

PALACIO DEL GOBERNADOR CONDOMINIUM CORPORATION
NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The Palacio del Gobernador Condominium Corporation (PDGCC) is a non-stock, non-profit corporation registered with the Securities and Exchange Commission (SEC) on September 23, 1976. It is structured and operated by virtue of Republic Act (RA) No. 4726 or the Condominium Act of the Philippines.

The Corporation was formed exclusively for the purpose of managing and holding title to the common areas in the eight-storey building project known as the PDGCC Project and for such other purposes as are necessary, incidental or convenient to the accomplishment of said purposes.

Membership in the Corporation is limited exclusively to the owners of the condominium units. Its owners are Philippine Government entities, namely:

- Bureau of the Treasury (BTr) - ¼ of the 1st floor, 2nd, 3rd, 4th and 6th floors
- Intramuros Administration (IA) - 5th floor
- Office of the President (OP) - ¾ of the 1st floor, 7th and 8th floors

The PDGCC is governed and its affairs are managed and controlled by a nine-member Board of Directors who become its officers occupying the following positions: (a) President; (b) Vice President; (c) Treasurer; (d) Assistant Treasurer; (e) Corporate Secretary; (f) Assistant Corporate Secretary; (g) Internal Auditor; (h) Assistant Internal Auditor, and (i) Legal Counsel. It also has an Administrative Committee created in January 2006 and is composed of a Chairman and four members.

As of December 31, 2015, the Corporation has four regular employees and one Job Order personnel. The Corporation's principal address is at General Luna corner Andres Soriano, Jr. Streets, Intramuros, Manila.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The accompanying financial statements are prepared in accordance with the generally accepted accounting principles in the Philippines. The same have been approved and authorized for issuance by the Board of Directors on February 26, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the financial statements of the Corporation are as follows:

3.1 *Cash and cash equivalents*

The petty cash fund is maintained under the imprest system. All replenishments are directly charged to the appropriate expense account.

3.2 *Receivables*

Receivables are valued at their face amounts. There is no provision for allowance for doubtful accounts.

3.3 *Property and equipment*

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed at cost less 10 per cent residual value over the estimated useful lives of the assets ranging from five to 10 years.

3.4 *Accounts payable*

Accounts payable are recognized in the books of accounts upon acceptance of goods and rendition of services to the Corporation.

3.5 *Income and expense recognition*

Income and expenses are recognized on accrual basis. Income/revenue is recognized when assessed or earned and expenses are recognized when incurred.

3.6 *Supplies and materials*

Office supplies and building maintenance supplies and materials purchased are recorded as outright expense.

3.7 *Assessment dues*

Assessment dues are the primary source of income of the Corporation. An annual budget, approved by the Board of Directors, is prepared to estimate the annual expenses in maintaining the building's common areas. Building occupants are then assessed for their pro-rata share of the estimated expenses. Assessment dues are recognized in the books as Revenue and all expenses incurred therein are charged against the common fund.

Special assessments for major expenditures are separately billed to unit owners/occupants also on a pro-rata share for actual cost of various repairs and maintenance and are recognized in the books as receivables from unit owners/occupants.

4. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2015	2014
Petty cash fund	4,800	4,800
Cash in bank, Current Account	22,361,524	13,040,501
Cash in bank, Savings Account	4,964,345	4,917,805
	27,330,669	17,963,106

Collections from occupant-agencies for assessment dues, electric and water bills and from miscellaneous income and trust receipts are deposited in a current account maintained with the Land Bank of the Philippines (LBP).

5. RECEIVABLES

This account is composed of the following:

	2015	2014
Due from Commission on Election (COMELEC)	3,243,002	8,695,295
Due from BTr	1,340,828	2,155,305
Due from IA	651,196	788,966
Assessment dues receivable	573,544	961,130
Due from Pag-ibig Fund	269,611	278,690
Due from LBP	209,720	519,024
Due from NGAs	1,045	1,045
Other receivables	328,969	200,862
	6,617,915	13,600,317

Due from COMELEC, BTr, IA, Pag-IBIG and LBP accounts represent advances made by the Corporation for their electric and water consumption. It also includes the amount paid in advance by the Corporation for major expenditures chargeable against and separately billed to occupants. Receivables billed for the month are due for collection on the succeeding month.

Assessment dues receivable account represents the unpaid pro-rata share from COMELEC for operating expenses in maintaining the common areas.

Other receivables account consists of receivables from telecommunication companies for their unpaid electric and water consumption and from a terminated employee for his undeposited collections in 2006 and 2007 and overpayment of salaries amounting to P72,050 and P12,000, respectively.

6. PREPAYMENTS

This account represents the unexpired portion of insurance of the building and other properties of the Corporation with the Government Service Insurance System and the Insurance premium paid under Malayan Insurance Policy No. B0011457, a surety company accredited by the National Labor Relations Commission, as a requisite to the filing an appeal regarding the case filed by a retired employee against PDGCC.

7. PROPERTY AND EQUIPMENT

This account is composed of the following:

	IT Equipment	Furniture and Fixtures, Communication and Office Equipment	Others	Total
Cost				
January 1, 2015	758,278	399,954	3,358,979	4,517,211
Additions	34,326	18,820	15,900	69,046
Deductions (Unserviceable)	-	-	-	-
December 31, 2015	792,604	418,774	3,374,879	4,586,257
Accumulated Depreciation				
January 1, 2015	546,651	223,657	2,803,799	3,574,107
Depreciation	27,572	29,674	103,167	160,413
Adjustments (Unserviceable)	-	-	-	-
December 31, 2015	574,223	253,331	2,906,966	3,734,520
Net Book Value, December 31, 2015	218,381	165,443	467,913	851,737
Cost				
January 1, 2014	670,954	382,960	3,350,227	4,404,141
Additions	44,800	4,793	-	49,593
Donations	42,524	12,201	8,752	63,477
December 31, 2014	758,278	399,954	3,358,979	4,517,211
Accumulated Depreciation				
January 1, 2014	503,496	194,086	2,702,905	3,400,487
Depreciation	47,126	29,575	103,031	179,732
Adjustments (Unserviceable)	(3,971)	(4)	(2,137)	(6,112)
December 31, 2014	546,651	223,657	2,803,799	3,574,107
Net Book Value, December 31, 2014	211,627	176,297	555,180	943,104

The total cost of Property and Equipment does not include land, with an area of 5,847.10 sq. meters and covered by Transfer Certificate of Title (TCT) No. 118381, still registered under the name of Lumang Bayan Development Corporation as owner. The Corporation's condominium building is built on the said property. However, the individual condominium certificates of title for each unit floor areas were all issued in the name of the registered owners enumerated in Note 1.

The TCT of the land and the common areas were not yet transferred in the name of PDGCC. Further, there was no property revaluation made as of December 31, 2015.

8. OTHER NON-CURRENT ASSETS

This account is composed of investment/subscription with Philippine Long Distance Telephone Company of P2,000 and the payment to Malayan Insurance Policy No. B0011457 in favor of the Plaintiff Otello Domingo Ortega NLRC Case No. 02-01406-14 amounting to P482,825.21 as a bond to secure performance of the judgments in case the same is affirmed wholly or in part and other miscellaneous deposits.

9. INTER-AGENCY PAYABLES

This account consists of amounts due to government agencies for mandatory contributions and withheld taxes, as shown below:

	2015	2014
Due to BIR	263,362	415,937
Due to Social Security System (SSS)	6,926	1,050
Due to Pag-IBIG	5,678	-
Due to Philhealth	1,700	-
	277,666	416,987

The balance of the account represents the withholding taxes and salary deductions for the month of December due for remittance in January of the succeeding year.

10. OTHER CURRENT LIABILITIES

This account consists of the following:

	2015	2014
Due to MERALCO	2,821,545	3,087,696
Due to MAYNILAD	501,524	423,247
Performance/bidders bonds payable	169,812	169,812
Guarantee deposits payable	160,000	160,000
Accounts Payable	13,008	-
Due to officers and employees	4,112	264
Accrued expenses	-	227,429
Other deferred credits	4,125,243	3,588,323
Other payables	1,206,501	1,412,575
	9,001,745	9,069,346

Due to Meralco and *Due to MAYNILAD* represent the billing for electricity and water consumptions for the month of December due for payment in January of the succeeding year.

Performance/bidders bonds payable represent the performance bond posted by service providers.

Guarantee deposits payable represent security deposits of Globe Telecommunications, Inc., Smart Communications and Alimil for leased areas at the building's roof deck where three transceiver stations are installed.

Other deferred credits account represents the unutilized upfront deposits of BTr and IA for the major repairs and maintenance subject of special assessment in 2015.

Other payables represent trust receipts for collections from procurement-related activities and other unreleased checks.

11. MEMBERS' EQUITY

The Board requires each member to contribute to a common fund for operating expenses in an amount equivalent to at least three months estimated expenses. The individual contribution of each member to the common fund shall be proportionate to their proprietary interest or participation in the Corporation. The members shall then replenish the common fund monthly with their determined share and/or consumption on any disbursement from the common fund.

12. OTHER INCOME

Interest income represents the interest earned from savings and current deposits with LBP which amounted to P91,535 and P85,165 for 2015 and 2014, respectively.

Miscellaneous income includes monthly lease rental of roof deck space from three telecommunication companies and space lobby rentals from small entrepreneurs/sales agents/food vendors occupying small space in the lobby area. Miscellaneous income forms part of the common fund which are used/utilized solely for various repairs and maintenance of the condominium common areas and facilities. Details of the account as follows:

	2015	2014
Lease rental	1,729,653	2,091,748
Other miscellaneous income	137,726	146,050
	1,867,379	2,237,798

13. PERSONAL SERVICES

This account is composed of the following:

	2015	2014
Salaries and wages – regular	1,313,572	1,139,520
Retirement benefits	306,907	-
Terminal benefits	-	175,918
Year-end bonus	103,919	97,056
Personnel Economic Relief Allowance	92,000	94,000
SSS premium contributions	40,076	40,076
Pag-IBIG contributions	26,235	22,427
Cash gift	20,000	20,000
Clothing/uniform allowance	15,000	20,000
PhilHealth contributions	9,750	9,075
Overtime and night pay	7,405	7,745
Productivity incentive bonus	6,000	8,000
Employees Compensation Commission contributions	1,020	1,020
Other personnel benefits	15,000	20,000
	1,956,884	1,654,837

14. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

	2015	2014
Repairs and maintenance	6,020,086	3,175,188
Security services	2,996,864	2,850,800
Janitorial services	2,325,834	2,249,304
Maintenance supplies and other supplies	369,890	662,297
Per diem	265,000	405,000
Honoraria	273,000	300,000
Insurance	294,067	287,827
Telephone and internet	319,130	181,361
Depreciation	160,413	179,732
General services	26,795	159,267
Professional services	-	151,120
Water treatment and cleaning	147,600	147,600
Pest control services	97,015	102,743
Office supplies	45,547	36,043
Genset fuel	6,000	8,344
Subscription	6,039	8,303

	2015	2014
Transportation and delivery	86,293	1,943
Fidelity bond premium	-	1,500
Postage and deliveries	-	168
Auditing services	54,319	-
Advertising expense	16,632	-
Other professional services	38,638	-
Accountable forms	1,750	-
Bank charges	70	-
Miscellaneous expense	808,027	772,032
	14,359,009	11,680,572

15. RETAINED EARNINGS

The Retained Earnings amounting to P8,261,206 is appropriated/reserved for building emergencies exemplified by fortuitous events, acts of God or acts of man, earthquakes, acts of terrorism, quasi-delicts, as well as massive structural, electrical or mechanical breakdown that may potentially demolish portions of the structure and shut down the operation of occupant agencies, or serious incidents that require extensive repairs, urgent reconstruction or demand substantial indemnification.

16. RELATED PARTY DISCLOSURES

Included in the members of the Board are key officials of the unit owner-agencies of the Condominium Building. The members of the Board have the authority and responsibility for planning, directing and controlling the activities, including all officers and staff of the Corporation.

Presently, there is no existing agreement between the Corporation and the Board of Directors relative to purchases of goods and services, rendering of services, provisions for guarantees nor settlement of liabilities on behalf of the Corporation.

17. BENEFITS AND OTHER REIMBURSEABLE EXPENSES RECEIVED BY THE BOARD OF DIRECTORS

The members of the Board of the Corporation are without compensation. Only per diems are given to the members for attendance in meetings, reasonable communication expenses in their performance of official duties and performance-based incentives for exceeding performance targets. Approval from the Office of the President through the Governance Commission for Government Owned or Controlled Corporation (GCG) is sought for its legal basis.

18. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements.

18.1 Requirements under Revenue Regulation 15-2010

In compliance and with the requirements set forth by RR 15-2010, hereunder is the information on taxes paid/remitted during the taxable year:

	2015	2014
Tax on compensation and benefits	179,920	147,243
Creditable withholding taxes	910,946	1,155,075
Final withholding taxes	54,000	70,000
Final value added tax (VAT) withholding	2,044,932	2,700,833
	3,189,798	4,073,152

18.2 Requirements under Revenue Regulation 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, cost of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The Corporation was formerly exempted from the payment of income tax pursuant to Section 30 of RA No. 8424 or the Tax Reform Act of 1997, as amended by RA No. 9337. BIR Ruling No. DA-005-2006 further provides for the exemption from income tax and VAT of association dues collected by a condominium corporation from unit-owners to defray the cost of maintenance of the common areas, machineries, elevators and administrative expenses.

However, BIR Revenue Circular No. 65-2012 dated October 31, 2012 clarified the taxability of association dues, membership fees and other assessments/charges collected by condominium corporations. The Corporation is now awaiting the reply from the Department of Finance exemption from payment of taxes.

Pending the outcome of the said request, the Corporation filed only the BIR Returns required for a Withholding agent, including the BIR Form No. 1604CF (Annual Information Return of Income Tax Withheld on Compensation and Final Withholding Taxes) and Form No. 1604E (Annual Information Return of Creditable Income Taxes Withheld/Income Payments Exempt from Withholding Taxes) and remitted the withholding taxes due on payment of goods and services.