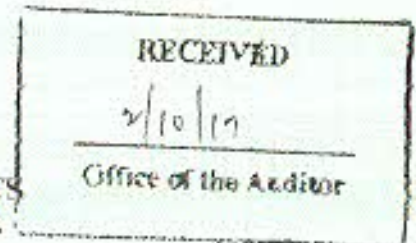


**NATIONAL SECURITY COUNCIL
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**



1. General Information/Agency Profile

The financial statements of National Security Council (NSC), were authorized for issue on February 13, 2016, as shown in the Statement of Management Responsibility for Financial Statements signed by Cesar P. Garcia Jr., the National Security Adviser and Director-General.

The NSC is a national government agency established by virtue of EO No.115 dated December 24, 1986 and the lead agency of government for coordinating the formulation of plans and policies affecting national security. Its functions and responsibilities are: (a) advise the President on the integration of domestic, foreign, military, political, economic, social and educational policies on national security matters; (b) *evaluate and analyze* all information, events and incidents in terms of their implications on national security and stability; (c) formulate and coordinate the implementation of policies on national security matters; and (d) ensure that national security policies adapted are effectively and efficiently implemented.

The registered office is located at NICA Compound, Barangay Pinyahan in Diliman, Quezon City.

2. Statement of Compliance and Basis of Preparation of Financial Statements

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

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

3. Summary of Significant Accounting Policies

3.1 Basis of accounting

The financial statements are prepared on an accrual basis in accordance with the PPSAS.

3.2 Financial instruments

a. Financial assets

Initial recognition and measurement

Financial assets within the scope of PPSAS 29 Financial Instruments: Recognition and Measurements are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The NSC determines the classification of its financial assets at initial recognition.

The NSC's financial assets include: cash and short-term deposits; trade and other receivables; loans and other receivables; and quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Derecognition

The NSC derecognizes a financial asset or, where applicable, a part of a financial asset or part of NSC of similar financial assets when:

- The rights to receive cash flows from the asset have expired or is waived; and
- The NSC has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the NSC has transferred substantially all the risks and rewards of the asset; or (b) the NSC has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The NSC assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a group of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments

- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

b. Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of PPSAS 29 are classified as *financial liabilities at fair value through surplus or deficit or loans and borrowings*, as appropriate. The Group determines the classification of its *financial liabilities at initial recognition*.

All financial liabilities are recognized initially at fair value and, in the case of *loans and borrowings*, plus directly attributable transaction costs.

The NSC's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and financial guarantee contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Derecognition

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

3.3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in bank. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash, net of outstanding bank overdraft.

3.4 Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or

for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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

3.5 Property, Plant and Equipment

Recognition

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

The characteristics of PPE are as follows:

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

An item of PPE is recognized as an asset if:

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

Measurement at Recognition

An item recognized as PPE is measured at cost.

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

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

Cost includes the following:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- expenditure that is directly attributable to the acquisition of the items; and

- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of its use or disposal.

Measurement After Recognition

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

When significant parts of PPE are required to be replaced at intervals, the NSC recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

Depreciation

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

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

Initial Recognition of Depreciation

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

Depreciation Method

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

Estimated Useful Life

The NSC uses the Schedule on the Estimated Useful Life of PPE by classification prepared by GSA.

The NSC uses a residual value equivalent to at least five percent of the cost of the PPE.

Impairment

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

Derecognition

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

3.6 Changes in accounting policies and estimates

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

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

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

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

3.7 Revenue from non-exchange transactions

Recognition and Measurement of Assets from Non-Exchange Transactions

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

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

An asset acquired through a non-exchange transaction is initially measured at its fair value as of the date of acquisition.

asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair values are ascertained by reference to quoted prices in an active and liquid market.

Transfers

The NSC recognizes an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset, except those arising from services in-kind.

Services in-kind

Services in-kind are not recognized as asset and revenue considering the complexity of the determination of and recognition of asset and revenue and the eventual recognition of expenses.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities and the related assets are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the NSC and can be measured reliably.

3.8 Budget information

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

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

3.9 Impairment of Non-Financial Assets

Impairment of cash-generating assets

At each reporting date, the NSC assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the NSC estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the NSC estimates the asset's or cash-generating unit's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset or cash-generating unit does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

Impairment of non-cash-generating assets

The NSC assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the NSC estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount.

The NSC classifies assets as cash-generating assets when those assets are held with the primary objective of generating a commercial return. Therefore, non-cash-generating assets would be those assets from which the NSC does not intend (as its primary objective) to realize a commercial return.

3.10 Employee benefits

The employees of NSC are members of the Government Service Employees System (GSES), which provides life and retirement insurance coverage.

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

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

3.11 Measurement uncertainty

The preparation of financial statements in conformity with PPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include the useful life of capital assets, estimated employee benefits, rates for amortization and impairment of assets.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

4. Prior Period Errors

The NSC has Prior Period Adjustments that affected the current Accumulated Surplus/(Deficit) with the following details:

Particulars	2014	2015
Adjustments for prior year's expenses	(105,801.24)	(55,045,888.78)
Total Prior Period Errors	(105,801.24)	(55,045,888.78)

Adjustment for prior year's expenses includes the following:

Particulars	Amount
State Checks	(41,900.00)
Prepaid Insurance	(5,887.54)
Depreciation	(7,815.70)
Total Prior Years' Adjustments	(105,801.24)

5. *Cash and Cash Equivalents*

Accounts	2016	2015
Cash - Collecting Officer	-	5,948.99
Petty Cash	50,000.00	34,019.38
Total Cash and Cash Equivalents	50,000.00	39,968.27

6. *Receivables*

Accounts	2016	2015
Advances to Officers and Employees	17,466.77	-
Due from Officers and Employees	-	7,797.86
Other Receivables	25,940.00	-
Total Receivables	43,406.77	7,797.86

The account *Advances to Officers and Employees* consists of advances to officers and employees.

The account *Due from Officers and Employees* consists of advances to officers and employees.

7. *Inventories*

Particulars	2016	2015
Office Supplies Inventory	478,915.45	437,535.22
Total Inventories	478,915.45	437,535.22

NSC has the following inventory movement during the year:

	Amount
Inventories Held for Consumption	
Carrying amount, January 1, 2016	437,535.22
Add: Acquisition during the year	478,915.45
Total	916,450.67
Less: Expensed during the year	437,535.22
Carrying amount, December 31, 2016	478,915.45

Included in the acquisition during the year are the following:

Particulars	2016
Supplies	2,622,387.27
Semi-Expendable Office Equipment	70,590.00
Semi-Expendable Information and Communication Technology Equipment	363,115.00
Semi-Expendable Communication Equipment	52,555.00

Semi-Expendable Communication Equipment	52,555.00
Semi-Expendable Other Machinery and Equipment	73,749.25
Semi-Expendable Furniture and Fixtures	171,050.00
Semi-Expendable Books	1,350.00
Total acquisition during the year	3,354,596.52

8. Other Current Assets

Accounts	2016	2015
Advances:		
Advances for Payroll Fund	-	17,422.43
Advances for Special Disbursing Officer	20,000,000.00	-
Prepayments:		
Advances to Contractors	3,953,794.66	-
Prepaid Registration	20,989.17	23,459.59
Prepaid Insurance	47,022.10	94,488.65
Total Other Current Assets	24,021,805.93	136,370.67

The account *Advances to Special Disbursing Officer* in the amount of P20,000,000.00 pertains to Intelligence Fund for FY 2016 allotment of which was released in November 2016. Preparation of documents for liquidation is in process which began before the year-end.

The account *Advances to Contractors* consists of the mobilization fee for the PSR Connectivity Project Phase 3.

9. Property, Plant and Equipment

Details of this group of accounts are as follows:

Particulars	Building and other Structure	Machinery and Equipment	Transportation Equipment	Furniture Fixtures and Books	Other Property Plant and Equipment	Total
Carrying Amount January 1, 2016	10,680,000.00	64,204,016.73	5,207,814.32	892,352.43	-	80,984,183.48
Additions/Acquisitions	-	14,840,910.98	6,506,918.00	38,330.00	5,593,235.28	26,979,394.26
Total	10,680,000.00	79,044,927.71	11,714,732.32	930,682.43	5,593,235.28	107,963,577.74
Disposals / Transfers	-	1,129,602.80	3,760.70	(6,392.97)	(3,028,790.47)	(1,901,819.94)
Depreciation (As per Statement of Financial Performance)	(270,000.00)	(7,764,735.05)	(2,285,305.51)	(80,453.75)	(625,013.37)	(11,025,507.68)
Carrying Amount, December 31, 2016 (As per Statement of Financial Position)	10,410,000.00	22,409,298.46	9,435,187.51	843,835.71	1,939,431.44	95,036,250.12

<i>Gross Cost (Asset Account Balance per Statement of Financial Position)</i>	15,000,000.00	101,853,052.89	18,711,718.00	3,508,341.99	5,593,235.28	147,666,348.16
Less: <i>Accumulated Depreciation</i>	4,590,000.00	32,443,257.43	9,278,530.49	2,664,506.28	3,653,803.84	52,630,098.04
<i>Carrying Amount, December 31, 2016 (As per Statement of Financial Position)</i>	<u>10,410,000.00</u>	<u>72,409,795.46</u>	<u>9,433,187.51</u>	<u>843,835.71</u>	<u>1,939,431.44</u>	<u>95,036,250.12</u>

Buildings and Other Structures account pertains to the share of the Agency in the NICA Building where the NSC is housed.

The *Other Property, Plant and Equipment* account has no reflected carrying amount for January 1, 2016 due to the implementation of the new account code effective at the start of the year.

10. Financial Liabilities

Particulars	2016	2015
Accounts Payable	3,503,236.49	205,458.73
Total Financial Liabilities	3,503,236.49	205,458.73

Accounts Payable consists of the due and demandable obligations of the Agency. Payment will be made upon receipt of the cash allocation requested.

11. Inter-Agency Payables

Accounts	2016	2015
Due to BIR	1,673,927.72	596,901.41
Due to GSIS	-	78,804.08
Due to Pag-IBIG	50,473.84	2,375.98
Due to PhilHealth	25,062.50	-
Total Inter-Agency Payables	1,749,464.06	678,081.47

12. Trust Liabilities

Particulars	2016	2015
Trust Liabilities	146,471.72	85,116.23
Total Trust Liabilities	146,471.72	85,116.23

13. Other Payables

This *Other Payables* account pertains to the 10% retention fees payable mainly for the PSR Connectivity Project 2 which amounted to ₱2,785,436.78 as of December 31, 2016.

14. Personnel Services

Particulars	2016	2015
Salaries and Wages	38,189,357.15	32,293,180.13
Other Compensation	13,300,997.85	8,287,980.38
Personnel Benefit Contributions	4,926,630.87	3,789,228.67
Other Personnel Benefits	1,095,760.04	4,678,680.25
Total Personnel Services	57,512,745.91	49,049,069.43

14.1 Salaries and Wages

Accounts	2016	2015
Salaries and Wages - Regular	37,161,404.99	31,350,014.66
Salaries and Wages Casual/Contractual	1,027,952.16	943,165.47
Total Salaries and Wages	38,189,357.15	32,293,180.13

14.2 Other Compensation

Accounts	2016	2015
Personal Economic Relief Allowance (PERA)	1,697,946.17	1,664,651.11
Representation Allowance (RA)	2,279,917.61	1,762,500.00
Transportation Allowance (TA)	1,869,980.07	1,234,461.37
Clothing/Uniform Allowance	340,000.00	370,000.00
Productivity Incentive Allowance	-	144,300.00
Year End Bonus	5,900,254.00	1,535,161.40
Cash Gift	367,000.00	1,576,906.50
Other Bonuses and Allowances	845,900.00	-
Total Other Compensation	13,300,997.85	8,287,980.38

14.3 Personnel Benefit Contributions

Accounts	2016	2015
Retirement and Life Insurance Premiums	4,492,694.54	3,402,236.58
Pag-IBIG Contributions	78,300.00	98,175.00
Philhealth Contributions	269,616.68	215,487.50
Employees Compensation Insurance Premiums	86,019.65	73,329.59
Total Personnel Benefit Contributions	4,926,630.87	3,789,228.67

14.4 Other Personnel Benefits

Accounts	2016	2015
Terminal Leave Benefits	573,306.93	741,906.12
Other Personnel Benefits	522,453.11	3,936,774.13
Total Other Personnel Benefits	1,095,760.04	4,678,680.25

15. Maintenance and Other Operating Expenses

Particulars	2016	2015
Traveling Expenses	4,264,786.28	5,570,899.85
Training and Scholarship Expenses	321,561.00	454,303.00
Supplies and Materials Expenses	5,750,258.93	4,826,625.90
Utility Expenses	4,565,924.45	4,700,694.14
Communication Expenses	2,496,057.33	4,255,806.46
Confidential, Intelligence and Extraordinary Expenses	1,742,000.00	1,707,700.00
Professional Services	8,144,117.41	6,597,230.30
Repairs and Maintenance	4,756,579.24	4,971,615.21
Taxes, Insurance Premiums and Other Fees	307,031.26	388,136.59
Other Maintenance and Operating Expenses	13,946,046.77	13,470,587.12
Total Maintenance and Other Operating Expenses	46,294,362.67	46,943,598.57

15.1 Traveling Expenses

Accounts	2016	2015
Traveling Expenses - Local	3,285,423.13	3,570,251.35
Traveling Expenses - Foreign	979,363.15	2,000,648.50
Total Traveling Expenses	4,264,786.28	5,570,899.85

15.2 Training and Scholarship Expenses

Account	2016	2015
Training Expenses	321,561.00	454,303.00
Total Training and Scholarship Expenses	321,561.00	454,303.00

15.3 Supplies and Materials Expenses

Accounts	2016	2015
Office Supplies Expenses	2,581,007.04	2,134,933.29
Accountable Forms Expenses	25,000.00	-

