

GOVERNANCE COMMISSION FOR GOVERNMENT OWNED OR CONTROLLED CORPORATIONS

Notes to the Financial Statements
For the year ended December 31, 2014

1. General Information/Agency Profile

The financial statements of the Governance Commission for Government Owned or Controlled Corporations (GCG) were authorized for issue on February 11, 2015 as shown in the Statement of Management Responsibility for Financial Statements signed by Chairman Cesar L. Villanueva, the Head of the Agency.

GCG is an Agency established on June 6, 2011 by Republic Act (R.A.) No. 10149. The mandate of GCG is to promote financial viability and fiscal discipline in Government-Owned and Controlled Corporations (GOCCs) and to strengthen the role of the state in their governance and management to make them more responsive to the needs of public interest and for other purposes. These services are grouped into the following key areas:

- General Administration and Support
- Corporate Standards Services
- Corporate Governance Services

The Agency's registered office is at the 3rd Floor, Citibank Center, Citibank Plaza, Makati City.

2. Basis of Financial Statements Presentation

The financial statements have been prepared in accordance with and compliance with the Philippine Public Sector Accounting Standards (PPSAS) issued by the Commission on Audit per COA Resolution No. 2014-003 dated January 24, 2014.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

3. Summary of Significant Accounting Policies

3.1 Basis of accounting

The financial statements are prepared on an accrual basis in accordance with the Philippine Public Sector Accounting Standards (PPSAS).

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank.

3.3 Inventories

Inventory is measured at cost upon initial recognition.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the GCG.

3.4 Property, Plant and Equipment

Recognition

An item is recognized as property, plant and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- The cost or fair value of the item can be measured reliably.

Measurement at Recognition

An item recognized as property, plant, and equipment is measured at cost.

A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction its cost is its fair value as at recognition date.

Cost includes the following:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- expenditure that is directly attributable to the acquisition of the items; and
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Measurement After Recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the GCG recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is

recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial Recognition of Depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

Depreciation Method

The straight line method of depreciation shall be adopted unless another method is more appropriate for agency operation.

Estimated Useful Life

The GCG uses the Schedule on the Estimated Useful Life of PPE by classification prepared by COA.

The GCG uses a residual value equivalent to at least five percent (5%) of the cost of the PPE.

Derecognition

The GCG derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

3.5 Intangible Assets

Recognition and Measurement

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably,

Intangible assets acquired separately are initially recognized at cost.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in PPSAS 5, Borrowing Costs.

Recognition of an Expense

Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria of an intangible asset.

Subsequent Measurement

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life is amortized over its useful life.

The straight line method is adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

3.6 Changes in accounting policies and estimates

The GCG recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The GCG recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

The GCG corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.7 Budget information

The annual budget is prepared on a cash basis and is published in the government website.

As a result of the adoption of the cash basis for budgeting purposes, a separate Statement of Comparison of Budget and Actual Amounts is presented showing the basis, timing or entity differences. Explanatory comments are provided in the notes to the annual financial statements; first, the reasons for overall growth or decline in the budget are stated, followed by details of overspending or underspending on line items.

3.8 Employee Benefits

The employees of GCG are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

The GCG recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

The GCG recognizes expenses for accumulating compensated absences when these are paid (commuted or paid as terminal leave benefits). Unused entitlements that have accumulated at the reporting date are not recognized as expense. Non-accumulating compensated absences, like special leave privileges, are not recognized.

4. Prior Period Adjustments

The details of prior years' unrecorded expenses affecting prior years amounting to ₱1,013,214.60, are as follows:

Particulars	Amount
Refund of Collective Negotiation Agreement Incentive for FY 2013	299,233.64
Cancellation of prior year's accounts payable	682,272.52
Unrecorded prior year's expenses	31,708.44
Total	1,013,214.60

5. Cash and Cash Equivalents

Accounts	Amount
Cash – Collecting Officers	23,221.02
Petty Cash Fund	80,0000.00
Cash in Bank – Local Currency, Current Account – LBP	1,692,754.83
Cash – Modified Disbursement System (MDS), Regular	7,637,797.85
Total - Cash and Cash Equivalents	9,433,773.70

6. Receivables

All receivables are classified as current.

Accounts	Amount
Inter-Agency Receivables	
Due from National Government Agencies	1,172,828.23
Other Receivables	
Due from Officers and Employees	359,192.40
Receivables – Others	500.00
Total	1,532,520.63

7. Inventories

Accounts	Amount
Office Supplies Inventory Held for Consumption	
Carrying Amount, January 1, 2014	600,280.01
Additions/Acquisitions during the year	2,011,621.60
Expensed during the year except write-down	868,262.96
Write-down during the year	
Reversal of Write-down during the year	
Carrying Amount, December 31,2014	1,743,638.65
Drugs and Medicine Inventory Held for Consumption	
Carrying Amount, January 1, 2014	
Additions/Acquisitions during the year	238,268.13
Expensed during the year except write-down	218,598.00
Write-down during the year	
Reversal of Write-down during the year	
Carrying Amount, December 31,2014	19,670.13
Other Supplies Inventory Held for Consumption	
Carrying Amount, January 1, 2014	223,320.20
Additions/Acquisitions during the year	403,348.80
Expensed during the year except write-down	308,853.04
Write-down during the year	
Reversal of Write-down during the year	
Carrying Amount, December 31,2014	317,815.96
Total Carrying Amount, December 31, 2014	2,081,124.74

8. Other Current Assets

Particulars	Total
Advances to Special Disbursing Officer	300,000.00
Advances to Officers and Employees	6,930.00
Prepaid Insurance	705,190.55
Other Prepayments	501,596.13
Guaranty Deposit	182,000.00
Total	1,695,716.68

- 8.1 All Other Assets are classified as Current.
- 8.2 Advances to Special Disbursing Officer of P300,000.00 pertains to unliquidated cash advance granted on December 16, 2014 to defray expenses relative to GCG's Year-End Assessment Activity held on December 17, 2014 which was liquidated in February 2015.
- 8.3 Advances to Officers and Employees of P6,930.00 pertains to unliquidated cash advance granted in November 2014 and which was liquidated in January 2015.
- 8.4 Prepaid Insurance of P705,190.55 refers to the amount advances for the insurance of government properties.
- 8.5 Other Prepayments of P501,596.13 pertains to the amount advances for the subscription of network security solutions and online legal research tool.

9. Property, Plant and Equipment (PPE)

Particulars	Buildings and Other Structures	Machinery and Equipment	Transportation Equipment	Furniture and Fixtures	Construction in Progress	Other PPE	Total
Carrying Amount, January 1, 2014	92,781,407.97	7,035,763.50	4,809,283.55	4,447,944.50	13,728,815.42	94,628.00	122,897,842.96
Additions/ Acquisitions		5,334,363.00	4,000,000.00	4,300.00			9,338,663.00
Adjustment	(784,944.00)	(46,400.00)		429,150.00			(402,194.00)
Total	94,593,232.10	13,124,256.56	9,510,770.00	5,072,465.84	13,728,815.42	98,417.00	136,127,956.92
Disposals							
Depreciation	3,005,026.71	2,460,736.59	859,105.46	483,663.07		18,783.20	6,827,315.03
Carrying Amount, December 31, 2014	88,991,437.26	9,862,989.91	7,950,178.09	4,397,731.43	13,728,815.42	75,844.82	125,006,996.93
Gross Cost	94,593,232.10	13,124,256.56	9,510,770.00	5,072,465.84	13,728,815.42	98,417.00	136,127,956.92
Less: Accumulated Depreciation	5,601,794.84	3,261,266.65	1,560,591.91	674,734.41	-	22,572.18	11,120,959.99
Carrying Amount, December 31, 2014	88,991,437.26	9,862,989.91	7,950,178.09	4,397,731.43	13,728,815.42	75,844.82	125,006,996.93

9.1 Building and Other Structures pertains to the cost of condominium acquired in CY 2013 consisting of 1,452 square meters including seven parking spaces.

9.2 Machinery and Equipment consists of the following:

Particulars	Cost	Accumulated Depreciation	Carrying Amount December 31, 2014
Office Equipment	541,933.28	164,493.99	377,439.29
Information and Communication Technology Equipment	12,027,453.28	3,033,753.85	8,993,699.43
Communication Equipment	475,870.00	51,438.05	424,431.95
Disaster Risk Reduction Equipment	79,000.00	11,580.76	3,261,266.65
Total	13,124,256.56	3,261,266.65	9,862,989.91

- 9.3 The effect on the recognition of depreciation as a result of the change in the estimated residual value of five percent of the cost is applied prospectively.

10. Intangible Assets

Particulars	Amount
	Computer Software
Carrying Amount, January 1, 2015	-
Additions-Internally Developed	
Additions-Purchased/Acquired thru exchange or non-exchange transaction	4,492,923.43
Impairment Loss Reserved (As per Statement of Financial Performance)	
Total	4,492,923.43
Disposals	-
Amortization recognized (As per Statement of Financial Performance)	791,797.52
Other Changes	46,400.00
Carrying Value, December 31, 2014	3,747,525.91

11. Financial Liabilities

Particulars	Amount
Accounts Payable	7,900,743.37
Due to Officers and Employees	304,153.15
Total	8,204,896.52

- 11.1 Due to Officers and Employees of ₱304,153.15 pertains to the amount due to officers and employees for unpaid salaries and allowances.

12. Inter-Agency Payables

Particulars	Amount
Due to BIR	1,250,395.99
Due to GSIS	1,246,536.99
Due to PAG-IBIG	20,085.33
Due to PhilHealth	44,225.00
Due to Other NGAs	1,497,250.00
Total	4,058,493.31

- 12.1 Due to BIR of ₱1,250,395.99 pertains to the amount of taxes withheld during the month of December 2014 from officials and employees, Contract of Service Personnel, and suppliers/contractors which are due for remittance on the succeeding month of the following year.

- 12.2 Due to GSIS of ₱1,246,536.99 pertains to the amount of employees' premium contributions and loan payments which are due for remittance every 10th day of the following month to GSIS as well as the amount of Insurance Policy Premium.
- 12.3 Due to Pag-IBIG of ₱20,085.33 pertains to the amount of employees' contributions and loan payments deducted from their salaries which are due for remittance every 10th day of the following month to Pag-IBIG.
- 12.4 Due to PhilHealth of ₱44,225 pertains to the amount of employees' premium contributions deducted from their salaries which are due for remittance every 15th day of the following month to PhilHealth.
- 12.5 Due to Other NGAs of ₱1,480,000.00 is the balance of fund transfer from the Office of the President for the development of the Compensation and Position Classification System (CPCS) for GOCCs. The amount corresponds to the payment of GCG to Towers Watson in relation to the final phase of the contract which includes *Communications Planning and Training of GCG Personnel*.

13. Trust Liabilities

- 13.1 Guaranty Deposits Payable of ₱495,033.44 pertains to the refundable 10 percent retention fee deducted from the amount due to various suppliers/contractors for goods and services purchased during the year and cash and cash equivalents received as performance security.

14. Subsidy from National Government

- 14.1 This account consists of the following:

Particulars	Amount
NCA received from DBM for payment of expenses for the agency's operational requirements for FY 2014	₱105,310,487.00
Tax Remittance Advice (TRA) issued to BIR	8,727,013.58
Total	<u>114,037,500.58</u>
Less: Unused Notice of Cash Allocation	22,224,372.19
Subsidy – Net	<u>₱ 91,813,128.39</u>

15. Service and Business Income

Particulars	2014
Interest Income	652.76
Fines and Penalties – Service Income	107,294.00
Total	107,946.76

- 15.1 *Service and Business Income* of ₱107,946.76 refers to liquidated damages charged to service income and interest income on bank deposit.

16. Gains

17.1 Other Gains of ₱50,000.00 pertains to the amount collected as training accreditation fee and proceeds from the sale of bid documents.

17. Personnel Services

Particulars	2014
Salaries and Wages	
Salaries and Wages – Regular	27,668,254.43
Other Compensation	
Personnel Economic Relief Allowance (PERA)	1,239,659.16
Representation Allowance	1,896,827.38
Transportation Allowance	1,463,327.38
Clothing/Uniform Allowance	275,000.00
Productivity Incentive Allowance	60,000.00
Honoraria	82,500.00
Overtime and Night Pay	34,593.39
Year End Bonus	2,400,973.55
Cash Gift	269,875.00
Other Bonuses and Allowances	675,500.00
Total - Other Compensation	8,398,255.86
Personnel Benefit Contributions	
Retirement and Life Insurance Premiums	3,319,130.03
PAG-IBIG Contributions	62,850.00
PhilHealth Contributions	250,768.75
Employees Compensation Insurance Premiums	62,800.00
Total – Personnel Benefit Contributions	3,695,548.78
Other Personnel Benefits	
Terminal Leave Benefits	509,771.01
Other Personnel Benefits	210,981.77
Total – Other Personnel Benefits	720,752.78
Total – Personnel Services	40,482,811.85

18. Maintenance and Other Operating Expenses

Particulars	2014
Travelling Expenses	
Traveling Expenses – Local	738,895.27
Traveling Expenses – Foreign	740,698.91
Total Traveling Expenses	1,479,594.18
Training and Scholarship Expenses	5,450,426.71
Supplies and Materials Expenses	
Office Supplies Expenses	890,740.24
Drugs and Medicines Expenses	218,598.00
Accountable Forms Expenses	6,400.00
Fuel, Oil, & Lubricants Expenses	546,038.69
Other Supplies and Materials Expenses	397,086.58
Total Supplies and Materials Expenses	2,058,863.51

Utility Expenses	
Water Expenses	25,780.00
Electricity Expenses	1,281,776.59
Total – Utility Expenses	1,307,556.59
Communication Expenses	
Postage and Courier Services	32,046.25
Telephone Expenses	1,654,835.46
Internet Subscription Expenses	971,945.74
Cable, Satellite, Telegraph and Radio Expenses	42,297.00
Total – Communication Expenses	2,701,124.45
Confidential, Intelligence and Extraordinary Expenses	1,166,400.00
Professional Services	
Consultancy Services	1,814,108.44
Other Professional Services	4,241,903.62
Total – Professional Services	6,056,012.06
General Services	
Janitorial Services	869,494.10
Security Services	643,762.32
Other General Services	3,332,041.71
Total – General Services	4,845,298.13
Repairs and Maintenance	
Repairs and Maintenance - Building and Other Structures	2,224,832.42
Repairs and Maintenance - Machinery and Equipment	265,881.95
Repairs and Maintenance - Transportation Equipment	186,075.27
Total – Repairs and Maintenance Expenses	2,676,789.64
Taxes, Insurance Premiums and Other Fees	
Taxes, Duties and Licenses	341,096.14
Fidelity Bond Premiums	173,314.34
Insurance Expenses	122,791.45
Total – Taxes, Insurance Premiums and Other Fees	637,201.93
Other Maintenance and Operating Expenses	
Advertising Expenses	116,972.80
Printing and Publication Expenses	183,165.60
Representation Expenses	2,859,094.74
Rent/Lease Expenses	1,122,661.69
Subscription Expenses	313,688.80
Other Maintenance and Operating Expenses	3,442,328.56
Total- Other Maintenance and Operating Expenses	8,037,912.19
Total	36,417,179.39

18.1 There were relevant increases and decreases in the following expenditures for CY 2014 as compared with CY 2013:

18.1.1 Training Expenses of ₱5,450,426.71 – This includes the cost incurred for the conduct of team building activities and in-house trainings for GCG personnel.

18.1.2 Telephone Expenses of ₱1,654,835.46 – This includes the cost of voice services (landline and mobile) used in agency operations.

- 18.1.3 Internet Expenses of ₱971,945.74 – This pertains to the cost of internet services used by the agency in its operations and for the deployment of the Integrated Corporate Reporting System (ICRS) for the GOCC Sector.
- 18.1.4 Consultancy Services of ₱1,814,108.44 – This includes the cost of services rendered by the Development Academy of the Philippines (DAP) for the development of GCG’s Quality Management System (QMS).
- 18.1.5 Janitorial Services of ₱869,494.10 – This includes the cost of additional janitorial services contracted by the agency.
- 18.1.6 Rent Expenses of ₱1,122,661.69 –This pertains to the payment of rental of parking space, photocopying machines and indoor plants.
- 18.1.7 Representation Expenses of ₱2,859,094.74 – The increase is attributed to the Performance Agreement Negotiations and meetings with various GOCCs during the year.
- 18.1.8 General Expenses of ₱3,332,041.71 – This pertains to the amount of compensation paid to Contract of Service Personnel (COSP) and cost of pest control services for CY 2014.
- 18.1.9 Other Professional Services of ₱4,241,903.62 – This pertains to salary paid to Contract of Service Personnel (COSP) and ISO certifying body for CY 2014.
- 18.1.10 Repairs and Maintenance – Buildings and Other Structures of ₱2,224,832.42 – This includes the Special Assessment Fee for the renovation of the semi-common washrooms and hallways of the Citibank Center where GCG’s principal office is located.

19. Non-Cash Expenses

Particulars	2014
Depreciation Expenses	
Depreciation Expense - Buildings and Other Structures	3,005,026.71
Depreciation Expense - Machinery and Equipment	2,460,736.59
Depreciation Expenses - Transportation Equipment	859,105.46
Depreciation Expense - Furniture, Fixtures and Books	483,663.07
Depreciation Expense - Other Property, Plant and Equipment	18,783.20
Total – Depreciation	6,827,315.03
Amortization – Intangible Assets	791,797.52
Total	7,619,112.55

20. Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)

Surplus/Deficit for the year	7,451,921.36
Non-cash movements	
Depreciation	6,827,315.03
Amortization	791,797.52
Increase in Receivables	(2,528,550.88)
Increase in Other Assets	(702,783.31)
Increase in Inventories	(1,257,524.43)
Decrease in Payables	(15,714,559.34)
Net Cash Flows from Operating Activities	(5,132,384.05)

21. Payment of Expenses

Particulars	Amount
Personnel Services	27,281,544.67
Maintenance and Other Operating Expenses	29,265,099.61
Financial Expenses	50.00
Total	56,546,694.28

22. Remittance of Personnel Benefit Contributions and Mandatory Deductions

Particulars	Amount
Remittance to GSIS	5,618,278.36
Remittance to PAG-Ibig	207,010.04
Remittance to PhilHealth	457,312.50
Remittance to Employees Compensation Commission	57,300.00
Due to Officers and Employees	192,602.90
Payment of Guaranty/Security Deposits	867,877.46
Remittance to BIR	24,129.43
Total	7,424,510.69

23. Key Management Personnel

The key management personnel of the GCG are the Chairman with the rank of Secretary and two members with the rank of Undersecretary are appointed by the President. The Secretaries of the Department of Budget and Management and the Department of Finance sit as ex officio members.