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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 27, 2021

ReceiveD
JUL 28 2021
4:00
OFFICE OF THE GENERAL MANAGER
NATIONAL DEVELOPMENT COMPANY

The Board of Directors
National Development Company
116 Tordesillas Street,
Salcedo Village, Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of National Development Company (NDC) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed an unmodified opinion on the fairness of presentation of the financial statements of the Corporation.

The following are the significant audit observations and recommendations:

1. Receivables amounting to P1.240 billion which was already provided with 100 per cent allowance for impairment, remained dormant and have been outstanding in the books for more than 10 years were classified as current assets which is not compliant with Paragraph 66 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2016-005 dated December 19, 2016.

   We recommended that Management:

   a. Reclassify Due from subsidiaries/associates/affiliates/National Government and loans and interest receivables to non-current assets in order to comply with the provisions of Paragraph 66 of PAS 1;

   b. Intensify effort to collect/recover the dormant accounts; and

   c. Require the Accounting Department in collaboration with the Legal Department to file requests for write-off of dormant accounts with the COA, duly supported with documents pursuant to COA Circular No. 2016-005 dated December 16, 2016 on the proper disposition/closure of the dormant accounts.

2. Investment properties amounting to P58.970 million with an aggregate area of 30,930 square meters are not titled in the name of NDC thereby negating management's assertion on its rights and obligations pertaining thereto.

   We recommended that Management take appropriate action to expedite titling of these land in NDC's name.

3. The validity and reliability of the Rental Receivable account amounting to P57.927 million is doubtful due to: a) existence of dormant and past due accounts of P21.297 million which have been outstanding for several years; and b) variance between the balance per books and confirmed balances in the amount of P14.427 million.

   We recommended that Management:

   a. Coordinate with the inactive lessees whose accounts are not yet deemed dormant and discuss the settlement of their long outstanding balances;

   b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for approval for write-off pursuant to COA Circular No. 2016-005 on the proper disposition/closure of the dormant accounts is warranted;

   c. Coordinate with the representatives of Department of Trade and Industry, Lepanto Mining Corporation, Governance Commission for GOCCs, and San Miguel Yamamura Packaging Corporation to discuss the settlement of their outstanding obligations;

   d. Coordinate and reconcile with Phil. Associated Smelting and Refining Corp., LIDE Management Corporation, and Panay Railways, Inc. to determine the cause of the large discrepancy in the recorded rental receivables and adjust the balances accordingly;

   e. Gather supporting documents on the accounts of Al Amanah Islamic Bank of the Phils., Senate of the Philippines, and Spectrum Engineering & Consultancy and request for write-off, if warranted; and

   f. Analyze the variances noted from the confirmation, reconcile with the corresponding lessees and prepare adjusting entry, if necessary.

4. NDC had already incurred P23.542 million for various expenses on three projects which are under project development stage since 2009. Delay in the implementation of the projects could result in continuous incurrence and piling up of expenses and wastage of government funds and resources in the event that these projects will not materialize.

   We recommended that Management:

   a. Revisit and update existing guidelines on the conduct of project development to include applicable procedures where NDC intends to implement the project on its own. It is suggested that timetable for each process be provided to ensure accomplishment/completion of projects within the targeted period;

b. Fast track the conduct of activities/works relative to the project development of the NDC Administrative and Commercial Complex and Davao Food Complex as basis of NDC Board and Management in arriving at sound decisions on the implementation of the said projects which are still on hold; and

c. Expedite the pending review of bid evaluation and award of contract to the winning bidder relating to NDC Industrial Estate project.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on July 5, 2021, are presented in detail in Part II of the report.

In a letter of even date, we requested the Corporation's General Manager to take appropriate actions on the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Senate Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 27, 2021

ReceiveD
JUL 28 2021
4:00 pm
OFFICE OF THE GENERAL MANAGER
NATIONAL DEVELOPMENT COMPANY

MA. LOURDES F. REBUENO
General Manager
National Development Company
116 Tordesillas Street,
Salcedo Village, Makati City

Dear Ms. Rebueno:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of National Development Company (NDC) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed an unmodified opinion on the fairness of presentation of the financial statements of the Corporation.

The following are the significant audit observations and recommendations:

1. Receivables amounting to P1.240 billion which was already provided with 100 per cent allowance for impairment, remained dormant and have been outstanding in the books for more than 10 years were classified as current assets which is not compliant with Paragraph 66 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2016-005 dated December 19, 2016.

   We recommended that Management:

   a. Reclassify Due from subsidiaries/associates/affiliates/National Government and loans and interest receivables to non-current assets in order to comply with the provisions of Paragraph 66 of PAS 1;

   b. Intensify effort to collect/recover the dormant accounts; and

   c. Require the Accounting Department in collaboration with the Legal Department to file requests for write-off of dormant accounts with the COA, duly supported with documents pursuant to COA Circular No. 2016-005 dated December 16, 2016 on the proper disposition/closure of the dormant accounts.

2. Investment properties amounting to P58.970 million with an aggregate area of 30,930 square meters are not titled in the name of NDC thereby negating management's assertion on its rights and obligations pertaining thereto.

   We recommended that Management take appropriate action to expedite titling of these land in NDC's name.

3. The validity and reliability of the Rental Receivable account amounting to P57.927 million is doubtful due to: a) existence of dormant and past due accounts of P21.297 million which have been outstanding for several years; and b) variance between the balance per books and confirmed balances in the amount of P14.427 million.

   We recommended that Management:

   a. Coordinate with the inactive lessees whose accounts are not yet deemed dormant and discuss the settlement of their long outstanding balances;

   b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for approval for write-off pursuant to COA Circular No. 2016-005 on the proper disposition/closure of the dormant accounts is warranted;

   c. Coordinate with the representatives of Department of Trade and Industry, Lepanto Mining Corporation, Governance Commission for GOCCs, and San Miguel Yamamura Packaging Corporation to discuss the settlement of their outstanding obligations;

   d. Coordinate and reconcile with Phil. Associated Smelting and Refining Corp., LIDE Management Corporation, and Panay Railways, Inc. to determine the cause of the large discrepancy in the recorded rental receivables and adjust the balances accordingly;

   e. Gather supporting documents on the accounts of Al Amanah Islamic Bank of the Phils., Senate of the Philippines, and Spectrum Engineering & Consultancy and request for write-off, if warranted; and

   f. Analyze the variances noted from the confirmation, reconcile with the corresponding lessees and prepare adjusting entry, if necessary.

4. NDC had already incurred P23.542 million for various expenses on three projects which are under project development stage since 2009. Delay in the implementation of the projects could result in continuous incurrence and piling up of expenses and wastage of government funds and resources in the event that these projects will not materialize.

   We recommended that Management:

   a. Revisit and update existing guidelines on the conduct of project development to include applicable procedures where NDC intends to implement the project on its own. It is suggested that timetable for each process be provided to ensure accomplishment/completion of projects within the targeted period;

b. Fast track the conduct of activities/works relative to the project development of the NDC Administrative and Commercial Complex and Davao Food Complex as basis of NDC Board and Management in arriving at sound decisions on the implementation of the said projects which are still on hold; and

c. Expedite the pending review of bid evaluation and award of contract to the winning bidder relating to NDC Industrial Estate project.

The other audit observations, together with recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on July 5, 2021, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
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Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

NATIONAL DEVELOPMENT COMPANY

For the Years Ended December 31, 2020 and 2019

EXECUTIVE SUMMARY

INTRODUCTION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act No. 2873. On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311 dated June 9, 1938. Pursuant to Presidential Decree No. 1648, NDC was reorganized on October 25, 1979 to be the government's investment arm under the Department of Trade and Industry (DTI).

The Corporation's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country's development.

On March 10, 2003, Executive Order (EO) No. 184 was approved by the President of the Philippines directing the reorganization and streamlining of NDC by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and

- act as a holding corporation to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

The Corporation is governed and its activities are directed, controlled and managed by a Board of Directors, composed of nine members and a Chairman.

As of December 31, 2020, NDC has 27 permanent employees and 15 contractual employees.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2020	2019 (as restated)	Increase (Decrease)
Assets	23,204,484,714	21,740,947,060	1,463,537,654
Liabilities	5,778,791,360	5,230,531,362	548,259,998
Equity	17,425,693,354	16,510,415,698	915,277,656

Comparative Results of Operations

	2020	2019 (as restated)	Increase (Decrease)
Income	306,254,759	418,862,777	(112,608,018)
Expenses	129,723,120	143,600,801	(13,877,681)
Income from operations	176,531,639	275,261,976	(98,730,337)
Other income (expenses), net	2,168,330,041	1,294,654,338	873,675,703
Income before income tax	2,344,861,680	1,569,916,314	774,945,366
Income tax expense	709,972,559	415,472,518	294,500,041
Net Income	1,634,889,121	1,154,443,796	480,445,325

SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of NDC for the period January 1 to December 31, 2020 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2020 and 2019. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Corporation for the years 2020 and 2019.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. Receivables amounting to P1.240 billion which was already provided with 100 per cent allowance for impairment, remained dormant and have been outstanding in the books for more than 10 years were classified as current assets which is not compliant with Paragraph 66 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2016-005 dated December 19, 2016.

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c. Expedite the pending review of bid evaluation and award of contract to the winning bidder of NDC Industrial Estate project.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As at December 31, 2020, the unsettled Notices of Disallowance amounted to P20.845 million. Of this amount, P1.717 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011. The amount of P15 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, P0.725 million is with Petition for Review dated October 5, 2017 with the COA Commission Proper, P2.822 million is pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the 2009 Revised Rules of Procedure of the Commission on Audit and P0.581 million is with Corporate Government Sector Cluster 4 Decision No. 2020-07 dated June 19, 2020.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 25 audit recommendations embodied in prior years' Annual Audit Reports, 8 were fully implemented, 11 were partially implemented and 6 were not implemented. Details are presented in Part III of this Report.

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AUDITED FINANCIAL STATEMENTS

PART II

OBSERVATIONS AND RECOMMENDATIONS

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
National Development Company
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Development Company (NDC), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NDC as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of NDC in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 35 to the financial statements which describes the uncertainty related to the outcome of the various civil and tax cases pending before the appellate courts, the lower courts and the Supreme Court. Our opinion is not modified in respect of these matters.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing NDC'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 NDC or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility 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 NDC's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NDC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause NDC to cease to continue as a going concern.

- 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and 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 37 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

mtpetalio

MYRNA T. PETALIO
OIC – Supervising Auditor

July 5, 2021

NATIONAL DEVELOPMENT COMPANY
Enabling the future

PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of National Development Company (NDC) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing NDC'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 NDC or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing NDC's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders and other users.

The Commission on Audit has audited the financial statements of NDC in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed its opinion on the fairness of the presentation upon completion of such audit.

SEC. RAMON M. LOPEZ
NDC Chairman of the Board

MA. LOURDES F. REBUENO
General Manager

JOYCE ANNE N. ALIMON
Department Manager III-Finance and Administrative Department

July 5, 2021

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(In Philippine Peso)

	Note	**2020**	2019 (as restated)	January 1, 2019 (as restated)
ASSETS				
Current Assets				
Cash and cash equivalents	7	**121,621,670**	159,216,594	13,045,623
Other investments	8	**2,007,064,957**	2,689,648,463	2,346,662,392
Receivables, net	9	**204,631,740**	229,107,345	240,689,759
Inventories	10	**1,603,499**	1,562,720	1,273,226
Other current assets	11	**35,727,514**	30,496,014	31,091,394
Total Current Assets		**2,370,649,380**	3,110,031,136	2,632,762,394
Non-Current Assets				
Financial assets	12	**1,094,593,267**	1,094,204,732	1,234,337,197
Investments in associates/affiliates	13	**185,523,209**	234,924,097	228,668,296
Investments in subsidiaries	14	**402,315,129**	402,315,129	402,315,129
Other investments	15	**196,446,890**	196,446,890	196,446,890
Receivables, net	9	**52,531,332**	53,647,419	1,361,883,595
Investment property	16	**18,806,661,041**	16,553,383,211	15,217,319,681
Property and equipment, net	17	**47,074,176**	47,833,587	44,273,242
Other non-current assets and deferred charges	18	**48,690,290**	48,160,859	43,942,763
Total Non-Current Assets		**20,833,835,334**	18,630,915,924	18,729,186,793
TOTAL ASSETS		**23,204,484,714**	21,740,947,060	21,361,949,187
LIABILITIES AND EQUITY				
Current Liabilities				
Financial liabilities	19	**484,571,363**	489,862,502	473,572,297
Loans payable	20	**144,051,930**	260,334,787	1,273,624,400
Inter-agency payables	21	**8,891,350**	13,933,499	6,882,352
Trust liabilities	22	**37,860,467**	36,625,643	33,548,441
Deferred credits/unearned income	23	**6,052,332**	8,914,587	9,312,199
Provisions	24	**308,469,747**	303,243,706	299,543,350
Total Current Liabilities		**989,897,189**	1,112,914,724	2,096,483,039
Non-Current Liabilities				
Deferred tax liability	30	**4,747,503,817**	4,078,480,941	3,779,019,533
Trust liabilities	22	**41,390,354**	39,135,697	44,568,631
Total Non-Current Liabilities		**4,788,894,171**	4,117,616,638	3,823,588,164
Equity		**17,425,693,354**	16,510,415,698	15,441,877,984
TOTAL LIABILITIES AND EQUITY		**23,204,484,714**	21,740,947,060	21,361,949,187

The notes on pages 9 to 60 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	**2020**	2019 (as restated)
INCOME			
Dividend income	25	**2,847,410**	6,675,535
Lease income	26, 16	**187,685,556**	191,423,834
Interest income		**115,581,793**	220,623,408
Management fees		**140,000**	140,000
		306,254,759	418,862,777
OPERATING EXPENSES			
Personnel services	27	**33,697,898**	34,586,367
Maintenance and other operating expenses	28	**96,025,222**	109,014,434
		129,723,120	143,600,801
INCOME FROM OPERATIONS		**176,531,639**	275,261,976
OTHER INCOME (EXPENSES), NET	29	**2,168,330,041**	1,294,654,338
INCOME BEFORE INCOME TAX		**2,344,861,680**	1,569,916,314
INCOME TAX EXPENSE	30		
Current tax		**40,949,681**	116,011,110
Deferred tax		**669,022,878**	299,461,408
NET INCOME		**1,634,889,121**	1,154,443,796
Other comprehensive income	12	**388,535**	14,667,535
COMPREHENSIVE INCOME		**1,635,277,656**	1,169,111,331

The notes on pages 9 to 60 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	Share Capital (Note 31)	Share in Revaluation Increments of Associates	Accumulated Other Comprehensive Income	Retained Earnings (Note 32)	Total
Balances, December 31, 2018		**8,602,803,483**	**28,883,100**	**8,138,800**	**6,799,638,634**	**15,439,464,017**
Correction of prior years' errors	32	0	0		2,413,967	2,413,967
Restated balance, January 1, 2019		8,602,803,483	28,883,100	8,138,800	6,802,052,601	15,441,877,984
Changes in Equity for 2019						
Net income for the year, as restated	32	0	0		1,154,443,796	1,154,443,796
Dividends	34	0	0		(100,573,617)	(100,573,617)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI		0	0	14,667,535		14,667,535
Balances, December 31, 2019		**8,602,803,483**	**28,883,100**	**22,806,335**	**7,855,922,780**	**16,510,415,698**
Changes in Equity for 2020						
Net income for the year		0	0		1,634,889,121	1,634,889,121
Dividends	34	0	0		(720,000,000)	(720,000,000)
Other comprehensive income for the year						
Unrealized gain on financial assets at FVOCI	12	0	0	388,535		388,535
Balances, December 31, 2020		**8,602,803,483**	**28,883,100**	**23,194,870**	**8,770,811,901**	**17,425,693,354**

The notes on pages 9 to 60 form part of these financial statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(In Philippine Pesos)

	Note	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of rentals		**192,105,188**	227,558,008
Collection of interest		**28,069,985**	29,083,007
Dividends received		**3,219,637**	18,992,201
Miscellaneous collections		**2,873,341**	5,089,260
Collection of receivables		**2,508,300**	16,074,184
Payment of taxes and licenses		**(95,877,153)**	(188,535,124)
Payment to suppliers and service providers		**(66,925,730)**	(73,631,552)
Payment of salaries and benefits to officers and employees		**(26,788,352)**	(31,657,098)
Net cash provided by operating activities		**39,185,216**	2,972,886
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds/placements on investments		**759,167,490**	(89,255,162)
Collection of loans		**341,051**	1,502,841,314
Proceeds from disposal of assets		**1,575**	92,929
Equity investment		**0**	(60,000,000)
Net cash provided by investing activities		**759,510,116**	1,353,679,081
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	34	**(720,000,000)**	(100,573,617)
Payment of loans		**(116,282,858)**	(1,109,897,875)
Net cash used in financing activities		**(836,282,858)**	(1,210,471,492)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(7,398)**	(9,504)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(37,594,924)**	146,170,971
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**159,216,594**	13,045,623
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**121,621,670**	159,216,594

The notes on pages 9 to 60 form part of these financial statements.

1. CORPORATE INFORMATION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act No. 2873. It was authorized to engage in commercial, industrial and other enterprises essential to the economic development of the country.

On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311, dated June 9, 1938, for the purpose of implementing the economic policies of the National Government and to play an active role in the development of natural resources.

Presidential Decree No. 1648, issued on October 25, 1979, revised the NDC Charter and reorganized NDC to be the government's investment arm under the Department of Trade and Industry (DTI). The Corporation's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country's development.

On March 10, 2003, Executive Order (EO) No. 184 was issued directing the reorganization and streamlining of the NDC, by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and

- act as a holding corporation to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Further, the Corporation was also directed to review its operations, following a set of criteria for measuring its performance, to attain its missions, plans and goals in consonance with the refocused functions.

The Department of Budget and Management approved on May 29, 2003 the new structure of NDC and the required staffing pattern and qualification standards for all positions. The corresponding Implementing Rules and Regulations (IRR) of EO 184 was promulgated and approved by the DTI Secretary on August 28, 2003 under DTI Department Order No. 70. With the implementation of EO 184, new employees were hired to work and implement the mandate of NDC as the government's investment arm.

The Corporation's principal office is located at the NDC Building, No. 116 Tordesillas St., Salcedo Village, Makati City.

The accompanying financial statements as of December 31, 2020 and 2019 were approved and authorized for issue by the Management on July 5, 2021.

2. GOING CONCERN

The coronavirus disease (COVID-19) outbreak is a serious and unprecedented public health threat. On March 11, 2020, the World Health Organization officially declared COVID-19 as a pandemic.

On March 8, 2020, the President of the Philippines signed Proclamation No. 922 declaring a State of Public Health Emergency throughout the country upon the recommendation of the Department of Health following the confirmed local transmission of the COVID-19. Subsequently, on March 16, 2020, Proclamation No. 929 was signed by the President declaring a State of Calamity throughout the Philippines for a period of six months, unless earlier lifted or extended as circumstances may warrant, and imposed an Enhanced Community Quarantine throughout Luzon.

The effects of community quarantine due to the COVID-19 pandemic in the operation of the Corporation are as follows:

1. In compliance with the directives of the National Government, NDC employees including those under contracts of service are on skeletal force and work from home arrangements.

2. Management has instituted safety protocols in the NDC building to avoid the spread of COVID-19, this includes issuance of interim guidelines on workplace prevention and control of COVID-19, procurement of face mask and face shields for use of all employees and service personnel to protect the personnel from the virus, installation of acrylic dividers on employees' work stations, regular disinfection of the building, use of online applications for meetings and provisions of shuttle services for employees during community quarantine.

3. In compliance to Republic Act (RA) No. 11469, otherwise known as the Bayanihan to Heal as One Act and RA 7656, otherwise known as the Dividend Law, the Department of Finance requested NDC to remit a total amount of P720 million in 2020.

Management assessed that the COVID-19 pandemic brought moderate impact to NDC's operations but cannot be considered enough reason to close down its operation in the succeeding years.

3. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Corporation were prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board Of Accountancy (BOA) and adopted by the Securities and Exchange Commission.

Basis of Preparation

The financial statements of the Corporation were prepared using historical cost basis unless otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the Corporation operates. All values represent absolute amounts except when otherwise indicated.

4. NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Amended PFRS

a. Effective in 2020 that are relevant to the Corporation

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Corporation adopted effective for annual periods beginning on or after January 1, 2020:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material – The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. Effective in 2020 that are not relevant to the Corporation

- Amendments to PFRS 3, *Business Combinations*, Definition of a Business – The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

- Amendments to PFRS 16, *Leases*, COVID-19-related Rent Concessions – The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

c. New and amended PFRS issued but not yet effective

The new and amended PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework – Reference to the 1989 Framework in paragraph 11 of PFRS 3 Business Combinations was updated to 2018 Framework. Potential conflicts occur as the definition of assets and liabilities in the 2018 Framework differ from those in the 1989 Framework potentially leading to day 2 gains or losses post-acquisition for some balances recognized.

- Amendments to PAS 16, *Property, Plant and Equipment*, Proceeds before Intended Use – This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* Onerous Contracts - Cost of Fulfilling a Contract – The changes specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, Subsidiary as a first-time adopter – The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to PFRS.

- Amendments to PFRS 9, *Financial Instruments,* Fees in the '10 per cent' test for derecognition of financial liabilities – The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- Amendments to PFRS 16, *Leases*, Lease Incentives –The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- Amendments to PAS 41, *Agriculture,* Taxation in fair value measurements – The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-Current* – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

- Amendments to PFRS 17, *Insurance Contracts* – The main changes resulting from Amendments to PFRS 17 are:

  - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

  - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.

  - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.

- Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

- Clarification of the application of contractual service margin attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.

- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.

- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

- Several small amendments regarding minor application issues.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Corporation.

5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense.

Financial Assets

Initial Recognition

Financial assets are recognized in the Corporation's financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Corporation's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, financial assets at fair value through other comprehensive income (FVOCI) and at amortized cost. The classification is generally based on the business model which a financial asset is managed and its contractual cash flow characteristics. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

The Corporation classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk

management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gains and losses' line item in the statement of comprehensive income.

As of the reporting date, the Corporation does not have financial assets that are classified as fair value through profit or loss.

Financial assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVTPL, impaired or derecognized, as well as through the amortization process.

Cash and cash equivalents, short-term investments, investments in retail treasury bonds and receivables fall under this category.

Financial assets at FVOCI

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVTPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

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

For equity instruments, the Corporation may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position.

These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

Financial assets at FVOCI-equity instruments are disclosed in Note 12.

Impairment of financial assets- starting January 1, 2019

The Corporation applies an “expected credit loss” (ECL) model to its financial assets measured at amortized cost and debt investment at FVOCI, but not to investment in equity instruments.

Loss allowances are measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Corporation measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Corporation has elected to measure loss allowances for receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than two years past due.

The Corporation considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security (if any is held); or
- The financial asset is more than two years past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Corporation assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Impairment of financial assets- before January 1, 2019

Impairment loss is provided when there is objective evidence that the Corporation will not be able to collect all amounts due to it in accordance with the original terms of the receivables or when investment can no longer be recovered.

<u>Derecognition of financial assets</u>

The Corporation derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another party. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risk and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Corporation retains an option to repurchase part of a transferred asset), the

Corporation allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Corporation's financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Corporation's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the Corporation is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments, Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in notes.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Accounts payable and accrued expenses, inter-agency payables and loans payable are classified as other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather being contigent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

Retained earnings

Retained earnings represent accumulated profit attributable to equity holders of the Corporation after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments

Investment in Subsidiary

A subsidiary is an entity over which Corporation exercises control over the financial and operating policy decisions of the investee.

An investment in subsidiary is accounted for using the cost method from the date on which the investee becomes a subsidiary. Under the cost method, Investment in subsidiary is initially measured at cost and is presented in the statement of financial position at cost less any accumulated impairment in value.

Investment in subsidiary is derecognized upon disposal. Any difference between the carrying amount of the Investment in subsidiary and the net proceeds from disposal is recognized immediately in profit and loss.

Investment in Joint Venture

A joint venture (JV) is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control.

Where a group of companies undertakes its activities under JV arrangements directly, the group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the venturers and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the group's share of the output of jointly-controlled assets, and its share of JV expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the group and their amount can be measured reliably.

Investment in Associate/Affiliate

An associate is an entity over which Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the cost of acquisition over the Corporation's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognized as implied goodwill, which is included within the carrying amount of the investments and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Corporation's share of the fair values of the identifiable net assets of the associate at the date of acquisition, i.e., discount on acquisition is immediately recognized in profit or loss in the period of acquisition.

The results of operations and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale in which measured at lower of carrying amount and fair value less cost to sell. Under the equity method, investments in associates or joint venture are carried in the statements of financial position at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Corporation's share of losses of an associate exceeds the Corporation's interest in that associate, the Corporation discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Corporation's accounting policy for impairment of financial assets is applied to determine whether it is necessary to recognize any impairment loss with respect to its investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the Corporation's accounting policy on impairment of tangible and intangible assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Corporation discontinues to use the equity method from the date the investment ceases to be an associate, or when the investment is classified as held for sale. When the Corporation retains interest in the former associate and the retained interest is a financial asset, the Corporation measured the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of gain or loss on disposal of the associate. In addition, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Corporation reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when the equity method is discontinued.

Investment Property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change. If owner-occupied property becomes an investment property, the Group accounts property in accordance with the policy stated under property, plant and equipment up to the date of change.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- the initial estimate of the future 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.

Property and equipment are stated in the financial statements at cost less accumulated depreciation, amortization and any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

Impairment of Non-financial Assets

At each reporting date, non-financial assets are 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 and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial assets

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable services provided in the normal course of business.

Dividend Income

Dividend income is recognized when the Corporation’s rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

Interest Income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Lease Income

Lease income from cancellable lease agreements is recognized when earned in the statement of comprehensive income.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rental payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Corporation as Lessor

The Contract of Lease entered into by the Corporation does not transfer substantially all the risks and benefits of ownership of the asset. The Corporation is engaged in a lease with pre- termination clause of which in case the Contract of Lease is terminated by the Lessor at any time prior to its expiration, the Lessor shall refund the amount representing the unearned portion of the rental to the Lessee. On the other hand, if the Contract of Lease is terminated by the Lessee at any time prior to its expiration, the amount representing the unearned portion of the rental will be deemed forfeited in favor of the Lessor. The lease income from the Contract of Lease is recognized in the statement of comprehensive income.

The Corporation determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

Short-term Benefits

Short term benefits include salaries, bonuses, compensated absences and other forms of employee benefits that are expected to be settled within one year from the reporting date. Short-term employee benefits are recognized as expense in the period the related services are provided.

Terminal leave benefits

Terminal leave benefits are computed based on the actual leave credits earned by employees as of the reporting date. The amount reported as liability in the statement of financial position is based on the employees' salary grade as of the reporting dates.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

Current Tax

The current tax expense is the amount of tax due which is computed based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and Deferred Tax for the Year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions and Contingencies

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;

b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise.

Changes in accounting policies and estimates

The effects of changes in accounting policies are recognized retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The effects of changes in accounting estimates are recognized prospectively by including in profit or loss.

The material prior period errors are corrected 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 equity for the earliest prior period presented.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

6. JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Corporation to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Estimated allowance for impairment of receivables

The Corporation maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Corporation's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Corporation made different judgments or utilized different estimates.

At the end of 2020 and 2019, the Corporation has recognized allowance for impairment of receivables in the amount of P3.501 million and P11.610 million, respectively.

Estimating useful lives of property and equipment

The Corporation estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

Type of Asset	Estimated useful life in years
Land improvements	40
Building and building improvements	2 to 20
Furniture and equipment	3 to 10

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2020	2019
Cash with collecting/disbursing officer	**42,069**	30,506
Cash in banks	**1,148,534**	5,187,100
Cash equivalents	**120,431,067**	153,998,988
	121,621,670	159,216,594

Cash in banks earn interest at the prevailing bank deposit rates. Interest earned on cash in banks amounted to P16,736 and P77,404 in 2020 and 2019, respectively.

Cash equivalents pertains to investment in time deposits in Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) with interest rate ranging from 1.675 to 4.000 per cent and with maturity dates of three months or less.

8. OTHER INVESTMENTS

This account consists of money market placements in LBP and DBP in the total amount of P2.007 billion and P2.690 billion in 2020 and 2019, respectively. Interest earned on these investments amounted to P75.345 million and P119.560 million in 2020 and 2019, respectively.

9. RECEIVABLES

This account consists of:

	2020	2019 (as restated)
Current		
Loans receivable	**1,053,675,195**	1,053,675,195
Interest receivables	**73,487,165**	98,898,900
Rental receivables	**57,926,943**	36,742,070
Due from subsidiaries/associates/affiliates	**1,143,744,206**	1,143,744,206
Due from officers and employees	**6,542,333**	5,981,886
Due from National Government	**3,252,978**	3,252,978
Other receivables	**308,849,765**	326,300,908
	2,647,478,585	2,668,596,143
Allowance for impairment losses	**(2,442,846,845)**	(2,439,488,798)
	204,631,740	229,107,345
Non-Current		
Loans receivable	**47,913,127**	47,913,127
Due from officers and employees	**4,618,205**	5,734,292
	52,531,332	53,647,419
	257,163,072	282,754,764

Loans receivable - current included restructured loan to Philippine Mining Development Corporation (PMDC), which is due to be settled within one year after the reporting date with 10 years term starting July 30, 2013. In 2019, PMDC requested for re-computation of its outstanding restructured loan and filed an arbitration case against NDC. The Office of the Government Corporate Counsel (OGCC) noted the comment filed by NDC in September 2020; the latter is waiting for further Order from OGCC.

Interest receivables pertains to interests from various investments and income-generating activities which were already earned as of reporting date, but which were not yet actually received.

Rental receivables consists of collectibles from lease of real properties covered by lease agreements between the Corporation and lessees (Notes 16 and 26). During the implementation of the Enhanced Community Quarantine (ECQ), the Corporation observed the guidelines under the Bayanihan to Heal as One Act or RA No. 11469 on the concessions of commercial rents for Micro, Small and Medium Enterprises (MSMEs). The 30-day grace period is granted on commercial rents falling upon MSMEs without incurring interests, penalties, fees and other charges. The cumulative amount of rents shall be equally amortized in the next six months following the end of the quarantine and shall be added to the rents due on those succeeding months without interest, penalties, fees and charge.

Due from subsidiaries/associates/affiliates consists of advances made to the Corporation's various subsidiaries and affiliates.

Due from officers and employees pertains to loans granted by the Corporation to its officers and employees.

Due from National Government represents amount due from the Republic of the Philippines representing expenses accompanying the Corporation's transferred accounts to the National Government (NG). These accounts, consisting of loans, equity investments, advances, acquired assets, other assets and liabilities, were identified and approved for transfer to the NG pursuant to Administrative Order No. 64 dated March 31, 1987.

Other receivables includes management fees, guarantee fees, commitment fees, NDC's 50 per cent share from Rizal Hydro Project trade receivables and other receivables.

Loans receivable - non-current pertains to the restructured loan of PMDC with terms of up to 10 years. On June 19, 2019, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-C-19-0005079 amounting to P1.498 billion for full settlement of the National Irrigation Administration's loan to NDC of P1.409 billion (principal of P975.000 million and interest of P434.178 million), the said amount was used to settle its loans to NG amounting to P1.103 billion.

A reconciliation of the allowance for impairment losses at the beginning and end of 2020 and 2019 is shown below:

	2020	2019
Beginning balance	**2,439,488,798**	2,470,978,631
Impairment loss during the year		
Rental receivables	**3,501,044**	11,610,155
Allowance for impairment-rental receivables (reversal)	**(142,997)**	(43,099,988)
	2,442,846,845	2,439,488,798

10. INVENTORIES

This account consists of the following:

	2020	2019
Inventory Held for Consumption:		
Carrying Amount, January 1	**1,562,720**	1,273,226
Additions/Acquisitions during the year	**1,748,083**	1,468,208
Expensed during the year	**(1,707,304)**	(1,178,714)
Carrying Amount, December 31	**1,603,499**	1,562,720

Inventory held for consumption pertains to office supplies, accountable forms, and fuel, oil and lubricants that were deployed for utilization or consumption in the ordinary course of operation.

11. OTHER CURRENT ASSETS

This account consists of:

	2020	2019 (as restated)
Prepayments	**22,848,051**	19,545,644
Restricted fund (held-in-trust)	**9,525,890**	8,165,560
Deposits	**3,353,573**	2,739,810
Advances	**0**	45,000
	35,727,514	30,496,014

Prepayments includes amounts advanced for insurance of properties, contractor for various projects, input tax and creditable withholding tax.

Restricted fund (held-in-trust) refers to Mintex escrow fund invested in treasury bills with maturity dates of three months or less than one year. The distribution of the fund is governed by a deed of undertaking among Human Settlements Development Corporation, Southern Philippines Development Authority and NDC. The purpose of the fund includes the full settlement and liquidation of liabilities which were assumed by the shareholders of the old Mintex and eventual distribution of the remaining trust assets. This account also pertains to hydropower project with Philippine National Oil Company- Renewables Corporation (PNOC-RC) amounting to P45 million. On July 1, 2014, PNOC-RC and NDC entered into a Memorandum of Agreement for the development, commercialization, operation and maintenance of PRIS MC Hydroelectric Power Project (Rizal Hydropower Project) for energy commercialization. On September 4, 2014, the Department of Energy confirmed the declaration of commerciality and approved the conversion of the Rizal Hydropower Service Contract from pre-development to development/commercial stage. This commenced the development and utilization of the Rizal Hydropower plant facility with capacity of 1 MW. The plant started commercial operation on July 1, 2016. Cash and cash equivalents from Rizal Hydro Power amounted to P11.009 million as of December 31, 2020. NDC recognized 50 per cent share amounting to P5.504 million, these are funds reserved for the operation of the project.

Deposits consists mainly of refundable deposits made to various companies for the supply of communication, water, electric and other similar deposits.

Advances pertains to unliquidated cash advances granted to officers and employees for their official travel, various special events and payment of operating expenses.

12. FINANCIAL ASSETS

This account consists mainly of investments in bonds and other securities, as summarized below:

	2020	2019 (as restated)
Financial assets at amortized cost	**1,001,769,072**	1,001,769,072
Financial assets at fair value through other comprehensive income	**92,824,195**	92,435,660
	1,094,593,267	1,094,204,732

Financial assets at amortized cost

This account consists of long-term investments in retail treasury bonds purchased by NDC from the Land Bank of the Philippines with an interest rate ranging from 3.250 per cent to 4.875 per cent. No additional or withdrawal of placement was made in 2020 while placement in 2019 amounted to P1.002 billion.

Interest earned on these investments amounted to P34.873 million and P34.777 million in 2020 and 2019, respectively.

Financial assets at fair value through other comprehensive income

This account consists of investments in the following:

	2020	2019
Manila Golf and Country Club	**76,000,000**	63,000,000
Philippine Long Distance Telephone Company	**14,155,660**	14,068,125
Makati Sports Club	**2,200,000**	620,000
Philippine Columbian Association	**80,000**	80,000
	92,435,660	77,768,125

	2020	2019
Market adjustment	**388,535**	14,667,535
	92,824,195	92,435,660

13. INVESTMENTS IN ASSOCIATES/AFFILIATES

This account consists of the following investments in associates which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

		% of Ownership	2020	2019 (as restated)
Cost				
Refractories Corporation of the Phils.	RCP	33.00	**193,620,979**	193,620,979
San Carlos Bio-Energy, Inc.	SCBI	25.00	**172,900,000**	172,900,000
Manila Exposition Complex, Inc.	MECI	36.36	**120,000,000**	120,000,000
Philippine Dockyard Corporation	PDC	35.00	**101,650,000**	101,650,000
Triad Asia, Ltd.	TAL	50.00	**65,435,000**	65,435,000
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	**58,432,010**	58,432,010
Philippine Mining Development Corp.	PMDC	20.00	**25,000,000**	25,000,000
Phividec Industrial Estate	PIE	23.95	**17,000,000**	17,000,000
PITC Pharma, Inc.	PPI	40.00	**15,000,000**	15,000,000
Metro Hospital Waste Conversion	MHWC	40.00	**12,000,000**	12,000,000
First International Document Masters, Inc.	FIDMI	40.00	**4,000,000**	4,000,000
UP-NDC Basilan Plantations, Inc.	UNBPI	40.00	**2,400,000**	2,400,000
Interbank Venture Capital Corporation	IVCC	20.00	**1,000,000**	1,000,000
Philbancor Venture Capital Corporation	PBVCC	20.00	**1,000,000**	1,000,000
Veterans Venture Capital Corporation	VVCC	20.00	**1,000,000**	1,000,000
LIDE Management Corporation	LMC	20.00	**20,000**	20,000
San Jose Oil Company	SJOC	20.00	**1,716**	1,716
			790,459,705	790,459,705
Accumulated equity in net earnings (losses)				
Balance at beginning of year			**(275,464,843)**	(321,821,270)
Share in net profit for the year			**(49,028,661)**	58,673,093
Dividends received			**(372,227)**	(12,316,666)
Balance at end of year			**(324,865,731)**	(275,464,843)
Share in revaluation increment of an associate			**28,883,100**	28,883,100
Share in prior period adjustment of associates			**(104,467,149)**	(104,467,149)
			390,009,925	439,410,813
Allowance for impairment losses			**(204,486,716)**	(204,486,716)
			185,523,209	234,924,097

Refractories Corporation of the Philippines (RCP) is a minority-owned affiliate of NDC at 33 per cent (4.328 million shares equivalent to P108.223 million in equity). On September 2, 2009, RCP filed for corporate rehabilitation before the Regional Trial Court Branch 159 in Pasig City. The Court approved the rehabilitation on May 7, 2010. As part of the rehabilitation, RCP's total debt as of March 31, 2010 will be converted into common shares. As a result, NDC's shareholdings in RCP will be diluted from 33 per cent to 11 per cent. The corporation is undergoing court litigation on its corporate rehabilitation plan. A court hearing was held on February 26, 2016 at the Pasig Regional Trial Court. The Court has not yet issued an order on the issues of the case, to date.

14. INVESTMENTS IN SUBSIDIARIES

This account consists of the following investment in subsidiaries which the Corporation exercises control over the financial and operating policy decisions of the investee.

		% of Ownership	**2020**	2019
Common Shares				
Operational				
Philippine International Trading Corp.	PITC	99.50	**199,000,000**	199,000,000
Batangas Land Company, Inc.	BLCI	60.00	**55,659,300**	55,659,300
GY Real Estate, Inc.	GYREI	60.00	**13,084,200**	13,084,200
First Cavite Industrial Estate, Inc.	FCIEI	100.00	**8,845,038**	8,845,038
Kamayan Realty Corporation	KRC	60.00	**7,447,000**	7,447,000
Pinagkaisa Realty Corporation	PRC	60.00	**2,508,629**	2,508,629
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**400,000,000**	400,000,000
Manila Gas Corporation	MGC	91.70	**74,616,000**	74,616,000
NDC-Philippine Infrastructure Corp.	NPIC	100.00	**80,000,000**	80,000,000
For dissolution				
Luzon Stevedoring Corporation	LSC	100.00	**330,987,000**	330,987,000
Preferred Shares				
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**500,000,000**	500,000,000
			1,672,147,167	1,672,147,167
Allowance for impairment losses			**(1,269,832,038)**	(1,269,832,038)
			402,315,129	402,315,129

The Luzon Stevedoring Corporation had ceased operations in 1999. The records and books of accounts were not turned over to NDC.

The First Centennial Clark Corporation (FCCC) had ceased operations way back in 2007 when Clark Development Corporation (CDC), a subsidiary of the Bases Conversion and Development Authority (BCDA), terminated with finality the Lease Agreement, dated October 30, 1997, between CDC and FCCC for failure of FCCC to pay rental fees. Prior to such termination, FCCC and CDC entered into a Memorandum of Agreement (MOA) whereby CDC operated the FCCC leasehold area. However, CDC simultaneously cancelled the said MOA and Lease Agreement. Both NDC and FCCC requested CDC to reconsider such termination but to no avail.

As a consequence of CDC's cancellation of the leasehold rights, CDC took over and appropriated the structures and buildings of FCCC erected on the leased area.

The dividend income earned by the Corporation from its investment in subsidiaries amounted to P2.404 million for the year 2019. There was no divided income from investment in subsidiaries in 2020.

15. OTHER INVESTMENTS

This account consists of investments in equity instruments as shown below:

		% of Ownership	**2020**	2019
Common Shares				
Operational				
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	**158,895,989**	158,895,989
Science Park of the Philippines	SPP	5.18	**24,951,957**	24,951,957
Non-operational				
Paper Industries Corp. of the Phils.	PICOP	0.28	**15,000,000**	15,000,000
Menzi Development Corporation	MDC	5.20	**10,000,000**	10,000,000
For dissolution				
P.T Asean Aceh Fertilizer	PTAAF	13.00	**106,605,963**	106,605,963
Resort Hotels	RH	6.30	**6,474,300**	6,474,300
LSCO- PDCP	LPDCP	0.00	**188,550**	188,550
LSCO – Republic Planters Bank	LRPB	0.00	**96,000**	96,000
LSCO- PLDT	LPLDT	0.00	**15,250**	15,250
Pre-operating				
Asean Potash Mining Corporation	APMC	1.00	**12,598,944**	12,598,944
Under receivership				
National Steel Corporation	NSC	12.50	**622,305,756**	622,305,756
Preferred Shares				
Under receivership				
National Steel Corporation	NSC	12.50	**1,196,967,152**	1,196,967,152
Other Investments				
Investments in project (NDC Rattan)			**62,406,520**	62,406,520
Others			**99,455,145**	99,455,145
			2,315,961,526	2,315,961,526
Allowance for impairment losses			**(2,119,514,636)**	(2,119,514,636)
			196,446,890	196,446,890

Update on National Steel Corporation (NSC)

The NSC Liquidation Plan involves, among others, the disposition of the NSC plant assets as an integral facility in order to allow a prospective buyer to resume the operation thereof within a short period of time from acquisition. Under the Plan, the NSC plant assets are to be used exclusively in settling the claims of all the NSC Secured Creditors, who are to waive their right to claim against the other assets of NSC for any deficiency in their secured credit and their unsecured credit.

Two years after NSC's liquidation, majority of the secured creditors and the stockholders of NSC came into a general understanding and agreement as to the disposition of the NSC plant assets, the payment of the liabilities owing to the NSC secured creditors and the business operation of the Special Purpose Vehicle (SPV) which shall eventually purchase the NSC plant assets.

On January 29, 2004, the NSC Liquidator, the NSC Secured Creditors, the NSC Shareholders and Global Ispat Holdings Ltd. (GIHL) entered into an Initial Agreement which sets out the basic terms and conditions of the sale and purchase of the NSC plant assets. The proposed sale to and purchase of the NSC plant assets by GIHL was approved by the Securities and Exchange Commission (SEC), in its Order issued on May 6, 2004.

On September 10, 2004, the Parties executed an Asset Purchase Agreement (APA) to document the detailed terms and conditions of the sale and purchase of the right, titles and interests in and to, including the ownership of the NSC plant assets. However, at the time of signing, NDC was not able to obtain Board approval for its authorized signatory. Thus, its share in the down payment was held in escrow with the Philippine National Bank (PNB). To remedy the situation, an Accession Agreement was executed among NDC, GIHL and Global Steel Corporation (Global Steel). As soon as the Accession Agreement is signed by all Parties, the Corporation shall withdraw the escrow fund held by PNB and recognize the sale accordingly.

NDC, in its capacity as a GOCC secured creditor of NSC, sought the Department of Finance's approval to consider the transaction as a "true sale" and, thus, be eligible for all the incentives available under the SPV Law of 2002. The Bangko Sentral ng Pilipinas (BSP), the appropriate regulatory authority for creditor banks, considered the transaction structure on the sale of NSC plant assets to GIHL a "true sale" under the SPV Law as confirmed by the Monetary Board under Resolution No. 514 of April 15, 2004.

The Corporation's primary consideration in consenting to the sale is twofold. Firstly, the national interest was taken into account given the government's commitment to reopen NSC at the soonest time possible and the mandate given to the Department of Trade and Industry to facilitate the same. Secondly, NDC's corporate interest was also considered with the opportunity to recover partially its investments in NSC that was unlikely in the first place given the liquidation status of NSC.

On October 15, 2004, the Parties executed the Omnibus Agreement, which set the terms and conditions governing the deferred payment of the balance of the agreed price in the remaining sum of P12.250 billion, spread over eight years. However, Global Steel has not paid the real property taxes on the Iligan Plant from the time the

NSC plant assets were turned over to it in 2005. Global Steel has interposed due to the following reasons: the alleged over-assessment by the City; the pendency of its application for tax incentive under a city ordinance; and the alleged misapplication by the City of its previous real property tax payments to other NSC properties. By 2006 therefore, Global Steel began defaulting on its installment payments and/or obligation to provide the stand-by letters of credit as required under the APA and the Omnibus Agreement.

Global Steel filed an action with the Regional Trial Court of Makati City on October 2, 2008, praying for an injunctive relief specifically to prohibit the NSC Secured Creditors from declaring an event of default in case it fails to pay the maturing installments. The trial court denied its prayer for injunctive relief.

Global Steel then filed for arbitration with the Singapore International Arbitration Center on October 13, 2008. Using the arbitration proceedings as the legal excuse, Global Steel sought provisional relief from the Singapore High Court where it prayed that the NSC Secured Creditors be restrained from declaring Global Steel to be in default under the Agreement and from declaring due and payable the balance of the purchase price and all other amounts payable under the Agreement. Global Steel claimed that the Liquidator and the Secured Creditors failed to deliver title to the NSC plant assets free and clear from all liens, since the real property tax lien of the City of Iligan had not been discharged. Thus, Global Steel allegedly could not obtain title to the NSC plant assets and seek additional financing.

At this point, NDC did not become a signatory to the Implementing Agreements (Omnibus Agreement, the Asset Purchase Agreement and Purchase Price Sharing Agreements) of the sale of NSC assets. While NDC has signed the Accession Agreement, a document which makes a creditor accede to and adhere to the Implementing Agreements, the same was not perfected due to Global Steel's failure to sign given their filing for arbitration.

On May 9, 2012, the Arbitral Tribunal issued the Partial Award (the "Award") in favor of Global Steel, and against NSC Liquidator Danilo L. Concepcion and the Secured Creditors. The Award specifically held Danilo L. Concepcion and the Secured Creditors solidarily liable to Global Steel. In sum, the Award ordered Danilo L. Concepcion and the Secured Creditors to pay Global Steel the amount of US$80 million by way of damages and to transfer all NSC plant assets free from all liens to Global Steel and for the Secured Creditors to pay Global Steel the amount of US$1.043 billion with respect to the Lost Land Claim. Majority of the Secured Creditors of Global Steel then filed an application to set aside the Award with the Singapore High Court on July 9, 2012.

The High Court of Singapore issued a Decision dated July 31, 2014 ("High Court Decision") which set aside the arbitral Award in its entirety. In addition, the High Court granted the Secured Creditors' claims for the payment of its legal costs for the proceedings in the court, which shall be subject to further submissions.

Global Steel appealed the High Court's Decision to the Singapore Court of Appeals on all points. The Singapore Court of Appeals allowed in part and dismissed in part Global Steel's appeals. The practical effect of the decision is that certain parts of the Award remain to be set aside. However, the Court of Appeals reinstated the findings of the Tribunal in the Award that the Liquidator and the Secured Creditors breached the APA in failing to transfer clean title over the NSC plant assets to Global Steel.

On August 23 and 30, 2016, the City Treasurer of Iligan City caused the publication of a Notice of Real Property Tax Delinquency in the Gold Star Daily, covering all real properties declared in the name of National Steel Corporation (NSC) in Iligan City, pertaining to the period beginning on the 4th quarter of 1999 ending on the 2nd quarter of 2016. The Liquidator wrote the City Treasurer a letter to remind them that any attempt to levy on the subject properties will be in contravention of the Stay Order issued by the SEC on November 30, 2006. SEC affirmed the continuing validity of the said Stay Order, in its letter to the Office of the City Treasurer of Iligan City dated January 5, 2016. Notwithstanding the writ of execution issued by Branch 57 of the Regional Trial Court of Makati, the City of Iligan, through the City Treasurer, proceeded with the tax sale on October 19, 2016. No bid was submitted. Pursuant to the Local Government Code, there being no bidder, the City Treasurer shall purchase the property for the local government.

While the petition for Ex-Parte motion for annotation on the titles of NSC assets regarding the omnibus order nullifying the auction, sale was granted on October 19, 2016, the secured creditors are implementing the other legal remedies to secure the NSC properties which were taken over by the City of Iligan.

On August 6, 2020, NDC received a forwarded letter from BDO Trust, stating the intent of Platinum Paramount Pacific Group of Companies Inc. to acquire the National Steel Corporation. On November 10, 2020, BDO Trust informed NDC and other stakeholders that a building is about to be constructed at the lower portion of the former NSC Administrative Building 1 and NSC Gym at the Hilltop, which will serve as housing for the New People’s Army surrenderees.

The dividend income earned by the Corporation from its investment in stocks amounted to P2.847 million and P4.271 million for the years 2020 and 2019, respectively.

16. INVESTMENT PROPERTY

The Corporation’s investment properties consist of 51 parcels of land and four buildings located in various cities and municipalities across the country with an aggregate area of 32,230,207.15 square meters. These properties include land and buildings that are held to earn rentals under operating leases, capital appreciation and project development. Details are as follows:

Investment Properties with lease

Location of the Property	**2020**	2019
Land		
Philphos Assets-LIDE	**2,413,460,280**	1,723,900,200
Pandacan, Manila	**2,082,000,000**	1,535,770,000
M Fortich/Libona, Bukidnon	**1,300,090,000**	1,299,990,000
Isabel, Leyte	**853,082,550**	758,295,600

Location of the Property	2020	2019
Sen. Gil Puyat, Makati City	**815,738,000**	1,036,758,000
Lapu-Lapu City, Cebu	**759,170,000**	754,140,000
Barangka, Mandaluyong City	**545,000,000**	454,800,000
Tordesillas St., Salcedo Village, Makati City	**386,970,000**	635,268,000
P.Tamo & Dela Rosa Sts., Makati City	**370,670,000**	349,450,000
San. Juan St., Bacolod City	**299,570,000**	211,152,000
Diliman, Quezon City	**234,900,000**	202,500,000
Bagong Ilog, Pasig City	**156,560,000**	153,840,000
San Andres & E. Quirino Ave. Manila	**146,960,000**	139,710,000
BugoDist., Cagayan De Oro City	**135,870,000**	48,690,000
Meycauyan, Bulacan	**41,850,000**	32,960,000
San Roque, Tarlac	**28,410,000**	24,830,000
Aguinaldo & Luna St., Iligan City	**24,580,000**	24,420,000
San Fernando, Pampanga	**12,850,000**	12,220,000
	10,607,730,830	9,398,693,800
Buildings		
Industry & Investment Building	**138,767,000**	121,365,000
NDC Building	**96,870,000**	113,594,000
Manila Luxury Condominium	**15,340,000**	11,610,000
Leyte Port Complex	**1,110,000**	1,136,000
	252,087,000	247,705,000
	10,859,817,830	9,646,398,800

Investment Properties without lease

Location of the Property	2020	2019
Land		
Macapagal Blvd., Pasay City	**4,686,580,000**	3,882,220,000
Sucat, Muntinlupa	**1,553,680,000**	1,365,110,000
Dasmarinas, Cavite	**547,930,000**	592,770,000
Toril, Davao City	**464,247,000**	449,270,000
Kamagong & SampalocSts., Makati City	**206,990,000**	160,768,000
Lacson & Rizal Sts, Bacolod City	**102,900,000**	95,770,000
San Dionisio, Paranaque	**44,060,000**	40,500,000
Hermosa, Bataan	**40,000,000**	40,000,000
Sta. Fe, Bantayan, Cebu	**37,610,000**	34,960,000
San Francisco Del Monte, Quezon City	**37,190,000**	35,200,000
Sambag, Cebu	**36,900,000**	36,110,000
Bo. San Juan &Sto. Nino Pampanga	**30,670,000**	28,930,000
Los Baños, Laguna	**28,860,000**	28,860,000
Baliwasan, Zamboanga City	**25,240,000**	20,190,000
Bo Bia-an, Mariveles, Bataan	**18,650,000**	17,650,000
Sta. Mesa, Manila	**14,996,211**	14,996,211
Dao, Tagbilaran, Bohol	**13,030,000**	12,650,000
Poblacion, Parang,Cotabato	**8,980,000**	8,980,000
Bo. Langhian, Butuan City	**7,890,000**	5,200,000
Puerto, Cagayan de Oro City	**7,710,000**	7,710,000
Sta. Rosa, Laguna	**7,150,000**	7,030,000
Suyong, Echangue, Isabela	**6,920,000**	6,340,000
Cagayan, de Oro City	**3,140,000**	2,410,000
Guadalupe, Cebu City	**3,040,000**	2,620,000

Location of the Property	2020	2019
Bonot, Legaspi City	**2,880,000**	2,400,000
Calatagan, Batangas	**2,490,000**	2,490,000
Bongabon, Nueva Ecija	**1,610,000**	1,340,000
Tanay, Rizal	**990,000**	950,000
Mariveles, Bataan	**980,000**	880,000
San Jose, Antipolo City	**950,000**	780,000
Talakag, Bukidnon	**810,000**	680,000
San Isidro, Antipolo City	**740,000**	690,000
Pueblocillo Village, Dasmarinas Cavite	**480,000**	112,200
Porac, Pampanga	**310,000**	220,000
	7,946,603,211	6,906,786,411
Building		
Pueblocillo Village, Dasmarinas Cavite	**240,000**	198,000
	240,000	198,000
	7,946,843,211	6,906,984,411
	18,806,661,041	16,553,383,211

The Corporation uses the Fair Value Model for its investment properties. Fair market value of investment properties as of December 31, 2020 was appraised by Cal-Fil Appraisal and Management, Inc.

The lease income earned and the operating expenses of the Corporation arising from these investment properties are as follows:

Investment Properties with lease

	2020	2019 (as restated)
Lease income	**187,685,556**	191,423,824
Operating Expenses	**31,261,838**	29,056,218

Investment Properties without lease

	2020	2019
Operating Expenses	**23,895,028**	22,646,647

Operating expenses consist of real property taxes, security services and repairs and maintenance of the properties.

17. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro Power Plant	Total
December 31, 2020					
Cost					
At January 1, 2020	611,010,268	14,356,376	666,094,724	34,147,886	1,325,609,254
Additions	0	275,286	3,392,192	0	3,667,478
Adjustments	0	(658,673)	0	0	(658,673)
At December 31, 2020	611,010,268	13,972,989	669,486,916	34,147,886	1,328,618,059
Accumulated depreciation					
At January 1, 2020	608,138,401	5,870,099	658,864,890	4,902,277	1,277,775,667
Depreciation for the year	357,773	0	2,067,284	1,343,159	3,768,216
At December 31, 2020	608,496,174	5,870,099	660,932,174	6,245,436	1,281,543,883
Net carrying amount, December 31, 2020	**2,514,094**	**8,102,890**	**8,554,742**	**27,902,450**	**47,074,176**

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Rizal Hydro Power Plant	Total
December 31, 2019					
Cost	611,010,268	14,356,376	666,094,724	34,147,886	1,325,609,254
Accumulated Depreciation/ Adjustment	(608,138,401)	(5,870,099)	(658,864,890)	(4,902,277)	(1,277,775,667)
Net carrying amount, December 31, 2019	**2,871,867**	**8,486,277**	**7,229,834**	**29,245,609**	**47,833,587**

Included in the Improvement and Equipment accounts are the properties at the Leyte Port Complex at Isabel, Leyte, which are being leased to PHILPHOS and 50 per cent share of NDC to Rizal Hydro Power Plant Facility located at Rizal, Nueva Ecija.

18. OTHER NON-CURRENT ASSETS AND DEFERRED CHARGES

This account consists of:

	2020	2019 (as restated)
Other non-current assets		
Restricted fund (held-in-trust)	**19,985,661**	19,456,230
Lands not used in operation	**6,614,104**	6,614,104
Others	**982,971,125**	982,971,125
Allowance for impairment loss	**(961,708,905)**	(961,708,905)
	47,861,985	47,332,554
Deferred charges		
Coal Operating Contract	**42,000,000**	42,000,000
Allowance for impairment loss	**(42,000,000)**	(42,000,000)

	2020	2019 (as restated)
Miscellaneous	**828,305**	828,305
	828,305	828,305
	48,690,290	48,160,859

Restricted fund (held-in-trust) refers to Mintex escrow fund invested in retail treasury bonds with maturity date of more than one year (see Note 11).

Lands not used in operation pertains to the properties located at San Jose del Monte and San Idelfonso, Bulacan and Camarines Sur which were covered by the Comprehensive Agrarian Reform Program (CARP) of the Department of Agrarian Reform (DAR). The Landbank of the Philippines (LBP) have not yet paid for the value of these lands and NDC is still in the process of completing the necessary documents as required by the DAR.

Others principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P962.11 million through a Deed of Assignment dated September 16, 1983. ICB sold these assets to NDC as a means of rehabilitating the former pursuant to a Memorandum of Agreement executed by and among NDC, the then Central Bank of the Philippines, the Development Bank of the Philippines and ICB.

Deferred charges - Coal Operating Contract pertains to the project for the exploration, development, exploitation, production and utilization of the country's coal resources pursuant to the Coal Development Program under Presidential Decree No. 972 (Coal Development Act of 1976). NDC acquired the rights, titles and interest to the Coal Operating Project from Vulcan Industrial and Mining Corporation (VIMC). The project, however, did not commence commercial operations and the account had been outstanding since 1980. The amount of the project, which was provided with a full allowance for non-recovery, is part of the accounts requested for write-off from the Commission on Audit. Under COA Decision No. 2015-297, dated November 24, 2015, COA denied NDC's request to write-off the account in the amount of P42 million.

19. FINANCIAL LIABILITIES

This account consists of:

	2020	2019 (as restated)
Interest payable	**461,158,311**	461,158,311
Accounts payable	**23,076,283**	28,315,102
Due to officers and employees	**336,769**	389,089
	484,571,363	489,862,502

Interest payable pertains to the interest on advances from Bureau of Treasury (BTr) and domestic loans from DOLE Philippines, Inc.

Accounts payable consists of various expenditures already incurred but remained unpaid as of statement of financial position date.

Due to officers and employees represents various unpaid personnel services, terminal leave and claims of former NDC employees who are already retired/resigned.

20. LOANS PAYABLE

This account consists of guarantee fees amounting to P140 million for the 2nd tranche bond floatation of NDC Agri-Agra bonds and outstanding loan amounting to P4.052 million from DOLE Philippines, Inc.

The decrease in the account was due to the settlement made by NDC to BTr amounting to P116.283 million pertaining to the remaining balance of an interest-bearing Spanish loan to National Steel Corporation to finance the importation of goods and services used by the former in its operation and return of overpayment from the full settlement of the National Irrigation Administration's loan.

21. INTER-AGENCY PAYABLES

This account consists of:

	2020	2019 (as restated)
Income tax payable	**4,395,372**	9,497,101
Withholding taxes	**3,982,721**	3,827,891
Due to GSIS	**427,518**	532,906
Due to Pag-IBIG	**47,093**	41,809
Due to Philhealth	**38,646**	33,792
	8,891,350	13,933,499

This account includes income tax payable, taxes withheld from officers and employees, premium payments and other payables for remittance to GSIS, Pag-IBIG and Philhealth.

22. TRUST LIABILITIES

This account consists of:

	2020	2019
Current	**37,860,467**	36,625,643
Non-current	**41,390,354**	39,135,697
	79,250,821	75,761,340

Current account refers to an escrow account for the shareholders of a former affiliate, bid bonds and performance security received from bidders and suppliers.

Non-current account refers to security deposits received from various lessees under long-term lease.

23. DEFERRED CREDITS/UNEARNED INCOME

This account pertains mainly to advance rental received from various lessees amounting to P6.052 million and P8.915 million in 2020 and 2019, respectively.

In relation to the leases with various tenants, advance rentals are received by the Corporation upon signing of the lease contracts which the lessees can apply to the last three to four months of the leases.

24. PROVISIONS

This account consists of the following:

	2020	2019
Settlement of legal cases	**302,542,641**	298,777,620
Leave benefits	**5,927,106**	4,466,086
	308,469,747	303,243,706

The settlement of legal cases represents payable to Sta. Ines Melale Forest Products Corporation (Sta. Ines), et al., involving a case filed for collection of sum of money.

On April 22, 1985, Sta. Ines et al., instituted a collection suit against NDC for the payment of advances made to Galleon and the value of their equity in the Corporation.

On September 16, 2003, the Regional Trial Court (RTC) ruled in favor of Sta. Ines et al., and ordered NDC to pay the total amount of P61.89 million with interest of six per cent per annum from date of the filing of the case in 1985 up to full payment plus 10 per cent of the total amount due as attorney’s fees plus the cost of the suit.

NDC, through the Office of the Government Corporate Counsel (OGCC), appealed the case with the Court of Appeals (CA). The CA, in its Decision dated March 24, 2010, upheld the Decision of the RTC and increased the interest rate from six per cent per annum to 12 per cent per annum from the date of filing of the case until satisfaction of the judgment award. NDC filed a Motion for Reconsideration of the said Decision. The CA, on July 21, 2010, denied NDC's Motion for Reconsideration. On August 17, 2010, NDC filed a Petition for Certiorari with the Supreme Court (SC). On February 14, 2012, OGCC received SC Resolution, dated December 12, 2011, requiring NDC to file its comment to Development Bank of the Philippines' petition. NDC, through the OGCC, filed a Motion for Extension of Time to File Comment on February 21, 2012. On March 21, 2012, OGCC filed a comment with Motion to Consolidate Case.

On February 1, 2017, the SC rendered Decision affirming the March 24, 2010 Decision and July 21, 2010 Resolution of the CA with modifications. On March 21, 2017, OGCC filed a Motion for Reconsideration.On July 26, 2017, OGCC filed its Consolidated Comment with Motion to Refer Case to the Court En Banc.

On July 1, 2020, OGCC forwarded copy of Cuenca's Motion to Resolve re: Motion for reconsideration of the Decision dated February 1, 2017 and June 11, 2020.

On October 15, 2020, OGCC received the SC's order dated September 14, 2020. The Court noted the consolidated comment dated July 24, 2017 of NDC on the separate motions for partial reconsideration of respondents Cuenca, Tinio, Cuenca Investment Corporation and Universal Holdings Corporation and respondent Sta. Ines Melale Forest Products Corporation with motion to refer case to the Honorable Court En Banc and the motion to resolve re: motion for partial reconsideration on the decision dated June 11, 2020 of respondents Rodolfo Cuenca, Manuel Tinio, Cuenca Investment Corporation and Universal Holdings Corporation.

Leave benefits pertains to the accrual of money value of leave credits earned by NDC employees as of December 31, 2020 and 2019, respectively.

25. DIVIDENDS

This account consists of dividends from the following:

	2020	2019
Subsidiaries and other investments:		
Science Park of the Philippines, Inc.	**2,847,410**	4,271,115
Kamayan Realty Corporation	**0**	1,754,410
Pinagkaisa Realty Corporation	**0**	343,723
NDC-Philippines Infrastructure Corp.	**0**	306,287
	2,847,410	6,675,535
Associates accounted for using equity method	**372,227**	12,316,666
	3,219,637	18,992,201

The total dividends received for the years 2020 and 2019 amounted to P3.220 million and P18.992 million, respectively.

26. LEASE INCOME

The Corporation leases out its investment properties located in various parts of the country under an operating lease agreement with various private entities and government agencies.

Lease contracts are negotiated for varying terms from one to twenty-five years with option to renew clauses. Escalation rate ranging from six per cent to ten per cent were imposed either yearly or on specific intervals while in certain cases, escalation rate is based on actual inflation rate. Some lease contracts contain provisions stating that the lessee shall pay the real property taxes for the leased premises.

The lease income earned by the Corporation from its investment properties under operating leases amounted to P187.686 million and P191.424 million in 2020 and 2019, respectively. Meanwhile, direct operating expenses consisting of real property taxes, security services and repairs and maintenance of the properties incurred from these investment properties amounted to P31.262 million and P29.056 million in 2020 and 2019, respectively (see Note 16).

27. PERSONNEL SERVICES

This account consists of the following:

	2020	2019 (as restated)
Salaries and wages	**22,060,058**	22,694,082
Other compensation	**7,012,357**	6,649,861
Personnel benefit contributions	**2,959,305**	2,955,068
Other personnel benefits	**1,666,178**	2,287,356
	33,697,898	34,586,367

28. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2020	2019 (as restated)
Taxes, insurance premiums and other fees	**40,829,956**	37,378,068
General services	**27,414,202**	27,340,958
Professional services	**10,831,355**	12,721,750

	2020	2019 (as restated)
Impairment loss	**3,501,044**	11,610,155
Depreciation	**2,425,056**	2,348,462
Utility	**2,350,612**	2,802,975
Repairs and maintenance	**2,008,797**	3,829,584
Supplies and materials	**1,707,304**	1,178,714
Confidential, intelligence and extraordinary	**1,170,776**	2,701,908
Communication services	**1,103,156**	1,147,697
Training and scholarship	**574,008**	1,043,336
Traveling	**127,347**	649,220
Other maintenance and operating expenses	**1,981,609**	4,261,607
	96,025,222	109,014,434

29. OTHER INCOME (EXPENSES)

This account consists of the following:

	2020	2019 (as restated)
Gain/(Loss) from changes in fair market value of investment property, net	**2,248,279,814**	1,333,958,698
Miscellaneous income	**8,060,872**	76,653,312
Share in net profit/(loss) of associates	**(49,028,661)**	(41,427,533)
Financial expenses	**(25,997,357)**	(66,392,354)
Gain/(Loss) on foreign exchange, net	**(11,018,400)**	(6,740,246)
Share in the profit/(loss) of joint venture	**(1,966,227)**	(1,397,539)
	2,168,330,041	1,294,654,338

Gain/(Loss) from changes in fair value of investment property pertains to the net increase in fair value of investment properties based on the appraisal conducted in 2020 and 2019.

Miscellaneous income includes income arising from excess of standard input value added tax (VAT) for sales of goods and services to government over actual input VAT as required by Bureau of Internal Revenue, assessment charges from lessees and reversal of impairment losses provided for rental receivables.

Share in net profit/(loss) of associates pertains to proportionate share in the profit or loss of investee under investment in associates.

Financial expenses pertain to interest charges paid for the use of borrowed money, bank and financial charges.

Gain/(Loss) on foreign exchange represents the foreign exchange differential arising from the translation of foreign currency denominated items.

Share in the profit/(loss) of joint venture pertains to proportionate share of Philippine National Oil Company – Renewables Corporation and NDC in the profit or loss of Rizal Hydro Power Project.

30. INCOME TAX EXPENSE

Income tax expense for the years ended December 31 consists of:

	2020	2019 (as restated)
Current	**40,949,681**	116,011,110
Deferred	**669,022,878**	299,461,408
	709,972,559	415,472,518

Reconciliation between statutory tax and effective tax is as follows:

	2020	2019 (as restated)
Income tax at statutory rate	**703,458,504**	470,974,894
Dividend income not subject to income tax	**(854,223)**	(2,002,661)
Impairment/share in net loss of affiliates	**14,708,598**	12,428,260
Income subjected to final tax	**(33,070,282)**	(46,971,285)
Other reconciling items	**25,729,962**	(18,956,690)
	709,972,559	415,472,518

An analysis of deferred tax asset and deferred tax liabilities follows:

	2020	2019 (as restated)
Deferred tax assets on:		
Allowance for impairment	**732,854,053**	731,846,639
Unrealized foreign exchange gain	**3,305,520**	(1,471,094)
Deferred tax liabilities on:		
Rental receivables	**(17,378,083)**	(11,023,670)
Interest receivables	**(22,046,150)**	(29,754,037)
Investment property	**(5,444,239,157)**	(4,768,078,779)
Net deferred tax liability	**(4,747,503,817)**	(4,078,480,941)

The net current tax payable after applicable creditable withholding taxes is as follows:

	2020	2019 (as restated)
Tax due	**40,949,681**	116,011,110
Creditable withholding tax	**(8,022,865)**	(10,412,106)
Income taxes paid for first three quarters	**(28,531,445)**	(96,101,903)
	4,395,371	9,497,101

31. SHARE CAPITAL

This account represents the capital infusion of the National Government (NG) from 1937 to 2002 aggregating to P8.600 billion. The Corporation has an authorized capital stock of P10 billion, the amount to be subscribed by the NG and to be paid up in accordance with project funding requirements.

32. RESTATEMENT OF ACCOUNTS

The 2019 financial statements were restated to reflect the following transactions/adjustments:

<u>CY 2018 errors discovered in 2019 and 2020</u>

	December 31, 2018 (As previously restated)	Restatements/ Adjustments	January 1, 2019 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net-current	**238,440,423**	**2,249,336**	**240,689,759**
Under accrual of rental receivables		*2,152,588*	
Recognition of rental rate adjustment		*239,226*	
Under accrual of assessment charges		*3,498*	
Reclass of housing loan receivable		*(145,976)*	
Inventories	**0**	**1,273,226**	**1,273,226**
Recognition of inventories held for consumption		*1,273,226*	
Other current assets	**47,602,754**	**(16,511,360)**	**31,091,394**
Reclassification of restricted fund (held-in-trust)-non-current asset		*(15,238,134)*	
Reclassification of inventories held for consumption		*(1,273,226)*	
Investments	**2,061,767,512**	**(2,061,767,512)**	**0**
Reclassification of investments		*(2,061,767,512)*	
Financial assets	**0**	**1,234,337,197**	**1,234,337,197**
Reclassification of investments		*1,234,337,197*	
Investments in associates/affiliates	**0**	**228,668,296**	**228,668,296**
Reclassification of investments		*228,668,296*	
Investments in subsidiaries	**0**	**402,315,129**	**402,315,129**
Reclassification of investments		*402,315,129*	

	December 31, 2018 (As previously restated)	Restatements/ Adjustments	January 1, 2019 (As restated)
Other investments	**0**	**196,446,890**	**196,446,890**
Reclassification of investments		*196,446,890*	
Receivables, net-non-current	**1,362,026,164**	**(142,569)**	**1,361,883,595**
Reclass of housing loan receivable		*(142,569)*	
Investment property	**15,217,009,481**	**310,200**	**15,217,319,681**
Reclass of repossessed house and lot from housing loan receivable		*310,200*	
Other non-current assets and deferred charges	**28,704,629**	**15,238,134**	**43,942,763**
Reclassification of restricted fund (held-in-trust)-non-current asset		*15,238,134*	
Restatement on total assets- net increase		2,416,967	
Accounts payable	**43,319,734**	**(43,319,734)**	**0**
Reclassification of accounts payable		*(43,319,734)*	
Interest payable	**430,249,563**	**(430,249,563)**	**0**
Reclassification of Interest payable		*(430,249,563)*	
Financial liabilities	**0**	**473,572,297**	**473,572,297**
Reclassification of Interest payable		*430,249,563*	
Reclassification of accounts payable		*43,319,734*	
Over and under accrual of various maintenance and other operating expenses		*3,000*	
Add: Restatement on total liabilities- increase		3,000	
Restatement on statement of financial position- net increase		**2,413,967**	

CY 2019 errors discovered in 2020

	December 31, 2019 (As previously reported)	Restatements/ Adjustments	December 31, 2019 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net- current	**211,999,879**	**17,107,466**	**229,107,345**
Under accrual of rental receivables		*15,180,906*	
Recognition of rental rate adjustment		*239,226*	
Under accrual of interest receivable		*1,874,812*	
Under accrual of assessment charges		*3,498*	
Reclass of housing loan receivable		*(145,976)*	
Reclassification of advances to officers and employees		*(45,000)*	
Inventories	**0**	**1,562,720**	**1,562,720**
Recognition of inventories held for consumption		*1,562,720*	
Other current assets	**51,699,910**	**(21,203,896)**	**30,496,014**
Reclassification of restricted fund (held-in-trust)-non-current asset		*(19,456,230)*	
Reclassification of inventories held for consumption		*(1,562,720)*	
Adjustments on 50% interest in the joint operation with PNOC RC		*(229,946)*	
Recognition of advances to officers and employees		*45,000*	

	December 31, 2019 (As previously reported)	Restatements/ Adjustments	December 31, 2019 (As restated)
Investments	**2,027,991,474**	**(2,027,991,474)**	**0**
Reclassification of investments		*(2,027,991,474)*	
Financial assets	**0**	**1,094,204,732**	**1,094,204,732**
Reclassification of investments		*1,094,204,732*	
Investments in associates/affiliates	**0**	**234,924,097**	**234,924,097**
Reclassification of investments		335,024,723	
Adjustment on investments related to equity share under investment in associates		*(100,100,626)*	
Investments in subsidiaries	**0**	**402,315,129**	**402,315,129**
Reclassification of investments		*402,315,129*	
Other investments	**0**	**196,446,890**	**196,446,890**
Reclassification of investments		*196,446,890*	
Receivables, net-non-current	**53,789,988**	**(142,569)**	**53,647,419**
Reclass of housing loan receivable		*(142,569)*	
Investment property	**16,553,073,011**	**310,200**	**16,553,383,211**
Reclass of repossessed house and lot from housing loan receivable		*310,200*	
Other non-current assets and deferred charges	**28,704,629**	**19,456,230**	**48,160,859**
Reclassification of restricted fund (held-in-trust)-non-current asset		*19,456,230*	
Restatement on total assets- net decrease		(83,010,475)	
Accounts payable	**28,640,375**	**(28,640,375)**	**0**
Reclassification of accounts payable		*(28,640,375)*	
Interest payable	**461,158,311**	**(461,158,311)**	**0**
Reclassification of Interest payable		*(461,158,311)*	
Financial liabilities	**0**	**489,862,502**	**489,862,502**
Reclassification of Interest payable		*461,158,311*	
Reclassification of accounts payable		*28,640,375*	
Over and under accrual of various maintenance and other operating expenses		*63,816*	
Inter-agency payables	**13,931,572**	**1,927**	**13,933,499**
Adjustment on premium payments to GSIS		*1,927*	
Deferred tax liability	**4,073,214,579**	**5,266,362**	**4,078,480,941**
Adjustment of deferred tax due to restatement of 2019 accounts		*5,266,362*	
Add: Restatement on total liabilities- net increase		5,332,105	
Restatement on statement of financial position- net decrease		**(88,342,580)**	
STATEMENT OF COMPREHENSIVE INCOME			
Lease Income	**178,395,516**	**13,028,318**	**191,423,834**
Over and under accrual of rental receivables		*13,028,318*	
Interest income	**218,467,374**	**2,156,034**	**220,623,408**
Under accrual of interest receivables		*2,156,034*	
Personnel services	**34,584,440**	**1,927**	**34,586,367**
Under accrual of personnel benefit expenses		*1,927*	
Maintenance and other operating expenses	**108,953,618**	**60,816**	**109,014,434**
Over and under accrual of various		*60,816*	

	December 31, 2019 (As previously reported)	Restatements/ Adjustments	December 31, 2019 (As restated)
maintenance and other operating expenses			
Other income (expenses), net	**1,395,266,132**	**(100,611,794)**	**1,294,654,338**
Adjustment on investments related to equity share under investment in associates		*(100,100,626)*	
Adjustment on 50% interest in the joint operation with PNOC RC		*(229,946)*	
Adjustment on tax on money market placements		*(281,222)*	
Income tax expense-deferred tax	**294,195,046**	**5,266,362**	**299,461,408**
Adjustment of deferred tax due to restatement of 2019 accounts		*5,266,362*	
Restatement on profit or loss- net decrease		**(90,756,547)**	
Total restatement on 2019 financial statements		**(179,099,127)**	

The Corporation presented three Statements of Financial Position in compliance with the requirements of PAS 1, *Presentation of Financial Statements,* to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

33. RELATED PARTIES

Key Management includes the board of directors, all members of Management and other Corporation officers. Key Management compensation totaled P9.897 million and P9.605 million in 2020 and 2019, respectively. A breakdown of these amounts follows:

	2020	2019
Salaries and allowances	**8,259,726**	8,203,196
Other benefits	**1,637,714**	1,401,608
	9,897,440	9,604,804

34. COMPLIANCE WITH REPUBLIC ACT No. 7656

Pursuant to Republic Act No. 7656, requiring government-owned or controlled corporations and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government, NDC remitted to the Bureau of the Treasury P720.000 million and P100.574 million in CYs 2020 and 2019, respectively. Similarly, the following NDC subsidiaries remitted total dividends of P2.404 million in 2019, which represent NDC's share in the dividends, broken down as follows:

	2020	2019
Kamayan Realty Corporation	**0**	1,754,410
Pinagkaisa Realty Corporation	**0**	343,723
NDC-Philippines Infrastructure Corp.	**0**	306,287
	0	2,404,420

35. CONTINGENT ASSETS/CONTINGENT LIABILITITES

The Corporation, in the normal course of business, became party to litigations. Cases/petitions were filed for or against NDC and are now pending before the appellate courts, the lower courts and certain administrative bodies. These cases involve civil actions for collection of sum of money, reconveyance of property/title, payment of just compensation, specific performance and action for refund of taxes withheld.

Since the ultimate outcome of the cases cannot presently be determined, claims for assets and provision for any liability that may result have not been recognized in the financial statements.

The details of NDC pending cases as of December 31, 2020 are as follows:

Title of Case	Nature	Amount	Status
Mero Structures, Inc. vs. Asian Construction FCCC and NDC. (CA-GR CV No. 98844 Civil Case No. 02-206 RTC Makati, Branch 145).	Sum of money	P5 million	On May 23, 2016, Office of the Government Corporate Counsel (OGCC) filed Comment on the Petition for Review. On September 17, 2020, OGCC received Supreme Court's (SC) August 24, 2020 Resolution directing the Court of Appeals (CA) to

Title of Case	Nature	Amount	Status
			elevate the complete records of CA GR CV 98844 within 10 days from notice.
NDC vs. JAO & Company. (CA-GR CV No. 50087 Civil Case No. R-81-1226 RTC-Manila, Br. 38).	Sum of money	P7.520 million plus six per cent interest per annum and liquidated damages of five per cent for the principal obligation and interest.	The court granted NDC's Motion for Execution on September 22, 2014. To date, the court has not issued the Writ of Execution.
Victoria Corcelles Abunda, et al. vs. NDC, et al. (DARAB Case No. X-678-SC-2000).	Reconveyance	No amount involved as the issue to be resolved is ownership.	Awaiting Order from Regional Trial Court for the submission of position paper. As of December 2020, no other related documents have been received.
Liwanag L. Cruz, et al. vs. Juanito F. Galumo and Register of Deeds of South Cotabato. (Civil Case No. 12-436, RTC-Br. 39, Polomolok, South Cotabato).	Annulment of deed of sale, reconveyance of real properties, damages with prayer for preliminary mandatory injunction	No amount involved as the issue to be resolved is ownership.	In the Order dated December 2, 2020, the court granted plaintiff's and DARBCI's Motion for Reconsideration and declared null and void the deed of sale allegedly executed by Cruz in favor of Galumo and that the properties to be reconveyed to DARBCI. NDC filed a Partial Motion for Reconsideration praying that the properties be reconveyed instead to NDC.

Title of Case	Nature	Amount	Status
Primo Gelacio vs. NDC-Guthrie Plantations, Inc. & NDC Luzviminda Gelacio-Bahala vs. NDC GR No. 138736 (CA-GR CV No. 43924).	For recovery of possession with damages and attorney's fees.	P100,000 more or less (principal only)	On November 10, 2018, the Court issued Writ of Execution, copy of which was received by NDC on December 11, 2018. To date, no other related documents have been received.
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer (PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg. Case No. XI-608-SC-99).	Reconveyance	No amount involved as the issue to be resolved is ownership.	On September 17, 2020, OGCC received a copy of SC's July 13, 2020 Resolution noting the comments of Dolefil Agrarian Reform on NDC's Motion for Reconsideration (MR) dated July 11, 2018 and awaiting for the comments of respondents DAR and Register of Deeds of South Cotabato on NDC's MR.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15th Division).	Determination of just compensation	P2.737 million	The SC remanded the case to RTC for the determination of just compensation.
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City).	Determination of just compensation	Per Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately P3.2 million (principal only)	On January 20, 2020, OGCC received a copy of Plaintiff's Motion for Writ of Execution dated January 1, 2020.

Title of Case	Nature	Amount	Status
			On December 7, 2020, OGCC received a copy of the Plaintiff's Third Request for Hearing of the Motion for Writ of Execution dated January 1, 2020.
NDC vs. Commissioner of Internal Revenue. (DOJ Case No. 91-06).	Refund of taxes	P0.660 million	Submitted for Department of Justice's resolution. OGCC has yet to receive the CIR's resolution.
NDC vs. Hon. Jim O. Sampulna, in his capacity as Regional Executive Director of Department of Environment & Natural Resources (DENR), Region XII, Koronadal City, Sps. Valencia. CA-GR SP No. 02444 [Ildefonso Tabiling (Dec) (now Enriqueta Montaño) s. Pascual Boada, NDC represented by its GM or President and DOLE Phils.). RED CLAIM NO. 038-2003 CENRO CLAIM NO. 84 LOT NO. 13-Gss-390]	Petition for Certiorari with TRO or Preliminary Injunction	No amount involved as the issue to be resolved is ownership.	On January 7, 2014, OGCC received a Resolution dated November 19, 2013 directing the Division Clerk of Court to issue an Entry of Judgment in this case.
Mateo Rubio et al. vs. DOLE Phils., et al. (DARAB Case No. XII-1067-SC-2009).	For Declaration of Nullity of Transfer, Recovery of Possession Cancellation of Title of Lot No. 65 (1161) PLS 247-D	No amount involved as the issue to be resolved in this case is ownership.	Filed Answer with Compulsory Counterclaim on August 20, 2009. As of December 31, 2020, no further court order or any related document has been received.

Title of Case	Nature	Amount	Status
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)	Action for annulment of title	- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The RTC denied the Motion for Reconsideration filed by NDC. A notice of appeal was filed by NDC to CA on March 2018. The CA ordered the appellants to file their respective briefs. Awaiting further instructions from CA.
Philippine Associated Smelting and Refining Corp. (PASAR) v. NDC Case No. R-ORM-09-00009-CV RTC-Br. .35 Ormoc City CC R-ORM-15-00078-CV	For quieting of title with prayer for temporary restraining order and/or writ of preliminary injunction	No amount involved as the issue to be resolved is ownership.	In February 2020, NDC filed its Formal Offer of Evidence. The case is now submitted for Resolution.

36. GENDER AND DEVELOPMENT

The Company allotted P1.803 million for Gender and Development (GAD) program for CY 2020. The GAD fund was utilized for programs that are cognizant of the strict austerity and expenditure-efficiency measures being observed among government agencies, in accordance with the purpose of GAD Plans and Programs. Various activities were undertaken by the Company.

37. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, hereunder are the information on taxes, duties and license fees paid during the year:

a. Taxes and licenses (National and Local):

Real estate tax	37,860,598
Mayor's permit	1,463,145
Community tax certificate	10,500
Annual registration-BIR	500
	39,334,743

b. Withholding taxes paid:

Tax on compensation	4,222,377
Creditable withholding taxes	2,419,483
	6,641,860

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. Receivables amounting to P1.240 billion which was already provided with 100 per cent allowance for impairment, remained dormant and have been outstanding in the books for more than 10 years were classified as current assets which is not compliant with Paragraph 66 of Philippine Accounting Standard (PAS) 1 and COA Circular No. 2016-005 dated December 19, 2016.

1.1 Paragraph 66 of PAS 1 provides that:

An entity shall classify an asset as current when:

(a) it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
(b) it holds the asset primarily for the purpose of trading;
(c) it expects to realize the asset within twelve months after the reporting period; or
(d) the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

1.2 Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016 states that:

All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable xxx.

1.3 Dormant receivables as defined under the same Circular are accounts with balances that remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.

1.4 In addition, COA Circular No. 2016-005, provides the updated guidelines, procedures and delegation of lower adjudicating bodies of the Commission regarding the approval of requests for write-off of dormant receivable accounts, unliquidated cash advances and fund transfers of National Government Agencies, Local Government Agencies, and Government-Owned and Controlled Corporations.

1.5 Audit of the various receivable accounts disclosed that the following receivables with an aggregate outstanding balance of P1.240 billion remained dormant/non-moving for more than 10 years as of December 31, 2020, details are shown below:

Receivable Account	Amount
Due from subsidiaries/associates/affiliates	536,101,475
Due from National Government (NG)	3,252,978
Loans and interest receivables (subsidiaries/associates/affiliates)	700,858,955
	1,240,213,408

1.6 Of the amount stated above, we have noted that P1.237 billion were advances and loans granted to subsidiaries/associates/affiliates of NDC which are already dissolved or inactive. Meanwhile, the amount due from NG pertains to expenses incurred in the transfer of various accounts to NG. Thus, the possibility of collection is remote.

1.7 These receivable accounts were already provided 100 per cent allowance for impairment.

1.8 NDC requested for write-off of various dormant receivable accounts in December 2016 and January 2020 with an aggregate amount of P320.904 million but both requests were returned due to lack of documents required to support the request for write-off under paragraphs 7.4 and 8.3 of COA Circular No. 2016-005. According to Management, they are continuously gathering and locating documents for the re-filing of the said request for write-off, but to date no request for write-off has been refiled.

1.9 **We reiterated our prior year's recommendation that Management:**

a. Reclassify Due from subsidiaries/associates/affiliates/NG and loans and interest receivables to non-current assets in order to comply with the provisions of Paragraph 66 of PAS 1;

b. Intensify effort to collect/recover the dormant accounts; and

c. Require the Accounting Department in collaboration with the Legal Department to file requests for write-off of dormant accounts with the COA, duly supported with documents pursuant to COA Circular No. 2016-005 dated December 16, 2016 on the proper disposition/closure of the dormant accounts.

1.10 Management informed that they had already gathered the documents necessary for the re-filing of the request for write-off aggregating P320.904 million. Management further commented that for the remaining dormant accounts, NDC shall evaluate and will gather supporting documents for possible filing of request for its write-off.

1.11 The Audit Team will monitor the re-filing of the request for write-off amounting to P320.904 million and the filing of request for write-off for the remaining dormant accounts.

2. Confirmation with the Bureau of the Treasury (BTr) of the loans and interest payable accounts disclosed an unreconciled difference of P89.691 million casting doubt on the accuracy of the balance of the account, contrary to the Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities.

2.1 The Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities issued by the International Accounting Standards Board in

October 2014 includes, among others, the following qualitative characteristics of useful information included in the general-purpose financial statements in order to support the achievement of the objectives of financial reporting:

3.1 GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

Faithful representation

3.10 To be useful in financial reporting, information must be faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomena is complete, neutral, and free from material error xxx.

2.2 Confirmation made with BTr of loans and interest payable as of December 31, 2020, to ascertain the existence and accuracy of the recorded account balances, disclosed a discrepancy of P89.691 million, as shown below:

Creditor	**Balance per NDC Books**	**Balance per Confirmation**	**Variance**
Bureau of the Treasury			
Guarantee fee	140,000,000	140,000,000	0
Advances and interest	456,620,150	366,928,668	89,691,482
	596,620,150	**506,928,668**	**89,691,492**

2.3 The discrepancy of P89.691 million between the balance per books and the confirmed balance of loans and interest payable as of December 31, 2020, pertains to the overpayment of the National Government in behalf of National Irrigation Administration (NIA) on the full settlement of its loan with NDC.

2.4 On June 19, 2019, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-C-19-0005079 amounting to P1.498 billion for full settlement of NIA's loan to NDC of P1.409 billion (principal of P975.000 million and interest of P434.178 million), resulting in an overpayment of P89.691 million.

2.5 The said overpayment on the full settlement of NIA's loan was recorded as payable to BTr in the books of NDC amounting to P89.691 million. On April 30, 2020, NDC returned to BTr the overpayment from the full settlement of NIA's loan. However, confirmation of payables to BTr, disclosed that BTr applied the said amount returned by NDC to its advances and interest due to BTr which resulted in a variance of P89.691 million.

2.6 **We reiterated our prior year's recommendation that Management continuously coordinate with BTr to reconcile the noted discrepancy and adjust the balances in the books of accounts, to arrive at the correct balances of Loans and Interest Payable to BTr in the financial statements.**

2.7 Management commented that they tried to schedule a meeting with the Department of Budget and Management (DBM) to clarify the excess appropriations of P89.691 million to NDC, however, due to the pandemic the meeting did not push through. NDC will send a letter to DBM requesting for clarification on the application of the amount returned by NDC representing excess payment of NIA's loan.

2.8 The Audit Team shall monitor Management's compliance with the recommendation.

3. Investment properties amounting to P58.970 million with an aggregate area of 30,930 square meters are not titled in the name of NDC thereby negating management's assertion on its rights and obligations pertaining thereto.

3.1 The following four items are classified as assertions related to the ending balances of accounts, and relate primarily to the balance sheet:

- Completeness. The assertion is that all reported asset, liability, and equity balances have been fully reported.
- Existence. The assertion is that all account balances exist for assets, liabilities, and equity.
- **Rights and obligations. The assertion is that the entity has the rights to the assets it owns and is obligated under its reported liabilities.**
- Valuation. The assertion is that all asset, liability, and equity balances have been recorded at their proper valuations. (Highlighting supplied)

3.2 Review of the Inventory of Land Assets submitted by the Asset Management Group, disclosed that the following properties were not titled under the name of NDC although recorded in its books as Investment Properties:

Location	Area (sq.m.)	Amount	Date of Acquisition	Mode of Acquisition	Status
Bonot, Legazpi City, Albay	400	2,880,000	September 16, 1983	Assigned Asset - International Corporate Bank (ICB)	TCT is under the name of ICB; the exact location and boundaries cannot be determined. Titling in the name of NDC is ongoing.
Calatagan, Batangas	1,131	2,490,000	September 16, 1983	Assigned Asset - ICB	The issuance of the Certificate Authorizing Registration had been deferred pending submission of ICB pertinent documents, as requested by BIR; titling is ongoing.

Location	Area (sq.m.)	Amount	Date of Acquisition	Mode of Acquisition	Status
Puerto, Cagayan de Oro	3,352	7,710,000	December 18, 1976	Donation - Philippine Packing Corporation	Shall be covered by the Community Mortgage Program; occupied by illegal settlers.
San Francisco, Del Monte, Quezon City	623	37,190,000	September 16, 1983	Assigned Asset - ICB	NDC requested for reconstitution of title since original owner was nowhere to be found; awaiting issuance of the Order of Finality of Judgment; fully occupied by illegal settlers.
Talakag, Bukidnon	450	810,000	September 16, 1983	Assigned Asset - ICB	Titling process is ongoing.
Bo. Langihan, Butuan City	24,974	7,890,000	May 22, 1975	Donation - Mobil Oil Philippines, Inc.	Slated for titling.
	30,930	**58,970,000**			

3.3 As shown above, large portion of the properties were idle and occupied by informal settlers, hence, these properties being untitled in the name of NDC may give rise to possible land disputes, third party claims and proliferation of more informal settlers that may not be prevented.

3.4 The documents held by NDC to assert their rights and ownership over the properties are Transfer Certificate of Titles (TCTs) under the name of previous/original owners and Tax Declarations of Real Property which affects the legality/validity of ownership or rights of NDC over the said properties.

3.5 Furthermore, as indicated in the table above, titling process of most of the properties is on-going, however, we noted enormous delay in the titling considering that these assets were acquired more than 37 to 45 years ago.

3.6 Titling of land in NDC's name is necessary to confirm or to dispel doubts as to its legal ownership and ultimately establish rights and ownership over said properties.

3.7 **We recommended that Management take appropriate action to expedite titling of these land in NDC's name.**

3.8 Management commented that the titling of properties is taking some time to process considering that it requires research and backtracking of transactions/documents that happened way back in the 1970s to 1980s. Each property has its own complexities that needs to be addressed before titling can be processed.

3.9 Management further commented that they are exerting effort to perfect the NDC ownership over the said properties. In fact, the personnel that handle the processing of the transfer of titles of various properties acquired from ICB and other entities already prepared an action plan for its titling. However, due to COVID-19 pandemic and the restrictions on travel in 2020, employees could not physically transact with the Registry of Deeds, Bureau of Internal Revenue, and other government agencies which are necessary for the titling of the assets in the name of NDC.

3.10 Management also informed that, a revised action plan was prepared to continue with the processing of the transfer of titles to NDC.

3.11 The Audit Team shall monitor Management's action in the titling of investment properties in the name of NDC.

4. The validity and reliability of the Rental Receivable account amounting to P57.927 million is doubtful due to: a) existence of dormant and past due accounts of P21.297 million which have been outstanding for several years; and b) variance between the balance per books and confirmed balances in the amount of P14.427 million.

4.1 As of December 31, 2020, Rental Receivable had a book balance of P57.927 million with corresponding allowance for impairment losses of P21.970 million or a net carrying amount of P35.957 million. Breakdown of the account is as follows:

	Rental Receivable	Allowance for Impairment Losses	Carrying Amount
Dormant accounts (10 years or more)	3,550,932	3,550,932	0
Inactive accounts (less than 10 years)	17,745,718	17,745,718	0
Other accounts with allowance for impairment	1,823,200	672,856	1,150,344
Fully realizable accounts	34,807,094	0	34,807,094
	57,926,944	**21,969,506**	**35,957,438**

a. The balance of Rental Receivable account includes dormant and inactive accounts classified under current assets which is not in accordance with Paragraph 66 of Philippine Accounting Standard (PAS) 1.

4.2 Paragraph 66 of PAS 1 provides that:

An entity shall classify an asset as current when:

(a) it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
(b) it holds the asset primarily for the purpose of trading;
(c) it expects to realize the asset within twelve months after the reporting period; or
(d) the asset is cash or a cash equivalent (as defined in PAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

4.3 COA Circular No. 2016-005 dated December 19, 2016 prescribes the guidelines and procedures in reconciling and cleaning the books of accounts of NGAs, LGUs, and GOCCs of dormant receivables, unliquidated cash advances, and fund transfers for fair presentation in the financial statements.

4.4 Rental Receivable accounts presented under current assets as of December 31, 2020 include dormant and inactive accounts which is not in accordance with par. 66, PAS 1 as shown below:

Lessees	Outstanding Balance	No. of years dormant	Remarks
Manila Pest Control	520,000	More than 10 years	100% Allowance for Impairment provided
Sweet Lines, Inc.	2,693,036		
Senate of the Philippines	12,839		
Francisco, Merlando G.	106,531		
DTI/HITR	94,344		
Spectrum Engineering & Consultancy	124,182		
PITC Pharma, Inc.	9,203,758	3.75	100% Allowance for Impairment provided
Bouguel's Eatery	8,929	4.25	
Ecobay Property Management, Inc.	157,565	5.00	
Renato V. Diaz	2,934,600	5.51	
Al Amanah Islamic Bank of the Phils.	120,168	7.90	
Sampaguita Travel Corp.	186,346	8.00	
Traveltipid. Com	56,036	8.00	
Panay Railways, Inc.	5,078,316	9.51	
Total	**21,296,650**		

4.5 Dormant receivables are accounts with balances that remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained. However, Management should exhaust all possible means to recover/collect these long overdue accounts, even though the accounts were already provided 100 per cent allowance for impairment.

b. Confirmation of various rental receivable accounts disclosed an unreconciled variance of P14.427 million.

4.6 Under the Conceptual Framework for Financial Reporting 2018, for a financial information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. To be a perfectly faithful representation, a depiction would have three characteristics: it would be complete, neutral and free from error.

4.7 In December 2020, the Audit Team sent 59 negative confirmation letters to various lessees of NDC to verify the completeness and accuracy of the recorded balance of rental receivables account. However, only 17 lessees responded, replies of ten lessees of which showed variances from the accounting records.

4.8 Evaluation of the replies received showed a variance amounting to P14.427 million. The results of confirmation cast doubts on the accuracy of recorded rental receivable. Summary of the result is presented below:

Lessee	Balance per Books	Amount Confirmed	Variance
Department of Trade & Industry (DTI)	1,647,865	0	1,647,865
Lepanto Mining Corporation (LMC)	1,309,995	1,310,544	549
Phil. Associated Smelting & Refining Corp. (PASAR)	4,936,921	501,499	4,435,422
LIDE Management Corporation (LIDE)	8,932,744	5,969,105	2,963,639
Al Amanah Islamic Bank of the Phils.	120,168	0	120,168
Senate of the Philippines	12,839	0	12,839
Panay Railways, Inc. (PRI)	5,078,316	0	5,078,316
Spectrum Engineering & Consultancy	124,182	0	124,182
Governance Commission for GOCCs (GCG)	12,760	0	12,760
San Miguel Yamamura Packaging Corp. (SMYPC)	31,157	0	31,157
	22,206,947	**7,781,148**	**14,426,897**

4.9 Further analysis of the above lessees' accounts revealed the following:

Lessee	Remarks
DTI	An amount equal to P0.788 million of the total variance was traced back as early as 2007. The other sources of the variance are as follows: P0.619 million represents various accruals in 2016; P152,602 is for a 2010 penalty, while the remaining balance pertains to the accumulated differences of accruals and payments from 2017 to 2019.
LMC	For 2020, the lessee only paid rentals for the months of January to April. The variance pertains to unrecorded penalty.
PASAR	The amount confirmed is equivalent to PASAR's monthly rental. The variance pertains to the unsettled portion of back rentals mostly paid in 2019 and accumulated underpayment in the same year.
LIDE	An adjustment was made in December 2020 reclassifying prior period RPTs from Other Income Receivable and Other Non-Income Receivable to Rental Receivables account.
Al Amanah Islamic Bank of the Phils.	Variance was equal to the long outstanding balance for more than seven years.
Senate of the Philippines	Variance was equal to the long outstanding balance for more than 13 years.
PRI	Variance was equal to the long outstanding balance for more than nine years. However, PRI commented in the confirmation letter that they have no record of any obligation to NDC on their file.
Spectrum Engineering & Consultancy	The variance is equal to the long outstanding balance of the lessee for more than 13 years.
GCG	The variance pertains to the 2019 outstanding balance.
SMYPC	The variance refers to 2018 penalties on late payment.

4.10 **We recommended that Management:**

a. **Coordinate with the inactive lessees whose accounts are not yet deemed dormant and discuss the settlement of their long outstanding balances;**

b. **Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for approval for write-off pursuant to COA Circular No. 2016-005 on the proper disposition/closure of the dormant accounts is warranted;**

c. **Coordinate with the representatives of DTI, LMC, GCG, and SMYPC to discuss the settlement of their outstanding obligations;**

d. **Coordinate and reconcile with PASAR, LIDE Management Corporation, and PRI to determine the cause of the large discrepancy in the recorded rental receivables and adjust the balances accordingly;**

e. **Gather supporting documents on the accounts of Al Amanah Islamic Bank of the Phils., Senate of the Philippines, and Spectrum Engineering & Consultancy and request for write-off, if warranted; and**

f. **Analyze the variances noted from the confirmation, reconcile with the corresponding lessees and prepare adjusting entry, if necessary.**

4.11 Management commented that collection letters dated December 2020 were sent to various lessees and supporting documents were gathered to support request for write-off.

4.12 NDC has been coordinating with its lessees to reconcile their accounts. Out of the 17 accounts, seven accounts were already reconciled while the remaining 10 accounts are still for evaluation.

4.13 The Audit Team will monitor Management's actions on the issue at hand.

5. **The accuracy, reliability and existence of Property and Equipment (PE) costing P1.330 billion with carrying amount of P49.969 million as of December 31, 2020 is doubtful due to: a) unreconciled variance of P10.451 million between the accounting records and the physical inventory report; b) incomplete physical count of PE, wherein only P36.639 million or 2.75 per cent were included in the periodic physical count as at year end; and c) inclusion of unserviceable ICT equipment amounting to P2.321 million which remained undisposed and still recorded in the books.**

5.1 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (GPFR) described that:

> *Reliable information as information that is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.*

5.2 Also, under Section 58 of Presidential Decree No. 1445 also known as the State Auditing Code of the Philippines provides that:

> *The examination and audit of assets shall be performed with a view to ascertaining their existence ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records, proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts.*

5.3 Our audit of the Property and Equipment accounts disclosed the following:

a. As at December 31, 2020, NDC conducted physical count of various property and equipment located in the NDC Building in Makati City. Review of the submitted Report on Physical Count of PPE (RPCPPE) disclosed a significant variance between the General Ledger balances and balances per RPCPPE as shown hereunder:

Account	Balance Per Books	Balance Per RPCPPE	Variance
Office Equipment	11,834,436	10,479,037	1,355,399
Information and Communication Technology Equipment	19,435,065	11,514,422	7,920,643
Sports Equipment	112,857	0	112,857
Furnitures and Fixtures	5,256,645	4,194,875	1,061,770
	36,639,003	**26,188,334**	**10,450,669**

Review of the submitted RPCPPE revealed various errors and deficiencies noted such as:

i. Several items amounting to P0.963 million not found during the count were included in the RPCPPE. These items should be considered/ reported as non-existing or missing which shall be indicated under the Remarks column of the Inventory Count form.

ii. Office Equipment and Sports Equipment amounting to P442,956 were reported/included twice in the RPCPPE as Office Equipment/Sports Equipment and Information and Communication Technology (ICT) Equipment.

iii. Newly procured ICT equipment in CY 2020 costing P386,089 were not included in the RPCPPE.

b. Of the total cost of Property and Equipment (PE) in the amount of P1.330 billion, only P36.639 million or 2.75 per cent were included in the conduct of physical inventory count. PE located in Leyte Port Complex costing P1.160 billion and other properties in various locations worth P 133.219 million were not included in the periodic physical count conducted by NDC. Details of the PE account are shown below:

Account	Book Value	Accumulated Depreciation	Carrying Amount
Included in the Inventory count:			
Office Equipment	11,834,436	(10,340,923)	1,493,513
Information and Communication Technology Equipment	19,435,065	(17,486,970)	1,948,095
Sports Equipment	112,857	(43,262)	69,595
Furniture and Fixtures	5,256,645	(3,705,783)	1,550,862
	36,639,003	(31,576,938)	5,062,065
Not included in the Inventory count:			
Buildings - Leyte Property Complex	1,160,311,897	(1,159,731,882)	580,015
Other Land Improvements	70,783,155	(68,860,080)	1,923,075
Other Property and Equipment – Rizal Hydropower Plant	32,804,727	(4,902,277)	27,902,450
Construction in Progress - Investment Property Buildings	10,994,869	0	10,994,869
Motor Vehicles	10,162,854	(7,780,176)	2,382,678
Other Structures	4,518,600	(4,518,600)	0
Other Property and Equipment	2,348,963	(1,870,136)	478,827
Foreclosed Property/Assets	922,591	(922,590)	1
Computer Software	631,170	0	631,170
Leased Assets Improvements, Buildings	30,035	(27,036)	2,999
Other Leased Assets Improvements	22,015	(11,008)	11,007
	1,293,530,876	(1,248,623,785)	44,907,091
Total	**1,330,169,879**	**(1,280,200,723)**	**49,969,156**

Actual count of PEs is conducted periodically to ascertain the existence, completeness and condition of all PEs owned by NDC. Equipment found at station and losses or missing properties discovered during the physical count shall be reported to the Accounting Department for proper accounting/recording.

In the absence of physical inventory count, the current condition of these properties could not be ascertained. Accordingly, there would be no basis for recognition of possible impairment loss. The noted errors and lapses cast doubt on the fair presentation of PE account in the FS.

c. Unserviceable ICT equipment costing P2.321 million were still recorded in the books and included in the RPCPPE despite being fully depreciated with no economic benefits or service potential expected from their use. If not immediately disposed, these unserviceable items will be exposed to further deterioration.

5.4 Paragraph 67 of PAS 16 provides that:

The carrying amount of an item of property, plant and equipment shall be derecognized:

a. On disposal; or
b. When no future economic benefits are expected from its use or disposal.

5.5 Moreover, we noted lapses and deficiencies in the conduct of the periodic physical count by the NDC Inventory Committee, to wit:

- Inventory Lists/latest RPCPPE was not available for use by the Inventory team as reference or basis for inventory taking.

- Inventory working papers/Inventory Sheets that should contain the data/information gathered during the conduct of actual physical count were not accomplished.

- Property records were not updated based on the result of the physical count.

- Actual reconciliation of the property and equipment ledger cards or PPELC maintained by the Accounting Department with the property cards (PC) maintained by the Property unit was not performed in the preparation of RPCPPE. The purpose of reconciliation is to come up with the reconciled balances of PE accounts to be considered or established as the correct balances of PE of the government agency as at year end.

- Inventory and Inspection Report of Unserviceable Property (IIRUP) for all PEs found unserviceable, obsolete and/or no longer needed were not prepared.

5.6 **We recommended that Management:**

a. Perform regular reconciliation of the accounting records and property records with the RPCPPE. Prepare reconciliation report and submit to Accounting Department for necessary adjustments in the books to reflect the correct balances of the account;

b. Conduct complete periodic count of all property and equipment of NDC. Strictly comply with the regulation on the conduct of the annual physical count of PEs as required under Section 58 of PD 1445, with the report submitted to the Auditor not later than January 31 of the following year;

c. Derecognize unserviceable property and related accounts in the books upon disposal or when no future economic benefits are expected from its use or disposal;

d. Instruct the Disposal Committee to report the identified unserviceable properties in the IIRUP. Expedite the disposal of idle and unserviceable property to avoid exposing the same to further deterioration; and

e. **Address the deficiencies noted in the conduct of physical inventory count.**

5.7 Management commented that because of the various restrictions due to the COVID-19 pandemic, NDC suspended the conduct of physical inventory count of properties located in Leyte Port Complex and other areas. But, Management committed to conduct the inventory of NDC's assets in the provinces once it is safe for their personnel to do so.

5.8 Management further commented that the identification of unserviceable properties is done by Admin/Accounting/IT Department through the submission of an IIRUP to the Disposal Committee, and that the disposal of unserviceable furniture and IT equipment is ongoing.

5.9 The Audit Team shall monitor Management's compliance with the above-cited recommendations.

B. OTHER OBSERVATIONS

6. NDC had already incurred P23.542 million for various expenses on three projects which are under project development stage since 2009. Delay in the implementation of the projects could result in continuous incurrence and piling up of expenses and wastage of government funds and resources in the event that these projects will not materialize.

6.1 Section 2 of PD No. 1445 provides that:

> *It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of the government.* (emphasis supplied)

6.2 In pursuance of its mandate as the corporate vehicle of the government to pursue commercial, industrial, agricultural or mining ventures in order to give the necessary impetus to national economic development, NDC had undertaken the following projects:

a. NDC Administrative and Commercial Complex Project in Pasay City;
b. Davao Food Complex Project in Daliao, Toril, Davao City; and
c. NDC Industrial Estate Project in Dasmarinas, Cavite.

6.3 *NDC Administrative and Commercial Complex Project (NACCP)*

6.4 The NACCP Building project (formerly One DTI Building) is envisioned to accommodate all major functional groups, bureaus, attached agencies and corporations of the Department of Trade and Industry (DTI) currently operating in different buildings within Metro Manila. The project site is the 1.27-hectare parcel of land in Central Business Park in Pasay City purchased by NDC from Philippine Reclamation Authority in February 2009.

6.5 A Memorandum of Agreement was signed by NDC and DTI, wherein the parties agreed that NDC shall initially own the land, and the building complex relative to the project and that DTI shall acquire from NDC the building or a portion of the building and a portion of the land through a lease-purchase agreement. Nevertheless, the implementation of the project was derailed by several issues.

6.6 NDC procured consulting services for the preparation of the Feasibility Study (FS) and Business Plan (BP) in October 2009. The implementation of the NACCP was, however, put on hold and is being revived for implementation. In view of this development, the existing FS and BP need to be updated. Thus, in August 2018 another consultant was hired for the updating of the FS and preparation of an Environmental Impact Study (EIS). The EIS is a requirement for the issuance of Environmental Compliance Certificate (ECC) from the Department of Environment and Natural Resources (DENR) and Clearance from Laguna Lake Development Authority.

6.7 Expenses incurred for the proposed NACCP excluding regular expenses such as security services and real property taxes (RPT), are as follows:

Date	Expenses	Amount	Remarks
October 2009	Feasibility Study (FS) and Business Plan (BP)	9,088,800 (5,000,000)	DTI share was P5.000 million and NDC paid P4.089 million
August 2018	Update of FS and preparation of EIS	3,995,000	
Total		**8,083,800**	
Annual	Security services and RPT	10,021,993	

6.8 As shown above, the project development cost of P8.084 million was already incurred in addition to the annual regular expenses of P10.022 million from the time the land was acquired in 2009 which is a continuing expense while the project is still in the planning stage/project viability study and not yet implemented.

6.9 As of December 2020, the project is still on hold since DTI find the lease rate on a high side for a lease-to-own scheme/arrangement. NDC continues to do an evaluation of the most viable options/arrangement for the development of the property.

6.10 *Davao Food Complex (DFC) Project*

6.11 The project involves the development of the NDC-owned 20 hectare property in Daliao,Toril, Davao into an agro-industrial complex with appropriate support facilities for food-based industries and allied support services which includes food processing center, cold storage/warehousing facilities, water filtration and bottling facility, commercial outlets and agro-tourism attractions.

6.12 The DTI-Region XI proposed the development of the said NDC property into an economic zone for food-based industries in 2010. The LGU of Davao City had endorsed the project and committed to provide the offsite development. In December 2013, NDC procured the services of a consultant for the conduct of Master Planning and preparation of a FS. The final FS report was submitted by the consultant in

October 2014, however NDC was not satisfied with the report. In December 2014, the NDC Board approved in principle the DFC project and instructed NDC to conduct further study and explore all options in the implementation of the project.

6.13 In January 2017, the Board finally directed NDC to pursue implementation of the project thru Joint Venture arrangement (JVA). Thus, on April 18, 2017, NDC engaged the services of a consultant to prepare joint venture (JV) proposals. With the approval by the NDC Board of the conditions of the JVA based on NEDA approval, NDC offered DFC project thru JV in a public bidding in November 2018. However, the lone bidder failed to comply with the eligibility requirements. Again, in March 2019, another bidding for JV was offered but no interested partner signified their intention.

6.14 With the 2nd failure of JVA offer, the NDC Board in its meeting on October 28, 2020, approved the sale of the whole 25 hectares NDC property in Toril, Davao to City Government (CG) of Davao at P1,830 per sq.m. On March 12, 2021, the NDC Board approved the terms of sale of the Davao property. NDC sent a letter to the CG-Davao informing them of the approved terms of sale, however, to date NDC is still waiting for the response from CG-Davao.

6.15 Moreover, the following expenses were incurred for the proposed DFC project:

Date	Expenses	Amount
December 2013	Feasibility Study	5,669,380
September 2015	Consultant for securing ECC	498,400
April 2017 to November 2018	Consultant for the preparation of JV Proposal	450,000
August 2013 to December 2020	Liaison Officer	1,781,000
Total		**8,398,780**
Annual	Security services and RPT	3,134,383

6.16 From the inception of the project, total expenses had reached P8.399 million on top of the security services and property tax amounting to P3.134 million annually. To date, the undertaking of the proposed DFC project is not yet definite since NDC is still open to many options such as collaboration with Philippine Fisheries Development Authority (PFDA) and CG-Davao for the development of DFC-Davao Fish Port; offer to sell the whole Davao property to CG-Davao; and develop the 20-hectare Davao property by NDC on its own as originally planned.

6.17 *NDC Industrial Estate (NDCIE) Project*

6.18 The project involves the development of NDC's 19.17-hectare property in Dasmarinas, Cavite into an industrial economic zone. In 2000, the NDC Board approved the development of the property as an expansion of the First Cavite Industrial Estate. Thereafter, at least eight companies signified interest in joint venture (JV) development of the property. Subsequently, bidding for JV was approved by the NDC Board in 2002, but did not materialize. In 2009 and 2010 public biddings on the disposal of the property were conducted, but both failed.

6.19 From then on, several events relating to the project transpired, and on July 6, 2018, the Board approved that NDC will undertake on its own the development of the project since it is not attractive for JV scheme.

6.20 On January 21, 2019, pre-procurement conference for the bidding of site development works was conducted. Subsequently, three biddings were undertaken on March 25, 2019, August 23, 2019 and November13, 2019, all of which were declared failed bidding. On October 15, 2020, opening of bids for the 4th rebidding was conducted, with a winning bidder this time, however, Board approval of the award of contract was deferred on March 12, 2021 pending review of the post-qualification of the lowest calculated bid.

6.21 Expenses incurred relative to the development of the NDCIE project are as follows:

Date	Expenses	Amount
February 2013 to January 2017	Consultancy (technical assistance and securing ECC)	4,216,224
August 2014	Detailed Engineering Design	2,309,640
August 2015	Design of Water Supply System	482,400
November 2013 to June 2015	Others (ecozone application fee and etc.)	50,893
Total		**7,059,157**
Annual	Security services and RPT	7,558,546

6.22 Based on the foregoing, we noted enormous delay in the undertaking of the implementation of the projects. The proposed projects are still under the planning/project development stage even after seven to 11 years have elapsed. Project development basically starts with the preparation of business plan/feasibility study, determining the viability of the proposed projects and decide on the financial options to be adopted, i.e. to develop/implement the project thru Joint Venture, thru collaboration with other government agencies or by NDC on its own. Shown hereunder is the summary of activities/procedures conducted relative to project development of the proposed projects of NDC:

Period	Remarks
NACCP	
▪ The proposed project is still in the project development stage for the past 11 years.	
October 2009	Hiring of consultant for Feasibility Study (FS)/Business Plan (BP) preparation
2010	The implementation of the project was derailed by several issues, one of which is the change in administration
August 2018	Another consultant was hired for updating of the FS and preparation of EIS
1st quarter of 2019	The FS did not meet the lease rate requirement of the DTI. As such, the NDC temporarily discarded the said report while they are looking for alternative options for the development of the property based on DTI requirements.
As of December, 2020	The evaluation of the most viable options/arrangement for the development of the property is on-going.

Period	Remarks
DFC	
▪ After seven years, the proposed project is not yet ready for implementation.	
August 2013	Hiring of a liaison officer living in Davao City (with existing contract until July 2021)
December 2013	Hiring of consultant for FS preparation
September 2015	Hiring of consultant for securing ECC
April 2017	Hiring of consultant for JV proposal preparation
November 2018	1st public bidding of DFC project thru JV
March 2019	2nd public bidding of DFC project thru JV
October 2020	Board approval to sell the Toril, Davao City property to CG-Davao
March 2021	Board approval of the terms of sale of the Toril, Davao City property
NDCIE	
▪ After the lapse of seven years, the proposed project is still in the pre-implementation stage.	
February 2013	Hiring of consultant for technical assistance of the project
September 2013	Board approved the proposed project
August 2014	Hiring of consultant for technical assistance of the project
September 2016	Public bidding for the construction of NDCIE project
March 2019	1st public bidding of site development construction for NDCIE project
August 2019	2nd public bidding of site development construction for NDCIE project
November 2019	3rd public bidding of site development construction for NDCIE project
October 2020	4th public bidding of site development construction for NDCIE project
March 2021	The Board deferred the approval of the award of contract, pending review of the post-qualification of the lowest calculated bid.

6.23 Management should have devised a definite plan or disposition for the proposed NACCP and DFC projects considering that NDC already incurred huge expenses which could result in wastage of government funds and resources in the event that the proposed projects will not materialize.

6.24 **We recommended that Management:**

a. Revisit and update existing guidelines on the conduct of project development to include applicable procedures where NDC intends to implement the project on its own. It is suggested that timetable for each

process be provided to ensure accomplishment/completion of projects within the targeted period;

b. **Fast track the conduct of activities/works relative to the project development of the NACCP and DFC as basis of NDC Board and Management in arriving at sound decisions on the implementation of the said projects which are still on hold; and**

c. **Expedite the pending review of bid evaluation and award of contract to the winning bidder of NDCIE project.**

6.25 Management commented that the implementation of NACCP was hampered due to the differing directions of the NDC board. The development was only revived by the present Administration in April 2017. Further, Management explained that based on the financial model as indicated in the updated feasibility study, development by NDC of the project on its own is very costly as it would only recover its investment after 20 years. Thus, NDC continues to seek proposals from interested private developers for a possible JV arrangement to implement the project.

6.26 Management further commented that the implementation of DFC project was delayed by circumstances beyond the control of the NDC Management.

6.27 Likewise, the implementation of NDCIE was delayed by changes in Board of Directors' directions and the successive failure of biddings. To date, the award of the contract to the bidder with the lowest calculated and responsive bid is now being routed for Board approval via referendum.

6.28 By way of rejoinder, we noted the justifications cited by Management. However, with regard to NDCIE, we would like to emphasize compliance with Section 37.1.5 of the Revised Implementing Rules and Regulations (RIRR) of RA 9184, which provides that Contract award shall be made within the bid validity period which in no case shall exceed 120 calendar days from the date of the opening of bids.

7. The grant of time extension equivalent to 338 days for the general repair of NDC Building with a contract time of 300 days is not in accordance with Section 10 of Annex E of the RIRR of RA 9184, which resulted in non-imposition of liquidated damages for failure to complete the project within the specified contract time contrary to Section 8 of the same Annex and stipulations under the Contract.

7.1 Section 10.4 of Annex E of the RIRR of RA 9184, states that:

> ***No extension*** *of contract time shall be granted* ***when the reason given*** *to support the request for extension* ***was already considered in the determination of the original contract time*** *during the conduct of detailed engineering and in the preparation of the contract documents as agreed upon by the parties before contract perfection.* (emphasis supplied)

7.2 Moreover, Section 10.5 of Annex E of the same RIRR provides that:

> *Extension of contract time shall be granted for* ***rainy/unworkable days considered unfavorable*** *for the prosecution of the works at the site,* ***based on the actual conditions obtained at the site, in excess of the number of rainy/unworkable days pre-determined by the government*** *in relation to the original contract time during the conduct of detailed engineering and in the preparation of the contract documents as agreed upon by the parties before contract perfection, and/or for equivalent period of delay due to major calamities such as exceptionally destructive typhoons, floods and earthquakes, and epidemics xxx.* (emphasis supplied)

7.3 In addition, Section 8.1 of Annex E of the RIRR of RA 9184 provides that:

> *Where the contractor refuses or* ***fails to satisfactorily complete the work within the specified contract time, plus any time extension duly granted and is hereby in default under the contract, the contractor shall pay the procuring entity for liquidated damages,*** *and not by way of penalty, an amount as provided in the conditions of the contract,* ***equal to at least one tenth (1/10) percent of the cost of the unperformed portion of the works for every day of delay.*** (emphasis supplied)

7.4 The contract for the supply of Labor, Equipment and Materials for the Improvement of Facade, Interior Renovation and General Repair of selected areas of the NDC Building with an approved budget of P14 million was awarded to R.M. Mangubat Construction and Realty Development Corporation thru public bidding in the amount of P13.972 million. The contract period is 10 months, commencing on December 19, 2018 to October 19, 2019. The project covers the enhancement of the building facade, face lifting of the interior and general repair of selected areas of NDC Building.

7.5 The total payments to the Contractor with 60 per cent work accomplishment as of December 31, 2020 amounted to P8.383 million, details are as follows:

Date	Percentage of Work Accomplished	Amount
August 9, 2019	1st Progress Billing – 20 %	2,794,369
November 7, 2019	2nd Progress Billing – 40 %	2,794,368
January 17, 2020	3rd Progress Billing – 60 %	2,794,368
Total		**8,383,105**

7.6 Review of the approved contract time extension revealed the following:

a. With the approval of the contract time extension of 165 days on October 18, 2019, the revised completion date would be March 31, 2020 from the original construction duration of 10 months which ends on October 19, 2019. Time extension was granted reportedly due to delayed issuance of building permit, additional works for the repair of damaged ceiling due to leak from the roof deck and work interruptions in response to tenant's requests. We took note of the building permit issued on September 9, 2019 which was applied only on August 6, 2019, almost 8 months after the commencement of the project. Considering that the contractor started renovation of the interior and resumption of work for the exterior façade started on September 30, 2019, lack of building permit should not be a justification for an extension. Pursuant to Section 10.1 of Annex E of the RIRR of RA 9184, upon receipt of full and detailed particulars of the notice or request for contract time extension, the procuring entity shall examine the facts and extent of the delay to justify an extension and determine the appropriate contract time to be granted. It was noted that the approval of the contract time extension was not supported with a computation in the determination of the 165 days granted to complete the contract work. Hence, NDC seemed not to have examined the facts and extent of the delay as basis to extend the contract time.

b. Another contract time extension was requested by the contractor for 120 days on February 26, 2020 citing weather condition, additional work for variation order and stop work order. However, NDC approved said request for 113 days only on January 20, 2021, almost 11 months from the date of request. The 2nd extension was due to additional work on the approved Variation Order No. 1 for 25 days, unfavorable weather condition for the months of April, 2019 to February, 2020 that causes work interruption for 81 days and stop work order for 7 days. Unfavorable weather condition may not affect the construction activities since interior works was primarily the work undertaken for the period April, 2019 to September 30, 2019. Moreover, such weather condition as circumstance leading to the claim for 2nd time extension was supposedly included already in the 1st extension granted. Thus, unfavorable weather condition for 81 days maybe considered excessive and not realistic.

c. Total construction period as of December 31, 2020 becomes 497 days excluding work stoppage due to COVID-19 pandemic. The total contract time extension granted by NDC from October 2019 to December 31, 2020 was 196 days (1st extension of 165 days and portion of 2nd extension for 31 days). Moreover, we noted that the duration of work stoppage on this project due to pandemic totaled 246 days (March 16 to May 31 2020 under Enhanced Community Quarantine (ECQ) and June 1 to November 16, 2020 under General Community Quarantine (GCQ)). Under the Department of Public Works and Highways (DPWH) Department Order No. 39 dated May 19, 2020, all public and private construction projects shall be allowed, subject to strict compliance with the Revised Construction Safety Guidelines in areas under GCQ and Modified General Community Quarantine. However, the contractor resumed work only on November 17, 2020 applying the contract time extension previously approved by NDC. The validity of the complete work stoppage under GCQ from June 1 to November 16, 2020 or 169 days is questionable since there was no agreement by both parties, the contractor and NDC on the extension of contract time for equivalent period of delay due to major calamities such as epidemics /pandemics as provided under Section 10.5 of Annex E of the RIRR of RA 9184.

d. A third contract time extension for 60 days was approved on March 22, 2021 due to additional work for Variation Order No. 2 for 10 days, stop work order for 8 days, and unworkable days due to COVID-19 restrictions for 42 days. This 60-day time extension took effect upon resumption of work by the contractor on May 24, 2021 and ends on July 17, 2021.

7.7 Considering the above–mentioned observations, the Contractor is liable to pay liquidated damages for failure to complete the project within the specified contract time. The effectivity of the contract is only 10 months commencing on December 19, 2018 until October 19, 2019. However, with a final revised completion date set on July 17, 2021, from the original contract duration of 300 days or 10 months, the total construction period becomes 930 days or 31 months (two and half years).

7.8 The total time extension considered and granted by NDC equivalent to 338 days on top of the 301 days (246 days in 2020 and 55 days in 2021) complete work stoppage due to the pandemic, appears to be excessive and non-compliant with the guidelines and rules on extension of contract time.

7.9 **We recommended that Management:**

a. **Compute and impose liquidated damages for the delay in the completion of work; and**

b. **Henceforth, comply with the guidelines on the extension of contract time as prescribed under Section 10 of Annex E of the RIRR of RA 9184.**

7.10 Management commented that for time extension no. 1, the primary consideration on the grant of extension was the late issuance of the Building Permit and that the approval of application for such permit is beyond the control of the contractor.

7.11 Moreover, Management informed that time extension no. 2 was approved due to additional works for Variation Order No. 1, work stoppage requested by building tenants and unfavorable weather condition.

7.12 Management also informed that in compliance with Inter-Agency Task Force (IATF) Resolution No. 106-A, the contractor was not allowed to resume the renovation works because said resolution only allow essential and priority projects to continue. Since NDC's building renovation is not considered as essential or priority project, the contractor has to secure clearance from Makati Commercial Estate Association and Office of the City Building in order for them to resume renovation works. The contractor was able to secure clearance to resume work only on October 23, 2020.

7.13 Regarding time extension no. 3, Management further justified the grant of extension due to additional work for Variation Order No. 2 and unworkable days due to COVID-19 restrictions such as limited work capacity and the Barangay's restriction on construction work during Sundays and after 7pm daily.

7.14 We noted that NDC is not inclined to impose liquidated damages since NDC Management had approved the three requests for extension totaling 338 days. However, we maintain our standpoint that the approval of said requests was not in accordance with the guidelines for the grant of extension of contract time set forth under Annex E of the RIRR of RA 9184.

7.15 <u>On approval of Time Extension No. 1</u>

One of the reasons for the request for extension among others, was the delayed issuance of Building Permit. Securing permits and clearances was already considered in the determination of the original contract time as indicated in the Bill of Quantities under General Requirements of the Contract. Hence, delay in the issuance of building permit is not a valid justification pursuant to Section 10.4 of Annex E of the RIRR of RA 9184.

7.16 <u>On approval of Time Extension No. 2</u>

Of the 113 days approved time extension, 81 days pertain to unfavorable weather condition for the months of April 2019 to February 2020 that caused work interruption. Per NDC's computation, volume of rainfall **above 2.5mm per hour** was considered as unfavorable weather to come up with 81 days time extension on account of unfavorable weather condition. However, our evaluation/computation using the parameter used by NDC disclosed four days only of unfavorable weather that should be considered in the grant of time extension. Details are as follows:

Months	Daily Rainfall (mm)	No. of Days Per NDC Evaluation	Daily Rainfall above 60 mm	No. of Days Per Audit	Remarks
April 2019	12	1	less than 60 mm	0	NDC used the hourly (moderate to heavy) rainfall intensity classification instead of daily rainfall intensity classification as reported by PAGASA
May 2019	3.5-43.5	9	less than 60 mm	0	
June 2019	8.5-30	7	less than 60 mm	0	
July 2019	4-28	13	less than 60 mm	0	
August 2019	4-176.5	17	15 days- less than 60 mm 1 day-66.5 mm (Aug. 24) 1 day-176.5 mm (Aug. 2)	2	
September 2019	3.5-61.5	18	17 days- less than 60 mm 1 day-61.5 mm (Sept. 15)	1	
October 2019	4-11	4	less than 60 mm	0	
November 2019	4.5-36.5	6	less than 60 mm	0	
December 2019	50.5-66	2	1 day- less than 60 mm 1 day-66 mm (Dec. 25)	1	
January 2020	3-14	3	less than 60 mm	0	
February 2020	22.5	1	less than 60 mm	0	
Total No. of Days		**81**		**4**	

7.17 On delayed resumption of work when NCR/Metro Manila was placed under GCQ effective June 1, 2020

We do not concur with the Management's justification citing IATF Resolution No. 106-A dated March 27, 2021. The said Resolution pertains to additional measures and amendments to some provisions applicable to ECQ areas as provided for in the Omnibus Guidelines in the implementation of Community Quarantine in the Philippines which took effect on March 29, 2021. Our observation is regarding the resumption of work after the first lockdown in 2020 wherein Metro Manila was placed under GCQ and DPWH issued Department Order No. 39 on May 19, 2020 allowing all public and private construction projects to resume work subject to strict compliance with the Revised Construction Safety Guidelines.

8. NDC's various Investment Properties were occupied by illegal occupants for residential, commercial and personal purposes, thus depriving NDC of the fruits (civil, natural and industrial) that could have been derived therefrom.

8.1 Article 428 of the Civil Code of the Philippines provides that:

> *The owner has the right to enjoy and dispose of a thing, without other limitations than those established by law. The owner has also a right of action against the holder and possessor of the thing in order to recover it.*

8.2 Since CY 2016, we have been conducting series of ocular inspection of NDC's real properties located in various parts of the country. One of the common observations noted during those activities was the occupancy of illegal settlers on these properties for their own use.

8.3 The status of the properties which were occupied by illegal settlers and inspected by the Audit Team in 2016 to 2019 located in various places, are as follows:

a. Calatagan, Batangas

The property consists of two parcels of land planted with "palay" by two individuals. NDC will coordinate with the LGU-Calatagan for assistance in convincing the farmers to vacate the property or convince them to pay rental to NDC for their occupancy of the area.

b. Sambag District, Cebu City

NDC has coordinated with the owner of the bakeshop erected in the property in the past to pay rentals for the use of the portion of the property. A draft contract was sent to them but no action on their part. With their inaction on the demand of NDC, the Legal Department was instructed to take appropriate action on the unauthorized occupation of the property.

c. Puerto, Cagayan de Oro

This property will be covered by the Community Mortgage Program (CMP) of the Social Housing Finance Corporation (SHFC). The informal settlers already organized themselves as a requirement of the CMP. However, NDC is yet to title this property in its name which is a requirement by SHFC for the property to be covered by CMP.

d. San Francisco, Del Monte, Quezon City

The property is slated for titling in NDC's name, however, the Management still awaits the Order of Finality from the Court covering the reconstitution of the title of the previous owner. Once received, the process of reconstitution of title and the transfer to NDC's name will proceed. Thereafter, the CMP process for the occupants will push through.

e. Sucat, Muntinlupa

This is an almost four-hectare property which was developed into a housing subdivision by virtue of a Joint Venture Agreement (JVA) executed by and between NDC and New San Jose Builders, Inc. (NSJBI) on October 23, 1993. Upon ocular inspection in 2017, we observed that a portion of the property was used as jeepney terminal. Accordingly, such area was leased by the jeepney operators' association from NSJBI. A building was also constructed right behind the jeepney terminal and is being used as office of a security agency which is not associated with NSJBI. Scrutiny of the JVA disclosed that leasing of the subject property to any party is not among the responsibilities of NSJBI. Such act belongs to NDC being the owner of the property. Its responsibility is mainly to develop and construct housing units and marketing thereof.

Management already sought the assistance of the Office of the Government Corporate Counsel in the filing of arbitration proceedings against New San Jose Builders, Inc., for breach of contract.

f. Hermosa, Bataan

This is a five-hectare property retained by Comprehensive Agrarian Reform Program. The area along the barangay road was occupied by informal settlers whose houses were made of light and concrete materials. The bigger portion of the property is vacant which serves only as pasture for animals. During the ocular inspection, we noticed few houses erected at the back-end portion (area not along the barangay road) of the property.

In 2019, relocation survey was made to determine the property boundaries. It was confirmed in the report that these settlers have encroached upon the property. Some of the occupants signified interest in acquiring the property they are occupying.

g. San Felipe, San Fernando, Pampanga

The property was approved by the NDC Board for sale thru the CMP at the approved price of P458,561 in 2015. Sixteen informal settlers who occupied the property signified their intention to avail of the CMP under the name of "San Felipe Riverside Home Owner's Association". A CMP-Mobilizer who would assist them in the implementation of the CMP had backed out and the President of the Association had a heart attack, setting back the next course of action of NDC.

h. Bo. Dolores, San Fernando, Pampanga

The property is located inside a subdivision. It is enclosed by concrete fence and serves as a recreational area of the residents, where a basketball court, stage and small multi-purpose building were constructed. Also, erected in the property is the Dolores Homesite Material Recovery Facility where recyclable waste materials were segregated. It was noted that the Dolores Homesite & Extension Homeowner's Association, Inc. (DHEHA) does not pay rental to NDC for the use of the property. Negotiations with the Local Government Unit (LGU) for government-to-government acquisition of the property for use of the residents did not materialize.

i. Talakag, Bukidnon

This property is a residential lot occupied by a certain Ireneo Enong, where one old house was erected. A demand letter to vacate the premises was sent in May 2019.

j. Los Baños, Laguna

The property is occupied by informal settlers and included in the scope of Presidential Proclamation (PP) 550, s. 2004, reserving the land for housing site purposes. NDC in its letter dated May 20, 2019 made a follow up with LGU- Los Baños on the status of NDC's request for the exclusion of the property from PP 550, s. 2004.

Based on the February 7, 2020 meeting attended by NDC with the Municipal Urban Development and Housing Board-Local Inter Agency Committee (MUDHB-LIAC), the following agreements were reached: 1) LIAC will not issue a Certificate of Lot Award for the occupants of NDC property; 2) DENR, Reg. 4 to assist the LGU-Los Baños in the validation/verification of TCT issued to NDC and conduct a survey covered by PP 550 (Per DENR representatives, the subject NDC property is part of the military reservation area, hence cannot be titled by a private party); and 3) Exclusion of NDC property from the coverage of PP 550, if NDC TCT is found valid. Management still awaiting update from MUDHB-LIAC on the validation of NDC TCT.

8.4 **We reiterated our prior year's recommendation that Management review the plans of actions and provide the Audit Team with updates on the actions taken to improve and monitor the condition of these properties.**

8.5 Management replied that they will dispose of its residential lots occupied by the informal settlers through the Community Mortgage Program (CMP) of the Social Housing and Finance Corporation (SHFC). The initial requirement of the program is for informal settlers to organize a community association.

8.6 The table below shows Management's updates on properties occupied by informal settlers:

Location	Management's Comments
Calatagan, Batangas	Management has sought the assistance of the LGU-Calatagan on the unauthorized farming on the property. In this regard, the LGU-Calatagan will schedule a meeting with the representatives from Asset Management Group (AMG), Legal Department and the informal settlers to discuss the issue.
Sambag District, Cebu City	Management has instructed the Legal Department to take appropriate action on the unauthorized occupation of the property. Accordingly, Legal has referred the matter to the Office of the Government Corporate Counsel for proper legal action.
Puerto, Cagayan de Oro	The subject property is slated for titling. Management will continue to pursue the CMP with the informal settlers who already formed an association, once the title is transferred in NDC's name.
San Francisco, Del Monte, Quezon City	The court is still waiting for the return of the proof of notice of service issued to the respondents from the post office which is an essential and jurisdictional requirement and must be complied with before it can act on the petition with finality and grant the reconstitution of title prayed for. Thereafter, titling to NDC's name and the CMP process will follow, once NDC received the Order of Finality of Judgment to be issued by the court.
Sucat, Muntinlupa	Management has already sent another letter dated June 16, 2021 to New San Jose Builders, Inc. (NSJBI) citing NDC's decision contained in its previous letter of June 27, 2016 that NDC will elevate and settle the disputed issues to an arbitration proceeding as provided in the Joint Venture Agreement (JVA). To date, NDC has yet to formally receive a reply to the said letter. Also, NDC reiterated its demand for NSJBI to return and turnover to NDC the possession of the land subject of the JVA. The issue of the jeepney terminal is part of the demand to vacate the property and an issue to be settled in the arbitration proceedings. Finally, NSJBI was informed that NDC elects to hold the arbitration proceedings in Metro Manila pursuant to Sec. 18 of the JVA should NSJBI fail to respond to NDC's demand to return the property.
Hermosa, Bataan	Management is in contact with the occupants of the property. They are interested in acquiring the property through CMP. To undertake the process, the occupants need to organize themselves into a community association and to look for a CMP mobilizer who would assist them in the implementation of the program. Management will exert effort for the realization of this mode of disposition.
San Felipe, San Fernando, Pampanga	To date, the CMP process for the property was stalled for lack of mobilizer that will assist the San Felipe Riverside Home Owner's Association (SFRHOA), which is a requirement of SHFC for the program. In the interim, Management will get the updated market value of the property since the Board approved the price amounting to P458,561 based on 2015 value.

Location	Management's Comments
	Management will continue to coordinate and monitor update from SFRHOA for the completion of the CMP transaction.
Bo. Dolores, San Fernando, Pampanga	In accordance with the property roadmap, Management will proceed with the planned disposal of the property through CMP with the Dolores Homesite & Extension Homeowner's Association, Inc. (DHEHAI). Management will seek the assistance of the SHFC on how to assist the associations in getting a mobilizer for the program.
Talakag, Bukidnon	Management received information that the lone occupant of the subject residential property has already vacated the premises, upon receipt of another demand letter to vacate issued by NDC in May 2019. The Account Officer from AMG is in coordination with the interested party who wishes to lease the same property, in the meantime that the titling of the property is being processed.
Los Baños, Laguna	The Local Inter-Agency Committee (LIAC), LGU-Los Baños, a committee created to implement the Presidential Proclamation (PP) No. 550 is still in the process of validating the NDC TCT. The DENR Region 4 also assists in the validation. On the other hand, the Department of Human Settlement and Urban Development will take charge of the amendment of the PP No. 550 to exclude the NDC property from the coverage, once TCT of NDC is found valid. Management will request LIAC to fast track the title verification process so it can finally exclude the NDC property from the PP No. 550 coverage. In the interim, the occupants of the property were not issued the corresponding Certificate of Land Ownership under the PP No. 550.

8.7 The Audit Team requested that the Asset Management Group and Legal Department provide specific timeline for the action to be taken on the various properties.

9. Several Investment Properties remained idle/vacant, depriving NDC of income from the prospective use of such properties while incurring expenses for security services and real property taxes.

9.1 NDC owns investment properties located in various parts of the country. The Company earned lease income amounting to P187.686 million and P191.667 million for CY 2020 and 2019, respectively, from its leased properties. However, there are still several assets that remained idle/unused.

9.2 The status of the idle properties inspected by the Audit Team in 2016 to 2019 in various locations are shown below:

a. Bonot, Legazpi City, Albay

During the 2019 ocular inspection of NDC properties, the exact location and boundaries of the land cannot be ascertained. Based on the TCTs on hand, ownership was still under the name of Continental Bank. According to Management, once the above issues are settled, the subject property will be scheduled for disposal, being a residential lot.

b. Echague, Isabela

Management informed the Audit Team that the subject property is among the properties submitted to the Board of Investments (BOI) for possible development under the Investment Priorities Plan of the government. Management also considers other possible options that will give NDC source of income either through lease or property development with the Local Government Unit (LGU) under government-to-government transaction.

c. Sta. Fe, Bantayan, Cebu

The subject vacant property was declared as one of wilderness areas under PP 2151, s.1981 where sale and forms of disposition of any property is prohibited, but subject to existing recognized and valid private rights. Hence, titling of the property in NDC's name cannot be processed. Management will continue to invite interested parties to lease or develop the property in order to generate income for NDC.

d. Guadalupe, Cebu City

The subject property is classified and used as a road lot; hence, Management intends to dispose of this property through a Deed of Donation to the LGU-Cebu City for a road-right-of-way (ROW). The retained area of the ROW of about 47 sq.m. will be offered for sale to the owner of the adjacent lot that signified interest to buy the same.

e. Macasandig, Cagayan de Oro

The subject property is slated for disposal. Management will secure approval of the NDC Board for the said sale.

f. Kamagong & Sampaloc Streets, Makati City

The subject property is also slated for disposal. Management will secure approval of the NDC Board for the said sale.

g. Batangas II, Mariveles, Bataan

Management will dispose of the subject property through a government-to-government sale transaction with the LGU-Bataan once the development plan and the budget for the expansion site of the Batangas II High School is approved.

h. Meycauayan, Bulacan

The partial lease for a junk shop business on the property was already terminated in order for Management to lease the whole property for its optimum utilization. Management's negotiation for the lease of the entire property with Bellemina Dynamic Builders, Inc. did not push through.

i. San Juan, San Fernando, Pampanga

Management intends to dispose the subject property through public bidding. Currently, a portion covering an area of 247.50 sq.m., is being leased out to Mr. Romeo B. Naguit for two years until August 31, 2021.

j. San Juan St., Bacolod City

The subject property is among the properties submitted to the Board of Investments (BOI) for possible development under the Investment Priorities Plan of the government. In addition, Management will continue to advertise the subject property, for lease or project development to interested parties in order to generate steady source of income for NDC.

k. Bo. Langihan, Butuan City

Management is waiting for the decision of the HLURB on NDC's offer to acquire the property for the housing program of the government.

l. Barangay Tagapo, Sta. Rosa, Laguna

Management will continue to negotiate with Chevron Philippines, Inc. for the payment of back rentals or compensation to NDC resulting from the use of a portion of the subject property by 7-Eleven Convenience Store, and as an ingress/ egress of vehicles going to/from the Caltex Station.

9.3 Moreover, NDC incurred expenses for securing the idle properties located in Kamagong & Sampaloc Streets, Makati City and San Juan St., Bacolod City in the amount of P1.290 million and real property taxes of P270,516 for all idle properties enumerated earlier for the year 2020.

9.4 **We reiterated our prior year's recommendation that Management prioritize the conversion of these land assets to income-generating properties and expedite the process of disposing the properties scheduled for disposal.**

9.5 Management commented that they are exhausting all efforts in marketing its commercial land assets. It is uploaded in the NDC website, for possible lease or project development by interested parties. On the other hand, residential lots are slated for disposition in accordance with the property roadmap. Management will update the value of the residential lots and will secure approval of the NDC Board for its eventual sale.

9.6 The Audit Team requested that the Asset Management Group and Legal Department provide specific timeline for the disposal of subject properties.

10. The escrow fund held in trust by NDC was not distributed to the former shareholders of Mindanao Textile Corporation in light of the expiration of the Trust and Management Agreement which consequently authorized NDC to distribute the full amount of escrow fund as stated in Office of the Government Corporate Counsel (OGCC) Opinion No. 041, series of 2020.

10.1 Mindanao Textile Corporation (Mintex) was organized in 1981, a joint venture between NDC, Human Settlements Development Corporation (HSDC), also known as Strategic Investment and Development Corporation and Southern Philippines Development Authority (SPDA). NDC, HSDC and SPDA, as former shareholders of Mintex sold their respective shares in the Corporation to Arthur G. Tan in 1987.

10.2 On October 27, 1989, HSDC, SPDA and NDC entered into a trust and management agreement (TMA), with subsequent amendments extended until December 31, 1991, whereby NDC was appointed as trustee. The purpose of the TMA is the full settlement and liquidation of the old Mintex liabilities which were assumed by the parties and the eventual distribution of the remaining trust assets, if any, net of liabilities.

10.3 In 1993, a Deed of Undertaking was signed by HSDC, SPDA and NDC, where the parties acknowledged that in the implementation of the TMA, a good portion of the assumed obligations and liabilities were already settled and liquidated, with contingent liabilities still remaining consisting mostly of unliquidated importations of the old Mintex. Likewise, the parties agreed to distribute to the shareholders portions of the escrow fund, leaving a P10 million balance for the remaining unsettled obligations and liabilities.

10.4 The Mintex escrow fund are invested in Treasury Bills (TBills) and Retail Treasury Bonds (RTB) which may be distributed proportionately to the former shareholders of Mintex. Details are as follows:

Particulars	Reference Number	Terms	Interest Rate/ annum	Amount		Total
				Value	Interest	
Standard Chartered Bank-RTB	PIID2537J015	8944 Days Issue Date-Apr 29, 2013 Maturity Date-Oct. 24, 2037	4.000%	15,238,134	5,215,980	20,454,114
Landbank of the Philippines-TBills	PIBL1220A07 TBills-165628	364 Days Issue Date-Jan. 8, 2020 Maturity Date-Jan. 6, 2021	3.685%	2,827,833	104,584	2,932,417

Particulars	Reference Number	Terms	Interest Rate/ annum	Amount		Total
				Value	Interest	
Landbank of the Philippines-TBills	PIBL1220A07 TBills-165631	364 Days Issue Date-Jan. 8, 2020 Maturity Date-Jan. 6, 2021	3.685%	1,157,260	42,800	1,200,060
Total				**19,223,227**	**5,363,364**	**24,586,591***

**NDC, SPDA and HSDC will share in the amount of P24.587 million based on their previous shareholdings in Mintex, NDC-P19.300 million (78.50%), SPDA-P2.827 million (11.50%) and HSDC-P2.459 million (10%).*

10.5 As shown in the table above, investments of P15.238 million in RTB is a long-term investment which would mature in 2037, hence, not available for distribution. Only the investment of P3.985 million in TBills and interest earned of P5.363 million or a total of P9.348 million are available for distribution.

10.6 On January 24, 2020, NDC sought OGCC's legal opinion on the authority of NDC, as trustee, to distribute the full amount of the escrow fund to the former shareholders of Mintex through the execution of a new agreement and whether the actions of the creditors of Mintex to enforce their right to demand payment was already barred by prescription. In response, OGCC issued Opinion No. 041 dated February 17, 2020. Among the pertinent provisions are as follows:

- NDC is no longer under any obligation to act as trustee under the TMA which has expired.
- NDC may return and distribute the full amount of the escrow fund to the former shareholders of Mintex through execution of a new agreement.
- The former shareholders may raise the defense of prescription should any of the creditors come forward with a claim against Mintex.

10.7 Further, OGCC advised that given the expiration of the TMA, NDC does not have the obligation to and neither does it have the authority to settle and liquidate the old Mintex obligations. As NDC is no longer the trustee, it can distribute the escrow fund to the stockholders.

10.8 **We reiterated our previous recommendation that Management:**

a. Expedite the distribution of the full amount of escrow fund to the former shareholders of Mintex through execution of a new agreement, taking into consideration the terms of the present investments:

a.1 The escrow fund under short term investments may be distributed to SPDA and HSDC and NDC, wherein SPDA and HSDC will receive their share in full.

a.2 The escrow fund invested in RTB may be transferred to NDC as full settlement of NDC's share; and

b. **Record the settlement and adjust accordingly the books of NDC to reflect the correct balances of accounts.**

10.9 Management commented that a new Memorandum of Agreement to be executed by the former shareholders of Mintex has been prepared and referred to the OGCC for opinion. As regards the balance of Mintex escrow fund, the amount will be updated and the records be adjusted accordingly.

10.10 The Audit Team will monitor Management's action on the distribution of the full amount of escrow fund to the former shareholders of Mintex.

11. NDC failed to comply with the mandatory requirement of allocating at least five per cent of the total appropriations for Gender and Development (GAD) programs, activities and projects as required under Section 6.1 of Philippine Commission on Women-National Economic and Development Authority- Department of Budget and Management (PCW-NEDA-DBM) Joint Circular 2012-01.

11.1 Section 6.1 of the Joint Circular provides that:

> *At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.*

11.2 Review of the approved annual GAD Plan and Budget (GPB) submitted by NDC to the Philippine Commission on Women showed that the Corporation allocated only a total of P1.803 million or 0.226 per cent of its approved operating budget of P796.974 million. To comply with the minimum 5 per cent requirement of the law, NDC should have allocated the amount of P39.849 million for CY 2020. The GAD Plan shall be integrated in the regular programs, activities and projects (PAPs) of the agency, which shall be at least 5 per cent of their budget.

11.3 For this purpose, activities currently being undertaken which relate to GAD and those other activities that contribute to the practice of gender responsiveness development are considered sufficient compliance with the requirement. The GAD budget is the cost of implementing the GAD Plan, which form part of the agency's approved budget.

11.4 **We recommended that Management allocate at least five percent of the DBM approved budget to its GPB by mainstreaming gender perspectives in its major PAPs or attributing agency major programs to the GAD Budget as required under Section 6.1 of PCW-NEDA-DBM Joint Circular 2012-01.**

11.5 Management commented that NDC's GPB for 2020 amounting to P1.803 million was approved and duly endorsed by PCW even though the amount is less than 5 per cent of the corporate operating budget (COB). However, it committed that the

GPB shall be at least 5 per cent of the COB and that NDC will fully implement the GAD activities.

12. The GPB for CY 2020 NDC was not submitted to the COA Audit Team within the prescribed period as required under Item V of COA Circular No. 2014-001 dated March 18, 2014.

12.1 Item V of COA Circular No. 2014-001 dated March 18, 2014 requires that:

The audited agency shall submit a copy of the Annual GAD Plan and Budget (GPB) to COA Audit Team assigned to the agency within five (5) working days from receipt of approved plan from the PCW or their mother or central offices, as the case maybe.

12.2 We noted that the annual GPB certified as reviewed and endorsed through the Gender Mainstreaming and Monitoring System of PCW was generated on January 10, 2020, however, the same was submitted to COA only on March 5, 2020.

12.3 **We recommended that Management require the GAD-TWG to strictly adhere to Item V of COA Circular No. 2014-001 on the timely submission of the said report to COA Audit Team.**

13. The amount appropriated for GAD PAPs in CY 2020 was not fully utilized despite the fact that the budget of P1.803 million was very minimal, leaving an unused balance of P320,222 at year-end, resulting in non-implementation of GAD-related PAPs and attributed programs which may have affected the agency's efficiency in addressing gender related issues.

13.1 Our audit of the utilization of GAD funds disclosed that out of P1.803 million of CY 2020 GAD budget for client and organizational focused GAD PAPs, only 82.24 per cent or P1.483 million was used during the year, as shown on the table below:

PAPs	Budget		Utilized		Over (Under) Utilization	
	No. of Activities	Amount	No. of Activities	Amount	Amount	%
Client Focused	1	3,000	1	1,045	(1,955)	0.06%
Organizational Focused	4	1,800,000	4	1,481,733	(318,267)	82.18%
	5	**1,803,000**	**5**	**1,482,778**	**(320,222)**	**82.24%**

13.2 We noted that NDC integrated gender perspective to its five PAPs and implemented the same. However, the underutilization of GAD budget indicated that Management may not have totally addressed the gender issues included in the CY 2020 GPB, thereby depriving the intended beneficiaries of the benefits that may be derived from GAD PAPs conducted.

13.3 **We recommended that Management maximize the utilization of the GAD funds and create an effective monitoring tool to ensure proper implementation of identified GAD PAPs in order to attain the objective for which funds were provided.**

13.4 Management commented that the planned activities for 2020 have been implemented, however, due to COVID-19 pandemic, NDC was not able to conduct face to face activities. Moreover, programs by other government agencies were conducted via zoom, free of charge, which resulted in lower cost and NDC not fully utilizing its GAD budget.

COMPLIANCE WITH GSIS, PHIC AND PAG-IBIG

14. For CY 2020, the appropriate premium contributions and loan amortizations were deducted from salaries of the employees of NDC. Employees' share together with the government share as well as the loan amortizations of employees were remitted to GSIS, PHIC and Pag-IBIG Fund within the prescribed period. The remittances for CY 2020 are as follows:

GSIS contribution and loan amortization	5,544,824
PHIC contribution	461,769
PAG-IBIG contribution and loan amortization	537,469
Total	**6,544,062**

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

15. As of December 31, 2020, the details of Notices of Suspension, Disallowance and Charge issued upon the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA) are as follows:

	Balances as of January 1, 2020	Issued during the year	Settled during the year	Balances as of December 31, 2020
Notice of Suspension	0	0	0	0
Notice of Disallowance	20,263,752	581,250	0	20,845,002
Notice of Charge	0	0	0	0
	20,263,752	581,250	0	20,845,002

15.1 The details of the NDs are shown below:

Date	ND No.	Amount	Settled	Balance
April 26, 2019	2019-001(2018)*****	581,250	0	581,250
August 30, 2017	2017-001(2014-2016)****	1,447,085	0	1,447,085
August 12, 2013	2013-001(2012)****	1,375,000	0	1,375,000
August 14, 2013	2013-002(2012)***	725,000	0	725,000

Date	ND No.	Amount	Settled	Balance
July 7, 2010	2010-001-101(07)*	399,999	0	399,999
July 7, 2010	2010-002-101(07)*	333,334	0	333,334
July 13, 2010	2010-003-101(08)*	266,667	0	266,667
July 13, 2010	2010-004-101(08)*	83,333	0	83,333
July 13, 2010	2010-005-101(08)*	233,334	0	233,334
July 13, 2010	2010-006-101(09)*	233,333	0	233,333
July 13, 2010	2010-007-101(09)*	166,667	0	166,667
May 20, 2003	2003-001-001**	15,000,000	0	15,000,000
		20,845,002	0	20,845,002

* With Petition for Review on Certiorari filed with Supreme Court on May 9, 2011

** With COA Order of Execution dated February 6, 2014

*** With COA Order of Execution dated July 26, 2017 and with Petition for Review dated October 5, 2017 to COA Commission Proper

**** Pending resolution by the COA Commission Proper pursuant to Rule V, Section 7 of the Revised Rules of Procedure of COA

***** With Corporate Government Sector Cluster 4 Decision No. 2020-07 dated June 19, 2020

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 25 audit recommendations embodied in prior years' Annual Audit Reports (AAR), 8 were fully implemented, 11 were partially implemented and 6 were not implemented, as shown below:

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
CY 2019 AAR Observation No. 1, page 57	1 Results of confirmation of rental receivable balances from various lessees as of October 31, 2019 showed a variance amounting to P6.342 million, thereby casting doubt on the accuracy of recorded rental receivables as of December 31, 2019.	a. Review the recorded monthly accruals, verify whether the escalation rate was correctly and timely recorded and prepare adjusting entries accordingly;	Implemented Necessary adjustment was made per JV No. 02-34-20 dated Feb. 29, 2020.
		b. Gather supporting documents on the long outstanding balances of DTI, PRI and Spectrum and discuss with them appropriate actions for the settlements of their accounts;	Implemented Collection letters were sent to PRI, Spectrum and DTI.
		c. Evaluate the variances noted from the confirmation, reconcile with the corresponding lessees, and take appropriate action on the results of the confirmation; and	Implemented Adjusting entries were made per JV No. 10-18-20 dated Oct. 19, 2020.
		d. Perform periodic reconciliation with all the lessees and send them detailed statement of accounts to update them of their outstanding obligations.	Implemented Monitoring schedules were prepared and statement of accounts were sent regularly.

REFERENCE		OBSERVATIONS		RECOMMENDATIONS	ACTIONS TAKEN
CY 2019 AAR Observation No. 2, page 59	2	Result of confirmation of loans, interest and other payable accounts to the Bureau of the Treasury (BTr) disclosed an unreconciled difference of P12.786 million casting doubt on the accuracy of the balance of the account, contrary to the Conceptual Framework for General Purpose Financial Report (GPFR) by Public Sector Entities.	a.	Make representation and continue to coordinate with BTr to reconcile the noted discrepancy; and	Partially Implemented Sent a letter to BTr dated July 1, 2020 to formally request for documents in order to identify the said outstanding payable and to have a basis for recording in its books. Reiterated in Observation No. 2 of this Report
			b.	Effect the necessary adjusting journal entries in the books, if warranted.	Not Implemented NDC is still waiting for documents to support the adjusting entry, if necessary. Reiterated in Observation No. 2 of this Report
CY 2019 AAR Observation No. 3, page 61	3	The balances of the car and housing loans granted to former NDC officials and employees aggregating to P0.822 million and P5.969 million, respectively, or a total of P6.791 million as of December 31, 2019, remained outstanding/dormant for more than two to 21 years	a.	Submit status/ monitoring report to the Office of the Auditor on the car and housing loan accounts including copies of demand letters and/or other pertinent documents to prove that actions have been undertaken to enforce collection of the dormant receivables;	Implemented Submitted status/monitoring report on the car and housing loan accounts and copies of demand letters.
			b.	Require the Legal Department to immediately file complaints against defaulting former NDC	Partially Implemented Cases were filed against three

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
		officials and employees to recover the loaned amount;	delinquent borrowers and the Regional Trial Court granted foreclosure for the same.
		c. Strictly enforce sanctions provided in the housing loan agreements thru the Legal Department; and	Partially Implemented Case against one delinquent borrower is ready for filing for foreclosure.
		d. Revisit the policies on car and housing loans. Stricter control measures have to be adopted in case officers and employees resign or separate from the Corporation.	Not Implemented No update was provided to the Audit Team.
CY 2019 AAR Observation No. 4, page 64	4 The exact location and boundaries of the land costing P2.400 million located in Barangay Bonot, Legazpi City, Albay cannot be ascertained and title of six parcels of land are still not registered/transferred in the name of NDC.	a. Properly identify the exact location of the property including the boundaries to avoid possible encroachment of the adjoining lots;	Not Implemented NDC will hire the services of a Geodetic Engineer to do the relocation survey of the property. Reiterated in Observation No. 9 of this Report
		b. Determine income-generating opportunities to utilize the land; and	Implemented Asset Management Group has identified properties for sale under NDC Property Roadmap as of December 15, 2020.

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
		c. Expedite the transfer of ownership of the remaining properties from International Corporate Bank to NDC.	Partially Implemented Gathered documents to facilitate titling of properties in NDC's name. Reiterated in Observation No. 9 of this Report
CY 2019 AAR Observation No. 5, page 65	5 The exact location and boundaries of the land costing P2.400 million located in Barangay Bonot, Legazpi City, Albay cannot be ascertained and title of six parcels of land are still not registered/transferred in the name of NDC.	Actively advertise and promote the property and/or coordinate with the local government for projects where the property can be utilized.	Implemented NDC sent a letter to Echague LGU offering the property for possible project development; it is also advertised in NDC and Board of Investments website.
CY 2019 AAR Observation No. 6, page 66	6 Several other land assets remained idle/vacant and some are occupied by illegal occupants for residential, commercial and personal purposes, depriving NDC of potential income from the use of such assets.	Review the aforementioned plans of action and provide updates to the Audit Team of actions taken to improve and monitor the condition of these properties.	Partially Implemented Facilitated the disposal of vacant lots, based on the property roadmap, as approved by the Board. Reiterated in Observations No. 8 and 9 of this Report

REFERENCE		OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
CY 2019 AAR Observation No. 7, page 73	7	The Corporation incurred P3.467 million for the continuous hiring of consultants for tax related and confidential policy determining matters in CYs 2018 and 2019.	Hire consultants only for jobs requiring technical expertise which cannot be performed by regular employees and consider training qualified regular employees and/or hire new personnel to handle tax related and policy determining matters of the Corporation.	Partially Implemented Hiring of new personnel on-going.
CY 2019 AAR Observation No. 8, page 76	8	Unremitted cost of audit services to the National Government (NG) accumulated to P11.961 million as of December 31, 2019.	a. Reconcile with the Accounting Office, COA-PFMS for any difference between the assessment billed and the actual cost incurred; and	Not Implemented Management is still verifying documents of prior years' remittances necessary for reconciliation of accounts and will set appointment with COA Accounting Unit for reconciliation.
			b. Remit the balance of cost of audit services due to the NG to the BTr and furnish the Accounting Office, COA-PFMS copy of proof of remittance to BTr for easy reference and reconciliation between NDC records and COA-PFMS records.	Not Implemented Management is still locating documents such as copies of billings and disbursement vouchers.
CY 2019 AAR Observation No. 9, page 78	9	Payments for membership fees for inactive club shares amounting to P71,680 were considered unnecessary expenditure under COA Circular No. 2012-003	Dispose immediately the unutilized and/or inactive shares to avoid incurring unnecessary expenses in the form of membership fees.	Not Implemented Management shall secure the approval of the NDC Board for the disposal of the inactive Club shares.

REFERENCE		OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
		dated October 29, 2012.		
CY 2018 AAR Observation No. 1, page 58	10	As at December 31, 2018, dormant/inactive receivables totaling P539.354 million which have been outstanding for more than 10 years and with remote possibility of collection remained in the books which is not compliant with the provisions of paragraph 5.4.4 of Philippine Financial Reporting Standard (PFRS) No. 9 and COA Circular No. 2016-005 dated December 19, 2016.	Document all the efforts exerted to collect/recover the dormant/inactive accounts.	Partially Implemented Continuous gathering of documents necessary for filing of request for write-off. Reiterated in Observation No. 1 of this Report
CY 2018 AAR Observation No. 2, page 59	11	Of the total Rental Receivable account of P87.493 million, P57.568 million or 66 per cent is considered doubtful, P12.093 million of which has been dormant for several years.	a. Evaluate collectability of accounts with significant allowance for impairment losses and take appropriate action for the collection of dormant accounts; and	Partially Implemented Collection letters were sent to some dormant accounts; and coordinated with Legal Department to follow up status of cases. Reiterated in Observation No. 4 of this Report
			b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for authority to write-off said accounts is warranted.	Partially Implemented Continuous gathering of necessary documents needed to support the write-off. Request will be made for dormant

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
			and inactive accounts from COA in compliance with COA Circular No. 2016-005. Reiterated in Observation No. 4 of this Report
CY 2018 AAR Observation No. 4, page 62	12 Non-settlement of the old Mintex liabilities and non-liquidation of the Mintex escrow fund for which NDC was appointed as a trustee.	a. Gather documents related to the creditors of Mintex, including but not limited to Annex A-1 of the Deed of Undertaking for the eventual settlement of liabilities; and	Partially Implemented NDC drafted a new agreement with former Mintex shareholders. Reiterated in Observation No. 10 of this Report
		b. Communicate with Human Settlements Development Corporation (HSDC) and Southern Philippines Development Authority (SPDA) to discuss the disposition of the escrow fund.	Implemented NDC coordinated with SPDA and HSDC to request for documents related to Mintex, unfortunately, the documents were not available from their end. NDC Legal requested for the Office of the Government Corporate Counsel's opinion if NDC could already distribute the Mintex Funds to the former shareholders.
CY 2017 AAR Observation	13 Non-operational NDC subsidiaries continue to exist.	Prepare and implement plan of actions with timelines relative to the	Partially Implemented

REFERENCE	OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
No. 4, page 60		disposition of non-operational NDC subsidiaries and expedite the dissolution of these non-performing assets once approval is secured.	During the meeting with Governance Commission for GOCCs (GCG) on December 11, 2019, NDC was informed that GCG had already submitted their recommendation to the Office of the President (OP); GCG awaiting approval from OP. NDC will follow up from GCG the OP approval of dissolution.