COVER SHEET

1 0 7 8 8 7

S.E.C. Registration Number

DBP DATA CENTER, INC.

(Company's Full Name)

SENATOR GIL PUYAT AVENUE COR. MAKATI AVENUE, MAKATI CITY

(Business Address: No. Street City / Town / Province)

GINA A. GONZALES

Contact Person

8480277

Company Telephone Number

2010

Month *Day*

Fiscal Year

AFS

FORM TYPE

07 13

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

37

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

BUREAU OF INTERNAL REVENUE

JUL 28 2011

MEMORANDUM

T O : ALL CHIEFS AND STAFF

F R O M : OLGA A. PACANA, Director

SUBJECT : Financial Statements of government owned or controlled corporations

D A T E : April 11, 1991

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In the computation of penalties on the late submission of financial statements of government owned or controlled corporation, the 120 day period within which to file audited financial statements after the fiscal year end does not apply. Instead, a different deadline applies which is 30 days after date of transmittal as indicated in a letter signed by a Commission on Audit Commissioner, accompanying the audited financial statements. The date of said letter, irrespective of the date of receipt of the company, is the reckoning date from which the 30 day period is counted. The same scale of fines shall be applied.

OLGA A. PACANA
Director

DCI

STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR
FINANCIAL STATEMENTS

The management of DBP Data Center, Inc. is responsible for all information and representations contained in the financial statements for the year ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with the generally accepted accounting principles and reflect the amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Management Committee reviews the financial statements before such statements are approved and submitted.

The Commission on Audit, the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in its report to stockholders.

CLARITO L. MAGSINO
President & Chief Executive Officer

LILIAN K. STA. ROMANA
Vice President and Head, Admin & Fin

JUL 28 2011

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

June 27, 2011

The Board of Directors
DBP Data Center, Inc.
DBP Building, Senator Gil J. Puyat Avenue corner
Makati Avenue, Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the audit of the accounts and operations of the **DBP Data Center, Inc. (DCI)** for the year ended December 31, 2010.

Our attached report consists of two parts: Part I – Audited Financial Statements and Part II – Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

We expressed an unqualified opinion on the financial statements of DCI, as shown in the Independent Auditor's Report. Notwithstanding this opinion, may we invite your attention to the Observations and Recommendations embodied in Part II of the report.

In our transmittal letter of even date, we requested the President and Chief Executive Officer of the DCI to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt.

We acknowledge the support and cooperation extended to us by the officials and staff of DCI, thus facilitating the completion of this report.

Very truly yours,

LUZ LORETO-TOLENTINO
Director IV

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, 2010

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, 2010, DCI had a total manpower of 95 including 25 contractual personnel.

The Corporation's approved operating budget for 2010 is P51,287,418. Ninety-seven per cent of the budget, equivalent to P49,869,868 was utilized during the year.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Financial Position

	2010	2009	Increase (Decrease)
Assets	51,132,938	62,961,881	(11,828,943)
Liabilities	16,878,637	26,374,930	(9,496,293)
Equity	34,254,301	36,586,951	(2,332,650)

II. Results of Operations

	2010	2009	Increase (Decrease)
Income	56,500,216	71,010,098	(14,509,882)
Expenses	53,832,866	68,861,481	(15,028,615)
Profit	2,667,350	2,148,617	518,733

JUL 28 2011

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of the accounts and financial transactions of DCI for the period January 1 to December 31, 2010 in accordance with the International Standards on Auditing 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 2010.

SIGNIFICANT AUDIT OBSERVATION AND RECOMMENDATION

Non-compliance with the internal control policies and measures resulted in the erroneous posting of balances in the subsidiary ledgers and misclassification of accounts.

Comply strictly with the control policies and measures that would strengthen the Corporation's internal control system.

Record the transactions promptly to the subsidiary ledgers for subsequent posting in the general ledger.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATION

Prior year's audit recommendation was fully implemented.

...AU OF INTERNAL...
JUL 28 2011

TABLE OF CONTENTS

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.** (a wholly-owned subsidiary of Development Bank of the Philippines) which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 (PFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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, 2010, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

EMELITA R. QUIRANTE
Supervising Auditor

March 31, 2011

DBP DATA CENTER, INC.

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

STATEMENT OF FINANCIAL POSITION

December 31, 2010

(In Philippine Peso)

	Note	2010	2009 (As restated)
ASSETS			
Current assets			
Cash and cash equivalents	4	16,680,690	19,752,304
Receivables	5	24,972,059	38,299,843
Prepaid expenses	6	211,438	249,173
		41,864,187	58,301,320
Non-current assets			
Property and equipment	7	2,385,072	2,596,437
Long-term investment	8	5,000,000	-
Other assets	9	1,883,679	2,064,124
		9,268,751	4,660,561
TOTAL ASSETS		51,132,938	62,961,881
LIABILITIES AND EQUITY			
Current liabilities			
Payables	10	5,326,387	9,398,225
Dividend payable		-	550,000
Customers' deposit		1,920,896	2,732,171
Accrued expenses		1,609,608	1,365,389
		8,856,891	14,045,785
Non-current liabilities			
Vacation/Sick leave payable		2,309,864	2,326,969
Past service pension cost payable		5,711,882	10,002,176
		8,021,746	12,329,145
		16,878,637	26,374,930
Equity			
Capital Stock			
Authorized - 500,000 shares, P100 par value			
Issued and outstanding - 202,800 shares	11	20,280,000	20,280,000
Retained Earnings	12	13,974,301	16,306,951
		34,254,301	36,586,951
TOTAL LIABILITIES AND EQUITY		51,132,938	62,961,881

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)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

(In Philippine Peso)

	Note	2010	2009 (As restated)
REVENUE			
Outsourcing services		52,257,986	59,651,470
Systems integration services		-	7,647,760
Interest Income		654,345	268,952
Others	13	3,587,885	3,441,916
		56,500,216	71,010,098
EXPENSES			
Salaries, allowances and benefits	14	39,591,573	43,425,317
Service fees		8,770,085	11,157,325
Rent and utilities		1,336,160	3,934,982
Professional fees		1,045,633	1,447,628
Depreciation		833,626	3,263,914
Taxes and licenses		555,790	807,302
Retrenchment/redundancy pay		327,574	1,318,129
Office supplies		125,657	155,414
Transportation & travel		83,050	115,923
Repairs and maintenance		58,317	27,328
Representation		57,258	77,204
Provision for probable losses		-	960,750
Miscellaneous		185,427	1,364,695
		52,970,150	68,055,911
PROFIT BEFORE TAX		3,530,066	2,954,187
Income tax expense		862,716	805,570
PROFIT/TOTAL COMPREHENSIVE INCOME		2,667,350	2,148,617

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)
STATEMENT OF CHANGES IN EQUITY
December 31, 2010
(In Philippine Peso)

	Notes	Common Stock Share	Common Stock Amount	Retained Earnings	Total
Balance December 31, 2008		52,800	5,280,000	33,381,976	38,661,976
Additional paid-up capital		150,000	15,000,000	(15,000,000)	-
Profit/Total comprehensive income for 2009				2,148,617	2,148,617
Cash dividend				(550,000)	(550,000)
Property dividend				(3,673,642)	(3,673,642)
Balance, December 31, 2009		202,800	20,280,000	16,306,951	36,586,951
Profit/Total comprehensive income for 2010				2,667,350	2,667,350
Cash dividend				(5,000,000)	(5,000,000)
Balance, December 31, 2010	11,12	202,800	20,280,000	13,974,301	34,254,301

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)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2010
(In Philippine Peso)

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		67,073,873	79,505,215
Other income received		3,856	246,153
Payments to suppliers		(13,099,222)	(17,169,597)
Payment for operating expenses		(47,125,297)	(52,358,643)
Interest income received		654,345	268,952
Payment for other assets		-	(1,131,858)
Net cash provided by operating activities		7,507,555	9,360,222
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of company car		-	302,300
Purchase of long-term investment		(5,000,000)	-
Purchase of computer equipment and office machine & equipment		(579,169)	(183,626)
Net cash provided by (used in) investing activities		(5,579,169)	118,674
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividend		(5,000,000)	-
Net cash used in financing activities		(5,000,000)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(3,071,614)	9,478,896
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		19,752,304	10,273,408
CASH AND CASH EQUIVALENTS, END OF YEAR	4	16,680,690	19,752,304

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 of Capital Stock of DCI from P5 million to P50 million, was approved by the 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, 2010, DCI had a total manpower of 95 including 25 contractual personnel.

The DCI Board of Directors approved the issuance DCI's financial statements for the year ended December 31, 2010 on February 2, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement 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 Corporation'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 the order of liquidity.

PAS 7 Cash Flow Statements require 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 company.

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.

PAS 10 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 19 Employee Benefit, 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 39 Financial Instruments: Recognition and Measurement, establishes the accounting and reporting standards for the recognition and measurement of the Corporation's financial assets and liabilities.

Functional and presentation currency

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.

Financial assets

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 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 per cent residual value. 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 - 7 years
Other Property & Equipment - 5 years

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

Intangibles

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, 2010, the fund has an outstanding value of P 8.248 million.

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 being transferred to DCI Retirement Fund being administered by DBP Trust Department.

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 end of the reporting period.

3. RISK MANAGEMENT

The Corporation is exposed to various forms of risks. These risks can be grouped into credit, market, liquidity and operational. 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 uncollected receivable as of December 31, 2010:

Client	Amount	Remarks
Insurance Commission	P 780,000	This amount is part of the service level agreement. The Accountant is hesitant to acknowledge their payable although the former auditor of the insurance company recommended them to pay. A demand letter was issued to the insurance company and due for endorsement to the Legal Counsel for proper action.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under the 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 2010:

	Up to 3 mos.	Over 3-6 mos.	Over 6 mos.-1 yr	Over 1-5 yrs	Total
Assets:					
Petty cash fund	10,000				10,000
Due from other banks	16,670,690				16,670,690
Receivables	6,271,589		780,000	17,920,470	24,972,059
Prepaid expenses	211,438			405,119	616,557
Property plant & equipment				2,385,072	2,385,072
Long-term investment				4,594,881	4,594,881
Other assets		1,378,182	505,497		1,883,679
	23,163,717	1,378,182	1,285,497	25,305,542	51,132,938
Liabilities:					
Current liabilities	8,856,891				8,856,891
Non-current liabilities				8,021,746	8,021,746
	8,856,891			8,021,746	16,878,637
Asset-liability gap	14,306,826	1,378,182	1,285,497	17,283,796	34,254,301

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(e) of IRR-A of RA 9184 to include infrastructure projects and consulting services. This section states that negotiated procurement shall be allowed in the procurement of 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 commonly used supplies for the government in accordance with Letters of Instruction No. 755 and Executive Order No. 359, series of 1989. For purposes of this paragraph, the term agency shall exclude GOCC 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 current year (2010), DCI refocused its efforts in the delivery of DBP Staff Supplementation Agreement and other DBP e-products while collecting winded down 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:

	2010	2009
Cash in banks	6,471,604	10,005,689
Petty cash fund	10,000	5,433
Investments/placements	10,199,086	9,741,182
	16,680,690	19,752,304

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 months or less from date of acquisition.

5. RECEIVABLES

This account consists of the following:

	2010	2009 As restated
Trade	6,555,417	19,009,994
Non-trade	19,858,351	20,731,558
	26,413,768	39,741,552
Allowance for probable losses	(1,441,709)	(1,441,709)
	24,972,059	38,299,843

Non-trade receivables include overpayment of VAT per Revenue Regulation No. 4-2007 amounting to P13,133,233.

6. PREPAID EXPENSES

This account consists of the following:

	2010	2009
Insurance	137,501	174,194
Unused supplies	59,418	74,979
Rent	10,489	-
Others	4,030	-
	211,438	249,173

7. PROPERTY AND EQUIPMENT

This account consists of the following:

	Computer Equipment	Office Machine and Equipment	Other Property and Equipment	Furniture and Fixtures	Transportation Equipment	Total
Cost						
January 1, 2010	3,171,071	335,331	1,129,041	3,208,203	743,000	8,586,646
Additions	425,000	14,286	139,883			579,169
Adjustment		-	(171,801)	(108,400)	-	(280,201)
December 31, 2010	3,596,071	349,617	1,097,123	3,099,803	743,000	8,885,614
Accumulated depreciation						
January 1, 2010	2,381,931	286,982		2,670,116	651,180	5,990,209
Depreciation/ Amortization	549,752	35,369		531,063	9,386	1,125,570
Adjustment	(154,126)	(20,553)		(431,172)	(9,386)	(615,237)
December 31, 2010	2,777,557	301,798	-	2,770,007	651,180	6,500,542
Net Book Value December 31, 2010	818,514	47,819	1,097,123	329,796	91,820	2,385,072
Net Book Value December 31, 2009	789,140	48,349	1,129,041	538,087	91,820	2,596,437

8. LONG-TERM INVESTMENT

This pertains to the DCI three-year investment placement (FXTN 07-43) at DBP Treasury amounting to P5 million maturing on March 3, 2013.

9. OTHER ASSETS

The details of this account are as follows:

	2010	2009
Intangibles (computer software)	3,505,449	3,467,317
Rental deposit	1,378,183	1,378,183
Miscellaneous asset – CWI/PLDT	33,650	41,150
Refundable deposit	12,416	-
	4,929,698	4,886,650
Less: Accumulated amortization (intangibles)	3,046,019	2,822,526
	1,883,679	2,064,124

Intangibles are software costs accounted for as follows:

	2010	2009
Balance at beginning of year	644,791	982,043
Additions	132,222	210,367
Amortization	(317,583)	(547,619)
Balance at end of year	459,430	644,791

10. 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 and value added taxes), SSS (contributions and loans), Home Development Mutual Fund (contributions and loans) and others.

The details of this account are as follows:

	2010	2009
Suppliers/creditors	3,109,607	5,877,813
Bureau of Internal Revenue	1,053,991	1,955,368
Employee benefit fund	382,186	382,186
Government remittances	189,226	214,874
Others	591,377	967,984
	5,326,387	9,398,225

11. CAPITAL STOCK

Capital stock represents the value of common shares issued and outstanding. The Authorized Capital Stock amounts to P50 million representing 500,000 shares at P100.00 par value. Capital stock issued and outstanding as of December 31, 2010 amounts to P20.280 million or 202,800 shares.

12. RETAINED EARNINGS

In 2009, an additional capital stock amounting to P15 million was subscribed in favor of Development Bank of the Philippines, increasing the subscribed capital stock from P5.280 million to P20.280 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.

For the year 2010, DCI declared cash dividend in the amount of P 5.000 million during the DCI Board Meeting dated June 8, 2010 per Board Resolution no. 0008.

13. INCOME - OTHERS

This includes excess input VAT of P3,584,029 and P3,195,763 for the years 2010 and 2009, respectively, considered as tax credit. Under BIR Revenue 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 per cent VAT pursuant to Sections 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of five per cent of the gross payment thereof. The five per cent final VAT withholding rate shall represent the net VAT payable of the seller. The remaining seven per cent 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 exceeds seven per cent 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 seven per cent 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), and Philippine Charity Sweepstakes Office (PCSO) to name a few. All collections from these government agencies were subjected to a five per cent final withholding tax leaving the seven per cent remaining VAT as Excess Input VAT after deducting the Company's Input Tax from purchases of goods and services.

14. SALARIES, ALLOWANCES AND BENEFITS

This account consists of the following:

	2010	**2009 As restated**
Salaries and wages	24,750,802	25,937,805
Grocery allowance	2,259,271	2,440,938
Vacation/sick leave	2,178,188	2,047,900

	2010	2009 As restated
13th month pay	2,106,899	2,071,476
Pension expense	1,709,705	2,044,624
Overtime pay	1,655,381	1,832,854
Employer's rice contribution	1,332,000	1,536,818
Employer's SSS, Philhealth and EC contributions	1,153,865	1,327,050
Other personnel benefits	605,539	242,247
Hospitalization benefits and group insurance	469,926	612,252
Gift certificate	426,500	425,500
Uniform allowance	299,970	351,750
Anniversary bonus	216,000	240,000
Local training	141,191	23,720
Employer's Pag-ibig contribution	106,288	103,000
Optical and dental benefits	75,083	84,667
Loyalty cash	72,250	44,500
Transportation/meal allowance	32,715	33,577
Employee benefit	-	2,024,639
	39,591,573	43,425,317

15. EARNINGS/LOSS PER SHARE

The basic earnings/loss per share shall be 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:

	2010	2009
Net earnings	2,667,350	2,148,617
Outstanding common shares	202,800	202,800
Earnings per share	13.15	10.59

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 May 1, 2009, DBP and DCI entered into a Staff Supplementation Agreement which is part of the Professional Service Agreement with an average income of P52 million.

Further, the Corporation has significant transactions in the normal course of business with related parties. DCI maintains current account deposits, short-term placements and long-term investment (FXTN 07-43) at DBP Head Office, Makati City.

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

	2010	2009
Receivables – Professional Service Agreement	5,775,417	8,047,446
Cash in Bank – Current Account	4,260,361	7,875,921
Short-term investment	10,199,086	9,741,182
Long-term investment	4,594,881	-

17. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth in Revenue Regulation No. 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year 2010.

A. DBP Data Center, Inc. is a VAT-registered Corporation with VAT output tax declaration of P7.585 million based on the amount reflected in the Sales account of P63.205 million.

B. The amount of VAT input taxes claimed are broken down as follows:

Particulars	Amount
Current year's purchases:	
Goods other than for resale or manufacture	110,500
Services lodged under other accounts	815,841
	926,341

C. Other taxes & licenses	
Local:	
Mayor's/Business Permit	544,790
Community Tax Certificate	10,500
	555,290
National:	
BIR Annual Registration	500

D. The amount of withholding taxes paid/accrued for the year amounted to:

Tax on compensation and benefits	5,221,456
Creditable withholding tax/es	3,160,243
Final withholding tax/es (VAT)	600,409
	8,982,108

DCI has not received any final assessment notice from the Regional Office of Makati. Further, the Corporation has no RATE case under preliminary investigation of the Department of Justice.

18. HIGHLIGHTS OF OPERATION

DBP Data Center, Inc. has been continuously supporting the DBP's Information Technology infrastructure for the past 28 years. In calendar year 2010, DCI focused on assisting the Bank's initiatives in eBanking and other cashless transactions while providing the workforce for the development and maintenance of the Bank's systems and applications.

Below are some of DCI's notable accomplishments in 2010.

a. Development Bank of the Philippines' New Corporate Website

With the recent re-branding of DBP and the decision to touch base with a wider consumer base, DCI helped DBP launch its new corporate website. Using a rich web content management system, the new website allows users with little knowledge of web programming languages or markup languages, to create and manage the site's content with relative ease.

b. DBP VISA Certification (Debit/Credit Card Acquiring)

In support of DBP's efforts to partner with government corporations and agencies, as well as private businesses in improving accessibility to electronic payment services, DCI assisted DBP by spearheading the completion of its certification as "VISA Credit/Debit Card Acquiring Bank". Overseeing the certification process and coordinating with VISA International, DCI assisted the Bank to secure its VISA license and is now ready to acquire card-based transactions through conventional Point of Sale (POS) Terminals or through the internet using a web-enabled payment gateway.

c. Payment Card Industry Data Security Standards (PCI-DSS) Compliance

As a new player in the payment card industry, DCI likewise assisted DBP to comply with the Payment Card Industry Data Security Standards (PCI-DSS) in order to prevent card-based transaction frauds. Control objectives were identified such as Building and Maintenance of Secure Network, Protection of Cardholder Data, Maintenance of Vulnerability Management Program, Implementation of Strong Access Control Measures, Regular Monitoring and Testing of Networks and Maintenance of Information Security Policy, in coordination with the Bank's certain departments involved in payment card processing. DCI was responsible in assisting the concerned departments making sure that these control objectives were observed in compliance with the PCI Standards.

d. Business Development and Marketing Initiatives

DCI had touched-base with government agencies and some private merchants in preparation to the launching of the eProducts of the Bank.

e. DBP IT Staffing

Among DCI's core competencies is identifying the right people suitable for augmenting the IT staffing needs of the Bank. As of December 31, 2010, DCI has a total of 87 strong workforce working closely with the Bank's IT needs.

PART II

A. OBSERVATIONS AND RECOMMENDATIONS

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

A. OBSERVATIONS AND RECOMMENDATIONS

1. Non-compliance with the internal control policies and measures resulted in the erroneous posting of balances in the subsidiary ledgers and misclassification of accounts.

1.1 The National Guidelines on Internal Control System (NGICS) issued by the Department of Budget and Management (DBM) discuss, among others, the control policies and measures as elements of the control environment of an organization. It especially states that verification process is a basic control measure. Verification refers to the review of transactions to check the propriety and reliability of documentation, costing or mathematical computation. The verification procedure should be built-in in every transaction. This is an internal checking procedure to avoid errors or fraud.

1.2 Section 111 of P.D. 1445 on Keeping of accounts states that-

> "1. The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.
>
> 2. The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information."

1.3 Also, Section 188 of GAAM Volume II states that-

> "Subsidiary ledgers shall be kept for each control account in the general ledger. At the end of each month, SL balances shall be reconciled with the corresponding control account. On the other hand, controlling or summary accounts in the general ledger shall be supported by details in the subsidiary ledger."

1.4 Review of DCI's transactions for CY 2010 disclosed that the internal control policies on the review of transactions and independent checking of performance were not observed which resulted in errors like misclassification of transactions and erroneous posting of balances in the subsidiary ledgers.

1.5 Examples of misclassification and erroneous postings made are as follows:

a. The balances posted in the subsidiary ledgers of AP-Others as at January 1, 2010 were different from the subsidiary ledger balances as at December 31, 2009, to wit:

Name of Company	Ending Balance December 31, 2009	Forwarded Balance January 1, 2010	Difference
Asalus	P 3,056	P 25,977	P 22,921
BIR	285,545	763,282	477,737
DBPSC	26,066	-	26,066
Follosco	22,325	17,325	5,000
Fujitsu	143,256	165,811	22,555

Name of Company	Ending Balance December 31, 2009	Forwarded Balance January 1, 2010	Difference
HSBC	141,884	46,613	95,271
The Insular Life	7,565	-	7,565
Phildata	-	416,990	416,990
PLDT	429,505	108,605	320,900
SSS	600	-	600

While the balances of the general and subsidiary ledgers are reconciled as at December 31, 2010, the difference noted between the ending and beginning balances of subsidiary ledgers of each account as shown above is a clear indication that no independent check or review of transactions was made. Such practice indicates a lapse in the internal control, which could lead to serious lapses in the future that may adversely affect the fairness of presentation of the financial statements.

b. Expenses representing meals served during Management Committee meeting in the amount of P24,764 was classified as Marketing Expense instead of Miscellaneous Expense – Others.

1.6 We also noted delayed posting of transactions in the subsidiary ledgers that caused errors in postings. These were not immediately resolved due to the absence of review and verification procedures by authorized officials concerned.

1.7 We recommended that Management:

a. Comply strictly with the control policies and measures that would strengthen the Corporation's internal control system.

b. Record the transactions promptly to the subsidiary ledgers for subsequent posting in the general ledger.

1.8 Management commented that the internal control policies and measures will be stricly complied with. Also, the beginning balances of subsidiary ledgers will be reviewed and adjusted accordingly.

2. Erroneous computation of the monetary equivalent of vacation leave credits of two DCI employees resulted in the net overstatement of Vacation leave payable by P16,908 and overstatement of Salaries, allowances and benefits by the same amount.

2.1 Paragraph 31 of the Framework on Reliability provides that:

"To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent."

2.2 Review of the Salaries, allowances and benefits and other related accounts disclosed that the basic monthly salary used as basis in the computation of the monetary equivalent of vacation leave credits of two DCI employees was different from their actual monthly salaries resulting in the overstatement of P57,591 and understatement of P40,683 or a net overstatement of P16,908.

2.3 Hence, the Salaries, allowances and benefits and Vacation leave payable accounts were both overstated by P16,908.

2.4 We recommended and Management agreed to recompute the monetary value of vacation leave credits of subject employees and to effect the necessary adjustment in the books to correct the balance of Vacation leave payable and its related expense account.

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

The audit recommendation embodied in the 2009 Annual Audit Report was fully implemented.