PALACIO DEL GOBERNADOR CONDOMINIUM CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
As at December 31, 2017 and 2016
(In Philippine Peso)

1. GENERAL INFORMATION

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

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

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

- Bureau of the Treasury (BTr) : ¼ of the 1st floor, 2nd, 3rd, 4th and 6th floors
- Intramuros Administration (IA) : 5th floor
- Office of the President (OP) : ¾ of the 1st floor, 7th and 8th floors

The PDGCC is governed by the Board of Directors whose eight members at the present came from and representing the BTr, IA and OP. They also occupy the position as President, Vice President, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Legal Counsel, and Internal Auditor of the PDGCC. As at December 31, 2017, the PDGCC is headed and represented by President/Chairwoman Rosalia V. De Leon who is also the incumbent Treasurer of the Republic of the Philippines. The PDGCC has also an Administrative Committee created in January 2006 that is presently composed of a Chairman and two members.

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

The PDGCC was registered with the Bureau of Internal Revenue (BIR) as Non-VAT taxpayer on June 30, 1994. The BIR had exempted the PDGCC from paying income tax and value-added tax per its various Rulings cited on its response letter dated December 28, 2009. The issuance, however, of Revenue Memorandum Circular (RMC) No. 65-2012 on October 31, 2012 clarified the taxability of association dues, membership fees and other assessments/charges collected by condominium corporations. The Makati Regional Trial Court, in its Resolution No. SAC 12-1236 dated September 5, 2013, declared that this RMC was invalidly issued. The PDGCC reiterated its requests from the BIR for tax clarification on December 7, 2017 and is still awaiting reply.

As at December 31, 2017, the Corporation has four regular employees and one contractual personnel. The Corporation's principal address is at General Luna corner Andres Soriano, Jr. Streets, Intramuros, Manila.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Preparation of Financial Statements

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

The financial statements of the PDGCC have been prepared for the first time in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs). PFRS for SMEs is adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB). The same have been approved and authorized for issuance by the Board of Directors on February 14, 2018.

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

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

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

COA Circular No. 2015-003 dated April 16, 2015 classified PDGCC as a GBE. Pursuant to COA Circular No. 2015-010 dated December 1, 2015, PDGCC has adopted the RCA for GOCCs. The conversion has no material impact on the balances of the accounts.

(c) Functional and Presentation Currency

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

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

2.2. *Adoption of PFRS for SMEs Including its Amendments Effective in 2017 that are Relevant to the PDGCC*

The PDGCC's financial statements for the year ended December 31, 2017 are its first annual financial statements prepared under accounting policies that complied with the PFRS for SMEs. PDGCC's transition date is January 1, 2016 and prepared its opening PFRS for SMEs Statement of Financial Position at that date.

In August 2015, the FRSC adopted the 2015 amendments made by the IASB to International Financial Reporting Standard (IFRS) for SMEs. Entities reporting using PFRS for SMEs are required to apply the amendments for annual periods beginning on or after January 1, 2017. The following amendments were applied by the PDGCC:

- Section 2, *Concepts and Pervasive Principles* – addition of clarifying guidance on the undue cost or effort exemption that is used in several sections of PFRS for SMEs as well as a new requirement within relevant sections for entities to disclose their reasoning for using such an exemption. This amendment only clarifies existing requirements and has no material impact on the statement of financial position.

- Section 17, *Property, Plant and Equipment* – alignment of the wording with the amendments to Philippine Accounting Standard (PAS) 16, *Property, Plant and Equipment*, regarding the classification of spare parts, stand-by equipment and servicing equipment as property, plant and equipment or inventory; addition of the exemption in paragraph 70 of PAS 16 allowing an entity to use the cost of the replacement part as an indication of what the cost of the replaced part was at the time that it was acquired or constructed, if it is not practicable to determine the carrying amount of a part of an item of property, plant and equipment that has been replaced; and, addition of an option to use the revaluation model. As the PDGCC elected to continue using the cost model, this amendment has no significant impact on the financial statements.

- Section 22, *Liabilities and Equity* – clarification that income tax relating to transaction costs of an equity transaction should be accounted for in accordance with Section 29, *Income Tax*; This amendment merely clarifies existing requirements and has no significant impact on the PDGCC's financial statements.

- Section 33, *Related Party Disclosures* – alignment of the definition of "related party" with PAS 24, *Related Party Disclosures*, including incorporation of the amendment to the definition of a related party, which include a management entity providing key management personnel services. This amendment merely clarifies existing requirements and has no significant impact on the PDGCC's financial statements.

The other amendments clarify existing requirements or add supporting guidance, rather than change the underlying requirements of IFRS for SMEs. Consequently, the amendments are expected to improve understanding of the existing requirements, without having a significant effect on the financial statements.

2.3. *Transition and Reconciliation*

The transition from the generally accepted accounting principles to the PFRS for SMEs has no material impact on the financial statements of the PDGCC.

2.4. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits.

2.5. Receivables

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

2.6. Inventories

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

2.7. Property, Plant and Equipment

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

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

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

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

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

2.8. Payables

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

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

2.9. Provisions and Contingencies

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

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

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

2.10. Revenue and Expense Recognition

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

2.11. Leases

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

2.12. Impairment of Assets

At each reporting date, the cost of property, plant and equipment is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss. If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.