Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

DBP DATA CENTER, INC.

(A wholly-owned subsidiary of Development Bank of the Philippines)

For the year ended December 31, 2009

EXECUTIVE SUMMARY

INTRODUCTION

DBP Data Center, Inc. (DCI), formerly known as Development Bank Data Center, Inc., is a wholly-owned subsidiary of the DBP created under DBP Board Resolution No. 3172 dated October 6, 1982 and registered with the Securities and Exchange Commission (SEC) per Registry No. 107887 dated October 26, 1982. Its operations started in November 1982 with the primary purpose of implementing the computerization program of DBP. DCI is equipped with this experience in banking systems and facilities management. DCI ventured towards the development and implementation of non-banking systems for private and government entities as well.

On December 7, 2007, the DCI Board of Directors upheld the new corporate direction of DBP Data Center, Inc. to focus and channel its operations towards providing IT services for DBP and its various subsidiaries.

The Corporation's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City.

At the helm of DCI is Mr. Clarito L. Magsino as President and Chief Executive Officer.

As of December 31, 2009, DCI had a total manpower of 89 including eight contractual personnel.

The Corporation's approved operating budget for 2009 is P75.711 million.

FINANCIAL HIGHLIGHTS

Financial Position (In Philippine Peso)

	2009	2008 (As Restated)	Increase (Decrease)
Assets	62,530,926	59,514,571	3,016,355
Liabilities	26,374,930	20,852,595	5,522,335
Stockholder's Equity	36,155,996	38,661,976	(2,505,980)

Results of Operations (In Philippine Peso)

	2009	2008 (As Restated)	Increase (Decrease)
Income	67,814,335	84,280,560	(16,466,225)
Expenses	66,096,673	81,864,652	(15,767,979)
Net Income	1,717,662	2,415,908	(698,246)

SCOPE OF AUDIT

The audit covered the examination, on a test basis, the accounts and financial transactions of DBP-DCI for the period January 01- December 31, 2009 in accordance with the Philippine Standards on Auditing (PSA) and other pertinent laws, rules and regulations.

AUDITOR'S OPINION

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of DCI for CY 2009.

SIGNIFICANT AUDIT OBSERVATION AND RECOMMENDATION

The audit observation which was discussed with Management is as follows:

The written conformity and acquiescence of the Office of the Government Corporate Counsel (OGCC) and the Commission on Audit (COA) were not secured prior to the hiring of external legal consultant, in violation of COA Circular No. 86-255 as amended by COA Circular No. 95-011.

We recommended and Management agreed to secure the written approval of OGCC and concurrence of COA to comply with COA Circular No. 86-255 as amended by COA Circular No. 95-011. (However, to date, only the written concurrence of the OGCC was sought and submitted for compliance. We maintain our stand to obtain also the written concurrence of the Commission on Audit before hiring external legal consultant).

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

All the three prior year's audit recommendations were fully implemented.

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PART I – AUDITED FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster A – Financial

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
DBP Data Center, Inc.
Makati City

We have audited the accompanying financial statements of **DBP Data Center, Inc. (DCI),** which comprise the balance sheet as at December 31, 2009, and the statement of income and retained earnings, statement of changes in stockholders' 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 Philippine Financial Reporting Standards. 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 DBP Data Center, Inc. as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT:

MA. TERESITA R. GOJUNCO
Supervising Auditor

June 4, 2010

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
BALANCE SHEET
December 31, 2009
(In Philippine Peso)

	Note	2009	2008 (As Restated)
ASSETS			
Current assets			
Cash and cash equivalents	4	19,752,304	10,273,408
Receivables - net	5 & 14	37,868,889	36,458,584
Prepaid expenses	6	249,173	257,231
		57,870,366	46,989,223
Non-current assets			
Property and equipment-net	7 & 14	2,596,437	10,123,973
Other assets-net	8	2,064,123	2,401,375
		4,660,560	12,525,348
TOTAL ASSETS		62,530,926	59,514,571
LIABILITIES AND EQUITY			
Current liabilities			
Customer's deposit		2,732,171	2,548,838
Dividend payable	12	550,000	-
Accrued expenses		1,365,389	563,943
Other payables	9 & 14	9,398,225	5,488,790
		14,045,785	8,601,571
Non-current liabilities			
Vacation/sick leave payable		2,326,969	3,293,472
Past service pension cost payable		10,002,176	8,957,552
		12,329,145	12,251,024
		26,374,930	20,852,595
Stockholders' equity			
Capital stock			
Authorized-500,000 shares, P100 par value			
Issued and outstanding-202,800 shares	11	20,280,000	5,280,000
Retained earnings	12 & 14	15,875,996	33,381,976
		36,155,996	38,661,976
TOTAL LIABILITIES AND EQUITY		62,530,926	59,514,571

The Notes on pages 7 to 19 form part of these financial statements.

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DBP DATA CENTER, INC.

(A wholly-owned subsidiary of Development Bank of the Philippines)

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2009

(In Philippine Peso)

	Note	2009	2008 (As Restated)
INCOME			
Outsourcing services		59,651,470	53,265,949
Systems integration services		7,647,760	30,787,055
Others		246,153	2,200
		67,545,383	84,055,204
EXPENSES			
Salaries, allowances and benefits	13	43,422,045	54,112,007
Service fees		11,464,343	14,327,263
Rent and utilities		3,934,982	6,031,503
Depreciation/amortization	14	3,263,914	4,103,308
Retrenchment pay/redundancy pay		1,678,116	-
Professional fees		1,418,146	1,699,651
Provision for probable losses		960,750	480,960
Taxes and licenses		807,302	804,991
Office supplies		136,812	380,409
Transportation/travel		115,923	497,961
Representation		77,204	108,455
Repairs and maintenance		27,328	92,378
Excess input tax	10 & 14	(3,195,763)	(2,270,074)
Miscellaneous		1,364,695	316,312
		65,475,797	80,685,124
EARNINGS BEFORE INTEREST AND TAXES		2,069,586	3,370,080
Add: Interest income		268,952	225,356
Earnings before taxes		2,338,538	3,595,436
Provision for income tax		620,876	1,179,528
NET INCOME		1,717,662	2,415,908
Add: Retained earnings, beginning	14	33,381,976	32,216,068
Less: Stock dividend declaration	11	15,000,000	1,250,000
Cash dividend	12	550,000	-
Property dividend	12	3,673,642	-
RETAINED EARNINGS, END		15,875,996	33,381,976

The Notes on pages 7 to 19 form part of these financial statements.

JUL 28 2010

DBP DATA CENTER, INC.

(A wholly-owned subsidiary of Development Bank of the Philippines)

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

December 31, 2009

(In Philippine Peso)

	Note	Common Stock Shares	Common Stock Amount	Retained Earnings (As Restated)	Total
Balance, December 31, 2007		37,500	3,750,000	32,216,068	35,966,068
Additional paid-up capital		12,500	1,250,000	(1,250,000)	0
Additional paid-up capital (donated vehicle)		2,800	280,000		280,000
Net income for the year				2,415,908	2,415,908
Balance, December 31, 2008		52,800	5,280,000	33,381,976	38,661,976
Additional paid-up capital	11	150,000	15,000,000	(15,000,000)	-
Net income for the year				1,717,662	1,717,662
Cash dividend	12			(550,000)	(550,000)
Property dividend	12			(3,673,642)	(3,673,642)
Balance, December 31, 2009		202,800	20,280,000	15,875,996	36,155,996

The Notes on pages 7 to 19 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly- owned subsidiary of Development Bank of the Philippines)
CASH FLOW STATEMENT
For the year ended December 31, 2009
(In Philippine Peso)

	Note	2009	2008 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		79,505,215	75,949,861
Interest income received		268,952	225,356
Other income received		246,153	2,200
Payments for operating expenses		(52,358,643)	(63,931,469)
Payments to suppliers		(17,169,597)	(7,854,746)
Payment for other assets		(1,131,858)	(910,360)
Income tax payment			(616,260)
Net cash provided by operating activities		9,360,222	2,864,582
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of company cars		302,300	-
Purchase of computer equipment and office machines		(183,626)	(62,645)
Net cash provided by (used in) investing activities		118,674	(62,645)
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,478,896	2,801,937
CASH AND CASH EQUIVALENTS, beginning of year		10,273,408	7,471,471
CASH AND CASH EQUIVALENTS, end of year	4	19,752,304	10,273,408

The Notes on pages 7 to 19 form part of these financial statements.

DBP DATA CENTER, INC.
(A wholly-owned subsidiary of Development Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(Amounts in Philippine Peso unless otherwise stated)

1. GENERAL/CORPORATE INFORMATION

DBP Data Center, Inc. (DCI), formerly known as Development Bank Data Center, Inc., is a wholly-owned subsidiary of DBP created under DBP Board Resolution No. 3172 dated October 6, 1982 and registered with the Securities and Exchange Commission (SEC) per Registry No. 107887 dated October 26, 1982. Its operations started in November 1982 with the primary purpose of implementing the computerization program of DBP. DCI is equipped with this experience in banking systems and facilities management. DCI ventured towards the development and implementation of non-banking systems for private and government entities as well.

On December 7, 2007, the DCI Board of Directors upheld the new corporate direction of DBP Data Center, Inc. to focus and channel its operations towards providing IT services for DBP and its various subsidiaries.

The Certificate of Increase in Capital Stock of DBP DCI from P5.000 million to P50.000 million, was approved by SEC on April 3, 2009.

The Corporation's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City.

As of December 31, 20~~09~~ 10, DCI had a total manpower of ~~89~~ 96 including eight 24 contractual personnel.

These financial statements have been approved and authorized for issuance by the DCI Board of Directors on June 2, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statements preparation

The accompanying financial statements are prepared on the historical cost basis. The Corporation adopts a more appropriate presentation and classification of expenses in the financial statements to conform with the usual format used by a service company in the IT industry. Further, this new presentation is more relevant to its users.

Statement of compliance

These financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PAS). The preparation of the financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policy.

The Corporation has adopted the following accounting standards which are relevant to its operations:

PFRS 7 Financial Instruments Disclosures. This PFRS introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity to market risk. It replaced PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and those required under PAS 32, Financial Instruments: Disclosure and Presentation. The new disclosures under PFRS are required to be made for all periods presented.

PAS 1 Presentation of Financial Statements, prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities; allows presentation of assets and liabilities in order of liquidity.

PAS 7 Cash Flow Statement requires the provision of information about the historical changes in cash and cash equivalents of the Corporation by means of presenting the flows of cash from operating, investing and financing activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the Corporation.

PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, prescribes the criteria for selecting and changing accounting policies, changes in accounting estimates and corrections of errors.

PAS10 Events After the Balance Sheet Date, defines events after balance sheet date known as subsequent events which may be favorable or unfavorable and may either require adjustment or disclosure.

PAS 12 Income Taxes, prescribes the accounting treatment for income taxes whether current or future depending on the probability of occurrence.

PAS 16 Property, Plant and Equipment (PPE), addresses the principal issues in accounting for PPE which are the recognition of the assets, the determination of their carrying amounts and the depreciation charges.

PAS 17 Lease, an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. It is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership while an operating lease does not transfer substantially all the risks and rewards incidental to ownership.

PAS 19 Employee Benefits, provides for the accounting of long-term and other employee benefits. It requires the use of projected unit credit method in determining the retirement benefits of the employees and change in the manner of computing benefit expense relating to past service cost.

PAS 24 Related Party Disclosures, ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

PAS 33 Earnings per share. An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share will provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

PAS 36 Impairment of Assets. This PAS prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more that its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

PAS 38 Intangible Assets. This PAS requires discontinuance of amortization of intangible assets with an indefinite useful life. The effect of adopting this standard will not result in retroactive adjustment of prior year's financial statements but will effect prospective financial statements as a result of non-amortization. DCI is not implementing this PAS. It uses the Intangible assets with finite useful lives and with no reduction of residual value.

PAS 39 Financial Instruments: Recognition and Measurement, establishes the accounting and reporting standards for the recognition and measurement of the company's financial assets and liabilities.

<u>Functional and presentation currency</u>

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the Corporation operates. The FS are presented in Philippine pesos.

<u>Financial assets</u>

Financial assets include cash and financial instruments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments are acquired.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and other cash items on hand, bank deposits and short-term highly liquid investments readily convertible to cash and which are subject to insignificant risk of changes in value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides goods or services directly to the debtor.

Trade receivables represent actual billings to DBP and other clients for services rendered.

Non-trade receivables represent collectibles from employees and other persons liable to the Corporation for services rendered by DCI not related to the nature of the business of the Corporation.

All financial assets are recognized on their trade date.

Non-financial assets

Property and equipment

Property and equipment are stated at cost and depreciated based on a straight-line method over the estimated useful life of the assets. Amount subject for depreciation is net of 10% residual value. The costs of leasehold improvements are amortized based on a straight-line method over the estimated useful life of the improvements, or term of the lease (5 years). The estimated useful life of the Corporation's property and equipment are as follows:

Computer equipment - 5 years
Furniture & fixtures - 5 years
Office machine & equipment - 5 years
Transportation equipment - 5 years
Leasehold improvements - 5 years

Major repairs and maintenance are capitalized. Minor expenditures for replacement, maintenance and repairs are expensed as incurred.

Intangible assets

Intangible assets (included under Other Assets) represent cost of software licenses and system development and maintenance. Intangible assets are measured at cost and amortized based on a straight line method with an expected useful life as follows:

Computer software license - 1-3 years

System development and maintenance - 1-3 years

Vacation/sick leave payable

This account controls the accrued leave credits of DCI employees. Leave credits are commuted upon separation of the employees from the service.

The Retirement Gratuity Plan is designed to recognize the faithful and satisfactory service of DCI employees and to provide timely financial assistance upon their separation from the service. Revaluations are done based on the updated manning complement. The Gratuity Plan was provided by DCI through the setting up of the past service liability and the normal cost. On June 1, 1998, a Memorandum of Agreement was entered into by and between DCI, the Trustor and DBP-Trust Department, the Trustee. Under the said agreement, a Trust Fund was created for the primary purpose of paying the benefits of the members of DCI retirement plan. The Trustee shall manage and administer the Trust Fund. As of December 31, 2009, the fund has an outstanding value of P 2,716,961.14.

Every month, the Corporation provides a pension expense and the corresponding liability equivalent to 1/12 of the monthly salary of all active regular employees. Eventually, the allocated liability is transferred to DCI Retirement Fund being administered by DBP Trust Department.

Operating lease

The lease entered by the Corporation is an operating lease. Operating payments are recognized as expense in the income statement on a straight line basis over the period of the lease (5 years). The rental rate then prevailing shall automatically and immediately increase by five percent (5%), without any need of prior notice or demand, after the end of the second year of the lease period. The lease agreement ended last July 15, 2009 and an extension was requested until December 31, 2009. On January 1, 2010, the Corporation transferred to its new location at DBP Building.

Income and expense

The Corporation adopts the accrual method of accounting for income and expenses. Sales revenue is booked at gross amount. On the other hand, expenses include salaries, allowances and benefits of personnel assigned to projects. Further, service fees include payments to business partners, directly hired contractuals and contractuals hired through IT agencies related to every project (considered sub-contractors).

Taxes

Current tax assets/liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the balance sheet date.

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3. RISK MANAGEMENT

The Corporation is exposed to various forms of risks. These risks can be grouped into credit, market, liquidity and operational risks. In managing these risks, the approach is not always risk minimization but managing risks to make an optional contribution to company revenues.

Credit risk

Credit risk is the risk that the Corporation will incur a loss because its clients, customers or counterparties will fail to discharge their contractual obligations. Acceptance of projects from agencies/clients is based on criteria that the Board of Directors and Management continuously review and improve based on on-going analyses of agency/client behavior. The objective is to continuously improve the Corporation's portfolio quality. Management carefully manages its exposure to credit risk. Project proponents' payment attitude is being evaluated for future engagements.

Below is the tabulation of uncollected receivables as of December 31, 2009 with remarks:

Project	Amount	Remarks
Insurance Commission	780,000	This is a service level agreement. The new Commissioner is hesitant to acknowledge their payable and the validity of the contract that the ex-Commissioner entered into. A demand letter from the Company legal counsel was issued to Insurance Commission.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of short-term investments which could be used to secure additional funding if required. Further, the Corporation limits its engagement in short-term projects to facilitate inflows of cash.

Below is the asset-liability gap analysis for the year 2009:

	Up to 3 mos.	Over 3-6 mos.	Over 6 mos-1 yr	Over 1-5 yrs	Total
Assets:					
Petty Cash Fund	5,433				5,433
Due from other banks	19,746,871				19,746,871
Receivables	11,735,666	10,711,812		15,421,411	37,868,889
Prepaid expenses	249,173				249,173
Property & equipment.				2,596,437	2,596,437
Other assets		1,378,183	685,940		2,064,123
	31,737,143	12,089,995	685,940	18,017,848	62,530,926

Liabilities:					
Current liabilities	12,911,129	1,134,656			14,045,785
Non-current Liabilities				12,329,145	12,329,145
	12,911,129	1,134,656		12,329,145	26,374,930
Asset-liability gap	18,826,014	10,955,339	685,940	5,688,703	36,155,996

Market risk

The Corporation's exposure to market risk would be the amendment of Government Procurement Policy Board (GPPB) Resolution No. 03-2007 amending Section 53.5 of RIRR of RA 9184 to include infrastructure projects and consulting services. This section states that negotiated procurement shall be allowed in the procurement of infrastructure projects, consulting services and goods from another agency of the Government, such as the Procurement Service-Department of Budget and Management, the Office tasked with a centralized procurement of common use supplies for the government in accordance with Letters of Instruction No. 755 and Executive Order No. 359, series of 1989. For purposes of this sub-section, the term agency shall exclude GOCCs incorporated under Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines. RA 9184 is a law enacted to govern government dealings with private sector contractors and if such is the scope of the law, it should not cover government dealings with other government agencies such as DCI. The amendment will adversely affect DCI's position in the Information Technology market industry dealing with government agencies as DCI will have to undergo bidding process and compete head on with the private sector but still subjected to various government restrictions.

During the year, DCI refocused its efforts in the delivery of DBP Service Level Agreement (SLA) from January 1 to April 30, 2009, DBP Staff Supplementation Agreement from May 1 to December 31, 2009 and other DBP projects while winding down on non-DBP projects carried over from 2007.

Operational risk

Operational risk is the risk of loss arising from the systems failure, human error, omission, inefficiency, unauthorized activities, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Corporation cannot expect to eliminate all operational risks, but through a control framework that is monitoring and responding to potential risks, the Corporation is able to manage the risks. Controls include effective segregation of duties, authorized access, authorization and reconciliation procedures, staff education and assessment processes. Further, a comprehensive business continuity and recovery plan is in place to mitigate this risk.

4. CASH AND CASH EQUIVALENTS

Included in this account are the following:

	2009	2008
Cash in banks	10,005,689	6,960,751
Petty cash fund	5,433	10,000
Investments/placements	9,741,182	3,302,657
	19,752,304	10,273,408

Considered cash equivalents are investment/placements at DBP Trust Services on short-term or temporary investments and placements of excess cash purchased with a maturity of three (3) months or less from date of acquisition.

5. RECEIVABLES

This account consists of the following:

	2009	2008 (As Restated)
Trade	19,009,994	19,597,842
Non-trade	20,300,604	17,341,702
	39,310,598	36,939,544
Allowance for probable losses	(1,441,709)	(480,960)
	37,868,889	36,458,584

6. PREPAID EXPENSES

This account consists of the following:

	2009	2008
Insurance	174,194	152,450
Unused supplies	74,979	104,781
	249,173	257,231

7. PROPERTY AND EQUIPMENT

This account consists of the following:

	Computer Equipment	Office Machine & Equipment	Leasehold Improve-ments	Furniture & Fixtures	Transpor-tation Equipment	Total
Cost						
January 1, 2009	17,428,178	962,852	2,512,438	4,064,277	1,108,800	26,076,545
Addition	61,963	8,929	126,262	-	-	197,154
Adjustment	(14,319,070)	(636,450)	(835,116)	(856,073)	(365,800)	(17,012,509)
Cost December 31, 2009	3,171,071	335,331	1,803,584	3,208,204	743,000	9,261,190
Accumulated Depreciation						
January 1, 2009	12,251,907	800,560	-	2,225,644	674,461	15,952,572
Depreciation	1,261,119	51,108	674,544	444,472	285,051	2,716,294
Adjustment	(11,131,095)	(564,686)		-	(308,332)	(12,004,113)
Accumulated Depreciation December 31, 2009	2,381,931	286,982	674,544	2,670,116	651,180	6,664,753
Net Book Value December 31, 2009	789,140	48,349	1,129,040	538,088	91,820	2,596,437
Net Book Value December 31, 2008 (as restated)	5,176,271	162,292	2,512,438	1,838,633	434,339	10,123,973

8. OTHER ASSETS

The details of this account are as follows:

	2009	2008 (As Restated)
Rental deposit	1,378,182	1,378,182
Miscellaneous assets – Commerce Works, Inc.	33,650	33,650
Miscellaneous assets – PLDT	7,500	7,500
Intangibles (computer software)	644,791	982,043
	2,064,123	2,401,375

Intangibles are software costs accounted for as follows:

	2009	2008
Balance at beginning of year	982,043	1,616,200
Additions	210,367	398,865
Amortization	(547,619)	(1,033,022)
Balance at end of year	644,791	982,043

9. OTHER PAYABLES

This account includes the Corporation's various short-term liabilities to suppliers, business partners and government agencies, such as Bureau of Internal Revenue (withholding taxes, income taxes, value added taxes, SSS contributions and loans), Home Development Mutual Fund (contributions and loans) and others.

The details of this account are as follows:

	2009	2008 (As Restated)
Suppliers/creditors	5,877,813	3,192,831
Bureau of Internal Revenue	1,955,368	997,826
Employee benefit fund	382,186	382,186
Government remittances	214,874	323,884
Others	967,984	592,063
	9,398,225	5,488,790

10. EXCESS INPUT VAT

Under BIR Regulation No. 4-2007 issued on March 20, 2007, the government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCC) shall before making payment on account of each purchase of goods and/or services taxed at 12% Value Added Tax (VAT), pursuant to Sections 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of 5 % of the gross payment thereof. The 5% final VAT withholding rate shall represent the net VAT payable of the seller. The remaining 7% effectively accounts for the standard input VAT for sale of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs in lieu of the actual input VAT directly attributable or ratably apportioned to such sales. Should actual input VAT attributable to sale to government exceed 7% of gross payments, the excess may form part of the seller's expense or cost. On the other hand, if actual input VAT attributable to sale to government is less than 7% of gross payment, the difference must be closed to expense or cost.

DCI is a GOCC and all its clients are government agencies and instrumentalities, such as Development Bank of the Philippines (DBP), National Computer Center (NCC), Civil Service Commission (CSC) and Philippine Charity Sweepstakes Office (PCSO) to name a few. All collections from these government agencies were subjected to a 5% final withholding tax, leaving the 7% remaining VAT as Excess Input VAT after deducting the Corporation's Input Tax from purchases of goods and services.

11. CAPITAL STOCK

Capital stock represents the nominal value of common shares issued and outstanding. The Authorized Capital Stock amounts to P5.000 million representing 50,000 shares at P100.00 par value. Capital Stock issued and outstanding as of December 31, 2009 amounts to P20.280 million or 202,800 shares. This includes an additional stock dividend amounting to P15.000 million previously approved and issued due to the recent approval of the increase in capitalization dated April 3, 2009 and released on April 13, 2009.

12. RETAINED EARNINGS

Per Board Resolution No. 61, dated June 16, 2006, the Board approved that the amount of P16.250 million of the Retained Earnings be declared as stock dividend in favor of the Development Bank of the Philippines (DBP), to be appropriated and applied to the full payment of the DBP subscription to 162,500 shares upon release of the increase in capitalization of DBP Data Center, Inc.

Last 2008, an additional capital stock amounting to P1.250 million was subscribed in favor of Development Bank of the Philippines, increasing the Subscribed Capital Stock from P3.750 million to P5.000 million. The remaining stock dividend was issued in 2009 due to the release of the certificate of increase in DCI capitalization. On April 13, 2009, DCI's application for increase in capitalization was approved and the corresponding certificate was released accordingly.

Further, DCI declared a property dividend in the amount of P3.674 million and cash dividend of P.550 million during the DCI Board Meeting dated August 27, 2009 per Board Resolution No. 0008.

13. SALARIES, ALLOWANCES AND BENEFITS

This account includes the following:

	2009	2008
Salaries and wages	25,937,805	32,100,110
Grocery allowance	2,440,938	2,809,062
13^{th} month pay	2,071,476	2,847,841
Vacation/sick leave	2,047,900	3,628,312
Pension expense	2,044,624	1,828,589
Employee benefit	2,024,639	2,344,879
Overtime pay	1,832,854	2,602,082
Employer's rice contribution	1,536,818	1,452,726
Employer's SSS, Philhealth and EC contributions	1,327,050	1,583,305
Hospitalization benefits and group insurance	608,980	1,282,232
Gift certificate	425,500	538,000
Uniform allowance	351,750	240,837

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Other personnel benefits	242,247	131,627
Anniversary bonus	240,000	276,000
Employer's Pag-ibig contribution	103,000	122,600
Optical and dental benefits	84,667	85,562
Loyalty cash	44,500	69,250
Transportation/meal allowance	33,577	38,552
Local training	23,720	130,441
	43,422,045	54,112,007

14. RESTATEMENT OF PRIOR YEARS' TRANSACTIONS

The Financial Statements of CY 2008 were restated to take up the following adjustments on:

a. The expense related to prior years' amortization of leasehold improvements using five years life of the asset to follow the term of the lease, instead of 20 years:

Depreciation/amortization	3,442,573
Add: Adjustment of amortization-leasehold improvements	660,735
Adjusted 2008 balance	4,103,308

b. The Excess Input VAT amounting to P2,270,074, per BIR Revenue Regulation No. 04-2007 dated March 20, 2007 was closed to expenses.

c. The Accounts Receivable - non-trade was reduced relative to the effect of the above transaction on income tax:

Accounts receivable – non-trade (creditable income tax)	17,904,970
Less: Tax effect of adjustment on 2008 accounts	563,268
Accounts receivable – non-trade (as restated)	17,341,702

d. The Other Payables (suppliers/creditors) account was reduced in relation to adjustment of computer equipment/software in-transit accounts.

Other Payables (suppliers/creditors) before restatement	7,383,644
Deduct:	
Restatement	
Net effect on payable covering CY2005 to CY2007 re: purchase of equipment/software in-transit	(1,920,739)
VAT adjustment	(2,270,074)
Other Payables (suppliers/creditors) after restatement	3,192,831

e. The Retained Earnings of January 1, 2008

Retained earnings, before restatement	39,342,403

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Deduct:	
Restatements	
Amortization of leasehold improvements	(1,792,969)
Net effect on earnings covering CY 2005 to CY 2007 re: purchase of equipment/software in-transit	(5,333,378)
Retained earnings, January 1, 2008 (after restatement)	32,216,068

15. EARNINGS PER SHARE

The basic earnings per share was calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The Corporation's earnings per share was computed as follows:

	2009	2008 (As Restated)
Net earnings/loss	1,717,662	2,415,908
Outstanding common shares	202,800	52,800
	8.47	45.76

16. RELATED PARTY TRANSACTIONS

Parties are considered related when one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

On April 1, 2005, the Corporation entered into a Service Level Agreement (SLA) with DBP at a contract price of P52,701,394 per annum. Under this Agreement, the Corporation agreed to provide DBP with Application Management Services Program Management, Application Development, Application Enhancement and Application Maintenance. For the year 2009, SLA runs only from January 1 to April 30, 2009. Effective May 1, 2009, DBP and DCI moved to a Staff Supplementation Agreement which is part of the Professional Service Agreement.

Further, the Corporation has significant transactions in the normal course of business with related parties. The Corporation maintains current account deposits and short-term placements at DBP Head Office, Makati City.

Below is the tabulation of transactions with related party, DBP:

Particulars	Amount
Receivables – Professional Service Agreement	8,047,446
Cash in Bank – Current Account	7,875,921
Short-term investment	9,741,482

PART II – A. OBSERVATION AND RECOMMENDATION

B. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

OBSERVATION AND RECOMMENDATION

1. The written conformity and acquiescence of the Office of the Government Corporate Counsel and the Commission on Audit were not secured prior to hiring of external legal consultant, in violation of COA Circular No. 86-255 as amended by COA Circular No. 95-011.

1.1 COA Circular No. 86-255, as amended by COA Circular No. 95-011 and incorporated under Section 9.2 of the Implementing Rules and Regulations of the OGCC prohibits government-owned or controlled corporations from hiring or employing private lawyers or law practitioners to handle their legal cases without first securing the prior approval of the OGCC and the written concurrence of COA.

1.2 Also, COA Circular No. 95-011 provides that in the event that such legal services cannot be avoided or is justified under extraordinary or exceptional circumstances, the written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel, as the case may be, and the written concurrence of the COA shall first be secured before the hiring or employment of a private lawyer or law firm. (underscoring ours)

1.3 In June 2006, DCI entered into an open-ended retainer agreement with a private lawyer for a monthly retainer fee of P5,000 and additional fee for work outside the retainer on time spent basis.

1.4 As at February 18, 2010 DCI paid a total of P 524,325.49, inclusive of 12% VAT for the services rendered by subject lawyer from January to December 2009, excluding June 2009 retainer which was missed out.

1.5 Inquiry from Management revealed that no approval was sought from the OGCC nor COA concurrence was secured before the hiring of the external legal consultant, in violation of COA Circular No. 86-255 as amended by COA Circular No. 95-011.

1.6 We recommend and Management agreed to secure the written approval of OGCC and concurrence of COA to comply with COA Circular No. 86-255, as amended by COA Circular No. 95-011.

1.7 Management responded as follows:

DCI does not have an internal Legal Counsel and thus it sought external legal assistance from DBP, for a minimal retainer's fee.

At the time of the engagement of the external legal consultant's services, DCI was unaware of the need for a written approval of the OGCC and the written concurrence of the Commission on Audit (COA) to engage the services of private lawyers/legal experts. Nevertheless, we secured endorsement of our Bids and Awards Committee since under Section 53(f) of RA 9184, hiring another Legal Counsel translates to procuring consulting services that may be allowed through negotiated procurement considering that the nature of services rendered by an ILC was primarily confidential and trust and confidence were the principal consideration.

Nevertheless, on December 1, 2009, we have already issued our ILC a notice of termination of legal services effective January 1, 2010 due to the Company's recent change in business focus.

In compliance with your recommendation, we have already sought the written approval of OGCC on December 4, 2009. Rest assured that we shall strictly comply with COA Circular No.86-255, as amended, should there be a need to engage the services of any IT legal experts in the future.

B. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

All the three audit recommendations embodied in the prior year's Annual Audit Report were fully implemented.