



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

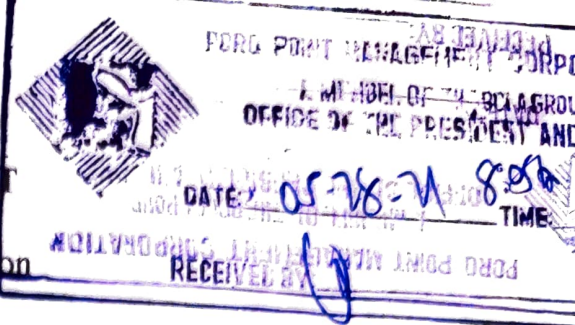
on the

**PORO POINT MANAGEMENT
CORPORATION**
City of San Fernando, La Union

For the Year Ended December 31, 2020



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 1
City of San Fernando, La Union
Tel. No. (072) 888-6780-1



May 24, 2021

ATTY. FELIX S. RACADIO

President and CEO
Poro Point Management Corporation
City of San Fernando, La Union

Dear President Racadio:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, otherwise known as the "Government Auditing Code of the Philippines," and in line with this Commission's efforts towards informing Management on how fiscal responsibility had been discharged, we are pleased to transmit the report of our auditors on the audit of the accounts and operations of the Poro Point Management Corporation, City of San Fernando, La Union, for the year ended December 31, 2020.

The audit was conducted to ascertain the propriety of financial transactions and compliance of the agency to prescribed laws, rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements.

An unmodified opinion was rendered on the fairness of the presentation of the financial statements.

We request that the observations and recommendations contained in the report be appropriately acted upon and we will appreciate being informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation (AAPSI), form attached, within 60 days upon receipt hereof.

We acknowledge the cooperation and support extended to our auditors during the audit.

For the Commission on Audit:

By:


ATTY. CHITO J. JANABAN
Regional Director

Copy furnished:

The President of the Republic of the Philippines
Malacañang Palace Compound
J.P. Laurel St., San Miguel, Manila

The Vice-President of the Republic of the Philippines
Quezon City Reception House
100 11th Street, Brgy. Mariana
New Manila, Quezon City

The Senate President
Senate of the Philippines
GSIS Building, Financial Center
Roxas Blvd., Pasay City

The Chairperson-Senate Finance Committee
Senate of the Philippines
GSIS Building, Financial Center
Roxas Blvd., Pasay City

The Speaker of the House
House of Representatives
Constitutional Hills, Quezon City

The Chairperson - Committee on Appropriation
Committee Office
House of Representatives of the Philippines
Basement, North Wing Building
Constitutional Hills, Quezon City

The Secretary of the Department of Budget and Management
General Solano Street, San Miguel, Manila

The Administrator
Local Water Utilities Administration
MWSS-LWUA Complex, Katipunan Avenue
Balara, Quezon City

The Director
The National Library of the Philippines
T.M. Kalaw, Ermita, Manila

The Chief Office
UP Law Center
Bacobo Hall, UP Law Complex
UP Diliman, Quezon City

The Director
COA Commission Central Library
Commission on Audit
Commonwealth Avenue, Quezon City



**Republic of the Philippines
COMMISSION ON AUDIT**

Regional Office No. I

Corporate Government Sector 7

Water Districts and Other CGS Stand Alone Agencies

City of San Fernando, La Union

Team R1-03

MEMORANDUM

FOR : ATTY CHITO C. JANABAN
Regional Director
Commission on Audit
Regional Office No. I

THRU : ATTY. ROBERT V. OCAMPO, SR.
OIC – Supervising Auditor

DATE : May 24, 2021

In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, we conducted a financial and compliance audit on the accounts and operations of Poro Point Management Corporation, San Fernando City, La Union for the year ended December 31, 2020.

The audit was conducted to ascertain the fairness of presentation of the financial statements and the propriety of financial transactions. We conducted the audit in accordance with generally accepted auditing standards and we believe that it provides a reasonable basis for the results of the audit. The audit was likewise aimed at determining whether the desired objectives were attained in an effective, efficient, and economical manner.

Our report consists of four parts. Part I is the audited financial statements, Part II contains the Observations with the corresponding Recommendations, which were discussed with Management in an exit conference and Part III presents the Status of Implementation by the Auditee of Prior Years' Audit Recommendations.

There is a reason to believe that the financial statements are free of material misstatement/s and are prepared in accordance with applicable laws, rules, and regulations and in conformity with generally accepted accounting principles.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Poro Point Management Corporation as at December 31, 2020, and the results of its operations and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

We discussed our observations and their corresponding recommendations with the agency officials and personnel during the exit conference last May 24, 2021. We are pleased to note their favorable reactions to our recommendations.

We acknowledge the cooperation extended to us by the Poro Point Management Corporation personnel, particularly those of the Accounting Section, through whose assistance and support the submission of this report was made possible.



MC DOBET P. QUINAGON
State Auditor IV
Audit Team Leader



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

**PORO POINT MANAGEMENT
CORPORATION**

City of San Fernando, La Union

For the Year Ended December 31, 2020

EXECUTIVE SUMMARY

A. Introduction

Poro Point Management Corporation (PPMC) was created and registered with the Securities and Exchange Commission (SEC) as the operating and implementing arm of the Bases Conversion and Development Authority (BCDA) to manage the Poro Point Special Economic and Freeport Zone (PPSEFZ), now Poro Point Freeport Zone (PPFZ) pursuant to Republic Act (RA) No. 9400 (An Act Amending RA No.7227, as amended, otherwise known as the Bases Conversion and Development Act of 1992, and Other Purposes). PPMC scope of responsibility encompasses the former Wallace Air Station in Poro Point, La Union, home of Thunderbird Resorts, the San Fernando Airport and the San Fernando International Seaport.

B. Financial Highlights

Presented below is the summary of comparative financial highlights of the Corporation:

Particulars	Amount		Percentage of Change
	2020	2019	
Assets	248,960,857.67	214,220,636.08	16.22
Liabilities	111,676,518.70	103,894,887.49	7.49
Government Equity	137,284,338.97	110,325,748.59	24.44
Income	99,500,311.46	93,613,480.41	6.29
Expenses	69,748,200.38	68,550,145.56	1.75

Particulars	Amount		Percentage of Change
	2020	2019	
Budget	156,034,358.82	144,094,822.00	8.29
Actual Expenditures	69,748,200.38	68,550,145.56	1.75

C. Scope of Audit

A comprehensive audit was conducted on the accounts and operations of PPMC, City of San Fernando, La Union for the year ended December 31, 2020. The audit was conducted to ascertain the propriety of financial transactions and the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements in accordance with the Philippine Financial Reporting Standards (PFRS). It was also aimed at determining the compliance by the Corporation with applicable laws, rules and regulations. It also entailed

verification/validation on the implementation of prior year's audit recommendations was undertaken.

D. Auditor's Opinion on the Financial Statements

The Auditor rendered an unmodified opinion on the fairness of presentation of the Financial Statements (FS) of PPMC, City of San Fernando, La Union as of December 31, 2020, and the results of its operations and cash flows for the year then ended in conformity with PFRS.

E. Summary of Significant Observations and Recommendations

Presented below is the summary of the significant observations and recommendations. These were discussed with the agency officials concerned during the exit conference and their corresponding comments are incorporated in Part II of the report, where appropriate.

1. Procurement of infrastructure projects totaling P40,845,124.80 were not supported with complete documentation contrary to Section 4.6 of Presidential Decree (PD) No. 1445 and Item 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009, precluding the timely review and technical evaluation of the said projects. Also, the validity, propriety, and completeness of the recorded transactions related to said projects in the financial statements could not be ascertained.

We recommended that Management instruct the Project Engineer to coordinate with the BAC to submit all the required documents needed for the review/evaluation as well as for the settlement of the transactions in compliance with Section 4.6 of PD No. 1445 and COA Circular No. 2009-001.

We also recommended that Management instruct the Project Engineer for timely technical inspection of infrastructure projects and complete the specific documentary requirements outlined in the attached checklist of COA Circular No. 2009-001, be submitted to the Audit Team immediately after the completion of infrastructure projects.

2. The disbursement vouchers and the supporting documents, journal vouchers, and other financial reports were not submitted within the prescribed period, contrary to Sections 7.1.1 and 7.2.1 of the 2009 Rules and Regulations on Settlement of Accounts (RRSA), thereby audit of the accounts and transactions of PPMC was hindered and the validity, propriety, and completeness of the recorded transactions in the financial statements could not be ascertained.

We recommended that Management instruct the Finance Officer to regularly submit all the required reports not later than the 10th of the following month after the month of transactions as required under Sections 7.1.1 and 7.2.1 of COA Circular 2009-06 dated September 15, 2009.

We also recommended that Management instruct the Finance Officer to immediately submit the lacking disbursement vouchers with supporting documents.

F. Status of Implementation of Prior Year's Audit Recommendations

Of the 10 prior year's audit recommendations, 6 were implemented and 4 were not implemented.

G. Status of Settlement of Audit Suspensions, Disallowances and Charges

As of December 31, 2020, PPMC had no outstanding suspensions and charges, however, disallowances totaling to ₱1,234,904.05 are under appeal.

TABLE OF CONTENTS

PART I - AUDITED FINANCIAL STATEMENTS

Independent Auditor's Report	1
Statement of Management Responsibility	3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8

PART II - OBSERVATIONS AND RECOMMENDATIONS 28

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS 33

PART I

AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
Office of the Supervising Auditor
**CGS 7-A WATER DISTRICTS AND
OTHER STAND ALONE AGENCIES**
Regional Office No. 1
City of San Fernando, La Union

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Poro Point Management Corporation
Poro Point Freeport Zone
City of San Fernando, La Union

Opinion

We have audited the financial statements of the Poro Point Management Corporation (PPMC), which comprise the Statement of Financial Position as at December 31, 2020, and the Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows and Notes to the 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 the PPMC as at December 31, 2020, its Comprehensive Income and its Cash Flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

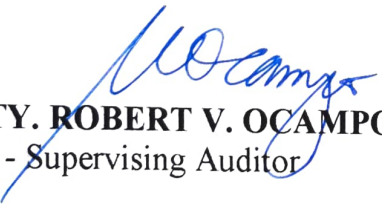
Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 guarantee that an audit conducted in accordance with ISSAI 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.

COMMISSION ON AUDIT

By:


ATTY. ROBERT V. OCAMPO, SR.
OIC - Supervising Auditor

April 7, 2021



PORO POINT MANAGEMENT CORPORATION

A Member of the BCDA Group
City of San Fernando, La Union
Tel. No. (072) 888-5954

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
FINANCIAL STATEMENTS**

The management of the Poro Point Management Corporation is responsible for the preparation of the financial statement as at December 31, 2020, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviewed and approved the financial statements before such statements are issued to the regulators, creditors and other users.

LENIMA B. JUDAN
Finance Manager
January 25, 2021
Date Signed

ATTY. FELIX S. RACADIO
President and CEO/
OIC Chairman of the Board
January 25, 2021
Date Signed

PORO POINT MANAGEMENT CORPORATION

San Fernando City, La Union

Statement of Financial Position

All Funds

As at December 31, 2020

ASSETS	Note	2020	2019
Current Assets			
Cash and Cash Equivalents	3	47,676,701.11	19,008,041.23
Investments	4	70,830,441.48	70,958,520.23
Receivables	5	11,946,431.45	10,898,527.20
Inventories	6	990,112.44	848,321.23
Other Assets	7	1,978,717.21	2,239,666.04
Total Current Assets		<u>133,422,403.69</u>	<u>103,953,075.93</u>
Non-Current Assets			
Investments	8	15,015,000.00	15,015,000.00
Investment Property	9	93,964,611.19	88,485,571.30
Property, Plant and Equipment	10	5,284,100.50	5,492,246.56
Intangible Assets	11	20,476.90	20,476.90
Other Assets	12	1,254,265.39	1,254,265.39
Total Non-Current Assets		<u>115,538,453.98</u>	<u>110,267,560.15</u>
TOTAL ASSETS		<u><u>248,960,857.67</u></u>	<u><u>214,220,636.08</u></u>
LIABILITIES			
Current Liabilities			
Financial Liabilities	13	7,622,431.14	6,494,223.96
Inter-Agency Payables	14	1,722,966.38	1,383,563.21
Intra-Agency Payables	15	73,312,691.72	68,866,660.29
Trust Liabilities	16	1,853,816.48	1,605,816.48
Other Payables	17	8,727,503.22	7,107,513.79
Total Current Liabilities		<u>93,239,408.94</u>	<u>85,457,777.73</u>
Non-Current Liabilities			
Intra-Agency Payables	18	18,437,109.76	18,437,109.76
Total Non-Current Liabilities		<u>18,437,109.76</u>	<u>18,437,109.76</u>
TOTAL LIABILITIES		<u><u>111,676,518.70</u></u>	<u><u>103,894,887.49</u></u>
EQUITY			
Stockholders' Equity	19	83,143,720.23	83,143,720.23
Retained Earnings/(Deficit)		54,140,618.74	27,182,028.36
Total Equity		<u>137,284,338.97</u>	<u>110,325,748.59</u>
TOTAL LIABILITIES AND EQUITY		<u><u>248,960,857.67</u></u>	<u><u>214,220,636.08</u></u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION

San Fernando City, La Union

Statement of Comprehensive Income

All funds

For the Year Ended December 31, 2020

	Note	2020	2019
INCOME			
Service and Business Income	20	99,500,311.46	93,613,480.41
EXPENSES			
Personnel Services	21	47,387,707.89	43,171,465.92
Maintenance and Other Operating Expenses	22	21,682,061.43	24,538,065.09
Non-Cash Expenses	23	678,431.06	840,614.55
TOTAL EXPENSES		<u>69,748,200.38</u>	<u>68,550,145.56</u>
NET INCOME/(LOSS)		<u>29,752,111.08</u>	<u>25,063,334.85</u>
Other Comprehensive Income/(Loss)		-	-
COMPREHENSIVE INCOME/(LOSS)		<u>29,752,111.08</u>	<u>25,063,334.85</u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
Statement of Changes in Equity
For the year ended December 31, 2020

	Notes	2020	2019
Share Capital			
Balance at Beginning of the Period			
Authorized, issued and fully paid 800,000 shares, P100.00 par value		68,143,720.23	68,143,720.23
Balance at End of the Period		<u><u>68,143,720.23</u></u>	<u><u>68,143,720.23</u></u>
Other Equity Investments			
Balance at Beginning of the Period		15,000,000.00	15,000,000.00
Additions		-	-
Deductions		-	-
Balance at End of the Period		<u><u>15,000,000.00</u></u>	<u><u>15,000,000.00</u></u>
Retained Earnings			
	24		
Balance at Beginning of the Period		27,182,028.36	16,517,803.56
Correction of prior year's errors		(2,793,520.70)	(14,399,110.05)
As restated		<u>24,388,507.66</u>	<u>2,118,693.51</u>
Net Income (Loss)		29,752,111.08	25,063,334.85
Balance at End of the Period		<u><u>54,140,618.74</u></u>	<u><u>27,182,028.36</u></u>
TOTAL EQUITY		<u><u>137,284,338.97</u></u>	<u><u>110,325,748.59</u></u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
Statement of Cash Flows
For the year ended December 31, 2020

	2020	2019
Cash Flow from Operating Activities		
Cash Inflow		
OPEX funds received from BCDA	90,166,677.34	100,941,414.68
Collection of Receivables	22,037,020.26	16,583,111.28
Collection of Miscellaneous Income	6,581,054.97	1,718,597.14
Proceeds from termination of investment in TD	67,238,882.51	70,482,344.91
Total Cash Inflow	<u>186,023,635.08</u>	<u>189,725,468.01</u>
Cash Outflow		
Payment to Employees and Suppliers	(74,308,305.90)	(106,996,145.37)
Remittance of Collections to BCDA	(70,000,000.00)	(70,000,000.00)
Payment of Taxes	-	(3,199,987.60)
Investment in Time Deposit	(14,426,649.18)	(9,735,569.93)
Total Cash Outflow	<u>(158,734,955.08)</u>	<u>(189,931,702.90)</u>
Net Cash Provided by (used in) Operating Act.	<u>27,288,680.00</u>	<u>(206,234.89)</u>
 Cash Flow from Investing Activities		
Cash Inflow		
Interest received	1,379,979.88	1,176,526.43
Cash Outflow		
Capital Expenditure projects	(4,106,494.91)	(9,328,037.67)
Total Cash Outflow	<u>(4,106,494.91)</u>	<u>(9,328,037.67)</u>
Net Cash Provided by (used in) Investing Act.	<u>(2,726,515.03)</u>	<u>(8,151,511.24)</u>
 Cash Flow from Financing Activities		
Cash Inflow		
Capex from BCDA	4,106,494.91	9,918,741.48
Net Cash Provided by (used in) Financing Act.	<u>4,106,494.91</u>	<u>9,918,741.48</u>
 Net Increase in Cash and Cash Equivalents	28,668,659.88	1,560,995.35
 Add: Cash and Cash Equivalents, Beginning	19,008,041.23	17,447,045.88
 Cash and Cash Equivalents, Ending	<u><u>47,676,701.11</u></u>	<u><u>19,008,041.23</u></u>

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020

1. Corporate Information

BCDA was created under RA No. 7227 dated March 13, 1993. The main objective is to accelerate the sound and balanced conversion of former military reservations, especially the American Military Bases into alternative productive civilian uses for the benefit of the Filipino people.

Pursuant to this Act, Presidential Proclamation No. 216 was issued creating and designating the area covered by the former Wallace Air Station, the San Fernando Seaport and Airport, and contiguous areas in PPSEFZ, now the PPFZ.

On June 29, 1993, Executive Order (EO) No. 103 was issued, establishing the John Hay Development Corporation (JHDC) as a subsidiary and implementing arm of BCDA for Club John Hay.

Subsequently, on October 07, 1998, EO No. 31 was issued amending Sections 1 and 3 of EO No. 103, series of 1993, renaming John Hay Development Corporation (JHDC) to John Hay Poro Point Development Corporation (JHPDC) as the authorized operating and implementing arm of the BCDA to manage the John Hay Special Economic Zone (JHSEZ) and the PPFZ and its contiguous areas.

On October 03, 2002, EO No. 132 was issued authorizing the creation of PPMC as the implementing arm of BCDA over the PPFZ and renaming the JHPDC as the John Hay Management Corporation (JHMC).

PPMC was registered with the SEC on January 06, 2003.

On March 20, 2007, RA No. 9400 was enacted affirming the Freeport status of the PPSEFZ, renaming it as the Poro Point Freeport Zone (PPFZ).

PPMC office is located at Governor Joaquin L. Ortega Avenue, Poro Point, City of San Fernando, La Union.

Performance Agreement

Pursuant to EO No. 62 issued on February 27, 1993 on the prescribed policies and guidelines for the implementation of RA No. 7227, BCDA is mandated to perform oversight over subsidiaries and adopt and implement an oversight mechanism to implement efficient utilization of scarce resources and to ensure that the plans and programs of subsidiaries are proceeding according to national goals and objectives.

In order to carry out this objective, EO No. 62 likewise mandates that BCDA and its subsidiaries enter into a Performance Agreement embodying the performance criteria and target for the year and the desired goals of the succeeding years.

Towards this goal, BCDA and PPMC entered into a Performance Agreement, setting the performance standards in accordance with the policies and programs of BCDA and PPMC which is mutually acceptable to both parties.

Foremost among the features of the Agreement is about the financial undertakings that BCDA and PPMC have to comply with, briefly summarized as follows:

- BCDA as property owner of the PPFZ shall earn from lease rentals, joint venture agreements, and other business arrangements generated in the PPFZ and from dividends to be declared by PPMC. PPMC shall record these revenues as Trust Liability and remit the same to BCDA through a designated bank account. The same shall now be recorded as income of BCDA.
- PPMC as estate manager shall earn estate management fees due from BCDA either a 50 percent share in the revenues of the PPFZ or fixed amount of PhP60.5 million annually for the next two (2) years beginning 2014 to cover Personal Services (PS) and Maintenance & Other Operating Expenses (MOOE), whichever is higher. In addition, PPMC shall receive a 10 percent share on the net income of the zone.
- PPMC shall ensure that all necessary and appropriate insurance coverage for properties within the zone as well as security services for the property are secured. Insurance coverage, maintenance and depreciation expenses of BCDA properties within the zone, as well as maintenance and security services for the property, however, shall be charged to BCDA as owner of the land.
- PPMC shall formulate an annual work plan and budget to be submitted to BCDA for approval in accordance with Financial Policy No. 502-2.
- PPMC shall submit a rolling five-year OPEX schedule for BCDA funding and approval while maintaining the expected Return on Assets (ROA) and Return on Equity (ROE) targets for BCDA. A yearly submission of the actual OPEX for review and next year's projected OPEX schedule for consideration and approval of BCDA shall be presented during the planning and budgeting deliberations.

2. Summary of Significant Accounting Policies

The significant accounting policies are set forth to facilitate understanding of data presented in the financial statements (FS).

2.1 Basis of preparation

The FS have been prepared in conformity with accounting principles generally accepted in the Philippines. The FS are presented in Philippine peso, which is the functional and reporting currency of PPMC. These are the PPMC first financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS), where PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, was then applied.

The FS comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to Financial Statements.

2.2 Use of Estimates and Judgments

The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. It also requires management to exercise its judgments in the process of applying the accounting policies consistent with that of the BCDA.

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, requires an entity adopting PFRS for the first time (a first-time adopter) to comply with each PFRS that has come into effect at the reporting date for its first PFRS financial statements. It also requires a first-time adopter to prepare an opening PFRS balance sheet at the date of transition to PFRS, the beginning of the earliest adoption to which it represents the full comparative information under PFRS.

PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or non-current; (c) prohibits the presentation of items of income and expenses as extraordinary items in the financial statements; and (d) specifies the disclosures

IAS 2 – Inventories. This standard prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

IAS 16 – Property, Plant and Equipment. This standard prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at cost. An

entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The residual value and the useful life of an asset shall be reviewed at least each financial year-end and, if expectations differ from previous estimates, the changes(s) shall be accounted for as change in an accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

2.3 Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less from date of acquisition.

2.4 Supplies and Materials

This account carries the value of unused supplies and materials in stock using the moving average inventory method.

2.5 Investment in Joint Ventures

PPMC has an interest in joint ventures which are jointly controlled entity, whereby the ventures have a binding arrangement that establishes joint control over the economic activities of the entity. PPMC recognizes its interest in the joint venture using the equity method. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost plus post acquisition changes in share of net assets of the joint venture.

2.6 Property, Plant and Equipment (PPE)

PPE are stated at cost less accumulated depreciation. Depreciation is measured using the straight-line method with composite rates ranging from 5% to 20%. In accordance with COA Circular No. 2004-3 dated October 4, 2004 and COA Circular No. 2015-002 dated March 9, 2015 the computation of depreciation expense shall start on the following month after the purchase/completion of the PPE, irrespective of date within the month. The current and subsequent month depreciation expense shall be computed as follows:

$$\text{Monthly Depreciation Expense} = \frac{\text{Carrying Amount} - \text{Residual Value}}{\text{Remaining Useful Life}}$$

The effect of the recognition of depreciation as a result of the change in the estimated residual value from 10% to 5% of the cost shall be applied prospectively.

Assets acquired with value of not more than P15,000.00 are recorded under supplies and materials expense upon issue to the end-user pursuant to COA Circular No. 2015-007 dated October 22, 2015. However, items with individual values below

the threshold of ₱15,000.00 but which work together in the form of a group of network assets whose total value exceeds the threshold shall be recognized as part of the primary PPE, e.g. computer network.

Maintenance and repairs of PPE are charged to operations. Improvements and/ or major repairs that considerably extend assets life or if the repair costs are material in amount are charged to the appropriate asset account.

2.7 Revenue Recognition

Funds released for operating expenditures (OPEX) from BCDA are reflected as Management fees in the Statement of Comprehensive Income.

2.8 Collections received in trust

PPMC shall remit to BCDA on a regular basis all revenues from contracts and other sources of revenues generated within the PPFZ and are deposited daily to BCDA Land Bank of the Philippines (LBP) Account No. 0202-0177-54 at City of San Fernando, La Union. Results of these activities are being reported to BCDA monthly.

3. CASH AND CASH EQUIVALENTS

This is composed of the following:

Particulars	2020	2019
Cash on Hand		
Cash-Collecting Officer	-	2,700.00
Cash in Bank		
Cash in Bank-Local Currency, CA	9,294,838.77	11,872,931.82
Cash in Bank-Local Currency, SA	-	24,327.80
Cash Equivalents		
Time deposits-Local Currency	38,381,862.34	7,108,081.61
Total Cash and Cash Equivalents	47,676,701.11	19,008,041.23

CASH ON HAND

The cash-collecting officer account consists of cash collections received after the cut-off time. PPMC entered into a deposit pick-up arrangement with the LBP on November 7, 2014, wherein LBP collects daily at the PPMC Office from Monday to Friday, 8:30 a.m. to 3:00 p.m.

Cash in Bank-Local Currency

This account consists of the following:

Particulars	2020	2019
Cash in Bank-Local Currency, LBP Opex Current	8,184,705.62	10,763,375.87
Cash in Bank-Local Currency, LBP Capex Current	1,110,133.15	1,109,555.95
Cash in Bank-Local Currency, DBP Opex Savings	-	24,327.80
Total Cash In Bank-Local Currency	9,294,838.77	11,897,259.62

Cash in Bank-Local Currency, LBP Opex Current Account

PPMC maintains a current account for its Opex at the LBP. This was the original account of PPMC prior to its transfer to the Philippine National Bank (PNB) on 02 July 2004.

Cash in Bank-Local Currency, LBP Capex Account

On 19 October 2018, PPMC opened a current account for its Capital Expenditures (Capex) at the LBP pursuant to the advice of the Department of Finance (DOF) to wind down PPMC's deposits at PNB and transfer the same to either LBP/DBP.

CASH EQUIVALENTS

This account represents authorized placements of time deposit at the LBP with a maturity of 90 days.

4. INVESTMENTS

This is composed of Investment in Time Deposits.

INVESTMENTS IN TIME DEPOSITS

This account represents authorized placements of time deposit at the LBP with maturities of 120 days as shown below:

Particulars	2020	2019
Investments in Time Deposits		
Investments in Time Deposits-Local Currency	70,830,441.48	70,958,520.23

5. RECEIVABLES

The account is composed of the following:

Particulars	2020	2019
Loans and Receivables Account		
Accounts Receivable	1,825,304.15	1,644,710.30
Interest Receivable	126,697.49	98,661.97
Intra-Agency Receivables		
Due from BCDA	9,628,194.20	8,731,929.95
Other Receivables		
Due from Officers and Employees	366,235.61	423,224.98
Total Receivables	11,946,431.45	10,898,527.20

ACCOUNTS RECEIVABLES

The accounts receivable pertains to remittances of suppliers' taxes to BIR that will be collected from the concerned suppliers. The rest of the accounts are various receivables from former Officers of PPMC.

INTRA-AGENCY RECEIVABLES

The due from BCDA account pertains to reimbursement of expenses for BCDA land related costs such as insurance coverage, maintenance and security services for the property.

OTHER RECEIVABLES

The Due from Officers and Employees account are receivables from PPMC personnel for personal calls, prior year taxes due and other miscellaneous charges.

6. INVENTORIES

The office supplies inventory, accountable forms, food supplies, chemical and filtering supplies inventory, construction materials and electrical supplies inventory are based on moving average method.

7. OTHER ASSETS

Other Assets is composed of the following:

Particulars	2020	2019
Prepayments		
Advances to Contractors	678,981.11	1,502,508.10
Prepaid Registration	13,651.02	3,185.06
Prepaid Insurance	100,134.57	138,682.60
Other Prepayments	637,789.55	105,655.18

Deposits		
Guaranty deposits	168,884.00	168,884.00
Withholding Tax at Source		
Withholding Tax at Source	58,525.86	-
Other Assets		
Other Assets	320,751.10	320,751.10
Total Other Assets	1,978,717.21	2,239,666.04

PREPAYMENTS

This account includes:

Particulars	2020	2019
Advances to Contractors	678,981.11	1,502,508.10
Prepaid Insurance & Registration	113,785.59	156,612.02
Other Prepayments	637,789.55	506,277.51
Total Prepayments	1,430,556.25	2,165,397.63

The Advances to Contractors account pertains to the advance payment (15% mobilization fees) made to the contractor of the Baywalk with events center project and miscellaneous advances made to other suppliers.

Prepaid registration refers to various prepayments made for the renewal of vehicles, firearm and radio licenses with a minimum coverage period of one year.

Prepaid insurance represents the unexpired portion of insurance premiums of PPMC occupied building, building contents, directors and officers' liability insurance and vehicle insurance.

Other prepayments represent payment to suppliers on a cash on delivery (COD) basis, subject to liquidation upon receipt of the items purchased and preparation of inventory acceptance report (IAR).

GUARANTY DEPOSITS

Guaranty deposits pertain on payments to service providers such as telephone and electric companies that are refundable upon cancellation/termination of contracts.

8. INVESTMENTS

This account includes:

Particulars	2020	2019
Investments in Joint Venture	15,000,000.00	15,000,000.00
Other Investments-Investment in Stocks	15,000.00	15,000.00
Total Investments	15,015,000.00	15,015,000.00

The investment in the joint venture pertains to the 15% investment share of PPMC to Poro Point Industrial Corporation (PPIC) pursuant to the Pre-Incorporation Agreement.

The Pre-Incorporation Agreement entered into on September 24, 1999 by and between the BCDA and JHPDC now, PPMC and Bulk Handlers, Inc. (BHI), a corporation duly organized under Philippine laws, created a joint venture corporation under the name of PPIC.

Section 1, paragraph 1.02 of the Pre-Incorporation Agreement provides that the PPIC shall be organized for the principal purpose of undertaking the utilization, development, operation, management, and administration of the seaport and industrial areas as well as all reclamation works within the project area.

Section 1, paragraph 1.03 also provides that the authorized capital stock of PPIC shall initially be in the amount of ₱100,000,000. BCDA/PPMC shall subscribe to shares equal to ₱30,000,000 constituting 30% ownership of the total outstanding capital stock. On the other hand, BHI and/or its consortium shall subscribe to and fully pay for shares equal to ₱70,000,000.00 for a 70% ownership of the total outstanding capital stock of PPIC.

It was likewise provided under the terms of the Agreement that BHI shall fund the thirty percent (30%) equity participation of BCDA/PPMC in exchange for the leasehold rights over the project area and that BHI shall always fund the equity participation of BCDA/PPMC in the event the capital stock of PPIC is increased to avoid dilution of the BCDA/PPMC shares.

To date, PPMC equity share amounts to ₱15,000,000.00 equivalent to 15% of the total authorized and subscribed capital stock of PPIC.

The investment in stocks represents subscription of shares of stock to PLDT.

9. INVESTMENT PROPERTY

This account consists of:

Particulars	2020	2019
Investment Property-Land	21,441,469.65	21,441,469.65
Investment Property-Building	6,676,047.56	6,676,047.56
Construction in Progress	65,847,093.98	60,368,054.09
Total Investment Property	93,964,611.19	88,485,571.30

Investment property-land refers to the validated land held-in trust within the PPFZ on behalf of BCDA. Acquisition cost was valued at ₱1,250.00/₱2,300.00 per square meter plus documentary stamp taxes & other similar incidental charges.

There are 47 original land titles already forwarded to BCDA out of the 73 land titles covering 5.43 hectares, more or less. Titles of the remaining lots are still subject to

reconstitution as a result of the fire that gutted the Register of Deeds building on August 26, 2000.

On August 2, 2012, the Land Registration Administration (LRA) informed BCDA/PPMC that the following titles were issued with reconstitution orders: T-52521; T-52526; T-52530; T-52518; T-46198; T-52588. The LRA likewise informed BCDA that the rest of the TCT with pending applications for reconstitution may have been damaged during the fire that destroyed the LRA office on July 22, 2011. PPMC will file the necessary documents in order to safeguard PPMC rights to the properties.

Investment property-buildings represents finished capital expenditure projects such as provision of lighting at the industrial area and the relocation and replication of the Philippine Air Force (PAF) fence and guardhouse amounting to ₱2,959,962.96 and Php3,716,084.60 respectively. These projects were already liquidated to BCDA on February 11, 2016 and September 14, 2016. However, BCDA will issue accounting instructions to PPMC to effect the liquidation in the books once the Certificate of Final Acceptance has been released by PPMC to the Contractors.

Construction-in-Progress held in trust of ₱65,847,093.98 constitutes capital expenditure projects for the construction of a baywalk with events center, construction of main gate and airport fence which are being funded by BCDA. Upon completion, these projects together with relevant documents will be turned-over to BCDA and the corresponding advances granted to PPMC are liquidated.

10. PROPERTY, PLANT AND EQUIPMENT

The details of this group of accounts consist of the following:

Particulars	2020	2019
Land Improvements	276,082.12	276,082.12
Infrastructure Assets	516,605.02	516,605.02
Buildings & Other Structures	8,978,610.71	8,978,610.71
Machinery and Equipment	11,293,497.51	11,214,072.51
Furniture, Fixtures and Books	2,834,393.10	2,592,033.10
Transportation Equipment	10,516,397.02	10,367,897.02
Total	34,415,585.48	33,945,300.48
Less: Accumulated Depreciation	29,131,484.98	28,453,053.92
Total	5,284,100.50	5,492,246.56

PPE pertain to assets acquired and are utilized and directly benefits PPMC which includes among others, properties such as buildings, furniture, fixtures, machineries, equipment and motor vehicles.

11. INTANGIBLE ASSETS

This account consists of computer software used by PPMC in its operations.

Particulars	2020	2019
Computer Software	851,469.58	851,469.58
Less: Accumulated Amortization-Computer Software	830,992.68	830,992.68
Total Intangible Asset	20,476.90	20,476.90

12. OTHER ASSETS

This account consists of accounts receivable held in trust by PPMC for BCDA amounting to ₱1,254,265.39. The accounts receivable-current of ₱244,540.89 refer to collectibles from airport users representing revenues generated within the PPFZ held in trust by PPMC for BCDA while non-current trade receivables held in trust of ₱1,009,724.50 is long outstanding airport fees due from Ace Pilots Aviation Academy subject of a legal move to pursue collection in Court.

Particulars	2020	2019
Other Assets		
Other Assets	1,254,265.39	1,254,265.39

13. FINANCIAL LIABILITIES

This is composed of Accounts Payable. It represents the outstanding payables on purchases made from local suppliers and contractors.

Particulars	2020	2019
Financial Liabilities		
Accounts Payable	7,622,431.14	6,494,223.96

14. INTER-AGENCY PAYABLES

This is composed of statutory/mandatory deductions paid by the PPMC.

Particulars	2020	2019
Due to BIR	664,147.04	552,413.66
Due to Pag-ibig	9,079.22	135,544.52
Due to Philhealth	-	7,416.31
Due to SSS	-	78,944.54
Income Tax Payable	1,049,740.12	609,244.18
Total Inter-Agency Payables	1,722,966.38	1,383,563.21

15. INTRA-AGENCY PAYABLES

Due to other funds refers to the provident fund premium contributions and loans payable. Provident premiums of PPMC employees correspond to 2.5% of their monthly salary and PPMC counterpart of 5% as provided under PPMC Policy No.011-2003. This will pool funds to serve as a financial facility to be utilized at some time in the future at more favorable terms and conditions. Provident loans payable refers to loans of PPMC employees to the Provident fund. The Board of Trustees approved the implementing guidelines for the Employees Provident Fund Loan Program on October 20, 2005.

Due to BCDA pertains to the earned revenues within the PPFZ held in trust by PPMC for BCDA. Collections there from are to be remitted to BCDA through the designated bank account. Part of this account is the long outstanding airport fees due from ACE Pilots Aviation Academy in the amount of ₱1,009,724.50 subject to a legal move to pursue collection in court; and the accounts receivable current of ₱244,540.89. This account also includes funds released by BCDA for capital expenditure projects such as construction of bay walk with events center, construction of main gate and airport fence per accounting instructions issued by BCDA. Upon completion of these construction projects, PPMC will liquidate the advances made by turning over the completed projects to BCDA.

16. TRUST LIABILITIES

This account consists of trust liabilities, guaranty deposits and security deposit payables. Trust liabilities refer to bid fees collected from bidders. Performance security payable is posted by a bidder to guarantee the faithful performance of its obligations of an awarded contract, which may be forfeited or refunded in accordance with RA No. 9184. Balances appearing at year-end are as follows:

Particulars	2020	2019
Trust Liabilities	1,783,816.48	1,538,816.48
Guaranty Deposits Payable	38,000.00	35,000.00
Security Deposit	32,000.00	32,000.00
Total Trust Liabilities	1,853,816.48	1,605,816.48

17. OTHER PAYABLES

This account consists of bid bond payables, retention payables and miscellaneous payables. Bid bond or bid security is posted by a bidder as a guarantee that the latter will enter into contract with the procuring entity. Retention payable represents the amount due to the contractor which shall be due for release upon final acceptance of its works to PPMC.

Particulars	2020	2019
Other Payables		
Other Payables	8,727,503.22	7,107,513.79

18. INTRA-AGENCY PAYABLES - Due to BCDA

This account refers to the cash advances from BCDA for the acquisition of private lots within the Wallace Area which amounted to P18,437,109.76.

Particulars	2020	2019
Intra-Agency Payables		
Due to BCDA	18,437,109.76	18,437,109.76

19. STOCKHOLDERS' EQUITY

This account is composed of Share Capital and Other Equity Instruments and presented as follows:

Particulars	2020	2019
Stockholders' Equity		
Share Capital	68,143,720.23	68,143,720.23
Other Equity Instruments	15,000,000.00	15,000,000.00
Total Stockholders' Equity	83,143,720.23	83,143,720.23

SHARE CAPITAL

PPMC was authorized to issue 800,000 shares at P100 cost per share. BCDA has approved an increase of authorized capital stock from P80 million to P300 million per letter dated May 4, 2012.

On October 15, 2014, PPMC wrote a letter to the Governance Commission for Government Owned and Controlled Corporation (GCG), requesting for the latter's endorsement/clearance/recommendation for the amendment of the Articles of Incorporation of PPMC prior to submission to the SEC for approval. On October 27, 2014, GCG directed PPMC to submit documents to be used in the evaluation process of the latter's request. On November 2, 2016, PPMC submitted additional documents required by GCG in the evaluation process. Finally, on November 23, 2016, the GCG approved the request for increase in capitalization of PPMC. PPMC is now reviewing the request for increase in capitalization in coordination with BCDA.

EQUITY IN JOINT VENTURE

The Pre-Incorporation Agreement entered into on September 24, 1999 by and between the BCDA and JHPDC now, PPMC and Bulk Handlers, Inc. (BHI), a corporation duly organized under Philippine laws, created a joint venture corporation under the name of PPIC.

Section 1, paragraph 1.02 of the Pre-Incorporation Agreement provides that the PPIC shall be organized for the principal purpose of undertaking the utilization, development, operation, management, and administration of the seaport and industrial areas as well as all reclamation works within the project area.

Section 1, paragraph 1.03 also provides that the authorized capital stock of PPIC shall initially be in the amount of ₱100,000,000. BCDA/PPMC shall subscribe to shares equal to ₱30,000,000 constituting 30% ownership of the total outstanding capital stock. On the other hand, BHI and/or its consortium shall subscribe to and fully pay for shares equal to ₱70,000,000.00 for a 70% ownership of the total outstanding capital stock of PPIC.

It was likewise provided under the terms of the Agreement that BHI shall fund the thirty percent (30%) equity participation of BCDA/PPMC in exchange for the leasehold rights over the project area and that BHI shall always fund the equity participation of BCDA/PPMC in the event the capital stock of PPIC is increased to avoid dilution of the BCDA/PPMC shares.

To date, PPMC's equity share amounts to ₱15,000,000.00 equivalent to 15% of the total authorized and subscribed capital stock of PPIC.

20. BUSINESS INCOME

The income of PPMC is derived from the following sources:

Particulars	2020	2019
Service and Business Income		
Business Income		
Management Fees	91,539,276.61	90,718,356.84
Interest Income	1,379,979.88	1,176,526.43
Permit fees	6,515,054.97	950,297.14
Miscellaneous Income		
Miscellaneous Income	66,000.00	768,300.00
Total Revenues	99,500,311.46	93,613,480.41

MANAGEMENT FEES

This account consists mainly of management fees. PPMC as estate manager of the PPFZ is compensated by BCDA in the form of OPEX fund releases corresponding to the budget for Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) of PPMC for the year. Such fund releases are recognized as estate management fees in the books of PPMC and are being released by BCDA at the start of the year.

It is noteworthy to mention that PPMC contributed P4,450,000.00 from its Management Fee released by BCDA to the BAYANIHAN TO HEAL AS ONE ACT (RA No. 11469) per GCG Memorandum Order No. 2020-04 dated April 13, 2020 to enable President Rodrigo Roa Duterte to effectively and prudently exercise the temporary authority granted to him under said RA No. 11469.

BCDA, as property owner is entitled to the revenues generated from the PPFZ which comprise of lease rentals, airport fees, gaming revenue share, share in the sale of real estate projects and regulatory fees.

For the year ending December 31, 2020, BCDA earned a total revenue of P89,581,380.77, net of P53,822,312.00 uncollectible PPIC account, subject to litigation.

The entry of Thunderbird Pilipinas Hotels and Resorts, Inc, whose Casino opened for business on April 28, 2006, provided a significant share in the revenues generated. Total percentage share in net winnings of 3% amounted to P30,719,112.00 for the year ending December 31, 2020. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals of P1,797,646.25.

All collections accruing BCDA are deposited to BCDA bank account.

MISCELLANEOUS INCOME

This account consists of regulatory fees such as seaport dues and fees, import permits, local purchase permits, gate pass, building permit fees and other fees.

21. PERSONNEL SERVICES

These include the following expenses of PPMC as presented:

Particulars	2020	2019
Salaries and Wages		
Salaries and Wages-Regular	31,089,053.77	30,311,007.63
Other Compensation		
Personnel Economic Relief Allowance (PERA)	1,368,942.42	1,333,386.52
Representation Allowance	808,125.00	744,500.00
Transportation Allowance	808,125.00	742,500.00

Clothing/Uniform Allowance	348,000.00	336,000.00
Longevity Pay	1,258,419.62	1,763,654.62
Overtime and Night Pay	2,596,343.00	2,511,325.80
Year-End Bonus	285,000.00	274,000.00
Cash Gift	20,000.00	80,000.00
Other Bonuses and Allowances	3,479,973.00	3,259,915.00
Personnel Benefit Contributions		
Pag-ibig Contributions	69,300.00	57,400.00
Philhealth Contributions	382,432.86	304,326.80
Employees Compensation Insurance Premiums	22,380.00	16,740.00
Other Personnel Benefit Contributions		
Other Personnel Benefit Contributions	1,100,940.00	912,512.25
Terminal Leave Benefits	3,750,673.22	524,197.30
Total Personnel Services	47,387,707.89	43,171,465.92

22. MAINTENANCE AND OTHER OPERATING EXPENSES

PPMC paid the following expenses as presented:

Particulars	2020	2019
Travelling Expenses		
Travelling Expenses-Local	1,486,132.92	3,081,915.68
Training and Scholarship Expenses		
Training Expenses	249,799.62	1,374,242.13
Supplies and Materials Expenses	2,138,648.65	2,073,624.52
Utility Expenses		
Electricity Expenses	684,913.16	849,837.47
Communication Expenses		
Postage and Courier Services	1,151,588.56	1,080,249.91
Confidential, Intelligence and Extraordinary Expenses		
Extraordinary and Miscellaneous Expenses	231,493.09	398,594.58
Professional Services		
Auditing Services	1,002,656.20	1,192,728.59
General Services		
Janitorial Services	298,106.09	344,581.14
Security Services	1,132,132.11	1,101,638.67
Repair and Maintenance		
Repair and Main.-Building and Other Structures	970.00	342,758.34
Repair and Main.-Transportation Equipment	46,684.52	127,974.90

Repair and Main. -Furniture and Fixtures	5,200.00	38,765.00
Taxes, Insurance Premiums and Other Fees		
Taxes, Duties and Licenses	82,049.63	83,623.14
Insurance Expenses	147,595.69	674,134.17
Income Tax Expenses	9,457,377.06	3,426,473.77
Other Maintenance and Operating Expenses		
Advertising, Promo. and Marketing Expense	141,750.00	521,985.73
Representation Expenses	665,223.79	1,279,639.75
Subscription Expenses	16,825.35	59,111.75
Directors and Committee Members Fees	1,403,000.00	1,342,000.00
Other Main. and Other Operating Expenses	1,339,914.99	5,144,185.85
Total MOOE	21,682,061.43	24,538,065.09

INCOME TAX EXPENSE

For CY 2020, PPMC cancelled its Certificate of Registration as locator of PPFZ as approved by the PPMC Board of Directors on April 29, 2020, because it became detrimental to PPMC. To effect the said cancellation of Certificate of Registration, PPMC amended its BIR Certificate of Registration (BIR form 2303) on June 17, 2020. PPMC is now paying the normal tax rate of 25% on its income.

ADVERTISING, PROMOTIONAL AND MARKETING EXPENSES

This account consists of advertisement to various media infrastructures, sponsorship to marketing events, procurement of marketing collaterals, membership in the Philippine Investment Promotion Plan (PIPP), participation in local expositions and various marketing events conducted inside the PPFZ such as the Sillag Festival of Lights and promotion of the Baywalk Events Center.

OTHER MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

Particulars	2020	2019
SP-ISO Certification	69,000.00	18,300.00
SP-Corporate Social Responsibility	198,259.83	223,796.00
SP-COVID-19 Expenses	963,402.45	-
SP-Sillag Expense	-	4,079,133.41
SP-Gender and Development	-	275,426.92
SP-Annual Report	-	87,500.00
SP-Trade Mission	-	32,815.52
Total Other MOOE	1,230,662.28	4,716,971.85

One of the items under special projects is the Sillag Festival or Poro Point Festival of Lights which is an annual festival launched by PPMC on April 28, 2012. The festival focuses on the Poro Point Lighthouse which is being promoted by PPMC as an integral component of the tourism development inside the PPFZ. The festival aims to attract domestic and foreign tourists to create a mass market to encourage business and tourism inside the PPFZ as well as the City of San Fernando and the rest of the Province of La Union.

Special projects also included community development or inclusive growth which is paramount to PPMC. Alongside the development efforts and creation of business opportunities in the PPFZ, PPMC pursued community development projects to improve the quality of life of the impact communities. PPMC HELPS was institutionalized as PPMC vehicle to implement Corporate Social Responsibility Program. HELPS stands for the various components of the program – health, education/environment, livelihood program and strengthening linkages.

Also part of the special projects is the trade mission to provide an opportunity to showcase and promote the PPFZ as an investment destination in the Philippines. Trade missions also provide an avenue for PPMC to explore business opportunities as well as get insights on the developments and trends in the markets of Asia and other countries.

23. NON-CASH EXPENSES

This includes the depreciation expenses taken up on the PPE of PPMC.

Particulars	2020	2019
Depreciation		
Depreciation-Buildings and Other Structures	315,466.80	368,507.20
Depreciation-Machinery and Equipment	246,950.47	192,353.47
Depreciation-Transportation Equipment	74,871.95	242,361.95
Depreciation-Furniture, Fixtures and Books	41,141.84	37,391.93
Total Non-Cash Expenses	678,431.06	840,614.55

24. RETAINED EARNINGS

Correction of Prior Year's Errors charged to Retained Earnings as of December 31, 2020 are shown below:

Date	Reference	Particulars	Amount
1/31/2020	JV 6123, 6195, 6530	Prior years' expenses	-11,593.50
1/31/2020	JV 6200	Stakeholder Satisfaction Survey fee for CY 2018	-213,435.00
2/7/2020	JV 6533	Monetization of leaves of Mr. Aquino	-357,740.87
2/18/2020	JV 6618	Audit fee for March & May 2019	-225,083.50
2/29/2020	JV 6204,	Prior years' expenses	-62,729.88

	6537, 6562		
3/9/2020	APV 2136	Monetization of leaves of Mr. Caringal	-168,437.82
3/31/2020	Various ref.	Prior years' expenses	-62,320.00
5/6/2020	JV 7571	Retirement/monetization of leaves of Mr. Joselito V. Galvez	-411,657.95
5/6/2020	JV 7572	Retirement/monetization of leaves of Mr. Antonio D. Marquez	-340,798.30
5/6/2020	JV 7573	Retirement/monetization of leaves of Mr. Lilito J. Membrete	-532,253.54
5/6/2020	JV 7574	Retirement/monetization of leaves of Ms. Leonida G. Garcia	-113,173.25
5/6/2020	JV 7575	Retirement/monetization of leaves of Mr. Rolando T. Carino	-186,043.36
5/31/2020	JV 7595	Adjustment of SSS/Pag-ibig Contributions	-100,340.00
6/5/2020	JV 7811	Receipt of funds from BCDA for the retirement pay/monetization of leaves of employees who retired prior to CY 2020.	450,325.00
6/9/2020	JV 7632	Monetization of leaves of Engr. Corpuz	-407,677.71
6/30/2020	JV 7634/7686	Prior year's expenses (newspaper/advertisement)	-29,937.30
6/30/2020	JV 7834	Prior year's expenses (Human Resource Information System)	-56,550.00
7/29/2020	JV 7928-7930	Monetization of leave credits of employees of prior years	-1,057,107.40
8/13/2020	JV 8036	Monetization of leaves of Mr. Sarmiento	-19,084.74
8/19/2020	JV 8065	Prior year's expenses (BOD meals)	-1,142.00
9/30/2020	JV 8437	Prior year's expenses (Cost of check booklet)	-6,000.00
9/30/2020	JV 8437	Miscellaneous deposits (prior year)	13,000.00
10/31/2020	JV 8789	Misc. income (prior year)	11.90
11/30/2020	JV 2824	Monetization of leaves of Mr. Valido	-47,434.05
11/30/2020	JV 2553	Prior year's adjustments	1,142.00
12/31/2020	JV 9468	Accrual of PBB of employees for CY 2017	-1,142,008.10
12/31/2020	JV 9092-9248	Monetization of leave credits of employees of prior years	-467,429.82
12/31/2020	Various JVs	Prior year's adjustments	237,066.08
12/31/2020	JV 10567	Reversal of monetization of leaves of employees charged to retained earnings	2,524,912.31
		TOTAL	-2,793,520.70

For the dividends due for CY 2019 amounting to P33,139,763.72 which was based on the 50% of GROSS INCOME EARNED (GIE), PPMC requested for a downward adjustment in dividend rate to the Department of Finance (DOF) per letter dated April 30, 2020.

25. STATUS OF PENDING LITIGATIONS

CASE	STATUS/UPDATE
<p>1. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007 Collection of Sum of Money P1,031,258.80</p>	<p>-The Honorable Court issued a Notice of Garnishment on July 11, 2018 and served upon BPI and BDO head offices, Makati on July 17, 2018 and July 19, 2018 respectively. BPI and BDO in their reply dated 19 July 2018, stated that the defendant had no account with their bank.</p>
<p>2. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shippside Incorporated Re: Expropriation Cases (for eminent domain)</p>	<p>-Defendants filed a petition for Certiorari from the decision of the Court of Appeals to remand the case to the trial court. The case is pending in the Supreme Court. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. No feedback yet from OGCC.</p>
<p>3. BHI, Moran, Tan, Venturina and PPIC vs. BCDA and PPMC Re: Petition for Injunction brought under the Interim Rules of Procedure Governing Intra-Corporate Controversies (to prevent implementation of PPMC Resolution No. 2006-01-10 declaring the Pre-Incorporation Agreement null and void <i>ab initio</i>.)</p>	<p>-BCDA opted to wait for the final decision of the higher court and did not approve the proposal to enter into a compromise agreement with BHI. The case is pending in the Supreme Court where BCDA elevated the adverse decision of the Court of Appeals. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. No feedback yet from OGCC.</p>
<p>4. PPMC vs. Poro Exim Corporation Re: Collection of Sum of Money with damages.</p>	<p>-PPMC filed in court, RTC Branch 26, City of San Fernando, La Union. Summon was served to defendants on 23 November 2018. Mediation failed in Court Annexed Mediation (CAM). Hearing was set for mediation before RTC Branch 26, City of San Fernando, La Union on July 2, 2019. Judicial Dispute Resolution (JDR) is scheduled on February 5, 2020 after several postponements. PPMC presented its first witness on January 8, 2021. Next hearing was set on January 29, 2021.</p>

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AND COMPLIANCE

Incomplete documentation of Infrastructure Projects amounting to P40,845,124.80

1. **Procurement of infrastructure projects totaling P40,845,124.80 were not supported with complete documentation, contrary to Section 4.6 of Presidential Decree (PD) No. 1445 and Item 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009, precluding the timely review and technical evaluation of the said projects. Also, the validity, propriety, and completeness of the recorded transactions related to said projects in the FS could not be ascertained.**

Section 4. 6 of PD No. 1445 states:

Claims against government funds shall be supported with complete documentation.

While Item 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009, states that:

“Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned.”

The Auditor shall review the contract which shall consist of the evaluation of compliance with the requirements of applicable laws, rules and regulations, completeness of documentary requirements and an initial evaluation that the contractual covenants are not disadvantageous to the government.

To facilitate the review and evaluation process, particularly on the technical aspect of the project, the above Circular also provides the required documentary requirements as supporting documents of the contract.

In relation thereto, the 2016 Revised IRR of RA No. 9184 provides among others that the BAC shall be responsible for ensuring that the procuring entity abides by the standard procedures set forth therein. Thus, the stages of procurement activities as well as the required reports to document such activities and procedures conducted eventually become an integral part of the contract documents.

Verification of the bidding and contract documents for the procurement of various infrastructure projects totaling P40,845,124.80 disclosed that the submitted documents were insufficient to facilitate the review and evaluation process of the procurement.

It has been observed that except for the contracts and certain documents showing compliance with the bidding procedures required under RA No. 9184 and its 2016 Revised IRR, there are documents not yet submitted such as the approved plans/drawings, complete technical specifications, document containing the detailed breakdown of the Approved Budget for the Contract (ABC), Detailed Breakdown of the contract cost, and other related documents considered necessary in the auditorial review and the technical evaluation.

On the other hand, in the post-audit of disbursements, the Audit Team noted that two completed infrastructure projects with final payments totalling P15,477,432.11 were not also supported with complete documentation. Details are as follows:

No.	Particulars	Amount (P)	Lacking Documents
1.	Construction of San Fernando Airport Fence	12,609,950.53	1. Final inspection report 2. As-built plans
2.	Construction of PPMC Main Gate	2,867,481.58	1. Final inspection report 2. As-built plans
	Total	15,477,432.11	

The delayed submission of the procurement contract including its supporting documents precluded the Audit Team from timely auditorial review and technical evaluation of the infrastructure projects. For instance, due to delays/non-submission of these documents, the timely review/evaluation and determination of the reasonableness of the contract cost and defects on the contracts cannot readily be undertaken and communicated to management for appropriate action/remedies.

Likewise, while COA inspection shall not be a prerequisite to payments, it is to be emphasized that in the course of the implementation of the project, the agency shall facilitate the inspection and examination of its records by the COA representatives. Thus, the necessary documents for technical inspection purposes should also be submitted to the Audit Team upon completion of the project.

It is also important to mention that submission of other contracts such as purchase orders within the prescribed period had not been complied with and at times, basic supporting documents are lacking.

Consequently, the validity, propriety of the contract award and payments thereof as well as the completeness of the recorded transactions related to said contracts could not be ascertained.

We recommended that Management instruct the Project Engineer to coordinate with the BAC to submit all the required documents needed for the review/evaluation as well as for the settlement of the transactions in compliance with Section 4.6 of PD No. 1445 and COA Circular No. 2009-001.

We also recommended that Management instruct the Project Engineer for timely technical inspection of infrastructure projects and complete the specific documentary requirements outlined in the attached checklist of COA Circular No. 2009-001 be submitted to the Audit Team immediately after the completion of infrastructure projects.

Management agreed to adhere with the given recommendations. During the exit conference, Management commented that the required documents for the above-stated infrastructure projects which are needed for the review/evaluation as well as the settlement of transactions in compliance with Section 4.6 of PD No. 445 and COA Circular No. 2009-001 for the ongoing projects and completed projects are being prepared.

Management further commented that due to the volume of the required documents that need to be prepared and due to restrictions of mobility of personnel and the alternative work arrangements brought about by COVID 19 pandemic, Management appealed to give them ample time to prepare and complete the required documents on or before June 28, 2021.

The Audit Team provided the Management the checklist on the technical documents needed for the evaluation and inspection of their projects and agreed to submit the pertinent documents contained in the Auditorial Contract Review Analysis Sheet (ACRAS) for all completed projects.

Management assured that in all their ongoing and future infrastructure projects, they will adhere to the Audit Team's recommendations to submit all the required documents needed for the review/evaluation as well as for the settlement of the transactions in compliance to Section 4.6 of PD No. 1445 and COA Circular No. 2009-001 and on the timely technical inspection of infrastructure projects and submission of complete specific documentary requirements as outlined in COA Circular No. 2009-001 which should be submitted to the Audit Team immediately after the completion of each infrastructure projects.

Delayed Submission of Financial Reports

- 2. The disbursement vouchers and the supporting documents, journal vouchers, and other financial reports were not submitted within the prescribed period, contrary to Sections 7.1.1 and 7.2.1 of the 2009 Rules and Regulations on Settlement of Accounts (RRSA), thereby audit of the accounts and transactions of the PPMC was hindered and the validity, propriety, and**

completeness of the recorded transactions in the financial statements for that period could not be ascertained.

COA Circular No. 2009-006 dated September 15, 2009, the COA RRSA, provides the following:

Section 7.1.1 The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that: (a) the required financial and other reports and statements are submitted by the concerned agency officials in such form and within the period prescribed by the Commission;

Section 7.2.1 The Chief Accountant, Bookkeeper and other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that: a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month.

It has been observed that financial and accounting reports such as disbursement vouchers and its supporting documents, journal vouchers, and other related reports were submitted beyond the deadline set under existing rules and regulations. Oftentimes, accounts were submitted only several months after the deadline for their submission.

Our records showed that paid DVs were submitted beyond due date ranging from 30-200 days. The DVs for January 1 to July 31, 2020 and DVs for August 1 to October 31, 2020 were only submitted on October 7, 2020 and November 26, 2020, respectively. Also, journal vouchers for January to October 2020 were only submitted on November 12, 2020.

Likewise, 96 vouchers for payments to certain suppliers and reimbursements of members of the PPMC BOD totaling ₱16,034,381.02 remained unsubmitted as of this date, hindering the auditor to conduct a post-audit on the transactions for the period covered and that such transactions could not be verified in accordance with the COA Auditing Rules and regulations.

The delayed submission of the DVs and other financial and accounting reports precluded the prompt audit of accounts and financial transactions, early detection, and correction of errors/deficiencies and timely reporting of the audit results to the management, hence, the validity, propriety, and completeness of the recorded transactions in its financial statements for that period could not be ascertained.

Moreover, the late submission of the above-stated reports hampered the generation and completion of Cash Examination Report, Quarterly Programs, Projects and Activities (PPA) required by the COA from the Audit Team affecting the relevance, timeliness, and reliability of such reports.

We recommended that Management instruct the Finance Officer to regularly submit all the required reports not later than the 10th of the following month after the month of transactions as required under Sections 7.1.1 and 7.2.1 of COA Circular 2009-06 dated September 15, 2009.

We also recommended that Management instruct the Finance Officer to immediately submit the lacking disbursement vouchers with supporting documents.

Management commented to comply with the given recommendation. Despite the challenges brought about by this scourge, Management commented that it has demonstrated its resilience by adopting alternative work arrangements to ensure the continuity of operations and render basic services to people without compromising health and safety of its employees. Management further assured that they will exert all best efforts to submit the required reports on time and continuously improve their system in the midst of the pandemic.

B. STATUS OF SETTLEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2020, PPMC had no outstanding suspensions and charges, however, disallowances totaling to ₱1,234,904.05 are under appeal.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 10 prior year's audit recommendations, 6 were implemented and 4 were not implemented as detailed below:

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>1. The inaction of the Management to require the contractor to perform its obligations under the construction contract caused delay in the work completion of the project, Baywalk with Events Center, costing P60,156,383.46 contrary to pertinent provisions of 2016 Revised IRR of RA No. 9184, thus, had been incurring liquidated damages of P5,464,892.98 from May 31, 2016 to September 30, 2018. Likewise, several damages were noted during technical inspection.</p> <p>We reiterated the prior year's recommendation that Management:</p> <p>a. Require the contractor for the immediate completion of the project, otherwise, enforce legal action against the latter, terminate the contract and enforce rights against the performance security posted by the contractor;</p> <p>b. Charge the contractor for the liquidated damages incurred for the period</p>	<p>2019 AAR Page 27</p>	<p>Management commented that they will wait for the result of the ongoing negotiation of the BCDA and the contractor regarding the unfinished project.</p> <p>Management assured that BCDA and PPMC will charge the contractor for</p>	<p style="text-align: center;">Not Implemented</p> <p style="text-align: center;">Not Implemented</p>

<p>covering May 31, 2016 to the actual completion or termination. Provide the Audit Team the actual Statement of Work Accomplishment showing that the contractor resumed work after expiry date of the project which serve as basis for the reduction of liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination;</p> <p>c. Submit the documents under item (c) and proof of actions taken by management.</p>		<p>the liquidated damages with an estimated amount of P800,000.00. Also, Management committed to provide an updated Statement of Work Accomplished (SWA).</p> <p>Some documents were already submitted. Management committed to submit the other documents after the completion of the joint inspection, joint quantification and joint reconciliation of quantities for the projects being spearheaded by BCDA.</p>	<p>Not Implemented</p>
<p>2. The Agency paid P545,873.03 for Extraordinary and Miscellaneous Expenses (EME) for the period January 1 to December 31, 2019 exceeding the allowed amount set forth under Section 47 of the General Provisions of the General Appropriations Act (GAA) for the Fiscal Year 2019, in relation to COA Circular No. 2006-01.</p> <p>We recommended that management limit the spending for Extraordinary and Miscellaneous Expenses</p>	<p>2019 AAR</p>	<p>Management took cognizance of the audit recommendation. Management monitored</p>	<p>Implemented</p> <p>The EME expended for</p>

<p>to the amount as authorized under GAA and expenses charged should only be within the purview of EME; and exercise prudence and sound financial management to ensure economy and efficiency in the use of public funds.</p>		<p>the EME account as reported in the FS and Budget Monitoring Report.</p>	<p>the Head of the Agency for the year is within the parameters set under GAA FY 2020</p>
<p>3. The inability of the agency to prepare a Project Procurement Management Plan (PPMP) for Sillag project resulted in decentralized procurement of goods, supplies and materials and non-availment of volume discounts through bulk purchases, contrary to Section 7 of 2016 Revised IRR of RA No. 9184, thereby casting doubt on the economy, propriety and regularity of the procurement.</p> <p>In view of the foregoing, we recommended that Management consolidate all procurement of goods, supplies and materials in order to resort to competitive public bidding as the general mode of procurement or appropriate alternative mode of procurement to obtain prices which are most advantageous to the government and to adhere to the government policy of competitiveness, transparency, economy and efficiency in the procurement process as prescribed under RA No. 9184.</p>	<p>2019 AAR</p>	<p>The end user unit prepared the revised PPMP based on the final actual requirements of the project and the same was included in the APP as amended and approved by the Management. Further, PPMC is already implementing the given recommendations by consolidating procurement of goods of the same category.</p>	<p>Implemented</p> <p>Management had also consolidated the procurement of its CAPEX projects in 2019. The same is being implemented for CY 2020, wherein CAPEX projects had been consolidated under one public bidding.</p>

<p>4. Hotel accommodations of Bases and Conversion Development Authority (BCDA) and Office of the Solicitor General (OSG) personnel amounting to P83,776.81 which were paid by the Corporation lacks legal basis and could be considered as expenditures which fall within the ambit of COA Circular No. 2012-03, thus depriving the Corporation of the funds that could be used for operations.</p> <p>We recommended that Management refrain from paying for the accommodations of BCDA officials and employees as they are not organic personnel of PPMC. Henceforth, the Accounting Personnel should strictly adhere to the provisions of COA Circular No. 2012-003 dated October 29, 2012.</p>	2019 AAR	<p>Management complied and advised BCDA to shoulder its own expenses pertaining to cases that involved BCDA properties and both parties agreed. For CY 2020, Management has not paid any expense pertaining to the hotel accommodation of BCDA and OSG personnel.</p>	Implemented
<p>5. Several deficiencies were noted in the Gender and Development (GAD) activities of the Agency contrary to pertinent provisions of Joint Circular No. 2012-01 of PCW, NEDA and DBM, hence mainstreaming on gender awareness, gender issues through programs, activities and projects were not achieved.</p> <p>Based on various deficiencies noted, we recommended that Management:</p>	2019 AAR		

<p>a. Prepare a GAD Plan and Budget equivalent to at least five percent of the Corporate Budget;</p>			<p>Implemented</p>
<p>b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and</p>			<p>Overtaken by events/deemed implemented</p> <p>Implemented</p>
<p>c. Establish and maintain GAD Database which includes sex disaggregated file based on various GAD indicators.</p>			<p>Overtaken by events/deemed implemented</p> <p>Implemented</p> <p>Overtaken by events/deemed implemented</p>