

PALACIO DEL GOBERNADOR CONDOMINIUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2018 and 2017
(In Philippine Peso)

1. GENERAL INFORMATION

The Palacio del Gobernador Condominium Corporation (PDGCC) is a non-stock and non-profit condominium corporation created by virtue of the Master Deed with Declaration of Restrictions executed on August 30, 1976 pursuant to the provisions of Republic Act (RA) No. 4726 or the *Condominium Act* and Act No. 1459 or the *Corporation Law*. The PDGCC was registered with the Securities and Exchange Commission (SEC) on September 27, 1976 under Registration No. 69822.

The PDGCC was formed and organized for the purpose of holding title to all the common areas in the Palacio del Gobernador Condominium Project. This project comprises the land and building where the site is regarded as a historical landmark by the National Historical Commission of the Philippines (NHCP).

Membership in the PDGCC is an appurtenance to the ownership of condominium unit. It is controlled by the Government of the Republic of the Philippines, thru the following agencies, upon acquisitions of all the units in the eight-storey building of the project since the years 1980 to 1981, partitioned as follows:

- 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 by the Board of Directors whose eight members at the present came from and representing the BTr, IA and OP. They also occupy the position as President, Vice President, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Legal Counsel, and Internal Auditor of the PDGCC. As at December 31, 2018, the PDGCC is headed and represented by President/Chairwoman Rosalia V. De Leon who is also the incumbent Treasurer of the Republic of the Philippines. The PDGCC has also an Administrative Committee created in January 2006 that is presently composed of a Chairman and four (4) members.

The PDGCC generates fund from assessments it receives from unit owners/members and tenants in the building of the project. This common fund is used by the PDGCC for expenses necessary in the administration of the project.

As at December 31, 2018, the Corporation has four regular employees and one contractual personnel. The Corporation's principal address is at General Luna corner Andres Soriano, Jr. Streets, Intramuros, Manila.

The financial statements of the Corporation as of and for the year December 31, 2018 (including the comparative Financial Statements as of and for the year ended December 31, 2017) were authorized for issue by the Board of Directors on February 14, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. *Basis of Preparation of Financial Statements*

(a) *Statement of Compliance with Philippine Financial Reporting Standard for Small and Medium-sized Entities*

The financial statements of the PDGCC have been prepared in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs). PFRS for SMEs is adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for SMEs for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

The preparation of financial statements in accordance with PFRS for SMEs requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the PDGCC's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 3.

(b) *Revised Chart of Accounts (RCA) for Government Owned and Controlled Corporations (GOCCs) classified as Government Business Enterprise (GBE)*

COA Circular No. 2015-003 dated April 16, 2015 classified PDGCC as a GBE. Pursuant to COA Circular No. 2015-010 dated December 1, 2015, PDGCC has adopted the RCA for GOCCs.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the PDGCC's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the PDGCC are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the PDGCC operates.

2.2. *Cash and Cash Equivalents*

Cash and cash equivalents of the PDGCC include Petty Cash Fund, Cash in Banks in Current and Savings Account. The Petty Cash Fund (PCF) is maintained under Imprest System. All replenishments are directly charged to the appropriate expense account.

2.3. *Receivables*

Receivables are recognized initially at the transaction price. These are subsequently measured at amortized cost using the effective interest method, less accumulated allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the PDGCC will not be able to collect all amounts due according to the original terms of the receivables. The related impairment loss is recognized immediately in profit or loss.

2.4. *Inventories*

Inventories held for consumption are measured upon initial recognition at cost or value of purchased/acquired inventories for use in government operations, including semi-expendable equipment costing less than P15,000. Cost of inventories includes all costs of purchase and other costs incurred to bring the inventories to their present location and condition. Said inventories are recognized as expense once issued, transferred, lost or disposed.

2.5. *Property, Plant and Equipment*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, expenditures for repairs and maintenance are charged to expense during the period in which they are incurred.

Except for land, which is not depreciated, depreciation on property, plant and equipment is calculated using the straight-line method over their estimated useful lives. The useful lives of the depreciable assets range from five to ten years.

If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the item and are recognized as part of Other Income in profit or loss.

Pursuant to Philippine Interpretations Committee (PIC) Question and Answer (Q & A) No. 2016-03, with the subject accounting for common areas (including land) that were constructed before the creation of the Condominium Corporation and the accounting treatment for subsequent costs related to common areas incurred by the Condominium Corporation, which became effective on January 1, 2018 and has retrospective application, land and other common areas should not be recognized in the financial statements.

2.6. *Payables*

Payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

Payables are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.7. *Provisions and Contingencies*

Provisions are recognized when the PDGCC has a present legal or constructive obligation as a result of past events; it is probable that a transfer of economic benefits will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the PDGCC that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the PDGCC can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8. *Revenue and Expense Recognition*

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the PDGCC; and the costs incurred or to be incurred can be measured reliably. In addition, the specific recognition criteria must also be met before revenue is recognized. Interest Income is recognized as the interest accrues taking into account the effective yield on the asset.

2.9. *Leases*

All leases are classified as operating leases. Rental income received under the operating leases of common areas are recorded to profit or loss. PDGCC is in the process of determining the effect of straight-line basis of computing the leases.

2.10. *Impairment of Assets*

At each reporting date, the cost of property, plant and equipment is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss. If an impairment loss subsequently reverses, the carrying amount of the

asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.11. Equity

Government Equity represents ownership of the members, the BTr, OP and IA, in the net assets of the PDGCC and Retained Earnings represents all current and prior period results of operations as reported in the statements of comprehensive income.

2.12. Related Party Transactions and Relationship

Related party transactions are transfers of resources, services or obligations between the PDGCC and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include individuals representing the agencies-members of the PDGCC which owns unit/s in the condominium project and, as an appurtenance, have voting power and control over the PDGCC.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.13. Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the PDGCC's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The PDGCC's financial statements prepared in accordance with PFRS for SMEs requires Management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1. Critical Management Judgments in Applying Accounting Policies

In the process of applying the PDGCC's accounting policies, Management has made judgment, apart from those involving estimation, which have significant effect on the amounts recognized in the financial statements in relation to the recognition of provisions and contingencies where Judgment is exercised by Management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are presented in Notes 2.7 and 15.

3.2. Key Sources of Estimation Uncertainty

Key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The PDGCC estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 8.

4. CASH AND CASH EQUIVALENT

This account is composed of the following:

	2018	2017
Petty cash	4,800	4,800
Cash in bank – Current Account	20,136,147	24,991,361
Cash in bank – Savings Account	5,089,749	5,045,283
	25,230,696	30,041,444

Collections from agency-occupants 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 – Intramuros Branch.

Cash in Bank account includes restoration of cash equivalent for unreleased checks amounting to P574,562.88 as at December 31, 2018.

5. RECEIVABLES

This account is composed of the following:

	2018	2017
Due from National Government Agencies		
Due from BTr	2,568,750	1,970,834
Due from COMELEC	4,061,292	1,989,134
Due from IA	464,562	384,388
Due from NCO	420,113	128,024
Due from NTRC	205,754	80,409
Due from PACC	380,434	-
	8,100,905	4,552,789
Due from Government Corporation		
Due from Pag - IBIG Fund (Manila)	180,129	157,527
Due from LBP (Intramuros)	295,828	323,937
	475,957	481,464

	2018	2017
Other Receivables		
Receivable - disallowances/charges	-	12,545
Assessment dues receivables	2,048,238	2,143,737
Other receivables	605,222	1,372,492
	2,653,460	3,528,774
	11,230,322	8,563,027

Due from COMELEC, LBP, IA, Pag-IBIG and BTr 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. Amount billed in December 2018 for utilities are due for collection in January 2019.

Other Receivables accounts consist of *Assessment Dues Receivable* that represents the unpaid pro-rata share from occupants for the operating expenses in maintaining the common areas and receivables from telecommunication companies for their unpaid electric consumption. It includes amount billed in December 2018 but due for collection in January 2019. It also includes the amount of P84,050 representing the undeposited collections in 2006 and 2007 and overpayment of salaries of terminated employee.

6. INVENTORIES

This account is composed of inventory held for consumption as follows:

	2018	2017
Office supplies inventory	13,903	9,186
Accountable forms inventory	800	1,600
Other supplies and materials inventory	61,211	57,998
	75,914	68,784

7. 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 unexpired portion of the Insurance Premium paid under Malayan Insurance Policy No. B0011457.