



Republic of the Philippines  
COMMISSION ON AUDIT  
*Commission on Audit, Quezon City, Philippines*

## ANNUAL AUDIT REPORT

of the

**PORO POINT MANAGEMENT CORPORATION**

(A Wholly Owned Subsidiary of the Base Conversion and Development Authority)

For the Year Ended December 31, 2013

## EXECUTIVE SUMMARY

### Introduction

The 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's scope of responsibility encompasses the former Wallace Air Station in Poro Point, La Union - home to Thunderbird Resorts, the San Fernando Airport and the San Fernando International Seaport.

### Scope and Objectives of Audit

The audit covered the accounts, transactions and operations PPMC for calendar year 2013. It was aimed at expressing an opinion as to whether the financial statements present fairly the Corporation's financial position, results of operations and cash flows and at determining the Corporation's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.

### Operational Highlights

To cope with the recent developments in PPFZ and with new real estate market conditions, a new Master Development Plan (MDP) for PPFZ that is marketable, effective, viable and in harmony with the current and future developments for PPFZ and the surrounding area in the context of market trends in the Asian and international setting is being developed.

In June 2013, BCDA and PPMC engaged the services of Palafox Associates for the Master Development Plan of the remaining 146 hectares inside the Poro Point Freeport Zone. The MDP Design Concept was approved on October 16, 2013.

Moreover, PPMC staged the Second (2<sup>nd</sup>) Year of SILLAG Poro Point Festival of Lights held on March 9 and 10, 2013. The SILLAG, also known as Poro Point festival of lights, 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. PPMC received the Province of La Union Governor's Awards for the SILLAG Poro Point Festival of Lights.

## Financial Highlights

<i>Financial Position</i>	2013	2012 As restated	Increase (Decrease)
Total Assets	97,193,218	155,253,654	(58,060,436)
Total Liabilities	36,422,074	94,509,412	(58,087,338)
Total Equity	60,771,144	60,744,242	26,902
<i>Results of Operation</i>			
Total Income	66,259,834	69,627,816	(3,367,982)
Personal services	21,976,869	22,736,275	(759,406)
MOOE, and special projects	47,238,831	49,536,231	(2,297,400)
Income tax expense	1,322,169	1,386,055	(63,886)
Total Expenses	70,537,869	73,658,561	(3,120,692)
Net Loss	(4,278,035)	(4,030,745)	(247,290)

The decrease in assets is brought mainly by the turn-over of completed project to the BCDA and the acquisition of crash fire and rescue vehicle using the CAPEX fund from BCDA, correspondingly, decreasing Advances from BCDA account.

The increase in total income was not enough for the Corporation to recover from the prior year net loss; however, Management is optimistic of better operations in the long run considering the development plan to be implemented in the years ahead.

### Independent Auditor's Report on the Financial Statements

We rendered a qualified opinion on the fairness of presentation of the PPMC's financial statements as of December 31, 2013 because property and equipment account is overstated as it includes airport assets with net book value of P7.136 million belonging to the BCDA. Corollary to this, depreciation expense for the year of P5.693 million and the reported net loss of P4.278 million are both overstated by P2.659 million.

### Significant Audit Observation and Recommendations

Non-implementation of controls in the Lease Agreement to validate the two per cent government share from the casino gaming revenue

We recommended that PPMC observe the provisions of the Lease Agreement to protect the interest of the Government. PPMC agreed and informed that it shall assign a representative to conduct spot check/inspection or act as witness of money counting on table games and slot machines and shall randomly verify the accuracy of Win Loss Reports with the Philippine Amusement and Gaming Corporation.

**Disallowances as of year-end**

Notice of Disallowance No. 2013-01 (2008-2010) was issued in 2013 for the double payment of Productivity Incentive Benefit (PIB) in the amount of P150,000 to a corporate officer who was already granted PIB at P2,000 per year for CYs 2008-2010 by the Office of the Solicitor General.

**Status of Implementation of Prior Year's Audit Recommendations**

The six audit recommendations contained in the previous year's Annual Audit Report were fully implemented.

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**PART I -  
AUDITED FINANCIAL STATEMENTS**



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

**INDEPENDENT AUDITOR'S REPORT**

**THE BOARD OF DIRECTORS**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Poro Point Management Corporation, a wholly-owned subsidiary of the Bases Conversion and Development Authority (BCDA), which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for Qualified Opinion*

Property and equipment account is overstated by the inclusion of airport assets with net book value of P7.136 million belonging to the BCDA. Corollary to this, the depreciation expense for the year of P5.693 million and the reported net loss of P4.278 million are both overstated by P2.659 million.

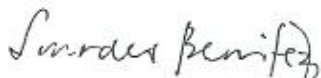
*Qualified Opinion*

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion*, the financial statements present fairly, in all material respects, the financial position of the Poro Point Management Corporation as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

**Report on the Supplementary  
Information Required Under BIR Revenue Regulation 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees paid or accrued during the taxable year described in Note 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**COMMISSION ON AUDIT**



**LOURDES D. BENITEZ**  
OIC - Supervising Auditor

10 April 2014



**PORO POINT MANAGEMENT CORPORATION**

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

**STATEMENT OF FINANCIAL POSITION****December 31, 2013**

(With comparative figures as at December 31, 2012)

(In Philippine Peso)

	Notes	2013	2012 As restated
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2, 3	25,708,065	74,799,362
Receivables	4	10,103,772	19,636,299
Prepayments	5	3,236,654	2,646,703
Other current assets	6	945,475	1,585,818
<b>Total Current Assets</b>		<b>39,993,966</b>	<b>98,668,182</b>
<b>Non-Current Assets</b>			
Investments	7, 20	15,015,000	15,015,000
Property and equipment - net	2, 8	23,079,114	22,644,782
Assets held in trust	9	19,105,138	18,925,690
<b>Total Non-Current Assets</b>		<b>57,199,252</b>	<b>56,585,472</b>
<b>TOTAL ASSETS</b>		<b>97,193,218</b>	<b>155,253,654</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable - trade	10	6,717,029	13,738,716
Inter-agency payables	11	1,768,021	2,158,916
Intra-agency payables	12	5,710,909	56,186,052
Other payables	13	3,789,005	3,988,618
<b>Total Current Liabilities</b>		<b>17,984,964</b>	<b>76,072,302</b>
<b>Non-Current Liabilities</b>			
Due to BCDA	14	18,437,110	18,437,110
<b>Equity</b>		<b>60,771,144</b>	<b>60,744,242</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>97,193,218</b>	<b>155,253,654</b>

*See accompanying Notes to Financial Statements.*

**PORO POINT MANAGEMENT CORPORATION**

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

**STATEMENT OF PROFIT OR LOSS****For the year ended December 31, 2013**

(With comparative figures for the year ended December 31, 2012)

(In Philippine Peso)

	Notes	2013	2012 As restated
<b>REVENUES</b>	15		
Estate management fee		64,595,150	68,051,075
Permits and other fees		1,028,870	765,844
Miscellaneous		484,425	426,153
Gross Income		66,108,445	69,243,072
<b>OPERATING EXPENSES</b>	16		
Personal services		21,976,869	22,736,275
Maintenance and other operating expenses		40,759,765	43,464,884
Total Expenses		62,736,634	66,201,159
<b>OPERATING INCOME (LOSS)</b>		3,371,811	3,041,913
<b>OTHER INCOME (EXPENSES)</b>			
Interest income		151,389	384,744
Special projects	17	(6,479,066)	(6,071,347)
Other Income (Expenses), net		(6,327,677)	(5,686,603)
<b>NET LOSS BEFORE INCOME TAX</b>		(2,955,866)	(2,644,690)
<b>INCOME TAX EXPENSE</b>		1,322,169	1,386,055
<b>NET LOSS</b>		(4,278,035)	(4,030,745)

*See accompanying Notes to Financial Statements.*

**PORO POINT MANAGEMENT CORPORATION**

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

**STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2013

(With comparative figures for the year ended December 31, 2012)

(In Philippine Peso)

	Notes	2013	2012 As restated
<b>CAPITAL STOCK - P100.00 par value</b> Authorized, issued and fully paid - 800,000 shares	18	80,000,000	80,000,000
<b>DEPOSIT FOR FUTURE SUBSCRIPTIONS</b>	19	26,285,931	21,980,995
<b>EQUITY IN JOINT VENTURE</b>	20	15,000,000	15,000,000
<b>DEFICIT</b>			
Balance at beginning of year			
As previously reported		(49,289,246)	(47,665,363)
Correction of prior years' errors	21	(6,947,507)	(4,540,645)
As restated		(56,236,753)	(52,206,008)
Net loss during the year		(4,278,035)	(4,030,745)
Balance at end of year		(60,514,788)	(56,236,753)
<b>TOTAL EQUITY</b>		<b>60,771,143</b>	<b>60,744,242</b>

*See accompanying Notes to Financial Statements.*

**PORO POINT MANAGEMENT CORPORATION**

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2013

(With comparative figures for the year ended December 31, 2012)

(In Philippine Peso)

	Note	2013	2012 As restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
OPEX funds received from BCDA		67,527,061	62,602,557
Collections of receivables - trade in behalf of BCDA		40,870,205	41,780,074
Collection of receivables - others		2,291,388	6,374,705
Collection of miscellaneous income		1,120,183	1,090,418
Payment to employees and suppliers		(68,410,167)	(74,452,673)
Remittance of collections to BCDA		(40,870,205)	(41,780,074)
Payment of income taxes		(1,486,471)	(651,990)
Net cash provided by (used in) operating activities		1,041,994	(5,036,983)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		116,709	330,217
Acquisition of fire truck		(50,250,000)	0
Net cash provided by (used in) investing activities		(50,133,291)	330,217
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
CAPEX from BCDA		0	50,250,000
Net cash provided by financing activities		0	50,250,000
<b>NET INCREASE (DECREASE) ON CASH AND CASH EQUIVALENTS</b>		<b>(49,091,297)</b>	<b>45,543,234</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>74,799,362</b>	<b>29,256,128</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	3	<b>25,708,065</b>	<b>74,799,362</b>

*See accompanying Notes to Financial Statements.*

## **PORO POINT MANAGEMENT CORPORATION**

(A wholly-owned subsidiary of the Bases Conversion and Development Authority)

### **NOTES TO FINANCIAL STATEMENTS**

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#### **1. CORPORATE INFORMATION**

The Bases Conversion and Development Authority (BCDA) was created under Republic Act (RA) No. 7227 dated March 13, 1993. Its main objective is to accelerate the sound and balanced conversion of former military reservations, specially 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 Poro Point as Poro Point Special Economic and Freeport Zone (PPSEFZ), now the Poro Point Freeport Zone (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 JHDC to John Hay Poro Point Development Corporation (JPDC). JPDC was mandated to be the 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 Poro Point Management Corporation (PPMC) as the implementing arm of BCDA over the PPFZ and renaming the JPDC as the John Hay Management Corporation (JHMC).

PPMC was registered with the Securities and Exchange Commission (SEC) on January 06, 2003.

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

#### **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 the BCDA equivalent to the approved budget for Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) for the period. Further, Capital Expenditure (CAPEX) projects shall be funded by BCDA thru cash advances subject to liquidation and the corresponding assets will be taken up as assets of BCDA.

## SIGNIFICANT DEVELOPMENTS

To cope with the recent developments in PPFZ and with new real estate market conditions, a new Master Development Plan (MDP) for PPFZ that is marketable, effective, viable and in harmony with the current and future developments for PPFZ and the surrounding area in the context of market trends in the Asian and international setting is being developed.

In June 2013, BCDA and PPMC engaged the services of Palafox Associates for the Master Development Plan of the remaining 146 hectares inside the Poro Point Freeport Zone. The MDP Design Concept was approved on October 16, 2013.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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.

### Materials and supplies

This account carries the value of unused supplies and materials in stock using First in - First out (FIFO) inventory method.

### Property and equipment

Property and equipment (PE) 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 Letter No. 2004-3 dated October 4, 2004, the computation of depreciation expense shall start on the following month after the purchase/completion of the PE, irrespective of date within the month.

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

Assets acquired with value of not more than P10,000 are recorded under supplies and materials expense upon withdrawal from the stockroom.

### Revenue recognition

Fund received for operating expenditures (OPEX) from BCDA are reflected as estate management fees in the Statement of Profit or Loss.

### Collections received in trust

Revenues generated, including collections from January 2002 from the San Fernando Airport and from April 2006 from the Thunderbird Filipinas Hotel & Resorts, have been recorded in the books of PPMC as "Cash or Accounts Receivable - Trade Accruing to BCDA" and credited to account "Due to BCDA". Collections are deposited daily to BCDA Land Bank of the Philippines (LBP) Account No. 0202-0177-54 at San Fernando City. Results of these activities are being reported to BCDA on a regular basis.

### CAPEX releases

The Performance Agreement executed between BCDA and PPMC provides that CAPEX releases made by BCDA shall be treated as Advances from BCDA subject to liquidation upon completion of the projects.

### Restatement of accounts

Accounts in CY 2012 were restated due to (1) reclassification in order to comply with the requirements of BCDA pertaining to the Consolidated Working Trial Balance format provided to the subsidiaries and comply with audit recommendations; (2) correction of 2012 errors; and (3) correction of prior years' errors.

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### 3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2013	2012
Cash on hand and in banks	18,957,395	62,551,594
Short-term placements	6,750,670	12,247,768
	25,708,065	74,799,362

*Cash on hand and in banks* includes the amount of P2,804,694 pertaining to the balance of CAPEX funds advanced by BCDA and the amount of P1,718,266 pertaining to the balance of funds for the acquisition of land also advanced by BCDA (see Note 9).

#### 4. RECEIVABLES

	2013	2012 As restated
Due from BCDA/others	8,297,873	10,111,492
Accounts receivables - non trade	1,172,664	1,152,001
Accounts receivables- officers & employees	585,614	569,554
Advances – others	42,210	7,793,825
Interest receivables	5,411	9,427
	<b>10,103,772</b>	<b>19,636,299</b>

*Due from BCDA/others* pertains to accrual of OPEX budget and various expenses incurred for BCDA like expenses for medical missions, meals and hotel accommodation for BCDA guests, security expenses, etc. The decrease of P9 million was brought by the release of funds for OPEX that were previously accrued.

*Accounts receivable - trade* pertains to receivables from locators/covering revenues generated within the PPFZ held in trust by PPMC for BCDA. No allowance for doubtful accounts was set up because these are accounts of BCDA to be remitted to them upon collection (see Note 12).

*Accounts receivable - non trade* pertains to various hotel accommodations of the Board of Directors and Pag-IBIG premiums of laborers that remain uncollected or unadjusted. The account also includes the amount of P501,317 pertaining to remittances of suppliers' taxes to BIR that will be collected from the concerned suppliers.

*Accounts receivable - other officers & employees* pertains to employees' personal calls and travelling expenses to be collected from the employees concerned.

*Advances - others* pertains to advances made to contractors. The decrease of P7.752 million was brought by the deduction of advances made by SATRAP Construction from their final billing upon completion of the road network project. The balance as of December 31, 2013 pertains to the advances made for the design and development of PPMC website and CD ROM.

#### 5. PREPAYMENTS

	2013	2012 As restated
Prepaid expenses	3,067,770	2,477,819
Guaranty deposits	168,884	168,884
	<b>3,236,654</b>	<b>2,646,703</b>

*Prepaid expenses* includes payments of expenses with minimum coverage period of at least one year like premiums paid on insurance policies, motor vehicle registration fees and other similar expenses. These expenses are amortized over a period of one year.

*Guaranty deposits* pertains to deposits made to service providers such as Telephone and Electric Companies.



## 6. OTHER CURRENT ASSETS

This account pertains to supplies and material inventories, including materials in-transit, not held for sale in the ordinary course of the business.

## 7. INVESTMENTS

	2013	2012
Investment at PPIC	15,000,000	15,000,000
PLDT shares of stocks	15,000	15,000
	15,015,000	15,015,000

*Investment at Poro Point Industrial Corporation (PPIC)* pertains to the investment share of PPMC in PPIC pursuant to the Pre-Incorporation Agreement (see Note 20).

## 8. PROPERTY AND EQUIPMENT

This account consists of the following:

	Motor Vehicles (Land & Water)	Office/Other Equipment	Tools & Other Equipment	Building & Structures	Total
<i>At December 31, 2012:</i>					
Cost	14,843,501	27,528,914	0	8,478,080	50,850,495
Accumulated depreciation	(10,039,030)	(14,577,679)	0	(3,589,004)	(28,205,713)
Net carrying amount	4,804,471	12,951,235	0	4,889,076	22,644,782
<i>At December 31, 2013:</i>					
Cost:					
January 1, 2013	14,843,501	27,528,914	0	8,478,080	50,850,495
Additions/Adjustments:					
Purchases	773,325	829,652	0	0	1,602,977
Turned-over by (to) BCDA	2,524,541	293,683	773,379	0	3,591,603
Adjustments		(359,991)		1,293,218	933,227
Disposal of assets:					
Cost	(1,400,000)	0	0	0	(1,400,000)
Accum Deprec	1,400,000	0	0	0	1,400,000
	18,141,367	28,292,258	773,379	9,771,298	56,978,302
Accumulated depreciation:					
January 1, 2013	(10,039,030)	(14,577,679)	0	(3,589,004)	(28,205,713)
Provision	(1,343,312)	(3,670,300)	(81,769)	(598,094)	(5,693,475)
	(11,382,342)	(18,247,979)	(81,769)	(4,187,098)	(33,899,188)
Net carrying amount	6,759,025	10,044,279	691,610	5,584,200	23,079,114

*Office/other equipment* and *motor vehicles* pertain to assets acquired through funds from BCDA but are being utilized by PPMC, such that benefits derived from the use of these assets flow to PPMC.

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**9. ASSETS HELD IN TRUST**

	2013	2012 As restated
Construction-in-progress (CIP)	406,828	0
Land	16,718,844	16,718,844
Accounts receivable - trade	519,107	746,487
Non-current trade receivables	1,460,359	1,460,359
	<b>19,105,138</b>	<b>18,925,690</b>

*Construction-in-progress* constitutes CAPEX projects funded by BCDA. Upon completion, these projects together with relevant documents are turned over to BCDA and the corresponding advances granted to PPMC are liquidated. This CIP balance as of December 31, 2013 of P406,828 and the remaining funds of P2,804,694 (see Note 3) in the total amount of P3,211,522 corresponds to the Advances from BCDA account (see Note 12).

*Land* refers to all validated land claims within the Wallace area in behalf of BCDA. Acquisition cost was valued at P1,250 per square meter plus documentary stamp taxes & other similar incidental charges. The account balance of P16,718,844 and the remaining funds for land acquisition of P1,718,266 (see Note 3) in the total amount of P18,437,110 corresponds to the Due to BCDA account (see Note 14).

There are forty-seven (47) original land titles already forwarded to BCDA out of the seventy-three (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's 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's rights to the properties.

*Accounts receivable - trade* pertains to receivables from locators/covering revenues generated within the PPFZ held in trust by PPMC for BCDA, while *Non-current trade receivables* pertains to long outstanding airport fees due from ACE Pilots Aviation Academy and Flight School International, subject of a legal move to pursue collection in court. The total balance of these accounts as of December 31, 2013 of P1,979,466 is part of the Intra-agency payable - Due to BCDA of P2,499,387 (see Note 12). The difference of P519,921 is subject to further evaluation and final disposition.

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**10. ACCOUNTS PAYABLE - TRADE**

This account represents the outstanding payables on purchases made from local suppliers and contractors.

## 11. INTER-AGENCY PAYABLES

This account includes the following:

	2013	2012 As restated
Withheld taxes	1,278,232	1,720,767
Trust liabilities(SSS/MED/Pag-IBIG)	282,282	268,228
Provident fund premiums	207,507	169,921
	<b>1,768,021</b>	<b>2,158,916</b>

*Withheld taxes* refers to the taxes withheld from employees' salaries and wages and suppliers' and contractors' value added taxes (VAT) and expanded withholding taxes (EWT) to be remitted to the BIR.

*Trust liabilities* refers to premiums that are deducted from payroll such as SSS, PhilHealth and Pag-IBIG contributions.

*Provident fund premiums* refers to the contributions of PPMC employees corresponding to 2.5 per cent of their monthly salary and PPMC counterpart of 5 per cent 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. The Board of Trustees approved the implementing guidelines for the Employees Provident Fund Loan Program on October 20, 2005.

## 12. INTRA-AGENCY PAYABLES

This account includes the following:

	2013	2012 As restated
Advances from BCDA	3,211,522	53,461,523
Due to BCDA (revenues)	2,499,387	2,724,529
	<b>5,710,909</b>	<b>56,186,052</b>

*Advances from BCDA* represents funds released by BCDA intended for capital expenditure (CAPEX) projects. Upon completion of these construction projects, PPMC has to liquidate the advances made by turning over the completed projects to BCDA. The decrease of P81.619 million covers the liquidation of advances brought by the completion of the road network project and the acquisition of one (1) unit crash fire and rescue vehicle for the San Fernando Airport.

*Due to BCDA* pertains to the earned revenues within the PPFZ held in trust by PPMC for BCDA. Collections therefrom 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 and Flight School International in the amount of P1,460,359 subject of a legal move to pursue collection in court; and the accounts receivable trade of P519,107 (see Notes 4 and 9).

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### 13. OTHER PAYABLES

This account includes the following:

	2013	2012 As restated
Bid bonds payable	305,867	305,867
Performance security payables	304,703	260,855
Retention payables	125,950	1,562,806
Bureau of Fire Protection payable	111,335	111,335
Honorarium	31,140	78,474
Miscellaneous payables	2,910,010	1,669,281
	<u>3,789,005</u>	<u>3,988,618</u>

*Bid bond, performance security and retention payable* accounts pertain to bid requirements received by PPMC from bidders which will be refunded after certain requirements are met.

*Bureau of Fire Protection payable* pertains to accrued shares from fees on building permits issued by the Office of the Building Official of PPMC.

*Honorarium* pertains to the amount payable to the members of Bids & Awards Committee (BAC) and Technical Working Group (TWG) allocated from fees collected from the PPMC's bidding activities.

*Miscellaneous payables* includes liabilities to various suppliers, officers and employees and other miscellaneous items.

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### 14. DUE TO BCDA

This account with a balance of P18,437,110 as of December 31, 2013 and 2012 refers to the cash advances from BCDA for the acquisition of private lots within the Wallace area.

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### 15. REVENUES

This account consists mainly of estate management fees. PPMC as estate manager of the Poro Point Freeport Zone is compensated by BCDA in the form of OPEX fund releases corresponding to the budget for PS and MOOE of PPMC for the year. Such fund releases are recognized as estate management fees in the books of PPMC. For the year 2013, revenues earned for BCDA from lease rentals, variable percentages, airport fees and miscellaneous revenues amounted to P68.8 million (net of P44.48 million 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 2 per cent and the 7.5 per cent share on sales of real estate for the year amounted to P24.11 million. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals amounting to P20.23 million for the year. The corresponding collections were deposited to BCDA's bank account.

## 16. OPERATING EXPENSES

This account is broken down as follows:

	2013	2012 As restated
<b>Personal services</b>		
Salaries and wages	11,231,752	11,701,113
Other compensation	6,620,163	7,908,001
Personnel benefit contribution	2,683,253	1,667,057
Other personnel benefits	1,441,701	1,460,104
	<b>21,976,869</b>	<b>22,736,275</b>
<b>Maintenance and other operating expense</b>		
Security and outsource services	11,182,190	12,350,103
Depreciation	5,693,476	5,288,742
Board of Directors (BOD) expense	4,741,599	5,800,140
Supplies and materials	3,473,981	3,202,784
Repairs and maintenance	2,885,401	5,012,694
Utilities	2,790,520	2,641,200
Taxes, duties, insurance and premium	2,774,913	2,284,102
Educational expense	1,321,666	1,211,177
Professional services	1,297,846	1,308,236
Travelling	1,196,662	1,038,395
Communication	1,111,598	1,027,216
Printing and advertising	748,044	584,787
Awards, prizes and others	538,068	0
Representation	505,978	651,743
Rent/lease expense	157,148	180,154
Membership dues	93,810	103,013
Impairment of receivables	2,238	47,860
Other MOOE	244,627	732,538
	<b>40,759,765</b>	<b>43,464,884</b>

## 17. SPECIAL PROJECTS

	2013	2012
SILLAG festival	3,942,039	3,745,483
Community development	977,908	810,799
PPMC 10 <sup>th</sup> anniversary	462,661	0
Trade mission	385,818	814,771
AERODROME certification	342,141	162,121
ISO-9000-2001	166,523	197,061
Business research	120,315	21,600
Survey works	81,661	62,494
Lighthouse design competition	0	257,018
	<b>6,479,066</b>	<b>6,071,347</b>

The SILLAG festival or Poro Point festival of lights 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.

Community development or inclusive growth 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 that will impact on communities. PPMC HELPS was institutionalized as PPMC's vehicle to implement Congress Social Responsibility Program. HELPS stands for the various components of the program – health, education/environment, livelihood program and strengthening linkages.

Trade missions provide the 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.

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#### 18. CAPITAL STOCK

PPMC was authorized to issue 800,000 shares at P100 cost per share. BCDA funds for PPMC capital projects were initially recognized into the Capital account. However, all BCDA funding for Capital expenditures will now be taken up as Advances from BCDA. Hence, these funds shall be fully liquidated by PPMC upon completion of the project.

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#### 19. DEPOSIT FOR FUTURE SUBSCRIPTIONS

This account represents funding received from BCDA for the acquisitions of furniture, fixtures and equipment intended to be capitalized.

BCDA has approved PPMC's request for an increase in authorized capital stock from P80 million to P300 million. The required documentations to support the request for the increase in capital stock were forwarded to the Securities and Exchange Commission.

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#### 20. EQUITY IN JOINT VENTURE

The Pre-Incorporation Agreement entered into on September 24, 1999 by and between the Bases Conversion and Development Authority (BCDA) and John Hay Poro Point Development Corporation (JPDC) now, Poro Point Management Corporation (PPMC) and Bulk Handlers, Inc. (BHI), a corporation duly organized under Philippine laws, created a joint venture corporation under the name of Poro Point Industrial Corporation (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 P100 million. BCDA/PPMC shall subscribe to shares equal to P30 million constituting thirty percent (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 P70 million for a seventy percent (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 P15 million equivalent to fifteen percent (15%) of the total authorized capital stock of PPIC.

## 21. CORRECTION OF PRIOR YEARS' ERRORS

	2013	2012 As restated
Reconciliation of management fee	(7,253,799)	(7,253,799)
Reconciliation of withholding taxes	(233,598)	(661,545)
Closure of donated capital	692,362	692,362
Receipt of FFE from the Air Transportation Office	359,991	359,991
Liquidation of CAPEX	1,071	(65,238)
Reconciliation of budget received	0	2,227,281
Adjustment to depreciation	0	150,303
Refund of anniversary bonus	0	10,000
Correction of CY 2012 net loss	(513,534)	0
	(6,947,507)	(4,540,645)

## 22. STATUS OF PENDING LITIGATIONS

CASE	STATUS
1. Spouses Reynaldo Q. Dyquiango and Yolanda V. Dyquiango vs. PPMC Re: Petition for Voluntary Insolvency	Still pending in Court. On February 03, 2014 during the 132 <sup>nd</sup> regular Board meeting, the PPMC Board approved the filing of a replevin suit to recover the vehicle due to the continued refusal and failure of Mr Dyquiango to return the vehicle.
2. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shippers Incorporated Re: Expropriation Cases (for eminent domain)	Still pending in Court. The unwillingness of the registered owners of lots located at the seaport to sell their properties to the government thru BCDA, whereby such refusal affects the planned development

CASE	STATUS
<p>3. Bulk Handler's Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (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>at the PPFZ, prompted BCDA to file expropriation cases.</p> <p>Still pending in Court. The dispositive portion of the Judgment dated December 17, 2009 provides:</p> <ol style="list-style-type: none"> <li>a. Declaring the Pre-Incorporation Agreement among the parties valid and effective;</li> <li>b. Declaring PPIC's right to utilize, develop, operate, manage &amp; administer the 15.3 hectare area of Poro Point Seaport. Conversely, BCDA/PPMC shall be relieved from complying with the undertaking to deliver the remainder 64.7 hectares;</li> <li>c. Declaring the amount of P9,562,500 as a guaranteed minimum annual revenue to retroact to November 1999 subject to escalation clause; the overpayments made by BHI/PPIC shall be applied to the succeeding revenues beginning 2006 until same has been fully consumed; and</li> <li>d. Declaring PPIC's right to the renewal of its registration as a PPFZ enterprise.</li> </ol> <p>A Motion for Reconsideration was filed on January 20, 2010 to which BHI/PPIC filed Opposition on February 10, 2010.</p> <p>Accumulated revenues amounting to P325.86 million representing the difference between the original guaranteed annual lease of P55 million and the reduced annual lease per RTC judgment in the amount of P10.52 million annually is expected to be included in the negotiations that is being undertaken by the representatives of both BCDA and BHI/PPIC to finalize a Memorandum of Agreement.</p>
<p>4. BHI vs Judge Robert T. Cawed and BCDA/PPMC</p>	<p>Still pending in Court. PPMC filed a Petition for Review on Certiorari assailing the decision of the Court of Appeals where BHI was ordered to deposit the</p>



CASE	STATUS
	amount due to BCDA/PPMC to the RTC of La Union or to its designated depository on July 15, 2009.
	BCDA/PPMC filed a manifestation & motion dated March 19, 2010 and March 22, 2010 reiterating that counsel has not yet received a copy of the respondent's Motion for Leave to Admit Supplemental Comment on the Petition for review on Certiorari. A reply was filed (to Respondent's Supplemental Comment dated January 14, 2010) on July 16, 2010. PPMC is still awaiting further notice from the Honorable Court.

### 23. SUPPLEMENTARY INFORMATION

In compliance with the requirements set forth by BIR RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

#### a. Value - Added Tax (VAT)

VAT - 8.5%	21,166
VAT - 6%	28,274
VAT - 5%	928,565
VAT - 3%	25,720
VAT - 1%	4,883
	<u>1,008,608</u>

#### b. Documentary Stamps Tax

NONE

#### c. Withholding Taxes

Tax on compensation and benefits	1,923,810
Expanded withholding taxes	857,779
	<u>2,781,589</u>

#### d. Other taxes and licenses are as follows:

Income tax	1,010,450
Percentage tax - 3%	54,053
Fringe benefits tax	113,441
	<u>1,177,944</u>

**PART II -  
AUDIT OBSERVATIONS AND RECOMMENDATIONS**

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 1. Inclusion of BCDA-owned assets in the property and equipment account

Under the Performance Agreement between BCDA and PPMC dated April 5, 2013, BCDA as the property owner of the Poro Point Freeport Zone (PPFZ) shall earn from lease rentals, joint venture agreements and other business arrangements generated in the PPFZ while PPMC as the Estate Manager shall plan, develop, organize, supervise, coordinate, manage and administer the Property, including all properties, rights, improvements, services and facilities available thereon and owned by BCDA.

PPMC shall remit on a monthly basis to BCDA all revenues from contracts. For and in consideration of its services, PPMC shall receive from BCDA funds for its annual operating expenses as estate management fee.

Among the assets booked in PPMC are four baggage x-ray machines/conveyors with metal detectors, airport runway sweeper and hydraulic combination tool in the total amount of P14.772 million that has a depreciation of P2.659 million for the year, increasing the accumulated depreciation to P7.636 million as of December 31, 2013. Said assets which are indispensable in airport operations should have been taken-up in the books of BCDA including the depreciation considering that all revenues to be generated thereon accrue to BCDA. As a result, property and equipment account is overstated in the net amount of P7.136 million; depreciation by P2.659 million; and the reported net loss of P4.278 million also by P2.659 million.

One of the basic underlying guidelines in accounting is the matching principle which requires a company to match expenses with related revenues in order to report an entity's profitability during a specified time interval. In the instant case, since the revenues derived from the PPFZ are recognized in BCDA's books, it is only proper that the corresponding expenditures like depreciation be taken up in the same books.

Stated otherwise, assets essential in the operation to generate revenues should be recognized in the books of BCDA which stands to benefit from the use of such assets. Section 7 of the Philippine Accounting Standard (PAS) No. 16 provides that assets are recognized in the books if, and only if:

- (a) *It is probable that future economic benefits associated with the item will flow to the entity; and*
- (b) *The cost of the item can be measured reliably*

We recommended and management agreed that the recognition of the aforementioned assets together with its accumulated depreciation be transferred to BCDA. Management has written the BCDA requesting that subject airport assets and its corresponding depreciation be taken up in the latter's books.

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**2. Non-implementation of controls in the Lease Agreement to validate the two per cent government share from the casino gaming revenue**

The Lease Agreement entered into on August 05, 2005 by and among Bases Conversion Development Authority (BCDA), Poro Point Management Corporation (PPMC) and International Thunderbird Gaming Corporation [ITGC, now Thunderbird Resorts, Inc (TRI), whose rights, title and interest in the lease agreement have been assigned to Thunderbird Pilpinas Hotels and Resorts, Inc. (TPHRI)], states under Article III, A.2, paragraph 4 that ITGC shall remit to BCDA/PPMC monthly percentage of Gaming Revenue based on graduated percentages. Currently in its 8<sup>th</sup> year of operation, TPHRI shall remit 2 per cent of its gross revenues to the Government.

Section 7 of the Lease Agreement on *Gross Gaming Revenue, Accounting and Inspection* provides that in order to determine gross gaming revenue amounts, accounting and/or financial statements shall be made available for inspection by the ITGC. The BCDA/PPMC reserves the right to enter the premises, and without causing disruption of the business carried on in the premises, have access to books of accounts, records, reports of receipts and other pertinent records, and inspect all records necessary to determine ITGC's and sub-lessees gross revenues from operations.

The aforementioned provisions are control measures to protect the interest of the Government by ensuring that remittances from gaming revenue are accurate and complete. However, interview with management disclosed that no representative of BCDA/PPMC attend to witness the counting of winnings which is done depending on the shift in the gaming operation of TPHRI. The results of drop box count for table games and hopper capital for slot machines are the basis of the preparation of Win Loss Report submitted for the day by TPHRI, an activity supposed to be witnessed periodically by PPMC.

As of December 31, 2013, the total amount of P37.147 million has been remitted by the TPHRI to BCDA/PPMC representing 2 per cent of the gaming revenue based on the Daily Win Loss Report being prepared by the TPHRI. Total remittances from TPHRI were accepted at face value and duly received for by PPMC without verification.

In the absence of specific or validation controls (inspection, witnessing or verification), the risks of Win Loss Reports being misstated whether intentionally or unintentionally are likely to occur. A representative from the PPMC to witness the counting of said drop box on table games and hopper capital on slot machines will give a certain degree of assurance that the correct government share from winnings are collected.

We recommended that in compliance with the provisions of the Lease Agreement and to protect the interest of the Government, PPMC assign a representative to conduct spot check/inspection or act as witness of money counting on table games and slot machines.

Management explained that they rely on the Philippine Amusement and Gaming Corporation's (PAGCOR) expertise & manpower to ensure on a daily basis that the government gets its correct share in the gaming revenues. PPMC has limited number of personnel and it will necessitate hiring of additional manpower to witness the daily cash count from table games & slot machines that is already being done by PAGCOR from 6:00 am to 12:00 noon. Nonetheless, PPMC can conduct spot check or inspections. Another validation control to adopt is to randomly verify the accuracy of the Win Loss Reports with PAGCOR.

### 3. Dormant accounts payable of P906,157

The following accounts remain outstanding/non-moving for a number of years:

Accounts payable – trade	P230,418
<hr/>	
Other Payables	
Bid bonds payable – various	P303,867
Retention payable – various	125,950
Performance security payable – various	229,427
Miscellaneous	16,495
<b>Total - Other Payables</b>	<b>P906,157</b>

Dormant accounts payable trade of P230,418 pertain to obligations incurred to suppliers or clients, most of which are no longer transacting with PPMC and it may take time to locate the documents to support these obligations due to the frequent turnover of employees.

Bid bonds, retention and performance security payables are accounts of contractors and suppliers which should have been returned after the purposes for these bonds have been satisfied or settled. For more than two years, these accounts had accumulated without being returned to or claimed by the concerned contractor or supplier.

Miscellaneous accounts pertain to various reimbursements of officials' expenses and accrual of other employee benefits which have been long-outstanding for more than two years.

We recommended that the finance section:

- a. Trace supporting documents of long-outstanding accounts payable-trade and miscellaneous accounts and review as to its validity; and
- b. Trace whether bid bonds, retention and performance security payables were withheld to answer for damages or whether concerned contractors/suppliers can no longer be located or cannot present the previously issued official receipts in order to claim.

Management agreed with the recommendation. After thorough evaluation of said accounts, those found to be invalid will be reversed to establish a more realistic

accounts payable account and in order for PPMC to determine the actual cash requirements for obligations which are due and demandable.

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**4. Retirement plan for PPMC officers and employees without the prior approval of the President of the Philippines**

PPMC Policy No. 012-2003 on the retirement plan for PPMC officers and staff provides a compulsory retirement program entitling qualified employees to 200 per cent of his/her salary for every year of service while the early retirement program shall be equivalent to 50 per cent of the monthly salary for every year of service for the first five years with an additional 10 per cent of the monthly salary for each succeeding year but not to exceed 150 per cent. Total retirement benefits incurred for the year amounted to P1.630 million.

The said retirement plan is above the retirement pay provided under Republic Act (RA) No. 7641, amending Article 287 of Presidential Decree (PD) No. 442, otherwise known as the Labor Code of the Philippines, which is equivalent to at least one-half (1/2) month salary for every year of service.

The policy of a retirement program higher than the minimum provided by RA No. 7641 requires the approval of the President of the Philippines. Officials and employees of agencies exempt from the Salary Standardization Law (SSL) may be paid allowances and benefits subject to the prior approval by the Office of the President as required under PD No. 1597 of June 11 1978, entitled "Further Rationalizing the System of Compensation and Position Classification in the National Government."

Supreme Court General Registry (GR) No. 178160 of February 26, 2009 on BCDA vs. Commission on Audit (COA), it states that "...the State is not estopped from correcting a public officer's erroneous application of a statute, and an unlawful practice, no matter how long, cannot give rise to any vested right."

Therefore, in the absence of prior approval from the Office of the President, we recommended that management stop the granting of retirement as provided in PPMC Policy No. 012-2003 but instead apply the amount equivalent to one-half (1/2) month salary for every year of service in accordance with RA No. 7641, the Retirement Pay Law.

Management explained that the retirement benefits were granted in good faith. As early as June 15, 2004, PPMC requested the Department of Budget and Management (DBM) for written opinion whether PD No. 1597 is applicable to PPMC insofar as the compensation and benefits package of employees is concerned. DBM replied upholding applicability of PD 1597 in government corporations where PPMC is classified as one. however, according to DBM, their review function covers only

parent corporations and BCDA has the power to adopt and implement an effective oversight mechanisms over its subsidiaries...BCDA, as a parent corporation should therefore be prudent in approving increases in compensation benefits and allowances of its subsidiaries.

The DBM, in its letter, did not categorically state that even with BCDA's approval, the Office of the President approval should still be necessary. Otherwise PPMC could have proceeded with its request for the approval of the President on PPMC increase in compensation and benefits.

In the exit conference, COA explained that under Executive Order (EO) No. 62, series of 1993, Prescribing Policies and Guidelines to Implement RA No. 7227, otherwise known as the Bases Conversion and Development Act of 1992, the subsidiaries (of BCDA) and attached authorities shall be governed by their respective policy making Board of Directors which shall perform (its function) subject to existing laws and regulations. The EO itself clearly provided that the duty of the Governing Board of BCDA Subsidiaries to adopt a pay plan and position classification system is subject to existing laws and regulations. Hence, retirement benefits beyond what RA 7641 provides without presidential approval will be disallowed in audit.

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**5. Disbursements for educational assistance and life and health insurance of employees without legal basis**

PPMC Policy No. 010-2003 provides, among others, the following:

*3.1.4 Educational Assistance*

*All regular employees shall be entitled to a mid-year assistance equivalent to one (1) month pay for purposes of augmenting employees' income during the enrollment period. This shall be released on the 15<sup>th</sup> day of May.*

*3.2.2 Life and Health Insurance*

*All regular employees shall be entitled to a life and health insurance benefit.*

Based on said policy, PPMC incurred the following employees' benefits for the year 2013 without legal basis or the approval of the President of the Philippines:

Educational Assistance	P947,544
Life Insurance	206,664
Health Insurance	378,033
T O T A L	<u>P1,532,241</u>

On life and health insurances, COA Resolution No. 2005-001, dated February 3, 2005, prohibits the procurement of health care insurance from private insurance agencies, as quoted herein:

*"...the procurement of private health insurance by any agency or instrumentality of the government is an irregular expenditure and constitutes unnecessary use of public funds which cannot be countenanced by this Commission...."*

Also, PD No. 1597 of June 11, 1978, entitled "Further Rationalizing the System of Compensation and Position Classification in the National Government," provide that allowances, honoraria and other fringe benefits which may be granted to government employees (including Government-Owned and Controlled Corporations (GOCC) GOCC employees) whether payable by their respective offices or by other agencies of government shall be subject to the approval of the President upon recommendation of the (Secretary of the DBM).

The Governance Commission for GOCCs (GCG), in its letter reply dated October 3, 2013 to the query of BCDA Management and Holdings, Inc. (BMHI) on employee benefits addressed the mistaken belief of Governing Boards and Managements of Non-chartered GOCCs that, having been organized under the "Corporation Code of the Philippines" (Batas Pambansa (BP) Blg. 68), they had the plenary power to set on their own the compensation and benefits frameworks for their offices and rank-and-file employees. Such notion of complete fiscal autonomy of the Board of Directors/Trustees of a Non-chartered GOCC is not supported by Section 25 of the Corporation Code.

The GCG, likewise, ruled that the principle of non-diminution of benefits applies to compensation, allowance and benefits which have been validly granted in the first place. The non-diminution clause cannot be invoked to legalize the unauthorized grant of compensation items and benefits in the public sector.

Supreme Court GR No. 178160 of February 26, 2009 on BCDA vs. COA states that "...the State is not estopped from correcting a public officer's erroneous application of a statute, and an unlawful practice, no matter how long, cannot give rise to any vested right."

Lastly, in COA Decision No. 2013-049 dated January 30, 2013, the Commission Proper upheld Notice of Disallowance (ND) No. C-05-23 dated April 28, 2005 relative to the grant of life and health insurance benefits to the employees of John Hay Management Corporation (JHMC) in the total amount of P3,953,733.64 (should be P4,043,733.64) stating that any increase in salary or compensations of GOCCs/ Government Financial Institutions (GFIs) that are not in accordance with the SSL shall be subject to the approval of the President.



Without the prior approval of the President of the Philippines, management was informed that the disbursements on educational assistance, life and health insurance of employees in the total amount P1.532 million will be disallowed in audit.

Management gave the same justifications given under the preceding audit observation on retirement benefits. Further, management asked COA to consider that the total compensation and benefits of PPMC employees is much lower than those granted to comparable positions in government agencies covered by the SSL. There is also a glaring disparity in salaries between PPMC employees and other BCDA subsidiaries.

To illustrate, at present, a Job Level 7 position under the SSL has a salary range of P19,940 (SG 12) to P21,436 (SG 13) while PPMC grants a starting salary of P12,108 for the same position.

Hence, while PPMC employees may have other benefits, total take home pay pales in comparison with the compensation of other government employees. This brought about the high turnover of employees; PPMC has been losing its personnel to other government and private agencies. Reduction in the existing benefits will further demoralize the remaining staff whose salary increases have been put in abeyance due to the GCG moratorium. As such, PPMC is not competitive enough to attract qualified personnel and this predicament in the long run maybe detrimental towards the attainment of the government's vision and mission for the Poro Point Economic Zone.

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## 6. Gender and Development (GAD) activities

Pursuant to EO No. 273, Approving and Adopting the Philippine Plan for Gender Responsive Development, (1995-2005), agencies are mandated to institutionalize GAD efforts in government by incorporating GAD concerns in their planning, programming and budgeting processes. It also mandates agencies to incorporate and reflect GAD concerns in their annual budget proposals and work and financial plans.

Although struggling with a tight budget, PPMC managed to carry out the following activities in 2013:

On December 13, 2013, PPMC held a client-focused seminar workshop on Magna Carta for Women, Violence against Women and Children and the New Labor Law Compliance System in partnership with People Management Association of the Philippines - La Union Chapter and the Department of Labor and Employment.

On different dates, PPMC likewise held organization-focused trainings on Values Orientation Workshop and allowed attendance to the Bases Group Gender and Development Summit.

Further, in compliance to labor standards and regulations, special leave privileges and non-discriminatory policy on hiring were implemented.

On October 18, 2013, the GAD focal Point System was created to promote and actively pursue the participation of employees in mainstreaming gender perspective in PPMC policies, plans and programs. On the other hand, Family Day was celebrated on May 28, 2013 to promote work-life balance.

We commend management for such contributions for the upliftment of its organization and employees aligned with the GAD mandate. Management assured that they shall remain steadfast in their commitment to implement programs and projects in accordance with the GAD mandate.

#### STATUS OF NOTICE OF SUSPENSIONS, DISALLOWANCES AND CHARGES

As of year-end, the status of audit suspensions, disallowances and charges issued is as follows:

Audit Action	Beginning Balance 01/01/2013	Issued (in Million Pesos)	Settled	Ending Balance 12/31/2013
Suspensions	0	0	0	0
Disallowances	0	150,000	0	150,000
Charges	0	0	0	0
Total	0	150,000	0	150,000

In 2013, Notice of Disallowance No. 2013-01 (2008-2010) was issued on the double payment of Productivity Incentive Benefit (PIB) in the amount of P150,000 to a corporate officer who was already granted PIB at P2,000 per year for CYs 2008-2010 by the Office of the Solicitor General in violation of Administrative Order No. 161 dated December 06, 1994, *Prescribing a Standard Incentive Pay System*, that authorizes payment of PIB only at P2,000 per year, per occupied/filled position.

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

## STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

The six audit recommendations contained in the previous year's Annual Audit Report were fully implemented.

Reference	Observations	Recommendations	Status of Implementation
2012 AAR Obs. No. 1 Page 22	1. A completed road network project (phase 1) with a cost of P30 million was still carried in the books under the account Construction in Progress (CIP), thus overstating its assets and understating that of the parent corporation, BCDA.	Finance division should coordinate with the infrastructure management division regarding their review and evaluation of the necessary documents needed for the closure of the infrastructure contract and adjust the CIP account and transfer the cost of the completed project to the BCDA.	Fully implemented.  Fully liquidated the cash advance that funded the road network project of P31 million on March 31, 2013; hence, cost of the project was already transferred to BCDA.
2012 AAR Obs. No. 2 Page 23	2. Accounts receivable - trade amounting to P1.8 million remained outstanding for more than two years.	Reclassify the account as non-current asset for fair presentation of the financial statements.	Fully implemented.  Reclassified the account from current to non-current
2012 AAR Obs. No. 3 Page 24	3. The Corporation has implemented RA No. 7192 and EO No. 273 on gender and development.	Prepare a program of activities and budget for CY 2013 to implement 7192.	Fully implemented.  Created the GAD Focal Point System and likewise submitted the GAD program to the Philippine Commission on Women.
2012 AAR Obs. No. 4 Page 24	4. The Corporation collected a total of P5.3 million in taxes during the year in consonance with EO No. 651 as implemented under BIR-DOF-DBN Joint Regulation 1-2001.	Continue to observe EO No. 651 as implemented under BIR-DOF-DBN Joint Regulation 1-2001.	Fully implemented.  Continued to adhere to law, rules and regulations on taxes.

Reference	Observations	Recommendations	Status of Implementation
	Balance of taxes withheld at year-end was P1.4 million.		
2012 AAR Obs. No. 5 Page 25	5. Post audit of disbursements showed minor deficiencies that were immediately corrected by management.	Observe prudence in all financial transactions to avoid audit suspensions, disallowances and charges.	Fully implemented.  Exerted all efforts to comply with accounting and auditing rules and regulations and observed prudence in all financial transactions.
2012 AAR Obs. No. 6 Page 25	6. The Corporation has substantially complied with the provision of section 53.5 of the IRR of RA No. 9184.	Continue to observe the provision of section 53.5 of the IRR of RA No. 9184.	Fully implemented.  Continued to adhere to RA No. 9184 and procured commonly used goods from the Procurement Service.