental and Laboratory Supplies	697,043	558,677
Other Supplies	126,671,065	84,336,638
<b>Total Inventories</b>	<b>406,483,144</b>	<b>354,102,222</b>

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

Unrestated amount as of December 31, 2008	12,586,185
Adjustment in issuance of mineral water	(138,192)
<b>Restated as of December 31, 2008 – Food Supplies Inventory</b>	<b>12,447,993</b>

Unrestated amount as of December 31, 2008	8,041,319
Adjustment in issuance of bingo cards, bingo tickets	(356,516)
<b>Restated as of December 31, 2008 – Merchandise Inventory</b>	<b>7,684,803</b>

Unrestated amount as of December 31, 2008	7,258,780
Reclassification of cost of hinges	(180)
<b>Restated as of December 31, 2008 – Raw Materials Inventory</b>	<b>7,258,600</b>

Unrestated amount as of December 31, 2008	1,944,453
Issuance of materials for repair of gaming equipment c/o GSD	12,271
<b>Restated as of December 31, 2008–Work In Process Inventory</b>	<b>1,956,724</b>

Unrestated amount as of December 31, 2008	557,677
Reclassification of cost of light cure composite	1,000
<b>Restated as of December 31, 2008 – Medical, Dental and Laboratory Supplies Inventory</b>	<b>558,677</b>

Unrestated amount as of December 31, 2008	85,465,676
Adjustment in issuance of token tubes, playing cards and golf umbrella	(1,129,038)
<b>Restated as of December 31, 2008 – Other Supplies Inventory</b>	<b>84,336,638</b>

The following issuances from inventory during CY 2009 were recognized as expense and charged to various accounts:

<b>Particulars</b>	<b>Amount</b>
Office Supplies	42,452,281
Merchandise	34,300,468
Food Supplies	14,769,534
Drugs and Medicines	2,602,579
Construction Materials	2,305,818
Accountable Forms	739,185
Medical, Dental and Laboratory Supplies	135,178
Military and Police Supplies	4,300
Spare Parts – Chips and Tokens	20,771,474
Spare Parts – Slot Machine	7,439,199
Spare Parts – CCTV	1,382,070
Spare Parts – Vehicle	1,031,267
Spare Parts – Others	668,824
Other Supplies – Gaming	69,868,657
Other Supplies – Others	10,929,347
<b>Total Issuances from Inventory</b>	<b>209,400,181</b>

## 6. PREPAYMENTS

This account includes the following:

<b>Particulars</b>	<b>2009</b>	<b>2008 (As Restated)</b>
Rent	184,367,344	279,796,447
Deferred Charges	100,325,080	77,052,310
Insurance	11,844,558	13,748,005
Others	950,752	471,443
<b>Total Prepayments</b>	<b>297,487,734</b>	<b>371,068,205</b>

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

Unrestated amount as of December 31, 2008	13,868,057
Amortization of fidelity bond/insurance	(120,052)
<b>Restated as of December 31, 2008 – Prepaid Insurance</b>	<b>13,748,005</b>

## 7. INVESTMENTS

This pertains to the following:

Particulars	2009	2008
<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 and 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 and Country Club	704,000	704,000
Eagle Ridge Golf and Country Club	640,000	640,000
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>41,304,900</b>
<b>B. Other Investments and Marketable Securities</b>		
DBP – Money Placements	100,000,000	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 and Marketable Securities</b>	<b>101,803,880</b>	<b>181,803,880</b>
<b>Total Investments</b>	<b>143,108,780</b>	<b>223,108,780</b>



## 8. NON-CURRENT RECEIVABLES

This account consists of the following:

Particulars	2009	2008
Grand Boulevard Hotel – rental deposits	42,247,047	-
Century Resort Hotel Corporation – remaining balance of financial accommodation for the general finishing works on the new building of PAGCOR Angeles	26,255,082	37,571,195
Romeo Bauzon – advance rental and deposits and payment of real estate tax	12,803,208	-
Century Resort Hotel Corporation – financial accommodation for the construction of the rent-free basement parking area	9,000,000	12,000,000
Felina Luna - remaining balance of account which is being paid in monthly amortizations of P43,125 per Compromise Agreement of Civil Case No. 97-31299	690,000	1,207,500
Pryce Plaza – rental deposit	687,290	-
<b>Total Non-Current Receivables</b>	<b>91,682,627</b>	<b>50,778,695</b>

## 9. PROPERTY, PLANT AND EQUIPMENT – NET

This account consists of the following:

	Land and Improvements	Buildings and Other Structures	Leasehold Improvements	Construction in Progress	Furniture and Equipment	Total
<b>COST</b>						
Jan. 1, 2009, As Restated	13,203,108,703	90,986,539	303,002,782	78,931,091	3,722,239,916	17,398,269,031
Additions	1,803,387,496	6,258,171	77,516,300	-	859,956,472	2,747,118,439
Disposals/ Retirement	-	-	-	-	(8,944,027)	(8,944,027)
Reclassification	(15,450)	-	-	(25,791,311)	-	(25,806,761)
Dec. 31, 2009	15,006,480,749	97,244,710	380,519,082	53,139,780	4,573,252,361	20,110,636,682
<b>ACCUMULATED DEPRECIATION</b>						
Jan.1, 2009, As Restated	644	9,708,401	37,422,581	-	1,115,518,230	1,162,649,856
Depreciation	-	3,372,597	15,843,853	-	830,733,613	849,950,063
Disposals/ Retirement	-	-	-	-	(5,086,549)	(5,086,549)
Reclassification	(644)	-	-	-	-	(644)
Dec. 31, 2009	-	13,080,998	53,266,434	-	1,941,165,294	2,007,512,726
<b>NET BOOK VALUE, December 31, 2009</b>	<b>15,006,480,749</b>	<b>84,163,712</b>	<b>327,252,648</b>	<b>53,139,780</b>	<b>2,632,087,067</b>	<b>18,103,123,956</b>
<b>NET BOOK VALUE, December 31,2008 As Restated</b>	<b>13,203,108,059</b>	<b>81,278,138</b>	<b>265,580,201</b>	<b>78,931,091</b>	<b>2,606,721,686</b>	<b>16,235,619,175</b>

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

	Land and Improvements	Buildings and Other Structures	Leasehold Improvements	Construction in Progress	Furniture and Equipment	Total
Unrestated Cost						
Dec. 31, 2008	13,203,108,703	90,986,539	303,002,782	80,991,976	3,722,467,999	17,400,557,999
Various Adjustments				(2,060,885)	(228,083)	(2,288,968)
Restated Cost						
Dec. 31, 2008	13,203,108,703	90,986,539	303,002,782	78,931,091	3,722,239,916	17,398,269,031
Unrestated Accumulated Depreciation						
Dec. 31, 2008	644	9,708,401	36,589,862	-	1,115,548,250	1,161,847,157
Various Adjustments		-	832,719	-	(30,020)	802,699
Restated Accumulated Depreciation						
Dec. 31, 2008	644	9,708,401	37,422,581	-	1,115,518,230	1,162,649,856
<b>RESTATED NET BOOK VALUE,</b>						
<b>Dec. 31, 2008</b>	<b>13,203,108,059</b>	<b>81,278,138</b>	<b>265,580,201</b>	<b>78,931,091</b>	<b>2,606,721,686</b>	<b>16,235,619,175</b>

The following real estate properties were purchased in CY 2009:

Nayong Pilipino Theme Park, MIA Road, Pasay City (15 hectares) 1,800,000,000

Other Additions to Land and Improvements are as follows:

Transfer fee and Real Estate Tax (Asia World property)	2,085,860
Geotechnical investigation (Bay City property)	763,200
Fencing of Imus property	538,436
	<b>3,387,496</b>
<b>Total Additions to Land and Improvements in CY 2009</b>	<b>1,803,387,496</b>

There were various equipment, furniture and fixtures, such as slot machines, gaming tables, cellular phones, clerical tables, and computers, with an aggregate value of P4,055,541 which were retired and donated.

## 10. OTHER ASSETS

This account consists of the following:

Particulars	2009	2008 (As Restated)
Real Estate for Employees' Housing	1,175,370,690	1,145,468,220
Miscellaneous Deposits	710,334,389	523,356,190
Advances to Provident Fund	280,550,777	360,462,164
Deferred Charges	214,744,310	171,765,941
Intangible Assets	71,127,910	61,285,956
Accumulated Amortization – Intangible Assets	(51,508,150)	(38,098,288)
Guarantee Deposits	311,974	385,799
Others	384,532	387,239
<b>Total Other Assets</b>	<b>2,401,316,432</b>	<b>2,225,013,221</b>

In conformity with PAS No. 8, Advances to Provident Fund and Accumulated Amortization-Intangible Assets are restated as follows:

Unrestated amount as of December 31, 2008	360,364,541
Reconciling items on APF – Others	97,623
<b>Restated as of Dec. 31, 2008 – Other Assets-Advances to Provident Fund</b>	<b>360,462,164</b>
Unrestated amount as of December 31, 2008	(38,729,379)
Adjustment on accumulated amortization of IT software	631,091
<b>Restated as of Dec. 31, 2008 – Accumulated Amortization-Intangible Assets</b>	<b>(38,098,288)</b>

## 11. ACCOUNTS PAYABLE

This account consists of the following:

Particulars	2009	2008 (As Restated)
Accounts Payable - Contractors/Suppliers	555,749,988	543,287,896
Accounts Payable - Proponents	349,244,595	307,769,220
Accounts Payable - Others	486,869,843	330,961,754
Due to Officers and Employees – Provision for		
Bonuses and Other Employees' Benefits	253,035,722	218,918,610
Salaries and Other Employees' Benefits	6,598,182	7,327,632
Unclaimed Salaries and Wages	5,465,648	5,046,161
Interest Payable	48,382,640	32,239,866
<b>Total Accounts Payable</b>	<b>1,705,346,618</b>	<b>1,445,551,139</b>

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

Unrestated amount as of December 31, 2008	493,129,967
Payable to suppliers and contracted obligations	50,157,929
<b>Restated as of December 31, 2008– AP-Contractors/Suppliers</b>	<b>543,287,896</b>
Unrestated amount as of December 31, 2008	306,282,877
Adjustment in minimum guaranteed fee from JBIG	1,486,343
<b>Restated as of December 31, 2008 – AP-Proponents</b>	<b>307,769,220</b>
Unrestated amount as of December 31, 2008	324,891,887
Adjustment in straight-rental computation of PAGCOR-Parañaque	21,077,062
Voiding of stale checks for financial assistance	(15,007,195)
<b>Restated as of December 31, 2008 – AP-Others</b>	<b>330,961,754</b>
Unrestated amount as of December 31, 2008	219,501,357
Closing of provision for Performance Award/Perfect Attendance/Prod Bonus/Terminal Leave Benefits	(582,747)
<b>Restated as of December 31, 2008 – Due to OE-Provision for Bonuses and Other Employees' Benefits</b>	<b>218,918,610</b>
Unrestated amount as of December 31, 2008	7,260,477
Negative adjustment on last salary of Cremencio Alones, Jr.	(42,851)
Additions to salaries of various unpaid benefits	110,006
<b>Restated as of December 31, 2008 – Due to OE-Salaries &amp; Other Employees' Benefits</b>	<b>7,327,632</b>
Unrestated amount as of December 31, 2008	5,092,281
Unclaimed salaries of various employees	(46,120)
<b>Restated as of December 31, 2008 – Due to OE-Unclaimed Salaries and Wages</b>	<b>5,046,161</b>
Unrestated amount as of December 31, 2008	32,239,589
Adjustment on loan interest	277
<b>Restated as of December 31, 2008 – Interest Payable</b>	<b>32,239,866</b>

## 12. INTER-AGENCY PAYABLES

This account pertains to the following:

Particulars	2009	2008 (As Restated)
Due to Other National Government Agencies	925,703,972	840,370,391
Due to National Treasury	851,640,661	930,471,343
Due to Bureau of Internal Revenue	560,211,303	452,430,445
Due to Other Government-Owned and/or-Controlled Corporations	24,695,855	23,028,630

Particulars	2009	2008 (As Restated)
Due to Local Government Units	20,941,250	5,352,500
Due to Pag-IBIG	5,820,444	5,968,231
Due to PHILHEALTH	3,892,975	3,718,913
<b>Total Inter-Agency Payables</b>	<b>2,392,906,460</b>	<b>2,261,340,453</b>

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

Unrestated amount as of December 31, 2008	806,047,284
Adjustment in Philippine Sports Commission-PASA	34,323,107
<b>Restated amount as of December 31, 2008 – Due to Other National Government Agencies</b>	<b>840,370,391</b>
Unrestated amount as of December 31, 2008	930,468,472
Adjustment in govt. share due to adjustment in winnings-Hyatt	2,871
<b>Restated amount as of December 31, 2008 – Due to National Treasury</b>	<b>930,471,343</b>
Unrestated amount as of December 31, 2008	451,540,410
Franchise Tax, W/Tax-expanded / GMP / VAT adjustment	890,035
<b>Restated amount as of December 31, 2008 – Due to Bureau of Internal Revenue</b>	<b>452,430,445</b>

Aging of the Due to Bureau of Internal Revenue account as of December 31, 2009 is presented below:

Nature	Balance	Date Remitted*	Reference Code	Amount Remitted
Franchise Tax	502,203,855	Jan. 19, 2010	Manual Payment/ 321000003493712	502,203,855
Compensation**	8,112,773	Jan. 19, 2010	010900003494703	46,873,476
Expanded	47,364,124	Jan. 11, 2010	201000003464599/ 3490007	47,528,900
GMP	1,337,034	Jan. 8, 2010	171000003453162	1,341,730
VAT	1,193,517	Jan. 8, 2010	171000003453162	1,193,517
<b>TOTAL</b>	<b>560,211,303</b>			<b>599,141,478</b>

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

\*\* Balance does not include tax on Officer's Performance Bonus for the 4<sup>th</sup> quarter of 2009 but included in the amount remitted.

### 13. INTRA-AGENCY PAYABLES

This account consists of the following:

<b>Particulars</b>	<b>Note</b>	<b>2009</b>	<b>2008</b>
Due to PAGCOR Retirement Fund	26.d	66,106,734	145,655,757
Due to Retired/Separated Employees		492,589	486,215
<b>Total Intra-Agency Payables</b>		<b>66,599,323</b>	<b>146,141,972</b>

### 14. OTHER LIABILITY ACCOUNTS

These are the following:

<b>Particulars</b>	<b>2009</b>	<b>2008 (As Restated)</b>
Guarantee Deposits Payable	23,520,597	70,816,491
Other Payables	685,515,298	558,240,622
<b>Total Other Liability Accounts</b>	<b>709,035,895</b>	<b>629,057,113</b>

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

Unrestated amount as of December 31, 2008	554,918,006
Adjustment in the straight-line rental computation of Corporate and withholding of consultancy fees	3,741,931
Reversal of Interaction Fund of CF-Silahis	(419,315)
<b>Restated as of December 31, 2008 – Other Payables</b>	<b>558,240,622</b>

### 15. LONG-TERM LIABILITIES

PAGCOR has the following long-term liabilities:

<b>Particulars</b>	<b>2009</b>	<b>2008 (As Restated)</b>
Loans Payable – Domestic	1,913,288,415	1,185,454,528
Guarantee Deposits Payable	220,651,262	182,498,241
Others	12,409,054,857	11,616,705,261
<b>Total Long-term Liabilities</b>	<b>14,542,994,534</b>	<b>12,984,658,030</b>

In conformity with PAS 8, Other Long-Term Liabilities – Guaranty Deposits Payable account is restated as follows:

Unrestated amount as of December 31, 2008	182,517,181
Adjustment in agent's accreditation fee	3,290
Refund of agent's accreditation fee	(22,230)
<b>Restated as of December 31, 2008 – Other Long-Term Liabilities-Guaranty Deposits Payable</b>	<b>182,498,241</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 1 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 (P205,333,333), (b) the 40-hectare parcel of land located at Islands B and C (P6,742,956,912) 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 (P3,840,764,612) and for the purchase of 15-hectare parcel of land located at Nayong Pilipino Theme Park, MIA Road, Pasay City (P1,620,000,000).

#### **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. For CY 2009, a gross income of P217,158,928 was registered from entertainment, which is accounted for mainly by the Wanders and Flow shows. Effective January 1, 2009,

in compliance with COA recommendations and as provided under PAS 1, related expenses are no longer offset against the income account but recorded separately under the corresponding proper accounts.

## 20. OTHER INCOME

This account is composed of the following:

Particulars	2009	2008 (As Restated)
Income from SM Demo Units	1,249,069,704	1,776,128,294
Share in the Income of		
Internet Casino	874,093,478	491,698,080
Resorts World	486,716,869	-
Fontana Casino	403,978,400	498,742,080
East Bay Casino	255,211,000	253,734,515
Poro Point Casino	239,330,895	216,769,086
Casa Blanca Casino	135,548,566	147,744,484
Poker Operations Off-Site	132,658,485	43,078,824
Poker Operations In-House	81,166,145	104,602,645
Internet Sports betting	37,310,399	25,945,585
Widus	5,428,493	-
Kit Plan	-	10,398,611
Others	879,503	2,932,900
Minimum Guaranteed Fee/ Reimbursement of Salaries	133,378,630	205,720,696
Interest Income	76,287,499	100,042,397
Rental of Equipment/Facilities	41,104,329	70,174,648
Discounts from Rooms and F and B Charges	24,168,699	22,106,978
Application Fee for Gaming License at Bagong Nayong Pilipino	6,085,800	2,084,000
Commissions	2,353,468	6,575,951
Dividend Income	64,579	105,736
Other Fines and Penalties	5,215,746	4,186,783
Others	41,804,159	31,098,230
<b>Total Other Income</b>	<b>4,231,854,846</b>	<b>4,013,870,523</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.



Kit Plan ceased operations on December 1, 2009, while Resorts World Manila and Widus started their operations on August 28, 2009 and December 18, 2009, respectively.

## 21. OPERATING EXPENSES

This account consists of the following:

Particulars	Note	2009	2008 (As Restated)
<b>Personal Services</b>			
Salaries and Wages		1,514,525,196	1,355,174,679
Other Compensation		1,972,265,500	1,796,146,603
Personnel Benefits Contribution		174,379,569	164,623,204
Other Personnel Benefits		3,817,058,107	3,180,760,479
		<b>7,478,228,372</b>	<b>6,496,704,965</b>
<b>Maintenance and Other Operating Expenses</b>			
Marketing Expenses		1,610,935,414	1,628,858,202
Rent Expenses	22	1,464,816,552	1,329,184,341
Non-Cash Expenses		870,688,383	625,609,643
Utility Expenses		409,090,262	403,938,480
Professional Services		405,568,800	350,959,089
Entertainment Expenses		379,794,381	56,569,970
Confidential, Intelligence, Extraordinary and Miscellaneous Expenses		351,542,816	351,847,752
Advertising Expenses		319,632,124	325,235,465
Supplies and Materials Expenses		281,691,093	265,973,809
Subsidies and Donations		221,767,427	240,537,696
Public Relations Expenses		187,712,361	98,582,431
Repairs and Maintenance		118,218,843	144,044,460
Representation Expenses		100,598,863	89,762,338
Taxes, Insurance Premiums and Other Fees		54,467,832	58,272,843
Traveling Expenses		45,453,878	59,109,083
Communication Expenses		42,532,307	42,995,585
Printing and Binding Expenses		29,131,662	9,353,657
Training and Scholarship Expenses		10,176,754	25,222,716
Transportation and Delivery Expenses		6,525,560	5,945,800
Membership, Dues and Contributions		3,258,967	2,635,708
Subscription Expenses		3,234,148	3,945,437
Other Maintenance and Operating Expenses		97,863,171	72,138,503
Financial Expenses		334,641,628	185,651,011
		<b>7,349,343,226</b>	<b>6,376,374,019</b>
<b>Total Expenditures</b>		<b>14,827,571,598</b>	<b>12,873,078,984</b>

Effective January 1, 2009, in compliance with COA recommendations and as provided under PAS 1, related expenses are no longer offset against the income account but recorded separately under the corresponding proper accounts.

## **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 Heritage, Laoag, and Davao whose contracts are still under negotiation for renewal or amendment, and for Tagaytay whose contract was only renewed on January 8, 2010. 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 AND GOVERNMENT SHARE**

This pertains to the five percent and the 50 percent share of the government after 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 five 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 five 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/or-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 and is remitted directly to the Bureau of 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 the 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 P2 billion as mandated by Section 10 of Republic Act (RA) 8980, Early Childhood Care and Development (ECCD) Act of 2000. PAGCOR allocated P402.20 million in CY 2009, bringing the total accumulated allocation from CY 2003 to CY 2009 to P1.848 billion. Of the total accumulated allocation as of CY 2009, P565.32 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 P300 million required under Section 10 of RA 8479, Downstream Oil Industry Deregulation Act of 1998. PAGCOR has already allocated the entire amount of P300 million, P60 million of which has been remitted to the Department of Energy, leaving a balance of P240 million for release upon liquidation of the previous remittance.

- g. Barangay Micro Business Enterprises refers to PAGCOR's endowment of P300 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 one percent of net income as mandated under RA No. 7309.
- i. 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) – P2,338,971,562.00
- ii. Annual Normal Cost (ANC) – P221,181,319.00 for CY 2005 and from CY 2006 onwards, the actuarial funding rate of 21.1 percent 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 P60 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, 2009, the total amount of P2,688,662,679 including the initial funding of P60,000,000 has already been set up, i.e. recognized as expense and liability. Of this amount, P2,622,555,945 has been remitted to the Retirement

Fund managed by the Provident Fund Management Department, leaving a balance of P66,106,734 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, 2008 has been restated as follows:

Particulars	Amount
<b>Unrestated Balance, January 1, 2008</b>	<b>3,781,966,586</b>
CY 2005 - CY 2007 Internet Expenses recorded in CY 2009	(123,137)
CY 2006 Adj. on Interaction Expenses recorded in CY 2009	419,315
CY 2006-CY 2007 Miscellaneous Income recorded in CY 2009	4,000,396
CY 2007 Janitorial Services Expenses recorded in CY 2009	(3,168,826)
CY 2007 Marketing Expenses recorded in CY 2009	(110,734)
CY 2007 OPB-Healthcare Expenses recorded in CY 2009	(174,405)
CY 2007 Subsidy to NGOs/POs recorded in CY 2009	(4,592,563)
CY 2007 Taxes, Duties, Licenses: Other Local taxes recorded in CY 2009	(3,593)
CY 2007 Telephone Expenses recorded in CY 2009	(234,309)
CY 2007 Depreciation Expenses – OPPE-Others recorded in CY 2009	37,886
CY 2007 Adjustment on OMOE-Promotional Expenses recorded in CY 2009	1,794,083
CY 2007 Adjustment on OBI-Bingo Operations In-House recorded in CY 2009	(63,327)
CY 2005 – CY 2007 Adjustment on Bad Debts Expenses recorded in CY 2009	1,234,428
<b>Retained Earnings, January 1, 2008 (As Restated)</b>	<b>3,780,981,800</b>