*Republic of the Philippines*
COMMISSION ON AUDIT
*Commonwealth Avenue, Quezon City*

# ANNUAL AUDIT REPORT

## on the

# DBP DATA CENTER, INC.

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

For the Years ended December 31, 2019 and 2018

## 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.

DCI provides services to DBP and its subsidiaries under the direction set by the Board in 2007. In 2013, when the Government Procurement Policy Board (GPPB) officially advised DCI that it can enter into an Agency-to Agency contracts with government corporations and agencies following GPPB Resolution No. 12-2013 dated May 10, 2013, the Board noted in October 2013 the Corporation's initiatives to expand the coverage of its business outside the DBP Group.

The DCI's registered office is located at Senator Gil J. Puyat Avenue corner Makati Avenue, Makati City. DCI Chairman of the Board is Mr. Luis C. Bonguyan and the President is Atty. Emmanuel P. Galicia.

As of December 31, 2019, DCI had a total manpower of 70 including 31 contractual personnel.

### AUDIT METHODOLOGY AND SCOPE OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts for the period January 1 to December 31, 2019 to enable us to express an opinion on the financial statements for the years ended December 31, 2019 and 2018 in accordance with the International Standard of Supreme Audit Institutions. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

### FINANCIAL HIGHLIGHTS
(In Philippine Peso)

I. Financial Position (with corresponding figures from 2018)

| | 2019 | 2018 As restated | Increase |
|---|---|---|---|
| Assets | 174,978,399 | 113,334,273 | 61,644,126 |
| Liabilities | 135,465,250 | 78,539,824 | 56,925,426 |
| Equity | 39,513,149 | 34,794,449 | 4,718,700 |

II. Results of Operations (with corresponding figures from 2018)

| | 2019 | 2018 As restated | Increase |
|---|---|---|---|
| Income | 247,195,716 | 119,665,602 | 127,530,114 |
| Expenses | 241,061,786 | 121,235,801 | 119,825,985 |
| Net Income/(Loss) | 6,133,930 | (1,570,199) | 7,704,129 |

III. Budget and Actual Expenditures (with corresponding figures from 2018)

| | Budget | | Utilization | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Personnel Services | 41,628,075 | 28,401,826 | 39,613,459 | 42,601,318 |
| Maintenance and Other Operating Expenses | 231,272,701 | 101,560,223 | 198,171,778 | 77,464,514 |
| **Total** | **272,900,776** | **129,962,049** | **237,785,237** | **120,065,832** |

## AUDITOR'S OPINION

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements as at December 31, 2019 and 2018 because DCI did not adopt a methodology to calculate its expected credit losses on its trade receivables as required in Philippine Financial Reporting Standard (PFRS) 9 and the actuarial assumptions were not used in the valuation of the Pension Benefit Plan, contrary to Philippine Accounting Standard (PAS) 19 on accounting for employee benefits.

For the audit observations, which caused the rendition of a modified opinion, we recommended and management agreed to:

1. a) Adopt an appropriate and expedient methodology in determining expected credit losses on accounts receivable - trade using a provision matrix in accordance with PFRS 9; and b) Adjust balances of affected accounts.

2. To obtain the service of an actuary to account for the employee benefits in accordance with the provisions of PAS 19, using projected unit credit method.

## SUMMARY OF AUDIT DISALLOWANCES

As at December 31, 2019, the audit disallowances amounted to P12.385 million. There were no audit suspensions and charges at year-end.

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 22 audit recommendations embodied in the CY 2018 AAR, 19 were fully implemented, one was partially implemented, and two were not implemented. The partially implemented and unimplemented recommendations were reiterated in the Part II of this report.

SEP 07 2020

## TABLE OF CONTENTS

# PART I

# AUDITED FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster I – Banking and Credit

# INDEPENDENT AUDITOR'S REPORT

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

## Report on the Audit of Financial Statements

### *Qualified Opinion*

We have audited the financial statements of the DBP Data Center, Inc. (DCI), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the DCI as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### *Bases for Qualified Opinion*

The DCI has not adopted a methodology to calculate expected credit losses on its trade receivables, either by using a simplified approach or through an expedient measure as required in PFRS 9. As at December 31, 2019 and 2018, the DCI reported Trade Receivables amounting to P148.085 million and P86.388 million, respectively, with a corresponding Allowance for Impairment amounting to P0.745 million. The amount of the allowance was recorded in prior years based on actual impairment on the trade receivables and not as a result of evaluation of the expected credit losses of the specific accounts. Hence, the balances of Trade Receivables were not ascertained as at reporting dates.

Also, the DCI established a Retirement Gratuity Plan for which Pension Benefit Payable as at December 31, 2019 and 2018 amounting to P16.286 million and P15.172 million, respectively, were recognized. The Pension Benefit Payable was measured at an amount equivalent to the value of the trust fund with the DBP Trust Banking Group and 1/12 of the monthly salary of regular employees, and not in accordance with Philippine Accounting Standard (PAS) 19, Employee Benefits. PAS 19 requires the use of an actuarial technique to determine the present value of the obligations. Without an actuarial study, the effects on the financial statements are not reasonably determinable as of reporting dates.

As such, we were unable to obtain sufficient evidence to determine the Trade Receivables and Pension Benefit Payable that should have been recognized as at December 31, 2019 and 2018, nor were we able to satisfy ourselves by other audit procedures.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the DCI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the DCI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the DCI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the DCI's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**Report on Other Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**COMMISSION ON AUDIT**

**MARILYN C. BRIONES**
Supervising Auditor

June 30, 2020

**DBP DATA CENTER, INC.**
(A wholly-owned subsidiary of the Development Bank of the Philippines)
**STATEMENTS OF FINANCIAL POSITION**
**December 31, 2019 and 2018**
(In Philippine Peso)

| | Note | 2019 | 2018 As restated |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 2,516,981 | 10,118,852 |
| Receivables – net | 6 | 161,480,663 | 89,099,881 |
| Prepayments | 7 | 2,308,299 | 2,368,342 |
| Inventory | 8 | 109,425 | 133,262 |
| Other assets | 9 | 1,012,688 | 945,147 |
| | | **167,428,056** | **102,665,484** |
| **Non-current assets** | | | |
| Property and equipment – net | 10 | 2,969,576 | 3,736,941 |
| Investments | 11 | 4,284,933 | 5,895,136 |
| Intangible assets – net | 12 | 72,250 | 613,008 |
| Deferred tax asset | 13 | 223,584 | 423,704 |
| | | **7,550,343** | **10,668,789** |
| **TOTAL ASSETS** | | **174,978,399** | **113,334,273** |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Inter-agency payables | 14 | 11,220,024 | 4,904,936 |
| Accounts payable | 15 | 99,563,155 | 49,442,661 |
| Due to officers and employees | 16 | 287,000 | 682,000 |
| Dividend payable | 17 | 1,500,000 | 1,500,000 |
| Trust liability | 18 | 59,945 | 0 |
| Other financial liabilities | 19 | 2,961,659 | 2,448,659 |
| Leave benefits payable | 20 | 3,587,576 | 4,389,364 |
| | | **119,179,359** | **63,367,620** |
| **Non-current liabilities** | | | |
| Pension benefit payable | 21 | 16,285,891 | 15,172,204 |
| | | **16,285,891** | **15,172,204** |
| | | **135,465,250** | **78,539,824** |
| **Equity** | | | |
| Share capital | | | |
| Authorized - 500,000 shares, P100 par value | | | |
| Issued and outstanding | 22 | 23,280,000 | 23,280,000 |
| (2018: 232,800 shares; 2017: 232,800 shares) | | | |
| Retained earnings | | 16,233,149 | 11,514,449 |
| | | **39,513,149** | **34,794,449** |
| **TOTAL LIABILITIES & EQUITY** | | **174,978,399** | **113,334,273** |

*The Notes on pages 9 to 35 form part of this financial statement.*

SEP 07 2020

**DBP DATA CENTER, INC.**
(A wholly-owned subsidiary of the Development Bank of the Philippines)
**STATEMENTS OF COMPREHENSIVE INCOME**
**For the years ended December 31, 2019 and 2018**
(In Philippine Peso)

| | Note | 2019 | 2018 As restated |
|---|---|---|---|
| **INCOME** | | | |
| Service and business income | 23 | 246,473,646 | 117,781,888 |
| Other business income | 24 | 714,772 | 1,874,120 |
| | | **247,188,418** | **119,656,008** |
| **EXPENSES** | | | |
| Personnel services | 25 | (39,613,459) | (42,338,064) |
| Maintenance and other operating expenses | 26 | (198,171,778) | (78,001,513) |
| Non-cash expenses | 27 | (1,327,903) | (896,224) |
| | | **(239,113,140)** | **(121,235,801)** |
| **INCOME BEFORE INTEREST AND TAXES** | | **8,075,278** | **(1,579,793)** |
| Interest income | | 7,298 | 9,594 |
| **INCOME BEFORE TAXES** | | **8,082,576** | **(1,570,199)** |
| Income tax expense | 28 | (1,948,646) | 0 |
| **NET INCOME FOR THE PERIOD** | | **6,133,930** | **(1,570,199)** |
| Other comprehensive income | | 0 | 0 |
| **TOTAL COMPREHENSIVE INCOME** | | **6,133,930** | **(1,570,199)** |

*The Notes on pages 9 to 35 form part of this financial statement.*

**DBP DATA CENTER, INC.**
(A wholly-owned subsidiary of the Development Bank of the Philippines)
**STATEMENTS OF CHANGES IN EQUITY**
**For the years ended December 31, 2019 and 2018**
(In Philippine Peso)

| | | Common Stock (Note 22) | | | |
|---|---|---|---|---|---|
| | Note | Share | Amount | Retained Earnings | Total |
| **Balance, January 1, 2018** | | **232,800** | **23,280,000** | **10,213,307** | **33,493,307** |
| Prior Year's Adjustment | 34 | | | 3,476,322 | 3,476,322 |
| **Restated Balance, January 1, 2018, As restated** | | **232,800** | **23,280,000** | **13,689,629** | **36,969,629** |
| Net loss for 2018, restated | | 0 | 0 | (1,570,199) | (1,570,199) |
| Declaration of Cash Dividend | | 0 | 0 | (604,981) | (604,981) |
| **Balance, December 31, 2018, As restated** | | **232,800** | **23,280,000** | **11,514,449** | **34,794,449** |
| Net Income for 2019 | | 0 | 0 | 6,133,930 | 6,133,930 |
| Declaration of Cash Dividend | | 0 | 0 | (1,415,230) | (1,415,230) |
| **Balance, December 31, 2019** | | **232,800** | **23,280,000** | **16,233,149** | **39,513,149** |

*The Notes on pages 9 to 35 form part of this financial statement.*

SEP 07 2020

**DBP DATA CENTER, INC.**
(A wholly-owned subsidiary of the Development Bank of the Philippines)
**STATEMENTS OF CASH FLOWS**
**For the years ended December 31, 2019 and 2018**
(In Philippine Peso)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | 196,953,879 | 463,205,372 |
| Other income received | | 0 | 424 |
| Cash payments to suppliers | | (151,087,504) | (393,758,767) |
| Cash paid for operating expenses | | (52,060,314) | (89,494,848) |
| Interest income received | | 7,298 | 9,594 |
| **Net cash used in operating activities** | | **(6,186,641)** | **(20,038,225)** |
| **CASH FLOWS FROM FINANCING ACTIVITY** | | | |
| Payment of cash dividend | | (1,415,230) | (604,981) |
| **Net cash used in financing activity** | | **(1,415,230)** | **(604,981)** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(7,601,871)** | **(20,643,206)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | | **10,118,852** | **30,762,058** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 5 | **2,516,981** | **10,118,852** |

*The Notes on pages 9 to 35 form part of this financial statement.*

**DBP DATA CENTER, INC.**
(A wholly-owned subsidiary of the 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 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.

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

As of December 31, 2019, DCI had a total manpower of 70 including 31 contractual personnel.

The DCI Board approved the issuance of DCI's financial statements for the year ended December 31, 2019 on February 5, 2020.

## 2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

### 2.1 Basis of financial statement preparation

The accounting policies adopted in the presentation of the Financial Statements are set out below. These polices are consistently applied unless otherwise stated.

### 2.2 Statement of compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRSs/PASs).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of measurement

The financial statements have been prepared under the historical cost basis unless otherwise stated and are presented in Philippine peso, the Corporation's functional currency. All values are rounded to the nearest peso except otherwise indicated.

**Presentation of Financial Statements**

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.*

The Corporation presents its statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liability within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 4 to the financial statements.

**Use of judgments and estimates**

The preparation of financial statements in compliance with PFRSs requires the use of accounting estimates. It also requires the management to exercise judgment in the most appropriate application of the accounting policies.

**Changes in accounting policies and disclosures**

a. New standards and amendments issued and effective for annual periods beginning on or after January 1, 2019.

- Amendment to PFRS 9, Prepayment Features with Negative Compensation. The amendment clarifies that prepayment features with negative compensation attached to a financial instrument may still qualify under the sole payments of principal and interest (SPPI) test. As such, financial assets containing prepayment features with negative compensation may still be classified at amortised cost or at Fair Value Through Other Comprehensive Income (FVTOCI).

  This amendment is not applicable to the Corporation.

- PFRS 16, Leases. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, leases will apply the single-asset model in which the lessees will recognize the asset and the related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize the interest on the lease liabilities in their profit or loss. Leases with a term of twelve (12) months or less of which underlying asset is of low value are exempted from these requirements.

  The application of this amendment had no material impact on the Corporation's financial statements.

- Amendments to PAS 19, Plan Amendment, Curtailment or Settlement The following are the amendments in Plan Amendment, Curtailment or Settlement:

  - If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

This amendment is not applicable to the Corporation.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures.* The amendment clarifies that the scope exclusion in PFRS 9 applies to ownership interest accounted for using the equity method. Thus, the amendment feature clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

  The application of this amendment had no material impact on the Corporation's financial statements.

*Annual Improvements to PFRS Standards 2015–2017 Cycle*

- PFRS 3 and PFRS 11, *Previously held interest in a joint operation.* The amendments to PFRS 3 clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  The application of this amendment had no material impact on the Corporation's financial statements.

- Amendments to PAS 12, *Tax Consequences of Dividends*. The amendments clarify that the requirements to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized apply to all income tax consequences of dividends that only deals with situations where there are different tax rates for distributed and undistributed profits.

  The application of this amendment had no material impact on the Corporation's financial statements.

- Amendments to PAS 23, *Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

  The application of this amendment had no material impact on the Corporation's financial statements.

- IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12. It specifically considers:

    - Whether tax treatments should be considered collectively
    - Assumptions for taxation authorities' examinations
    - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
    - The effect of changes in facts and circumstances

  The application of this amendment had no material impact on the Corporation's financial statements.

b. New standards effective after the reporting period ended December 31, 2019.

The standards and interpretations that have been issued but are not yet effective as of December 31, 2019 are listed below:

- Amendments to References to the Conceptual Framework in PFRSs. Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in PFRSs (effective January 1, 2020). The document contains amendments to PFRS 2, PFRS 3, PFRS 6, PFRS 14, PAS 1, PAS 8, PAS 34, PAS 37, PAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

  The application of this amendment had no impact on the Corporation's financial statements.

- Amendments to PFRS 3. *Definition of a Business (Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020)*. The amendment clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment also narrowed the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs, added guidance and illustrative examples to help entities assess whether a substantive process has been acquired and removed the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  Management is currently assessing the impact of this new standard in its financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform* (effective January 1, 2020). The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

  This standard is not applicable to the Corporation.

- Amendments to PAS 1 and PAS 8 *Definition of Material* (effective January 1, 2020). The amendment clarifies the definition of 'material' and aligns the definition used in the Conceptual Framework and the standards.

  Management is currently assessing the impact of this new standard in its financial statements.

- PFRS 17, Insurance Contracts, (effective January 1, 2023). PFRS 17 will be applicable to insurance contracts, including reinsurance contracts issued by the companies; reinsurance contracts held; and investment contracts with discretionary participation features, provided the entity also issues insurance contracts.

  This standard is not applicable to the Corporation.

## 3.1 Financial instruments

***Initial recognition***

A financial asset or financial liability is recognized in the statements of financial position when the Corporation becomes a party to the contractual provisions of the instrument.

Financial instruments are classified as financial assets and financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

***Classification of financial instruments***

***Financial Assets***

1. Financial assets at fair value through profit or loss (FVTPL)

Financial assets measured at FVTPL shall consist of the following:

- Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9;

- Financial assets designated at FVTPL as defined in PFRS 9.

The Corporation has no asset under this category.

2. Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

A financial asset measured at FVTOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Corporation has no asset under this category.

3. Financial assets measured at amortised cost

A financial asset that is a debt instrument, other than those that are designated at FVTPL, which meet both of the following conditions:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Corporation's cash and cash equivalents and receivables, as disclosed in Notes 5 and 6 are under this category.

***Financial Liabilities***

Financial liabilities shall be classified and subsequently measured at amortised cost using the effective interest method, except for:

1. Financial liabilities measured at FVTPL. This shall consist of the following:

   a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and

   b. Financial liabilities designated at FVTPL.

The Corporation has no liability under this category.

2. Financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9, as follows:

   a. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

   b. Financial guarantee contracts, as defined under PFRS 9;

   c. Commitments to provide a loan at a below-market interest rate; and

d. Contingent consideration recognized by an acquirer in a business combination.

The Corporation has no liabilities under this category.

**Derecognition of financial assets and liabilities**

*Financial assets*

A financial asset or, where applicable, a part of financial or part of a group of similar financial assets, is derecognized when (1) rights to receive cash flows from the asset have expired: (2) the Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to third party under a "pass-through" arrangement; (3) the Corporation has transferred its rights to receive cash flows from the asset and either has transferred substantially all risks and rewards of ownership of the asset or (4) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but transferred control of the asset.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability is modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of comprehensive income.

**Impairment of financial assets**

*Impairment of assets carried at amortised cost*

Loans receivable – others are measured at amortised cost

Loans and other credit exposures with unpaid principal and/or interest are classified and provided with allowance for credit losses (ACL) based on the number of days of defaulted payments.

The Corporation's Accounts Receivable – Trade is under this category.

**3.2 Property, Plant and Equipment**

Property, plant and equipment are initially recognized at cost. At the end of each financial reporting period, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

The cost of an asset comprised purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

Major repairs and maintenance are capitalized. Items below the threshold of P15,000.00 and semi-expendable items are recorded in conformity with COA Circular No. 2016-006 dated December 29, 2016.

Depreciation is computed using the straight line method over the estimated useful life of the depreciable assets. Amount subject for depreciation is net of 10 per cent residual value. The estimated life of the Corporation's property and equipment are as follows:

| | |
|---|---|
| IT equipment | 5 years |
| Office equipment | 5 years |
| Furniture and fixture | 5 years |
| Transportation equipment | 7 years |
| Buildings | 30 years |

An item of the property, plant and equipment, including the related accumulated depreciation and accumulated impairment loss, if any, is derecognized upon disposal or when no future economic benefit are expected to arise from continuing use of an asset. Any gain or loss arising from derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognized.

Fully depreciated assets are retained in the books until they are no longer in use and no further charge for depreciation is made.

### 3.3 Prepayment

Prepayments represent expenses not yet incurred but already paid. Prepayment are initially recorded as assets and measured at cost. Subsequently, these are charged as expense on the statement of comprehensive income as they consumed in operations or as expire in the passage of time.

### 3.4 Other Assets

Other assets pertain to deposits and other miscellaneous assets. Deposits represent amount deposited/paid in advance for rentals of office equipment, office space and parking space. Deposits are initially recorded at cost and reversed upon receipt of refund from suppliers.

### 3.5 Intangible Assets

Intangible assets are stated at cost and amortised on a straight-line method over the estimated useful life of the assets. The Corporations intangible asset are assessed for impairment when there are indication that the intangible assets may be impaired.

The Corporations intangible assets comprised computer software licenses and maintenance. The estimated lives of the Corporation's intangible assets are as follows:

| | |
|---|---|
| Computer software | 1-3 years |

### 3.6 Financial liabilities

Financial liabilities which comprised loans payable, accounts payable, accrued expenses payables, lease deposits and other liabilities other than tax-related and other inter-agency payables are recognized when the Corporation becomes a party to the contractual terms of the instrument. All interest-related charges are presented as part of Financial Expenses in the statement of comprehensive income.

Loans payable represents amount drawn from the Corporation's loan facilities. They are recognized at proceeds received, net of direct issue cost.

Accounts payable and other liabilities are initially recognized at transaction price and subsequently measured at amortised cost less settlement payments.

Dividends to the National Government are recognized upon declaration by the Group.

### 3.7 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle liability, simultaneously.

### 3.8 Equity

Share Capital represents the nominal value of shares that have been issued.

Retained earnings represent cumulative results of all current and prior period operations as reported in the statement of comprehensive income excluding other comprehensive income, reduced by amount of dividends declared.

### 3.9 Revenue and cost and expenses recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. The Corporation assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognized when the Corporation satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

*Interest Income*. Interest income is recognized on a time proportion basis that reflects the effective yield on the asset.

*Other Income*. Other income is recognized in the period in which these are earned.

Operating cost and expenses are recognized in the statement of comprehensive income upon the utilization of assets or services or at the date they are incurred. All financial expenses are reported in profit or loss on an accrual basis, except capitalized borrowing cost which are included as part of the cost of related qualifying asset.

### 3.10 Leases

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating lease is recognized in the statement of comprehensive income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating lease are added to the carrying amount of the leased asset and recognized over the lease term. Contingent rents are recognized as revenue in the year they are earned.

The Corporation is a lessee under the operating lease.

### 3.11 Borrowing Cost

Borrowing cost that are directly attributable to the acquisition, construction or production of a "qualifying asset" or an asset that necessary takes a substantial period to get ready for its intended use or sale, are included as part of the cost of the asset. Other borrowing costs which consist of interest and other cost that the Corporation incurs in connection with borrowing of funds are recognized as expense in the year in which these cost are incurred using the effective interest method.

### 3.12 Income Taxes

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable income for the year. Taxable income differs from net income reported in the statement of comprehensive income because it excludes item of income and expense that are taxable or deductible in other years and it further exclude items that are never taxable or deductible. All changes to current tax assets or liabilities are recognized as component of provision for income tax in statement of comprehensive income.

### 3.13 Employee benefits

a. Retirement benefits

The Corporation provides retirement benefits to employees based on the provisions of The Labor Code of the Philippines. Accrued amount of retirement pay are presented under Payables account in the statement of financial position.

b. Compensated Absences

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. They are included in the Payables account in the statement of financial position at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

## 3.14 Related party transactions

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

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions.

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

## 4. 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 Corporation 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.

Presently, DCI's primary counterparty is DBP. With the Bank's IT including DCI in their annual budget allocation, DCI only considers cash flow concerns and not the risk of non-payment. However, the Corporation has started offering services and expertise to other government agencies and instrumentalities outside DBP. Additional due diligence is being exerted by the Management to avoid recurrence of previous experiences in government collections.

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.

As the Corporation's primary source of income comes from DBP, DCI considers liquidity risk as part of its risk universe. The organization recognizes the risk in matching its receivables from DBP to its payables, specifically in servicing the salaries of its employees.

With the staff supplementation contract stating a certain period required for DBP IT to pay DCI, DCI closely monitors the payment period stated in the contract.

Below is the asset-liability gap analysis for the year 2019 and 2018:

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 3 mos. | Over 3-6 mos. | Over 6 mos-1 yr | Over 1-5 yrs | Over 5 yrs | Total |
| Assets: | | | | | | |
| Petty cash fund | 10,000 | 0 | 0 | 0 | 0 | 10,000 |
| Cash in bank-local currency | 2,506,981 | 0 | 0 | 0 | 0 | 2,506,981 |
| Receivables | 161,480,663 | 0 | 0 | 0 | 0 | 161,480,663 |
| Prepayments | 2,308,299 | 0 | 0 | 0 | 0 | 2,308,299 |
| Property plant & equipment | 0 | 0 | 0 | 2,969,576 | 0 | 2,969,576 |
| Investments | 0 | 0 | 0 | 4,284,933 | 0 | 4,284,933 |
| Intangible assets | 0 | 0 | 0 | 72,250 | 0 | 72,250 |
| Other assets | 1,012,688 | 0 | 0 | 0 | 0 | 1,012,688 |
| Deferred asset | 0 | 0 | 0 | 223,584 | 0 | 223,584 |
| Inventory | 109,425 | 0 | 0 | 0 | 0 | 109,425 |
| | **167,428,056** | **0** | **0** | **7,550,343** | **0** | **174,978,399** |
| Liabilities: | | | | | | |
| Inter-agency payables | 11,220,024 | 0 | 0 | 0 | 0 | 11,220,024 |
| Accounts payable | 99,563,155 | 0 | 0 | 0 | 0 | 99,563,155 |
| Due to officers and employees | 287,000 | 0 | 0 | 0 | 0 | 287,000 |
| Dividend payable | 1,500,000 | 0 | 0 | 0 | 0 | 1,500,000 |
| Trust liability | 59,945 | 0 | 0 | 0 | 0 | 59,945 |
| Other financial liabilities | 0 | 0 | 2,961,659 | 0 | 0 | 2,961,659 |
| Leave benefits payable | 0 | 0 | 3,587,576 | 0 | 0 | 3,587,576 |
| Pension benefit payable | 0 | 0 | 0 | 16,285,891 | 0 | 16,285,891 |
| | **112,630,124** | **0** | **6,549,235** | **16,285,891** | **0** | **135,465,250** |
| **Asset-liability gap** | **54,797,932** | **0** | **(6,549,235)** | **(8,735,548)** | **0** | **39,513,149** |

| | 2018 As restated | | | | | |
|---|---|---|---|---|---|---|
| | Up to 3 mos. | Over 3-6 mos. | Over 6 mos-1 yr | Over 1-5 yrs | Over 5 yrs | Total |
| Assets: | | | | | | |
| Petty cash fund | 10,000 | 0 | 0 | 0 | 0 | 10,000 |
| Cash in bank-local currency | 10,108,852 | 0 | 0 | 0 | 0 | 10,108,852 |
| Receivables | 89,099,881 | 0 | 0 | 0 | 0 | 89,099,881 |
| Prepayments | 2,368,342 | 0 | 0 | 0 | 0 | 2,368,342 |
| Property plant & equipment | 0 | 0 | 0 | 3,736,941 | 0 | 3,736,941 |
| Investments | 0 | 0 | 0 | 5,895,136 | 0 | 5,895,136 |
| Intangible assets | 0 | 0 | 0 | 613,008 | 0 | 613,008 |
| Other assets | 945,147 | 0 | 0 | 0 | 0 | 945,147 |
| Deferred asset | 0 | 0 | 0 | 423,704 | 0 | 423,704 |
| Inventory | 133,262 | 0 | 0 | 0 | 0 | 133,262 |
| | **102,665,484** | **0** | **0** | **10,668,789** | **0** | **113,334,273** |
| Liabilities: | | | | | | |
| Inter-agency payables | 4,904,936 | 0 | 0 | 0 | 0 | 4,904,936 |
| Accounts payable | 49,442,661 | 0 | 0 | 0 | 0 | 49,442,661 |
| Due to officers and employees | 682,000 | 0 | 0 | 0 | 0 | 682,000 |
| Dividend payable | 1,500,000 | 0 | 0 | 0 | 0 | 1,500,000 |
| Trust liability | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 0 | 0 | 2,448,659 | 0 | 0 | 2,448,659 |
| Leave benefits payable | 0 | 0 | 4,389,364 | 0 | 0 | 4,389,364 |
| Pension benefit payable | 0 | 0 | 0 | 15,172,204 | 0 | 15,172,204 |
| | **56,529,597** | **0** | **6,838,023** | **15,172,204** | **0** | **78,539,824** |
| **Asset-liability gap** | **46,135,887** | **0** | **(6,838,023)** | **(4,703,535)** | **0** | **34,794,449** |

Market risk

Previously, 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 Republic Act (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 goods for the government in accordance with the 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. 168, 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. With the issuance of GPPB Resolution No. 12-2013, which reversed GPPB Resolution No. 03-2007, DCI's position in the Information Technology market industry dealing with government agencies and instrumentalities, is once again brought into an active status.

During 2019, DCI continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications.

Due to the DBP's intention to engage the services of some DCI employees as DBP organic personnel, the Staff Supplementation/Professional Service Agreement decreased from twenty-nine (29) as of 31 December 2018 to eighteen (18) as of 31 December 2019.

Further, DCI also intensified the effort to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities.

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, however, with the existence of 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.

As the organization's operations involve providing IT workforce to DBP, DCI considers operational risk as the major risk that it has, particularly the ones related to employee management.

## 5. CASH AND CASH EQUIVALENTS

Included in this account are the following:

| | 2019 | 2018 |
|---|---|---|
| Cash in bank – local currency (SA/CA) | 2,506,981 | 10,108,852 |
| Petty cash fund | 10,000 | 10,000 |
| | **2,516,981** | **10,118,852** |

Considered cash equivalents are investment/placements at DBP Trust Services on short-term or temporary investments and placements of excess cash purchased with maturity of three (3) months or less from date of acquisition. Currently, the Corporation has no short-term investments/placements.

## 6. RECEIVABLES - NET

This account consists of the following:

| | 2019 | 2018 As Restated |
|---|---|---|
| Trade | 148,085,127 | 86,387,838 |
| Non-trade | 14,140,817 | 3,457,324 |
| | 162,225,944 | 89,845,162 |
| Allowance for bad debts | (745,281) | (745,281) |
| | **161,480,663** | **89,099,881** |

Details of Trade receivables are as follows:

| | 2019 | 2018 As Restated |
|---|---|---|
| DBP | 72,756,108 | 34,108,280 |
| Non-DBP | 75,329,019 | 52,279,558 |
| | **148,085,127** | **86,387,838** |

## 7. PREPAYMENTS

This account consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Prepaid insurance | 1,347,466 | 1,299,994 |
| Prepaid rent | 504,778 | 504,778 |
| Taxes & Licenses | 1,353 | 1,353 |
| Other prepayments | 454,702 | 562,217 |
| | **2,308,299** | **2,368,342** |

Prepaid insurance is the amount paid for the life insurance coverage and health maintenance insurance coverage of all regular officers and employees.

Prepaid rent is the amount advanced/deposited for leases/rentals of property used in the government operation.

Other prepayments pertain to unamortised portion of payment for uniform allowance of employees.

## 8. INVENTORY

This account pertains to the inventory of Computer and Office Supplies of the Corporation.

## 9. OTHER ASSETS

The details of this account are as follows:

| | 2019 | 2018 |
|---|---|---|
| Rental deposit | 902,998 | 902,998 |
| Miscellaneous asset | 104,761 | 37,220 |
| Refundable deposit | 4,929 | 4,929 |
| | **1,012,688** | **945,147** |

Miscellaneous asset includes residual values of properties for use of the Corporation in the future.

## 10. PROPERTY AND EQUIPMENT - NET

This account consists of the following:

| 2019 | Computer Equipment | Office Machine and Equipment | Computer Equipment – in transit | Leasehold Improvement | Furniture and Fixtures | Transportation Equipment | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Beginning Balance | 5,146,808 | 675,672 | 0 | 675,410 | 3,985,475 | 1,807,946 | 12,291,311 |
| Disposal | 0 | 0 | 0 | (675,410) | 0 | 0 | (675,410) |
| **Ending Balance** | **5,146,808** | **675,672** | **0** | **0** | **3,985,475** | **1,807,946** | **11,615,901** |
| **Accumulated depreciation** | | | | | | | |
| Beginning Balance | 3,885,820 | 434,450 | 0 | 433,356 | 2,848,814 | 951,930 | 8,554,370 |
| Depreciation/Amort. | 255,159 | 62,831 | 0 | 118,197 | 117,330 | 146,307 | 699,824 |
| Adjustment | 0 | 0 | 0 | (551,553) | 0 | (56,316) | (607,869) |
| **Ending Balance** | **4,140,979** | **497,281** | **0** | **0** | **2,966,144** | **1,041,921** | **8,646,325** |
| **Net Book Value** | **1,005,829** | **178,391** | **0** | **0** | **1,019,331** | **766,025** | **2,969,576** |

| 2018 | Computer Equipment | Office Machine and Equipment | Computer Equipment – in transit | Leasehold Improvement | Furniture and Fixtures | Transportation Equipment | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Beginning Balance | 5,146,808 | 675,672 | 2,912,566 | 675,410 | 3,985,475 | 1,807,946 | 15,203,877 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Ending Balance** | **5,146,808** | **675,672** | **2,912,566** | **675,410** | **3,985,475** | **1,807,946** | **15,203,877** |
| **Accumulated depreciation** | | | | | | | |
| Beginning Balance | 3,626,053 | 366,763 | 0 | 287,049 | 2,731,484 | 749,307 | 7,760,656 |
| Depreciation/Amort. | 259,767 | 67,687 | 0 | 146,307 | 117,330 | 202,623 | 793,714 |
| Adjustment | 0 | 0 | 2,912,566 | 0 | 0 | 0 | 2,912,566 |
| **Ending Balance** | **3,885,820** | **434,450** | **2,912,566** | **433,356** | **2,848,814** | **951,930** | **11,466,936** |
| **Net Book Value** | **1,260,988** | **241,222** | **0** | **242,054** | **1,136,661** | **856,016** | **3,736,941** |

## 11. INVESTMENTS

Included in this account is the Investment in Trust for the Retirement Fund. This pertains to the DCI Placement to DBP Trust for the payment of retirement of qualified employees. On 1 June 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. The DCI Retirement Fund being administered by DBP Trust Department has value of P4.285 million as of December 31, 2019.

## 12. INTANGIBLE ASSETS - NET

The details of this account are as follows:

| | 2019 | 2018 |
|---|---|---|
| Computer software | 127,500 | 4,094,343 |
| Less: Accumulated amortization | 55,250 | 3,481,335 |
| | **72,250** | **613,008** |

Intangibles are software costs accounted for as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | 613,008 | 672,619 |
| Additions/Adjustment | (466,766) | 42,899 |
| Amortization | (73,992) | (102,510) |
| Balance at end of year | **72,250** | **613,008** |

## 13. DEFERRED TAX ASSET

The deferred tax asset comprised the difference between the Minimum Corporate Income Tax of two per cent (2%) of gross income and the Normal Income Tax rate which was carried over in the succeeding years.

## 14. INTER-AGENCY PAYABLES

This account pertains to various liabilities to government agencies, such as Bureau of Internal Revenue (withholding taxes, income taxes, value added taxes), SSS (contributions and loans), Philhealth (contributions) and Home Development Mutual Fund (contributions and loans).

The details of this account are as follows:

| | 2019 | 2018 As Restated |
|---|---|---|
| Due to BIR | 11,011,566 | 4,712,987 |
| Due to SSS | 98,103 | 90,085 |
| Due to Philhealth | 46,473 | 49,666 |
| Due to Pag-ibig | 63,882 | 52,198 |
| | **11,220,024** | **4,904,936** |

## 15. ACCOUNTS PAYABLE

This account includes the short-term liabilities to suppliers and business partners.

The details of this account are as follows:

| | 2019 | 2018 As Restated |
|---|---|---|
| Service providers/business partners | 97,440,567 | 48,338,594 |
| Suppliers | 1,292,501 | 542,953 |
| Others | 830,087 | 561,114 |
| | **99,563,155** | **49,442,661** |

## 16. DUE TO OFFICERS AND EMPLOYEES

This account includes the accrued liabilities to DCI officers and employees pertaining to benefits.

## 17. DIVIDENDS PAYABLE

DBP Data Center, Inc. (DCI) declared cash dividend amounting to P3 million per Board Resolution No. 003 dated March 11, 2016 for 2015 Net Income After Tax of P2.68 million. Cash dividend of P3 million was distributed as follows:

a. P1.5 million for the National Government thru the Bureau of Treasury; and,
b. P1.5 million for DBP being the parent Corporation.

The amount due to the National Government was paid to the Bureau of Treasury, while the amount due to DBP is not yet remitted due to operational issues.

Further, payment of dividends in the amount of P1,415,230 and P604,981 for 2019 and 2018, respectively, were also remitted to the Bureau of Treasury.

## 18. TRUST LIABILITY

This is a temporary account of DCI's liability on all transactions pertaining to online payment project such as TIEZA and BIR. This is customers' deposit on all online payment transactions that passes through DCI then to be transferred to the account of the clients.

## 19. OTHER FINANCIAL LIABILITIES

This account includes the Corporation's accrual of expenses such as audit fees for the years 2012 to 2019 which remained unpaid as at December 31, 2019, and other expenses.

## 20. LEAVE BENEFITS PAYABLE

This account pertains to the corresponding liability on monthly accrued vacation/sick leave credits of DCI regular employees. The vacation/sick leave credits are commutable anytime within the year and upon separation of the employees from the service.

## 21. PENSION BENEFIT PAYABLE

The Corporation provides corresponding liability on the retirement of active regular employees based on the guidelines of the Trust Fund. The DCI Retirement Fund is being administered by DBP Trust Department and presented in the books as Pension Benefit Payable.

The details of this account are as follows:

| | 2019 | 2018 As Restated |
|---|---|---|
| Pension fund payable | 4,284,933 | 5,895,136 |
| Past service pension cost payable | 12,000,958 | 9,277,068 |
| | **16,285,891** | **15,172,204** |

Pension Fund Payable is the account placed to DBP Trust for the payment of retirement of qualified employees. 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. The DCI Retirement Fund being administered by DBP Trust Department has value of P4.285 million as of December 31, 2019.

The Past Service Pension Cost Payable is the amount already set-up to recognize the faithful and satisfactory service of DCI employees. It was provided by DCI through the setting up of the past service liability and the normal cost.

## 22. SHARE CAPITAL

Capital stock represents the nominal 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 paid, issued and outstanding as of December 31, 2019 amounts to P23.28 million or 232,800 shares.

In 2017, stock dividends amounting to P3.0 million were issued in favor of the Development Bank of the Philippines, increasing the subscribed capital stock from P20.280 million to P23.280 million.

## 23. SERVICE AND BUSINESS INCOME

DCI delivers high-quality services, build an excellent team, and capture competitive market share in the industry which leads to a favorable outcome on revenue recognized for the year, from projects outside DBP staff supplementation, broken down as follows:

| | 2019 | 2018 As Restated |
|---|---|---|
| DBP | 62,059,869 | 24,576,500 |
| Non-DBP | 184,413,777 | 93,205,388 |
| | **246,473,646** | **117,781,888** |

Service and business income from Non-DBP projects are as follows:

| | 2019 | 2018 As restated |
|---|---|---|
| BOC Cyber Security | 49,107,143 | 0 |
| James L. Gordon Memorial Regional Hospital | 25,672,969 | 0 |
| Jose B. Lingad Regional Memorial Hospital | 21,594,196 | 29,629,902 |
| Dr. Jose N. Rodriguez | 20,605,179 | 9,263,464 |
| Eastern Visayas Regional Medical Center | 18,656,161 | 0 |
| Zamboanga Del Norte Medical Center | 14,895,670 | 19,645,068 |
| Department of Energy | 12,109,713 | 0 |
| BOC FireEye | 10,046,401 | 0 |
| Bureau of Treasury - Panay | 7,320,536 | 4,816,964 |
| Bureau of Treasury - Ayuntamiento | 3,300,000 | 0 |
| Philippne International Trading Corporation | 652,321 | 2,283,125 |
| Food and Drugs Authority | 241,959 | 5,161,786 |
| Bureau of Internal Revenue | 211,513 | 116,561 |
| Tourism Infrastructure and Enterprise Zone Authority | 16 | 5,290 |
| Bangko Sentral ng Pilipinas | 0 | 6,600,000 |
| Professional Regulation Commission | 0 | 3,518,348 |
| Philippine National Police Cebu | 0 | 245,500 |
| Department of Informations and Communications Technology | 0 | 2,468,934 |
| Bureau of Treasury | 0 | 9,450,446 |
| | **184,413,777** | **93,205,388** |

## 24. OTHER BUSINESS INCOME

Other Business Income of DCI pertains to cost of bid documents during the Joint Venture Selection Process and income from processing of individual insurance of employees previously entered into.

## 25. PERSONNEL SERVICES

| | 2019 | 2018 As Restated |
|---|---|---|
| Salaries and Wages | 24,777,131 | 27,084,823 |
| Other Compensation | 10,807,337 | 11,054,611 |
| Other Personnel Benefits | 3,688,493 | 3,825,310 |
| Personnel Benefit Contribution | 340,498 | 373,320 |
| | **39,613,459** | **42,338,064** |

| | 2019 | 2018 |
|---|---|---|
| **Other Compensation** | | |
| Other bonuses and allowances | 4,247,909 | 2,433,578 |
| Other personnel benefits | 2,563,281 | 2,813,834 |
| Year-end bonus | 2,003,011 | 2,895,628 |
| Overtime and night pay | 1,352,169 | 2,213,652 |
| Clothing/Uniform allowance | 311,963 | 281,786 |
| Productivity incentive allowance | 300,000 | 69,000 |
| Transportation allowance | 24,004 | 52,133 |
| Cash gift | 5,000 | 295,000 |
| | **10,807,337** | **11,054,611** |

| | 2019 | 2018 |
|---|---|---|
| **Personnel Benefit Contribution** | | |
| Philhealth contributions | 246,408 | 272,370 |
| Pag-IBIG contributions | 74,700 | 78,800 |
| Employees compensation insurance premiums | 19,390 | 22,150 |
| | **340,498** | **373,320** |

| | 2019 | 2018 As Restated |
|---|---|---|
| **Other Personnel Benefits** | | |
| Pension benefit | 2,925,335 | 1,865,555 |
| Terminal leave benefits | 733,287 | 1,954,130 |
| Members' benefits | 29,871 | 5,625 |
| | **3,688,493** | **3,825,310** |

## 26. MAINTENANCE AND OTHER OPERATING EXPENSES

| | 2019 | 2018 As Restated |
|---|---|---|
| Professional services | 189,615,884 | 67,586,477 |
| Taxes, insurance, premiums and other fees | 1,109,126 | 1,421,588 |
| Communication expenses | 442,427 | 1,194,477 |
| Supplies and material expenses | 256,088 | 465,209 |
| Training and scholarship expenses | 195,140 | 197,723 |
| Travelling expenses | 110,531 | 932,659 |
| Repairs and maintenance | 64,407 | 64,165 |
| Utility expenses | 0 | 453,105 |
| Security services | 0 | 80,926 |
| Other maintenance and operating expenses | 6,378,175 | 5,605,184 |
| | **198,171,778** | **78,001,513** |

| | 2019 | 2018 As Restated |
|---|---|---|
| **Professional services** | | |
| Consultancy Services | 189,091,934 | 67,057,827 |
| Audit Fees | 513,000 | 513,000 |
| Legal Services | 10,950 | 15,650 |
| | **189,615,884** | **67,586,477** |

| | 2019 | 2018 |
|---|---|---|
| **Supplies and material expenses** | | |
| Fuel, oil, and lubricant | 75,484 | 89,327 |
| Supplies expenses | 39,525 | 55,333 |
| Semi-expendable machinery and equipment | 0 | 9,164 |
| Other supplies and material expenses | 141,079 | 311,385 |
| | **256,088** | **465,209** |

| | 2019 | 2018 |
|---|---|---|
| **Other maintenance and operating expenses** | | |
| Rent/Lease expenses | 4,718,000 | 4,263,327 |
| Advertising, promotional and marketing expenses | 868,137 | 398,410 |
| Directors and committee members' fees | 339,000 | 575,000 |
| Representation expense | 403,016 | 298,589 |
| Bank charges | 400 | 0 |
| Other maintenance and operating expenses | 49,622 | 69,858 |
| | **6,378,175** | **5,605,184** |

## 27. NON-CASH EXPENSES

| | 2019 | 2018 |
|---|---|---|
| Depreciation | 699,824 | 793,714 |
| Amortization – Intangible assets | 628,079 | 102,510 |
| | **1,327,903** | **896,224** |

| | 2019 | 2018 |
|---|---|---|
| **Depreciation** | | |
| Machinery and equipment | 317,990 | 327,454 |
| Transportation equipment | 146,307 | 202,623 |
| Leasehold improvements | 118,197 | 146,307 |
| Furniture, fixture and books | 117,330 | 117,330 |
| | **699,824** | **793,714** |

## 28. INCOME TAX EXPENSE

Computation of income tax expense for 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Financial income | 8,082,576 | (1,570,199) |
| Add (Deduct): Reconciling items | | |
| Interest income subject to final tax | (7,298) | (9,594) |
| Application of NOLCO | (1,579,793) | 0 |
| Taxable income | 6,495,485 | (1,579,493) |
| Tax rate | 30% | 30% |
| **Income tax expense** | **1,948,646** | **0** |

Under the existing laws and regulations, Normal Corporate Income Tax rate is computed at 30% of taxable income effective January 1, 2009. 6,495,485

The Corporation is also subject to Minimum Corporate Income Tax (MCIT) which is 2% of gross income. Any excess MCIT over NIT shall be carried forward and credited against the NIT for the next three (3) immediately succeeding taxable years.

Details of MCIT as follows:

| Year Incurred | Amount | Applied Previous Year/s | Applied Current Year | Unapplied Amount |
|---|---|---|---|---|
| 2018 | 200,120 | 0 | 200,120 | 0 |
| **Total** | **200,120** | **0** | **200,120** | **0** |

The Company recognized additional deferred tax asset amounting to P-nil- and P200,120 for 2019 and 2018, respectively.

## 29. EARNINGS PER SHARE

The basic earnings 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:

| | 2019 | 2018 As restated |
|---|---|---|
| Net earnings (loss) | 6,133,930 | (1,570,199) |
| Divided by the number of outstanding common shares (Note 22) | 232,800 | 232,800 |
| Earnings (Loss) per share | **26.35** | **(6.74)** |

## 30. RELATED PARTY TRANSACTION

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 averaging an earning of P140.90 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 (Investment in Trust - Retirement Fund) at DBP Head Office, Makati City.

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

| Particulars | 2019 | 2018 As Restated |
|---|---|---|
| Receivables – Professional Service Agreement | 72,756,108 | 34,108,280 |
| Cash in Bank – Current Account | 2,462,091 | 10,009,680 |
| Investment in Trust – Retirement Fund | 4,284,933 | 5,895,136 |
| | **79,503,132** | **50,013,096** |

## 31. SUPPLEMENTARY INFORMATION REQUIRED UNDER RR 15-2010

In compliance with the requirements set forth by Revenue Regulation No. 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year 2018.

A. DBP Data Center Inc. is a VAT-registered Corporation with VAT output tax declaration of P22.55 million based on the amount reflected in the Sales Account of P187.94 million.

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

| | |
|---|---|
| Current year's purchases: | |
| Goods other than for resale or manufacture | 88,923 |
| Services lodged under other accounts | 17,024,875 |
| | **17,113,798** |

C. Other Taxes & Licenses

| | |
|---|---|
| Local | |
| Mayor's/Business Permit | 1,093,295 |
| Community Tax Certificate | 10,500 |
| Miscellaneous | 5,331 |
| | **1,109,126** |

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

| | |
|---|---|
| Tax on compensation and benefits | 2,967,786 |
| Creditable withholding taxes (at source) | 1,673,766 |
| Final withholding taxes (VAT) | 7,118,753 |
| | **11,760,305** |

The above taxes were filed on or before the 10th day of the month following the applicable month.

The Corporation has no Run Against Tax Evaders (RATE) case under preliminary investigation of the Department of Justice.

## 32. HIGHLIGHTS OF OPERATIONS

DCI has been continuously supporting DBP's Information Technology (IT) infrastructure for the past 37 years. In 2019, DCI continued to focus primarily on assisting the Bank's initiatives on various bank products by providing the workforce for the development and maintenance of the Bank's systems and applications. Further, DCI also started to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities via an Agency-to-Agency Agreements.

Aligned with DCI's strategic plan, DCI pursues an aggressive business plan to deliver high-quality services, build an excellent team, and capture competitive market share in the industry.

Below are some of DCI's notable accomplishments/performance in 2019:

**a. DBP Opportunities**

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, 2019, DCI has a total of eighteen (18) strong workforce working closely with the Bank's IT requirements.

DBP IT - The engagement shall cover the conduct of a "Compromise Assessment" of the DBP I.T. network and infrastructure.

**b. Non-DBP Opportunities**

The Corporation has started opportunities and negotiations on non-DBP projects focusing on government agencies and instrumentalities such as:

1. Zamboanga Del Norte Medical Center – This is an on-going project (5-year contract) where DCI provides Hospital Information System for the Local Government Unit (LGU) hospitals.

2. Bureau of Customs – This is a project related to Cyber Security package solution, which was completed in the year 2016.

3. Jose B. Lingad Memorial Regional Hospital – This is a Department of Health (DOH) hospital where we offered the Hospital Information System (HIS) Business Process Outsourcing (BPO) project with a contract of five (5) years. Live-Production started in July 14, 2016. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system.

4. Bangko Sentral ng Pilipinas - This is an on-going engagement that entails supply, delivery, installation, configuration, testing and implementation of Human Resource Information System (HRIS).
5. Bureau of Treasury (BTr) Panay - Data Center Operation of BTr Panay for a period of one year.

6. Bureau of Treasury (BTr) Ayuntamiento - Data Center Operation of BTr Ayuntamiento.

7. Dr. Jose N. Rodriguez Memorial Hospital – This is a DOH hospital where we offered the Hospital Information System (HIS) BPO project with a contract of seven (7) years. Contract was signed in February 2018. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system

8. James L. Gordon Memorial Hospital – This is an LGU hospital where we offered the Hospital Information System (HIS) BPO project with a contract of five (5) years. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system.

9. Philippine International Trading Corporation (PITC) – This is a consulting service for the design and development of Trading Management Information System (TMIS) – Business Process Automation. Contract was signed May 2018.

10. Department of Information and Communication Technology (DICT) – Provision of FireEye Helix for Tradenet.

11. Tourism Infrastructure and Enterprise Zone Authority (TIEZA) – Provision of Electronic Payment Services for the collection of travel taxes.

12. Food and Drug Administration (FDA) – This is a cloud migration project.

13. Eastern Visayas Regional Medical Center (EVRMC) – This is a DOH hospital where we offered the Hospital Information System (HIS) BPO project with a contract of seven (7) years. Contract was signed in May 2018. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system. Inflow of income comes in middle of 2019.

14. Tondo Medical Center (TMC) – This is a DOH hospital where we offered the Hospital Information System (HIS) BPO project with a contract of seven (7) years. Contract was signed in April 2019. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system. Live production starts in September 2019.

15. Provincial Government of Sorsogon (Dr. Fernando S. Duran Sr. Memorial Hospital) - This is a DOH hospital where we offered the Hospital Information System (HIS) BPO project with a contract of six (6) years. Contract was signed in September 2019. Implementing changes to hospital processes and workflows and monitoring End-User compliance to ensure smooth operations and correctness of data gathered by the system.

16. Department of Energy (DOE) – This is an application development project. Development of web-based application and online Database System to achieve the online submissions intended for Philippine Energy Standards and Labeling Program (PESLP), Government Energy Management Program (GEMP), Minimum Energy Performance for the Commercial, Industrial and Transport Sectors (MEP – CIT). MOA was signed January 2019.

## 33. COMPLIANCE WITH COA CIRCULAR NO. 2016-006

DBP Data Center, Inc. (DCI) has complied with the implementation of COA Circular No. 2016-006, the Revised Chart of Accounts.

## 34. PRIOR PERIOD ADJUSTMENTS

The Company has identified significant prior period adjustments that require re-presentation of certain balances in the statements of financial position, statements of comprehensive income, and statements of changes in equity of CY 2019 and CY 2018. Accordingly, these significant prior period errors have been corrected in the financial statements in accordance with PAS 8 (Correction of Prior Period Error).

The impact of these changes has required the restatement of the following financial line items as at December 31, 2018:

| Account Title | As Previously Reported | Adjustment | As Adjusted |
|---|---|---|---|
| Receivables – net | 126,942,757 | (37,842,876) | 89,099,881 |
| Deferred Tax Asset | 223,584 | 200,120 | 423,704 |
| Inter-agency Payables | 7,702,645 | (2,797,709) | 4,904,936 |
| Accounts Payable | 80,377,004 | (30,934,343) | 49,442,661 |
| Other Financial Liabilities | 563,943 | 1,884,716 | 2,448,659 |
| Pension Benefit Payable | 20,043,288 | (4,871,084) | 15,172,204 |
| Retained Earnings | 12,438,785 | (924,336) | 11,514,449 |

Changes on the balance of Retained Earnings as at January 1, 2018 are as follows:

| Particulars | Amount |
|---|---|
| Reversal of accrued service fees recognized in 2017 and prior years | (18,560,809) |
| Reversal of accrued service income recognized in 2016 | 18,329,738 |
| Accrual of audit fees not recognized in 2012-2017 | 1,371,716 |
| Reversal of accrual of pension benefit expense in 2017 and prior years | (4,616,967) |
| Total changes in Retained Earnings, January 1, 2018 | **(3,476,322)** |