

AMENDED



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, 2014**



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

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May 25, 2015

**CERTIFICATION**

This is to certify that the Disbursement Vouchers prepared by Poro Point Management Corporation (PPMC) amounting to PhP45,105,385.71 covering the period July to December 2014 has already been audited by the Commission on Audit (COA).

This is to certify further that, there were no audit suspensions, disallowances and charges found during the course of the audit of the said disbursement vouchers and that the balances of accounts reflected in the Financial Statements as of December 31, 2014 were accurate and reliable.

This certification is being issued in connection with the Annual Audit Report of PPMC for the CY 2014.

Certified by:

  
**MS. REGALINE F. RIVERA**  
State Auditor III  
CGS-7 A Water Districts and Other Stand Alone Agencies



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 1  
City of San Fernando, La Union

March 30, 2015

**The Board of Directors**  
Poro Point Management Corporation  
City of San Fernando, La Union

**Dear Mesdames/Sirs:**

We transmit herewith the report on the financial and compliance audit of the accounts and operations of the Poro Point Management Corporation, City of San Fernando, La Union for the year ended December 31, 2014, in compliance with Section 2, Article IX - D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed 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.

We rendered a qualified opinion on the presentation of the financial statements because the Accounts Receivable - Non-Trade amounting to P1,309,288.95 was erroneously provided an Allowance for Doubtful accounts, thereby resulting in the understatement of both assets and retained earnings by P524,892.11; and validity of disbursements amounting to P45,105,385.71 was not determined due to failure of Management to submit the Disbursement Vouchers pertaining thereto on time as of December 31, 2014 hence, casting doubt on the reliability and accuracy of balances of accounts in the Financial Statements.

The report consists of four parts: Part I - Audited Financial Statements, Part II - Detailed Observations and Recommendations, Part III - Status of Prior Year's Unimplemented Audit Recommendations and Part IV - Annexes. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 16, 2015. Management's comments are included in the report, where appropriate.

**PRO POINT MANAGEMENT CORPORATION**  
Secretary of the Board, Construction and Development Authority



*[Signature]*  
Date/Time: 3/18/15 at 10:45 AM  
*[Signature]*



Aside from the audit finding which was the basis of the auditor's opinion, other significant findings were the following:

- a. Educational assistance in the amount of P872,380.00 was granted to the employees contrary to Section 9 of Executive Order No. 7, series of 2010 and the CPCS provision under Section 8 of RA 10149 thus, may result to possible disallowance in audit.

We reiterated the previous recommendation contained in the Annual Audit Report for CY 2013 to stop the payment of the unauthorized benefits since these are considered irregular expenditures pursuant to Section 3 of COA Circular 2012-003.

- b. Financial assistance granted to the Office of the City Mayor/City of San Fernando Anniversary amounting to P300,000.00 was excessive pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012.

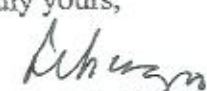
We have recommended management to limit the amount granted as financial assistance pursuant to Section 5 of COA Circular-2012-003 dated October 29, 2012 to avoid possible disallowance in audit.

Details of other observations and recommendations were discussed in Part II – Audit Observations and Recommendations of the report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 88 of the General Provisions of Republic Act No. 10633, otherwise known as the General Appropriations Act of 2014, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

We acknowledge the cooperation extended to the audit team by the officials and staff of the agency.

Very truly yours,

  
LYNN S.F. SICANGCO  
Regional Director



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 1  
City of San Fernando, La Union

March 30, 2015

**Mr. FLORANTE S. GERDAN**  
**President and CEO**  
Poro Point Management Corporation  
City of San Fernando, La Union

**Sir Gerdan:**

We transmit herewith the report on the financial and compliance audit of the accounts and operations of the Poro Point Management Corporation, City of San Fernando, La Union for the year ended December 31, 2014, in compliance with Section 2, Article IX - D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed 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.

We rendered a qualified opinion on the presentation of the financial statements because the Accounts Receivable - Non-Trade amounting to P1,309,288.95 was erroneously provided an Allowance for Doubtful accounts, thereby resulting in the understatement of both assets and retained earnings by P524,892.11; and validity of disbursements amounting to P45,105,385.71 was not determined due to failure of Management to submit the Disbursement Vouchers pertaining thereto on time as of December 31, 2014 hence, casting doubt on the reliability and accuracy of balances of accounts in the Financial Statements.

The report consists of four parts: Part I - Audited Financial Statements, Part II - Detailed Observations and Recommendations, Part III - Status of Prior Year's Unimplemented Audit Recommendations and Part IV - Annexes. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 16, 2015. Management's comments are included in the report, where appropriate.

**PORO POINT MANAGEMENT CORPORATION**  
A Subsidiary of Basic Conversion and Development Authority  
**OFFICE OF THE PRESIDENT & CEO**

Date: 05/18/15 Time: 2:05 PM

Received by: M.C. Yacaman



Aside from the audit finding which was the basis of the auditor's opinion, other significant findings were the following:

- a. Educational assistance in the amount of P872,380.00 was granted to the employees contrary to Section 2 of Executive Order No. 7, series of 2010 and the CPCS provision under Section 8 of RA 10149 thus, may result to possible disallowance in audit.

We reiterated the previous recommendation contained in the Annual Audit Report for CY 2013 to stop the payment of the unauthorized benefits since these are considered irregular expenditures pursuant to Section 3 of COA Circular 2012-003.

- b. Financial assistance granted to the Office of the City Mayor/City of San Fernando Anniversary amounting to P300,000.00 was excessive pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012.

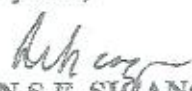
We have recommended management to limit the amount granted as financial assistance pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012 to avoid possible disallowance in audit.

Details of other observations and recommendations were discussed in Part II - Audit Observations and Recommendations of the report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 88 of the General Provisions of Republic Act No. 10633, otherwise known as the General Appropriations Act of 2014, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

We acknowledge the cooperation extended to the audit team by the officials and staff of the agency.

Very truly yours,

  
LYNN S.F. SICANGCO  
Regional Director



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, 2014**



## EXECUTIVE SUMMARY

### A. 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.

### B. Financial Highlights

	2014	2013
Assets	P 109,998,931.73	P 97,193,218.53
Liabilities	46,504,225.06	36,422,074.78
Government Equity	63,494,706.67	60,771,143.75
Income	60,711,609.91	66,259,834.28
Expenses	52,830,973.65	70,537,869.07
Budget	59,852,137.00	64,595,150.80
Actual Expenditures	52,830,973.65	70,537,869.07

### C. Scope of Audit

The audit covered the accounts, transactions and operations of PPMC for calendar year 2014. 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.

### D. Auditor's Opinion on the Financial Statements

The Audit Team rendered a qualified opinion on the presentation of the financial statements because the Accounts Receivable – Non-Trade amounting to P1,309,288.95 was erroneously provided an Allowance for Doubtful accounts, thereby resulting in the understatement of both assets and retained earnings by P524,892.11; and validity of disbursements amounting to P45,105,385.71 was not determined due to failure of Management to submit the Disbursement Vouchers pertaining thereto on time as of December 31, 2014 hence, casting doubt on the reliability and accuracy of balances of accounts in the Financial Statements.



## E. Significant Audit Observations and Recommendations

The agency conducted and implemented the Gender and Development Program in accordance with Joint Circular No. 2004-01 of the Department of Budget and Management (DBM), National Economic and Development Authority (NEDA) and National Commission on the Role of Filipino Women (NCRFW) dated April 5, 2004.

Although struggling with a tight budget, the agency appropriated the amount of P440,000.00 for GAD projects/programs and was able to carry out various activities in line with GAD's mandate for CY 2014.

During the last quarter of the year, the agency conducted gender analysis and came up with a consolidated report on the gender issues prevailing in the five (5) impact barangays of the Poro Point Freeport Zone. The agency implemented the GAD Focal Point System to ensure that all employees are aware by posting the Special Order on GAD Focal Point System Structure.

Likewise, the agency was able to institutionalize a policy on Anti-Sexual Harrassment. And lastly, Family Day was celebrated on May 31, 2014 with a total cost of P143,685.00. As an annual activity, the celebration aims to promote worklife balance, including recognition of the role of a supportive family in employee productivity.

In conclusion, GAD activities were carried out in accordance with the desired objectives towards the attainment of the GAD mandate.

We commend management for remaining steadfast in their commitment to implement programs and projects in accordance with the GAD mandate.

However, presented below is a summary of the significant Audit Observations and Recommendations which were discussed with the agency officials concerned during the exit conference and their corresponding comments were incorporated in Part II of the report:

- a. Accounts Receivable - Non-Trade amounting to P1,309,288.95 was erroneously provided an Allowance for Doubtful accounts contrary to Section 66, Volume 1 of National Government Accounting System and Matching Principle of Generally Accepted Accounting Principle, thereby resulting to understatement of both assets and retained earnings by P524,892.11:

We have recommended management to stop the provision of doubtful accounts for the Accounts Receivable-Non Trade and make the following adjusting entry:

Allowance for Doubtful Accounts	P524,892.11
Retained Earnings	P524,892.11



- b. Validity of disbursements amounting to P45,105,385.71 was not determined due to failure of Management to submit the disbursement vouchers pertaining thereto, contrary to Section 7.2.1 of COA Circular No. 2009-006 dated September 16, 2009 hence, casting doubt on the reliability and accuracy of balances of accounts in the Financial Statements.

We have recommended the agency head to require the Accounting/Cashiering personnel to submit disbursement vouchers, payrolls and other accounting reports on time pursuant to Section 7.2.1 of COA Circular 2009-006. In addition, they should be closely supervised to insure the preparation and timely submission of reports.

- c. Educational assistance in the amount of P872,380.00 was granted to the employees contrary to Section 9 of Executive Order No. 7, series of 2010 and the CPCS provision under Section 8 of RA 10149 thus, may result to possible disallowance in audit.

We reiterated the previous recommendation contained in the Annual Audit Report for CY 2013 to stop the payment of the unauthorized benefits since these are considered irregular expenditures pursuant to Section 3 of COA Circular 2012-003.

- d. Financial assistance granted to the Office of the City Mayor/City of San Fernando Anniversary amounting to P300,000.00 was excessive pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012.

We have recommended management to limit the amount granted as financial assistance pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012 to avoid possible disallowance in audit.

#### **F. Summary of Audit Suspensions, Disallowances and Charges**

For CY 2014, no suspensions and charges as of year-end, however, the previous Audit Team issued P1,084,904.05 of Notices of Disallowance consisting of P924,437.65 disallowance due to the unauthorized payment of educational assistance while the remaining P160, 466.40 represents disallowed health insurance of employees paid to a private company. Prior period disallowances amounting to P150,000.00 remained unsettled bringing to total disallowances of P1,234,904.05 as of December 31, 2014.

#### **G. Status of Implementation of Prior Year's Audit Recommendations**

Out of the six audit recommendations contained in the previous year's Annual Audit Report, three were fully implemented while the remaining three were partially implemented.



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**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

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**INDEPENDENT AUDITOR'S REPORT**

**THE BOARD OF DIRECTORS**  
Poro Point Management Corporation  
Poro Point Freeport Zone  
City of San Fernando, La Union

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 of December 31, 2014, and the statement of comprehensive income, 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 Generally Accepted Accounting Principles. This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

*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 laws, COA and INTOSAI standards and applicable Generally Accepted Auditing Standards. These 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 misstatement of the financial statements, 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 in order to design audit procedures that are appropriate in the circumstances.

An audit also includes assessing the accounting principles 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 opinion.

#### *Bases for Qualified Opinion*

As discussed in Part II of the report, the Accounts Receivable – Non-Trade amounting to P1,309,288.95 was erroneously provided an Allowance for Doubtful accounts, thereby resulting to understatement of both assets and retained earnings by P524,892.11;



Likewise, validity of disbursements amounting to P45,105,385.71 was not determined due to failure of Management to submit the disbursement vouchers pertaining thereto hence, casting doubt on the reliability and accuracy of balances of accounts in the Financial Statements.

#### *Opinion*

In our opinion, except for the effects of the matters described in the preceding paragraphs, the accompanying financial statements present fairly the financial position of the Poro Point Management Corporation as of December 31, 2014, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

COMMISSION ON AUDIT

By:

  
MARIA CRISTINA N. POSERIO  
Supervising Auditor 

February 27, 2015





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


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

The management of Poro Point Management Corporation is responsible for all information and representation contained in the accompanying Balance Sheet as of December 31, 2014 and the related Statement of Income and Expenses and Cash Flow for the year then ended. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

  
**LENIMA B. JUDAN**  
Finance Manager

  
**HON. FLORANTE S. GERDAN**  
President and CEO

**PORO POINT MANAGEMENT CORPORATION**

**Detailed Balance Sheet**

As of December 31, 2014

(with comparative figures for 2013)

	Note	2014	2013
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
<b>Cash</b>			
Petty Cash Fund	P	-	P
Cash on Hand	2	458,845.82	23,457.50
Cash in Bank	3	10,237,111.91	18,933,937.68
Invst. in Premium Savings Account	4	26,801,015.73	6,750,669.86
<b>Total</b>		<u>37,496,973.46</u>	<u>25,708,065.04</u>
<b>Receivables</b>			
Accounts Receivable - Trade		-	524,386.72
Accounts Receivable - Non Trade	5	1,309,288.95	1,172,663.91
Interest Receivables		42,217.60	5,411.10
Due from BCDA	6	11,440,299.58	8,196,199.71
Advances-BCDA		101,673.20	101,673.20
Advances to Officers and Employees		-	-
Due from Officers and Employees	7	640,440.71	585,614.45
Advances - Others	8	42,210.00	42,210.00
Allowance for Impairment		(524,892.11)	(524,386.85)
<b>Total</b>		<u>13,051,237.93</u>	<u>10,103,772.24</u>
<b>Inventories</b>			
Supplies and Materials		1,480,181.97	852,642.49
Supplies and Materials-In Transit	9	92,833.00	92,833.00
<b>Total</b>		<u>1,573,014.97</u>	<u>945,475.49</u>
<b>Prepayments</b>			
Prepaid Expense	10	1,560,452.69	3,067,770.12
Guaranty Deposits	11	168,884.00	168,884.00
<b>Total</b>		<u>1,729,336.69</u>	<u>3,236,654.12</u>
<b>Total Current Assets</b>		<u>53,850,563.05</u>	<u>39,993,966.89</u>
<b>Long Term Investments</b>			
Investment in PPIC	12	15,000,000.00	15,000,000.00
Other investments-PLDT Shares		15,000.00	15,000.00
<b>Total</b>		<u>15,015,000.00</u>	<u>15,015,000.00</u>



	Note	2014	2013
<b>Property, Plant &amp; Equipment</b>			
Land Development-Boardwalk		276,082.12	276,082.12
Bldg. & Structure-New Admin Bldg.		6,309,335.20	6,309,335.20
Bldg. & Struc.- Site Dev't. Admin Bldg.		1,452,682.71	1,452,682.71
Bldg. & Struc.-Site Dev't.-Motorpool		1,216,592.80	1,216,592.80
Elect., Power and Energy Structures		516,605.02	516,605.02
Office Equipment		13,768,881.76	28,292,259.00
Tools & other equipment		773,378.84	773,378.84
Land & Water Transportation Equip.		16,041,366.15	16,741,366.15
IP-Building and Structure (PAF)		-	-
IP-Bldg and Struc.-Const. of Road Nct.		-	-
<b>Total</b>		<b>40,354,924.60</b>	<b>55,578,301.84</b>
Accumulated Depreciation		(26,733,008.12)	(32,499,188.39)
<b>Total</b>		<b>13,621,916.48</b>	<b>23,079,113.45</b>
<b>Assets held in Trust</b>	13	<b>27,511,452.20</b>	<b>19,105,138.19</b>
<b>Total Non-Current Assets</b>		<b>56,148,368.68</b>	<b>57,199,251.64</b>
<b>TOTAL ASSETS</b>	P	<b>109,998,931.73</b>	<b>P 97,193,218.53</b>

### LIABILITIES AND EQUITY

#### Liabilities

##### Current Liabilities

Accounts Payable-Trade	14	P 6,455,131.91	P 6,717,029.27
EWT Payable-1%		1,919.32	4,496.83
EWT Payable-2%		35,814.53	20,692.75
EWT Payable-10%		46,151.59	48,297.80
EWT Payable-15%		25,147.21	(2,302.79)
Withholding Taxes Payable-Salaries		340,177.67	296,901.14
VAT Payable-5%		127,260.35	20,322.74
Income Tax Payable		3,277,433.39	779,476.13
Percentage Tax Payable-5%		10,021.56	58,456.37
Percentage Tax Payable-3%		23,067.72	51,891.08
SSS, EC & Medicare Premiums Payable		157,097.16	133,477.90
SSS Loans Payable		37,066.66	38,486.62
PAG-IBIG Premiums Payable		24,261.50	40,568.05
PAG-IBIG Loans Payable		61,425.56	69,749.90
Provident Fund Loans Payable	15	171,726.07	184,156.50
Provident Fund Premiums Payable	16	6,302.58	23,350.17
Advances from BCDA	17	8,953,199.60	3,211,522.27
Due to BCDA	18	5,265,776.40	2,499,386.73

	Note	2014	2013
Trust Liabilities-Honorarium		182,724.17	31,140.84
Trust Liabilities-Construction Permit		6,931.60	6,931.60
Trust Liabilities-Bureau of Fire Protection		111,335.32	111,335.32
Bid Bond Payable		80,648.63	305,866.63
Retention Payable		348,781.23	125,949.70
Performance Security Payable		75,275.60	304,703.05
Trust Liabilities-Others		99,783.05	99,783.05
Accounts Payable-Miscellaneous		<u>2,142,654.92</u>	<u>2,803,295.37</u>
<b>Total</b>		<b>28,067,115.30</b>	<b>17,984,965.02</b>
<b>Non-Current Liabilities</b>			
Due to BCDA		<u>18,437,109.76</u>	<u>18,437,109.76</u>
<b>Total Liabilities</b>		<u>46,504,225.06</u>	<u>36,422,074.78</u>
<b>Equity</b>			
Capital Stock	19	68,143,720.23	80,000,000.00
Equity in Joint Venture	20	15,000,000.00	15,000,000.00
Deposit for Future Subscription		-	26,285,931.22
Retained Earnings	21	<u>(19,649,013.56)</u>	<u>(60,514,787.47)</u>
<b>Total Equity</b>		<u>63,494,706.67</u>	<u>60,771,143.75</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P <u>109,998,931.73</u></b>	<b>P <u>97,193,218.53</u></b>

See Accompanying Notes to Financial Statements

**PORO POINT MANAGEMENT CORPORATION**

**Detailed Statement of Income and Expenses**

For the year ended December 31, 2014

(with comparative figures for 2013)

	Notes	2014		2013
<b>Income</b>				
Management Fee	22	59,852,137.00	P	64,595,150.80
Permits & Other Fees		-		1,028,869.75
Rental Income	23	55,000.08		114,624.87
Fees from Sillag Festival	24	571,182.16		369,800.00
Interest on Cash-in-Bank		233,291.67		151,388.86
Others		(1.00)		-
<b>Total Income</b>		<u>60,711,609.91</u>		<u>66,259,834.28</u>
<b>Less: Expenses</b>				
<b>Personal Services</b>				
Salaries and Wages		11,127,046.93		11,231,751.58
Representation Allowance		592,598.45		648,349.24
Transportation Allowance		592,598.45		643,549.23
Uniform Allowance		105,540.00		88,046.00
13th Month Pay		925,007.81		940,931.33
Cash Gift		279,000.00		274,416.66
Anniversary Bonus		270,000.00		280,000.00
Performance Based Bonus		-		-
Productivity Enhancement Incentives		285,000.00		-
Educational Assistance		905,454.00		947,543.65
Overtime		638,466.58		641,454.43
Rice Subsidy		933,000.00		935,593.74
Life Insurance		112,608.00		206,663.70
Health Insurance		-		378,033.36
Cost of Living Allowance		643,389.13		635,582.05
PAG-IBIG Premiums		66,800.00		65,750.00
Medicare Premiums		126,563.00		129,909.82
SSS & EC Premiums		782,172.91		701,504.94
Provident (EOSB)		510,208.20		544,536.24
Monetization of Leaves		439,423.27		1,053,252.65
Retirement Benefit		-		1,630,000.00
<b>Total Personnel Services</b>		<u>19,334,876.73</u>		<u>21,976,868.62</u>



### Maintenance and Other Operating Services

Office Supplies & Materials		2,400,130.01	2,228,354.99
Gasoline and Oil		1,067,393.12	1,245,626.08
Transportation & Travelling (General)		1,276,571.27	1,196,662.19
Trainings and Seminar		766,112.83	1,128,458.41
Corporate Planning (Trainings & Seminars)		354,889.51	193,208.00
Water, Illumination and Power		1,246,031.54	2,790,519.62
Postage & deliveries		73,914.95	68,542.36
Telephone charges-landline		511,676.22	490,242.77
Telephone charges-mobile		420,687.52	552,812.64
Publicity and Promotion		-	96,542.00
Marketing	25	1,811,263.55	651,502.36
Impairment Loss		505.26	2,238.23
Taxes, Duties and Fees		198,019.87	208,379.16
Insurance & Registration	26	1,658,155.19	2,566,533.57
Representation		499,951.41	505,977.54
Demolition and Indemnities		-	538,067.60
Rental Expense		229,042.08	157,148.38
Subscription Expense		89,260.33	93,810.08
Repair and Maintenance-Buildings and others		1,488,670.22	2,885,401.45
Audit Expenses		765,912.98	853,462.71
Legal fees		-	23,837.50
Consultancy Services		125,000.00	40,000.00
Fees for Outside Services		-	380,545.45
Security		472,101.78	10,422,585.70
Janitorial		350,995.00	759,604.23
Regular Board		1,109,000.00	1,094,000.00
Committee Meetings		579,000.00	486,000.00
Corp. Secretary		110,000.00	75,000.00
Transportation Expense		761,328.08	729,956.39
Representation Expense		596,888.23	512,503.23
Communication Expense		310,150.80	245,599.25
Travel Expense		1,228,723.35	1,058,649.98
Meals		733,864.27	539,890.51
Performance Incentive		-	-
Depreciation Expense - Land Development		15,193.75	27,444.72
Depreciation Expense - Building		283,920.12	283,920.12
Depreciation Expense - Site Dev't Admin Bldg.		130,741.44	130,741.44
Depreciation Expense - Motorpool Shed		109,493.40	109,493.40
Depreciation Expense - Elect. Power and Struc.		46,494.48	46,494.48
Depreciation Expense - Office Equipment		753,197.75	3,749,836.40
Depreciation Expense - Tools & other equip.		81,768.96	81,768.96
Depreciation Expense - Land & water trans.		1,149,511.92	1,263,776.45
Extraordinary & Miscellaneous		220,651.58	244,627.09
Special Projects Expenditures	27	6,192,450.76	6,479,066.10
Income Tax Expense		3,277,433.39	1,322,168.91
<b>Total Maintenance and Other Operating Exp.</b>		<b>33,496,096.92</b>	<b>48,561,000.45</b>

**Financial Expense**

**Total Expenses**

**NET INCOME**

	<u>52,830,973.65</u>	<u>70,537,869.07</u>
P	<u>7,880,636.26</u>	P <u>(4,278,034.79)</u>

See Accompanying Notes to Financial Statements



**PORO POINT MANAGEMENT CORPORATION**

**Statement of Changes in Equity**  
 Period Ended December 31, 2014  
 (with comparative figures for 2013)

	2014	2013
<b>Capital Stock</b>		
Balance at Beginning of the Period	P 80,000,000.00	P 80,000,000.00
Authorized, issued and fully paid - 800,000 shares, P100.00 par value		
Adjustments/Reclassifications	(11,856,279.77)	-
<b>Balance at End of the Period</b>	<u>68,143,720.23</u>	<u>80,000,000.00</u>
<b>Deposit for Future Subscriptions</b>		
Balance at Beginning of the Period	26,285,931.22	26,285,931.22
Additional Equity	607,727.00	-
Adjustments/Reclassifications	(26,893,658.22)	-
<b>Balance at End of the Period</b>	<u>-</u>	<u>26,285,931.22</u>
<b>EQUITY IN JOINT VENTURE</b>	<u>15,000,000.00</u>	<u>15,000,000.00</u>
<b>Retained Earnings</b>		
Balance at Beginning of the Period	(60,514,787.47)	(49,289,245.90)
Correction of prior years' errors	32,985,137.65	(6,947,506.78)
As restated	(27,529,649.82)	(56,236,752.68)
Net Income (Loss)	7,880,636.26	(4,278,034.79)
<b>Balance at End of the Period</b>	<u>(19,649,013.56)</u>	<u>(60,514,787.47)</u>
<b>TOTAL EQUITY</b>	<u>P 63,494,706.67</u>	<u>P 60,771,143.75</u>

PORO POINT MANAGEMENT CORPORATION

Cash Flow Statement

For the year ended December 31, 2014

(with comparative figures for 2013)

	2014	2013
<b>Cash Flow from Operating Activities</b>		
Cash Inflow		
OPEX funds received from BCDA	P 76,252,373.00	P 67,527,061.50
Collections of Acct. Recev.-Trade in behalf of BCDA	46,123,136.34	40,870,205.00
Collection of Receivables	1,309,595.20	2,291,387.89
Collection of Permits at CCA in behalf of BCDA	676,682.45	-
Collection of Miscellaneous Income	664,107.82	1,120,183.00
Total Cash Inflow	<u>125,025,894.81</u>	<u>111,808,837.39</u>
Cash Outflow		
Payment to Employees and Suppliers	(64,178,672.05)	(68,410,167.00)
Remittance of Collections to BCDA	(46,067,502.02)	(40,870,205.00)
Payment of Taxes	(3,638,697.28)	(1,486,471.23)
Total Cash Outflow	<u>(113,884,871.35)</u>	<u>(110,766,843.23)</u>
Net Cash Provided by (used in) Operating Activities	<u>11,141,023.46</u>	<u>1,041,994.16</u>
<b>Cash Flow from Investing Activities</b>		
Cash Inflow		
Interest received	198,951.07	116,709.14
Cash Outflow		
Capital Expenditure projects	(2,539,621.44)	-
Acquisition of Land	(4,742,645.63)	(50,250,000.00)
Total Cash Outflow	<u>(7,282,267.07)</u>	<u>(50,250,000.00)</u>
Net Cash Provided by (used in) Investing Activities	<u>(7,083,316.00)</u>	<u>(50,133,290.86)</u>
<b>Cash Flow from Financing Activities</b>		
Cash Inflow		
CAPEX from BCDA	7,731,200.96	-
Net Cash Provided by (used in) Financing Activities	<u>7,731,200.96</u>	<u>-</u>
Net increase in Cash and cash equivalents	11,788,908.42	(49,091,296.70)
Add: Cash and Cash Equivalents-Beginning	25,708,065.04	74,799,361.74
Cash & Cash Equivalents Ending	P <u>37,496,973.46</u>	P <u>25,708,065.04</u>



**PORO POINT MANAGEMENT CORPORATION**  
(A Member of The BCDA Group)  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2014

**GENERAL**

**a. Corporate Information**

The Bases Conversion and Development Authority (BCDA) was created under Republic Act (RA) No. 7227 dated March 13, 1993. The 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 John Hay Development Corporation (JHDC) to John Hay Poro Point Development Corporation (JPDC) 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 Poro Point Management Corporation (PPMC) as the implementing arm of BCDA over the PPFZ and renaming the John Hay Poro Point Development Corporation (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).

**b. 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: Indicate separation of expenses

- 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 managers 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.



## ACCOUNTING POLICIES AND EXPLANATION NOTES

### Note 1 – 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.

#### Supplies and Materials

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

#### Property, Plant and Equipment

Property and Equipment 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 PPE, irrespective of date within the month. The current and subsequent month depreciation expense shall be computed as follows:

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

Maintenance and repairs 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.

Assets acquired with value of not more than PhP10,000.00 are recorded under supplies and materials expense upon withdrawal from the stockroom.

#### Revenue Recognition

Fund released for operating expenditures (OPEX) from BCDA are reflected as estate management fees in the Statement of Financial Performance.

#### 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 shall be recorded 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 City of San Fernando, La Union. Results of these activities are being reported to BCDA on a monthly basis.

## Note 2- Cash on Hand

This account consists of cash and check collections received on December 29, 2014 representing zone revenues such as lease rentals, three (3) months advance lease rentals and three (3) months security deposit, building permit fees and local permit fees of locators and other payees. PPMC entered into a deposit pick-up arrangement with the Land Bank of the Philippines (LBP) on 07 November 2014, wherein LBP collects daily at the PPMC Office from Monday through Friday, from 8:30 a.m. to 5:00 p.m. The undeposited cash collections were received by PPMC after the cut-off time.

## Note 3 – Cash in Bank

This account is composed of the following as presented below:

	2014	2013
LBP-OPEX Acct. No. 0202-0218-24	P 145,446.86	P 139,537.30
PNB-OPEX Acct. No. 15469870001-1	433,488.60	17,738,438.50
PNB-CAPEX Acc. No. 15469870002-9	338,031.79	1,055,961.88
DBP-OPEX Acct. No. 0570-0048280-30	8,349,322.55	-
DBP-CAPEX Acct. No. 0570-0048280-31	970,822.11	-
<b>Total</b>	<b>P37,496,973.46</b>	<b>P25,708,065.04</b>

### LBP-OPEX Acct. No. 0202-0218-24

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

### PNB-OPEX Acct. No. 15469870001-1

PPMC maintains a current account for its Operating Expenses (Opex) at the Philippine National Bank (PNB). Pursuant to the letter of the Department of Finance (DOF) dated 11 July 2014, PPMC was advised to wind down its deposit to PNB and transfer the said account to either LBP/DBP. PPMC intends to close the said account by CY 2015 when all the unissued checks and checks drawn against the account were already accounted for.

### PNB-CAPEX Acc. No. 15469870002-9

PPMC maintains a current account for its Capital Expenditures (Capex) at the Philippine National Bank (PNB). Pursuant to the letter of the Department of Finance (DOF) dated 11 July 2014, PPMC was advised to wind down its deposit to PNB and transfer the said account to either LBP/DBP. PPMC intends to close the said account by



CY 2015 when all the unissued checks and checks drawn against the account were already accounted for.

**DBP-OPEX Acct. No. 0570-0048280-30**

On 23 June 2014, PPMC opened a current account for its Operating Expenses (Opex) at the Development Bank of the Philippines (DBP) 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.

**DBP-CAPEX Acct. No. 0570-0048280-31**

On 22 October 2014, PPMC opened a current account for its Capital Expenditures (Capex) at the Development Bank of the Philippines (DBP) 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.

**Note 4 - Investment in Premium Savings Account**

To maximize interest earnings, PPMC invested in short-term time deposit accounts with original maturities of three (3) months or less at the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP).

**Note 5 - Accounts Receivable-Non Trade**

It 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.

**Note 6 - Due from BCDA/Others**

It pertains to reimbursement of expenses for BCDA Land related assets such as insurance coverage, maintenance and security services for the property.

**Note 7 - Due from Offices and Employees**

It pertains to employees' personal calls and travelling expenses, prior year taxes due to be collected from the employees concerned.

**Note 8 - Advances-Others**

It pertains to advances made to Mr. Alexander M. Osias for the design and development of PPMC website and CD ROM.



**Note 9 – Supplies and Materials – in – Transit**

These accounts pertain to costs of supplies and materials inventories including materials in-transit not held for sale in the ordinary course of the business.

**Note 10 – Prepaid Expenses**

It include payments of expenses with minimum coverage period of at least one (1) year like premiums paid on insurance policies, motor vehicle registration fees and other similar expenses. These expenses are amortized over a period of one (1) year.

**Note 11 - Guaranty Deposits**

These are made to service providers such as Telephone and Electric Companies.

**Note 12 - Investment in PPIC**

It pertains to the investment share of PPMC in PPIC pursuant to the Pre-Incorporation Agreement.

**Note 13 – Assets Held in Trust**

This account is composed of the following:

	2014	2013
Construction-in-Progress	P 3,366,791.15	P 406,828.19
Contingent Land	21,463,995.91	16,718,844.00
Accounts Receivable-Trade	1,220,306.14	519,107.00
Long-Term Receivables	1,460,359.00	1,460,359.00
<b>Total</b>	<b>P 27,511,452.20</b>	<b>P19,105,138.19</b>

Construction in progress held in trust of PhP3,366,791.15 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.

Land held in trust of PhP21,463,995.91 refers to the validated land claims within the Wallace area in behalf of BCDA. Acquisition cost was valued at PhP1,250.00 per square meter plus documentary stamp taxes & other similar incidental charges. On June 16, 2014, PPMC purchased a parcel of land with an area of 2,010 square meters located at Barangay San Francisco, City of San Fernando, La Union from the heirs of Ana Mayo vda. De Flores, covered by TCT No. T-13488. The total amount paid by PPMC amounted to PhP4,737,986.26, inclusive of registration fee, transfer fee and documentary stamp tax.

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 held in trust of PhP1,220,306.14 pertains to receivables from locators/covering revenues generated within the PPFZ held in trust by PPMC for BCDA while Non-current trade receivables held in trust of PhP1,460,359.00 are 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 amount of PhP2,680,665.14 is part of the Intra-agency payable – Due to BCDA of PhP5,265,776.40.

**Note 14 – Accounts Payable – Trade**

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

**Note 15 – Provident Fund Loans Payable**

Provident loans payable refer 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.

**Note 16 - Provident Fund Premiums Payable**

Provident Fund Premiums refer to the contributions of PPMC employees corresponding 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.

**Note 17 – Advances from BCDA**

It 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.

**Note 18 - Due to BCDA**

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 PhP1,460,359.00 subject of a legal move to pursue collection in court; and the accounts receivable trade of PhP1,220,306.14.

#### **Note 19 - Capital Stocks**

The company was authorized to issue 800,000 shares at P100 cost per share. BCDA has approved for an increase of authorized capital stock from PhP80 million to PhP300 million per letter dated May 4, 2012.

On 15 October 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 Securities and Exchange Commission (SEC) for approval. On 27 October 2014, GCG directed PPMC to submit documents to be used in the evaluation process of the latter's request.

#### **Note 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 P100,000,000. BCDA/PPMC shall subscribe to shares equal to P30,000,000 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 P70,000,000.00 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 P15,000,000.00 equivalent to fifteen percent (15%) of the total authorized capital stock of PPIC.



### Note 21 - Retained Earnings

On July 21, 2014, BCDA issued Accounting Instruction No. AF-AI-2014-005 to PPMC for the transfer of Airport assets to BCDA amounting to PhP14,771,881.44 with the corresponding accumulated depreciation of PhP7,636,503.09, thereby decreasing the negative retained earnings account balance by PhP7,636,503.09. This is in response to PPMC's letter to BCDA dated March 13, 2014.

Part of the accumulated deficit in the amount of PhP23,978,056.55 pertains to OPEX fund releases from BCDA in 2003 initially taken up as revenues in the books of PPMC but was subsequently adjusted to BCDA equity account in 2004 as instructed by BCDA. On August 15, 2014, BCDA issued Accounting Instruction Series No. AF-AI-2014-007 approving the reversal of PPMC's CY-2003 Opex Fund treated as PPMC Capital to Management Fee in response to PPMC's letter of reconsideration dated June 16, 2014. Accumulated earnings and losses are also charged to this account.

Correction of Prior Years Errors charged to Retained Earnings for the CY 2014 are shown below:

Date	Reference	Particulars	Amount
1/31/2014	2014-01-002	PEI for CY 2013	(P 253,500.00)
1/31/2014	2014-01-006	Fringe benefit tax for the 4th qtr 2013	(28,235.29)
1/31/2014	2014-01-010	Interest income for the year 2013	2,465.90
1/31/2014	2014-01-010	Bank service charge and cost of check books for the year 2013	(3,600.00)
1/31/2014	2014-01-010	Adjustment of entry made on DV 13-06-0816 and DV 13-10-1230	5.01
1/31/2014	2014-01-010	Cancellation of check no. 21835 (DV No. 13-07-0852)	25,000.00
1/31/2014	2014-01-010	Overstatement accrued management fee for year 2012	(1,110,325.02)
2/28/2014	2014-02-020	Adjustment of entry made on DV No. 05-10-0945 (Posting of entry)	69,617.55
2/28/2014	2014-02-020	Adjustment of entry made on JV 2013-10-097, 2013-11-106 and 2013-12-117 (Overstatement of life insurance expense)	56,304.00
2/28/2014	2014-02-020	Adjustment of entry made on JV 2013-11-106 and 2013-12-117 (Understatement of motor vehicle insurance expense)	(753.39)
2/21/2014	2014-02-0215	Overstatement of retirement benefits of Mr. Troadio C. Cabiladas (CY 2013)	46,025.27



3/21/2014	2014-03-0384	No accrual of tax deficiency for the taxable year 2007	(580,536.49)
3/25/2014	2014-03-0403	No accrual for the prizes during the Sportsfest 2013	(8,600.00)
3/24/2014	2014-03-0387	No accrual of board expense of Dir. Tabora (CY 2013)	(2,544.29)
4/30/2014	2014-04-040	Cancellation of payment per DV Nos. 13-10-1254 and 13-10-1257 with cheque nos. 22835 and 22838, respectively	4,000.00
4/15/2014	2014-04-0484	No accrual of website hosting excess charge disk space and bandwidth for the month of December 2013 (Bitstop, Inc.)	(521.45)
5/31/2014	2014-05-046	Adjustment of income tax accrued for the 1st quarter 2013	465,490.12
5/31/2014	2014-05-046	Adjustment of income tax accrued for the year 2012	2,267.33
5/31/2014	2014-05-046	Adjustment of income tax accrued for the year 2013	(0.32)
5/31/2014	2014-05-0537	Final pay of Ms. Espiritu (from Aug 24, 2009 to July 5, 2013)	(7,793.58)
5/5/2014	2014-05-0567	Meals of employees who rendered overtime on Dec 28, 2013	
		for the year-end inventory & closing of books	(1,520.00)
6/30/2014	2014-06-055	Proceeds of Sillag Golf Cup 2013	70,000.00
6/2/2014	2014-06-0642	Trimming of trees at the SFAirport payable to Trillamar, Inc.	(25,000.00)
6/2/2014	2014-06-0649	Garbage fee for the period June-December 2013	(10,500.00)
7/31/2014	2014-07-070	Depreciation of Airport assets transferred to BCDA	2,318,625.76
7/31/2014	2014-07-070	Depreciation of Airport assets transferred to BCDA	2,658,938.64
7/31/2014	2014-07-070	Depreciation of Airport assets transferred to BCDA	2,658,938.69
7/31/2014	2014-07-065	Funds from BCDA for 2013 Outstanding Obligations	1,295,820.09
7/31/2014	2014-07-065	Under-accrual of Management fee for 2013	1,234,704.62
8/31/2014	2014-08-072	Performance-Based Bonus (PBB) of employees for CY 2013	(555,000.00)
8/31/2014	2014-08-080	Reversal of CY 2003 Opex Fund from PPMC Capital to Management Fee per BCDA Accounting Instruction No. AF-AI-2014-007	23,978,056.55



8/31/2014	2014-08-080	Adjustment of Bid bond payable and performance security payable per confirmation of payable accounts	286,500.45
8/8/2014	2014-08-0910	Petty cash fund reimbursement of expenses of prior year (2013)	(6,629.50)
9/30/2014	2014-09-090	Donations for the typhoon Yolanda victims at Tabun-tabon Leyte	100,000.00
9/30/2014	2014-09-090	Assistance to the Canaoay Philanthropic Club on Dec 19, 2013	1,500.00
9/30/2014	2014-09-090	Assistance to the Barangay Canaoay on Dec 19, 2013	2,000.00
9/30/2014	2014-09-090	Assistance to the City of San Fdo. Let's Go Negosyo on Dec 1-15, 2013	10,000.00
9/30/2014	2014-09-090	Assistance to Kidney Walk of Lorma Medical Center, Inc.	5,000.00
10/9/2014	2014-10-1142-47	Performance-Based Incentive (PBI) of PPMC Directors for CY 2013	(804,800.00)
10/13/2014	2014-10-1165	Performance-Based Bonus (PBB) of employees for CY 2013	(7,500.00)
10/31/2014	2014-10-100	Accrual of meals of PPMC visitors for CY 2013	(7,823.99)
11/30/2014	2014-11-105	Fund release from BCDA for the CY 2013 PBB & PBI	1,389,800.00
12/31/2014	2014-12-120	Consultancy fee of Mr. Canlas for Dec 2013	(25,000.00)
12/31/2014	2014-12-120	Repair and maintenance of motor vehicle, CY 2013	(5,835.00)
12/31/2014	2014-12-120	Understatement of security expense for CY 2013	(0.01)
12/31/2014	2014-12-120	Accrual of hotel accomodation & misc. expenses for CY 2013	(213,354.00)
12/31/2014	2014-12-120	Accrual of uniform of employees for CY 2013	(14,000.00)
12/31/2014	2014-12-120	Repair and maintenance of motor vehicle, CY 2013	(16,550.00)
12/31/2014	2014-12-120	Accrual of PBB of Ms. Marigza for CY 2013	(6,000.00)
<b>TOTAL</b>			<b>P32,985,137.65</b>

#### Note 22 – Management Fee

This account consists mainly of estate 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.

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 2014, BCDA earned a total revenues of PhP74,169,783.97, net of P48,929,375.00 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 2% amounted to PhP18,319,290.98 for the year 2014. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals of PhP1,797,646.25.

Likewise, BCDA's 7.5% share on sales of real estate projects amounted to PhP6,408,339.86. All collections accruing BCDA are deposited to BCDA's bank account.

#### **Note 23 – Rental Income**

This account represents car plan amortization of PPMC Officer under the Contract of Lease and Purchase Agreement dated 16 October 2010.

#### **Note 24 – Fees from Sillag**

This account consists of fees collected during the Sillag Festival of Lights such as sale of hope lanterns and singlet for the fun run activities, trade/food fair booth rental and royalty fee from the sale of beverages during the event.

#### **Note 25 – Marketing**

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 and international expositions and various marketing events conducted inside the Poro Point Freeport Zone such as the Poro Point Adventure Exposition, Sillag Festival of Lights and Asian Air Safari shoot.

#### **Note 26 - Insurance & Registration**

This account consists of insurance coverage at the Government Service Insurance System (GSIS) of motor vehicles, building and contents and Directors', Officers' Liability Insurance (DOLI) coverage of the Board of Directors and key officers of PPMC.

Registration expense pertains to the registration of motor vehicles at the Land Transportation Office (LTO).

**Note 27 – Special Projects Expenditures**

This account is composed of the following:

	2014	2013
Trade Mission	P 339,344.76	P 385,818.40
PPMC 10th Anniversary Celebration	-	462,661.21
Survey Works	-	81,660.48
Community Development	704,294.67	916,919.27
LaborCenter	83,801.89	60,989.10
ISO 9000-2001 Certification	198,886.84	166,523.03
Sillag Festival	4,646,122.60	3,942,038.82
Business Research	20,000.00	120,315.00
Annual Report	200,000.00	-
Aerodrome Certification	-	342,140.79
	<b>6,192,450.76</b>	<b>6,479,066.10</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 of the impact 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.



**Note 28 - Status of Pending Litigations**

CASE	STATUS
<p>1. PPMC vs. Spouses Reynaldo Q. Dyquiango and Yolanda V. Dyquiango Civil Case No. 5012 Recovery of Possession of Personal Property with Application for Issuance of Writ of Replevin</p>	<p>1. 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 suit to recover the vehicle due to the continued refusal and failure of Mr. Dyquiango to return the vehicle. The case was filed on May 26, 2014 at the Municipal Trial Court, City of San Fernando, La Union. The trial court issued the writ of replevin against the defendant on June 4, 2014. PPMC will coordinate with the LTO to find and seize the vehicle.</p>
<p>2. PPMC vs. Flight School International, Inc. Civil Case No. 8038 Collection of Sum of Money PhP430,333.00</p>	<p>2. Case filed on June 25, 2013 at the Regional Trial Court Branch 29, City of San Fernando, La Union. Defendant was declared in default and ex parte hearing was conducted. PPMC submitted in Court "Formal Offer of Exhibits" on October 10, 2014. On November 28, 2014, the court decided in favor of PPMC.</p>
<p>3. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007 Collection of Sum of Money PhP1,031,258.80</p>	<p>3. Case filed on December 6, 2013 at the Regional Trial Court Branch 29, City of San Fernando, La Union. PPMC filed a motion to resolve affirmative defense on October 8, 2014. The motion for reconsideration of the defendant was denied by the court on December 9, 2014.</p>
<p>4. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shipside Incorporated Re: Expropriation Cases (for eminent domain)</p>	<p>4. 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 at the PPFZ, prompted BCDA to file expropriation cases. The Court of Appeal upheld authority of petitioner to exercise eminent domain and consolidated the petition. Petition was remanded to trial court to determine just compensation.</p>
<p>5. Bulk Handler's Inc. (BHI), Moran, Tan, Venturina and Poro Point</p>	<p>5. Still pending in Court. The dispositive portion of the Judgment dated December 17,</p>

<p>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>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. Explanatory talks for possible Compromise Agreement by the parties continue.</p>
<p>6. BHI vs Judge Robert T. Cawed and BCDA/PPMC</p>	<p>6. 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 amount due to BCDA/PPMC to the RTC of La Union or to its designated depository on July 15, 2009.</p>



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.

**PART II**

**AUDIT OBSERVATIONS  
AND RECOMMENDATIONS**



## PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AND COMPLIANCE

#### Erroneous Provision of Doubtful Accounts

1. Accounts Receivable – Non-Trade amounting to P1,309,288.95 was erroneously provided an Allowance for Doubtful accounts contrary to Section 66, Volume 1 of National Government Accounting System and Matching Principle of Generally Accepted Accounting Principle, thereby resulting in the understatement of both assets and retained earnings by P524,892.11.

Section 66 of National Government Accounting System, Volume 1 is hereby quoted as follows:

*“Bad Debts. Trade receivables shall be valued at their face amounts minus, whenever appropriate, allowance for doubtful accounts. Bad Debts expense and/or any anticipated adjustments, which in the normal course of events will reduce the amount of receivables from the debtors to estimated realizable values, shall be set up at the end of the accounting period.”*

Analysis of composition of said account revealed that it consists of various receivables arising from excess claims of the Board of Directors, collectibles from BIR, Provident Fund and Thunderbird PHRI. Therefore, these transactions are not considered as trade transactions and even the account title used was “non-trade”, hence no allowance for doubtful accounts should be set-up.

Likewise, Matching Principle of Generally Accepted Accounting Principles (GAAP) states that:

*“The matching principle directs a company to report an expense on its income statement in the same period as the related revenues. When a sale of service is made on account, revenue is recorded along with account receivable. Because there is an inherent risk that clients might default on payment, accounts receivable have to be recorded at net realizable value. The portion of the accounts receivable that is estimated to be not collectible is set aside in a contra-asset account called Allowance for Doubtful Accounts. At the end of each accounting cycle, adjusting entries are made to charge uncollectible receivable as expense.”*

Viewed from the foregoing, it is evidently noted that these receivables are not arising from sale of service, thus, no income was credited. Therefore, the said account must not be subjected with an allowance for doubtful accounts since there is no income recorded to match the bad debts expense.

The provision of doubtful accounts made by the District resulted in the understatement of both total assets and retained earnings by P524, 892.11.

**We have recommended management to stop the provision of doubtful accounts for the Accounts Receivable-Non Trade and make the following adjusting entry:**

<b>Allowance for Doubtful Accounts</b>	<b>P524, 892.11</b>	
<b>Retained Earnings</b>		<b>P524, 892.11</b>

Management committed to comply with the given recommendation.

**Validity of Disbursements was not determined.**

- 2. Validity of disbursements amounting to P45, 105,385.71 was not determined due to failure of Management to submit the Disbursement Vouchers pertaining thereto on time as of December 31, 2014, contrary to Section 7.2.1 of COA Circular No. 2009-006 dated September 16, 2009 hence, casting doubt on the reliability and accuracy of balances of accounts in the Financial Statements.**

Section 7.2.1 of COA Circular No. 2009-006 provides that:

*"The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that 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 10 days of the ensuing month".*

It has been observed that financial and accounting reports such as Report of Disbursements, Trial Balances 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.

Verification made on the Reports of Checks Issued revealed that there were 710 Disbursement Vouchers totaling P45,105,385.71 (Annex A) which were not submitted by the Accounting/Cashier Section for audit and examination within the reglementary period provided under Section 7.2.1 of COA Circular No. 2009-006.



The non-submission of the disbursement vouchers, trial balances and other reports on time not only will cause delay in the post-audit of the accounts and the eventual issuance of the corresponding Audit Observation Memorandum (AOM), Notice of Suspension and Notice of Disallowance, but more so will give the Audit Team a basis to issue an opinion other than an unqualified opinion. This will result in an unfavorable impression to PPMC as regards its operations/performance.

We have recommended the agency head to require the Accounting/Cashiering personnel to submit disbursement vouchers, payrolls and other accounting reports on time pursuant to Section 7.2.1 of COA Circular 2009-006. In addition, they should be closely supervised to insure the preparation and timely submission of reports.

Management claimed that there were recent organizational changes that includes the retirement of Mr. Jose Canlas Jr, VP for Finance, on November 16, 2013, appointment of Ms. Maria Victoria DG Soriano and Ms. Josefa Catherine Bada as OIC-Finance on November 18, 2013 and April 7, 2014 respectively, and the appointment of Ms. Lenima Judan as Finance Officer on June 3, 2014, hence, the Finance Office has undergone series of turn-over of files and accountabilities.

Nevertheless, PPMC will exert all best efforts to facilitate the submission of accounting records/reports on time.

#### **Educational Assistance Granted Without Legal Basis**

3. Educational assistance in the amount of P872,380.00 was granted to the employees contrary to Section 9 of Executive Order No. 7, series of 2010 and the CPCS provision under Section 8 of RA 10149 thus, may result to possible disallowance in audit.

Section 9 of Executive Order No. 7, series of 2010 and the CPCS provision under Section 8 of RA No. 10149, otherwise known as the GOCC Governance Act of 2011, provide that the lawful adoption by any GOCC of a compensation and benefit package shall always be subject to the approval of the President of the Philippines.

Further, COA Circular 2012-003 dated October 29, 2012 sets forth the guidelines for the prevention and disallowances of irregular, unconscionable, excessive, extravagant and unnecessary expenditures.

As defined under Section 3 of COA Circular 2012-003:

*"Irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or*

*practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular."*

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

*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.*

Based on said policy, the agency granted educational assistance, which aims to help augment employees' income during enrollment period, in the amount of P872,380.00.

In the previous Annual Audit Report of the agency for CY 2013, the previous Audit Team has recommended management to stop the payment of such benefits of employees without the prior approval of the President of the Republic of the Philippines thru the Department of Budget and Management (DBM). It is worth mentioning that Notice of Disallowance on the unauthorized benefits for CY 2013 was issued by the previous Audit Team on August 6, 2014.

However, despite the issuance of the Notice of Disallowance, post-audit of disbursement vouchers for CY 2014 revealed that the agency continued to pay the subject benefits in violation of the above mentioned laws despite the absence of the required approval from the Office of the President. It was also noted that there was no effort made by Management to secure the approval from the Office of the President thru DBM for the payment of the subject benefits.

Thus, payment made has no legal basis since there was no prior approval of the President of the Philippines thru the DBM, the payment of the educational assistance of employees for CY 2014 maybe disallowed in audit.

We reiterated the previous recommendation contained in the Annual Audit Report for CY 2013 to stop the payment of the unauthorized benefits since these are considered irregular expenditures pursuant to Section 3 of COA Circular 2012-003.



Management reasoned out that the educational assistance was paid on May 6, 2014. While the Annual Audit Report containing the results of the audit of the accounts and transactions of PPMC for CY 2013 and the Notice of Disallowance pertaining to the educational assistance came later after the payment, on July 15, 2014 and August 6, 2014, respectively.

Hence, from PPMC's end, at the time of release of the said educational assistance, there was no reason to unduly withhold from the employees the release of said benefits since this was part of the compensation and benefits package of the employees approved by the PPMC Board of Directors on October 18, 2003 and has been implemented since then. Discontinuance of the said benefit without basis would have been construed as a violation of the Labor Code particularly on non-diminution of employee benefits.

Further, when an Audit Observation Memorandum on the subject benefit was issued by the previous Audit Team last year, management requested the DBM for a written opinion regarding compensation and employee benefits and DBM, in its letter, did not categorically state that even with BCDA's approval, approval of the President should still be necessary. Hence, pursuant to DBM's letter, in good faith, PPMC interpreted it to mean that BCDA approval was sufficient legal basis to implement its compensation and benefits package.

Nevertheless, for CY 2015, no amount was budgeted for the educational assistance of employees.

The Audit Team maintains its stand that the benefit granted to all officers and employees of PPMC has no legal basis, hence maybe subject to disallowance. It is also emphasized that the issue raised in audit is on the legal basis from which the payment of the benefit was based, therefore the date when was this authorized and paid and when this was considered as an audit issue has no bearing on the matter. Management is hereby reminded that a mere policy of any government agency cannot supersede a General Law.

#### **Excessive Financial Assistance**

- 4. Financial assistance granted to the Office of the City Mayor/City of San Fernando Anniversary amounting to P300,000.00 was excessive pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012.**

Section 5 of COA Circular 2012-003 dated October 29, 2012 defines excessive expenditure as:

*"Unreasonable expense or expenses incurred at an immoderate quantity or exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure"*



*or amount. They also include expenses in excess of reasonable limits"*

Post-audit of disbursement vouchers revealed that the agency donated P300,000.00 as financial assistance to the Office of the City Mayor to support the programs, projects and activities of the Annual Anniversary of the City of San Fernando, La Union.

However, verification of the Annual Audit Report disclosed that the Agency incurred a continuous net loss of P4,030,745.00 for CY 2012 and such net loss was increased to P4,278,035.00 for CY 2013. Therefore, it can be gleaned that the Agency needs to minimize their expenditures, and such financial assistance granted would be considered as savings to the agency.

We have recommended management to limit the amount granted as financial assistance pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012 to avoid possible disallowance in audit.

Management claimed for the past years, PPMC has been extending the financial assistance to the City of San Fernando, La Union as its key partner in the development of the Poro Point Freeport Zone. In turn, the city offered a full page inside page of the Souvenir Program as advertising space to promote the programs and projects of PPMC aside from its exposure in all streamers and promotional materials during the City Fiesta celebration. Further, the city has a wide international network wherein the Souvenir Program can serve as a marketing tool to promote the zone as an attractive and viable investment site as well as a tourist destination.

The amount paid for the advertisement for a full inside page is excessive and exorbitant considering the financial capacity of the agency for the previous years. Furthermore, the granting of financial assistance is not among those included in the corporate powers of PPMC.

#### **Excessive Seminar Registration Fees**

5. Registration fees of participants in attending seminars conducted by private institutions were excessive in violation of Section 2 of National Budget Circular No. 486 dated March 26, 2003 thus, may result to possible disallowance.

National Budget Circular No. 486 dated March 26, 2003 prescribes the allowable cost of participation of government officials and employees in conventions, seminars, conferences, symposia and similar gatherings.

Thus, Section 2 of NBC No. 486 provides that:

*"The registration fee or charge for participation in convention, seminar, etc. shall not exceed P1,200.00 per*



*day per participant. Any amount in excess of the prescribed rate shall be at the expense of the participant”.*

Likewise, COA Circular No. 2012-003 dated October 29, 2012 sets forth the guidelines for the prevention and disallowance of IUEE expenditures.

As defined under Section 5 of COA Circular No. 2012-003:

*“Excessive expenditure signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes which exceed what is usual or proper, as well as expenses which are unreasonable high and beyond just measure or amount. They also include expenses in excess of reasonable limit.”*

Audit disclosed that payments of registration fee in attending seminars/trainings of PPMC personnel are excessive considering that these were conducted by private institutions in violation of the aforementioned laws. The registration fee covers meals, resource kit, Certificate of Attendance, among others.

Details of the seminars are shown below:

Payee	Particulars	Venue	Amount
Ateneo de Manila University	Effective Business Writing Training Course on April 21-22, 2014	Ateneo Center for Continuing Education, 3 <sup>rd</sup> Floor, Ateneo Professional Schools Bldg. 130HV Dela Costa ST. Salcedo Village, Makati City.	P19,600.00
Institute of Internal Auditors Philippines	Operational Auditing: Influencing Positive Change (2014 Updated Seminar on April 25-26, 2014	St. Giles Hotel, Makati Avenue Cor. Kalayaan Avenue, Makati City	P9,000.00

Viewed from the foregoing, the expenses incurred are deemed excessive considering that they are disadvantageous to the government where economy measures were not observed, thus, maybe subjected to possible disallowance.

We have recommended the agency head to screen employees required to attend seminars based on their specialized skills and qualifications. We further recommended that management comply and adhere to the provisions of Section 2 of NBC No. 486 and Section 5 of COA Circular No. 2012-003 to avoid the incurrence of excessive expenditures which may lead to disallowance.

Management took cognizance of our recommendation. However, they pointed out that attendance to various human resource trainings is based on the Job and Competency Analysis conducted by PPMC pursuant to their Manual of Personnel Policies specifically on Human Resource Development approved by the PPMC Board of Directors on October 18, 2003.

Likewise, management claimed that there are human resource interventions that PPMC personnel must attend as required by regulatory authorities such as but not limited to trainings required by the Civil Aviation Authority of the Philippines, the regulatory authority for airport operations. Under these circumstances, only the training institutions accredited by the regulatory such as the Civil Aviation Training Center, is authorized to conduct the required trainings. And usually, registration fees for these types of training exceed the One Thousand Two Hundred (P1,200.00) threshold stated in NBC No. 486.

6. The agency could have avoided the payment of P580,536.49 as interest charges for tax liabilities pertaining to CY 2007 had the agency withheld and remitted the correct amount of taxes on time.

Section 2.57.A of BIR Revenue Regulation No. 2-98 dated April 17, 1998 provides:

*“xxx the liability for payment of the tax rests primarily on the payor as withholding agent. Thus, in case of his failure to withheld the tax or in case of under withholding, the deficiency tax shall be collected from the payor/withholding agent.xxx”*

Post-audit of disbursement vouchers revealed that the agency paid the amount of P580,536.49 to the Bureau of Internal Revenue (BIR) pertaining to tax liabilities for CY 2007 assessed by the BIR in pursuance of the Bureau's tax campaign.

Inquiry disclosed that the BIR conducted an assessment of taxes withheld and remitted by the agency for CY 2007 sometime in September 2012 and found out such tax deficiency caused by under withholding/non-withholding of taxes on honoraria of the President and EVP as members of the Board, fringe benefits received by the employees and compensation, among others.

We were also informed that a letter request to the BIR was made by the agency together with other documentary requirements needed for the reduction or



discount on the interest charges levied, but unfortunately, it was disapproved for lack of legal basis by the BIR Regional Evaluation Board.

Due to the tax liabilities incurred by the agency pertaining to taxable year 2007, the agency paid interest charges amounting to P580,536.49 which should have been used for more relevant programs and projects of the agency.

We have recommended management to be more prudent in the withholding and remittance of the correct amount of taxes to avoid any interest/penalty charges under meritorious circumstances that maybe imposed in the future. Likewise, management should be reminded of the provisions of Section 2.57.A of Revenue Regulations No. 2-98 that in case of under or non-withholding, the deficiency tax shall be collected from the withholding agent, particularly the personnel concerned in the computation of taxes.

Management took cognizance of the recommendation and assured the Audit Team that they will be more prudent in the withholding and remitting the correct amount of taxes to avoid any possible interest/penalty charges in the future.

## COMPLIANCE WITH TAX LAWS

7. For CY 2014, the Agency withheld and remitted taxes amounting to P7,928,441.43 and P4,154,389.21, respectively, leaving an unremitted balance of P3,886,993.34 as of December 31, 2014, of which the amount of P253,085.41 may be subjected to possible penalties and charges pursuant to Section 2.58 and 2.80 of Revenue Regulations No. 2-98 dated April 17, 1998.

Breakdown of tax withheld and remittances are as follows:

	Withheld	Remitted	Unremitted
Withholding Tax on Compensation	2,097,820.36	1,757,642.69	340,177.67
Withholding Tax on Supplier	1,256,306.28	1,068,244.36	188,061.92
Withholding Tax on Professional Tax	111,811.69	65,660.10	46,151.59
Withholding Tax on Per Diem	347,137.21	321,990.00	25,147.21
Withholding Tax on Insurance	58,456.37	48,434.81	10,021.56
Income Tax Payable	4,056,909.52	779,476.13	3,277,433.39
Subtotal	<u>7,928,441.43</u>	<u>4,041,448.09</u>	<u>3,886,993.34</u>
Fringe Benefit Tax		112,941.12	
Total	<u>7,928,441.43</u>	<u>4,154,389.21</u>	<u>3,886,993.34</u>

Section 2.58 of Revenue Regulations No. 2-98 states that:

*"The withholding tax return, whether creditable or final, shall be filed and payments should be made within ten (10) days after the end of each month except for taxes withheld for December which shall be filed on or before January 25 of the following year."*

Further, Section 2.80 of Revenue Regulations No. 2-98 states that:

*"In general, the employer shall be responsible for the withholding and remittance of the correct amount of tax required to be deducted and withheld from the compensation income of his employees. If the employer fails to withhold and remit the correct amount of tax, such tax shall be collected from the employer together with the penalties or additions to the tax otherwise applicable."*

As shown in the table above, it is worth mentioning that the amount of P3,277,433.39 representing Income Tax Payable will be due for remittance on or before April 15, 2015, thus leaving an unremitted balance of P609,559.95 as of December 31, 2014.

Post-audit of tax remittances disclosed that only P356,474.54 was remitted on January 2015 out of P609,559.95 withheld taxes for CY 2014 (Annex B). It is evident in the schedule that withheld taxes for CY 2014 amounting to P253,085.41 was not yet remitted as of January 25, 2015, the supposed last remittance date. The said amount should have been remitted on the said due date to avoid the incurrence of possible penalties and charges.

In addition, it can also be gleaned in the schedule that there is a negative balance under the subsidiary ledger-"Withholding Tax on Per Diem" which resulted to an over-remittance of final tax on per diem amounting to P652.79.

**We have recommended management to remit all creditable withheld taxes on its due date mentioned in Section 2.58 of Revenue Regulations No. 2-98 dated April 17, 1998 to avoid the incurrence of possible penalties and charges.**

Management explained that out of the unremitted taxes of P253,085.41 as of December 31, 2014, the minimal amount of P27,936.15 is due for remittance to the BIR. Likewise, tax refund and adjustments amounting to P5,860.00 is to be paid to the concerned employees. The remaining balance of P219,289.26 represents taxes withheld of previous years. Considering that PPMC's accounting system is manual, it will take some time to work back and reconcile the said



balance. Rest assured that PPMC will immediately remit to the BIR the said payables once the supporting documents are available.

### **STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES FOR CY 2014**

No suspensions and charges were issued for CY 2014. However, the previous Audit Team issued P1,084,904.05 of Notices of Disallowance consisting of P924,437.65 disallowance due to the unauthorized payment of educational assistance while the remaining P160,466.40 represents disallowed health insurance of employees paid to a private company. Prior period disallowances amounting to P150,000.00 remained unsettled bringing to total disallowances of P1,234,904.05 as of December 31, 2014.

**PART III**

**STATUS OF PRIOR YEARS'  
UNIMPLEMENTED AUDIT  
RECOMMENDATIONS**



**PART III-STATUS OF PRIOR YEARS' UNIMPLEMENTED  
AUDIT RECOMMENDATIONS**

Hereunder is the status of implementation of recommendations made in relation to the audit of the accounts and transactions of the calendar year 2013.

	<b>Audit Observation and Recommendation</b>	<b>Management Action</b>	<b>Status of Implementation</b>	<b>Reason of Partial or Non Implementation</b>
1.	<p>Inclusion of BCDA-owned assets in the property and equipment account.</p> <p>Airport assets in the total amount of P14,771,881.00 and the corresponding accumulated depreciation of P7,636,503.00 should have been taken-up in BCDA books.</p> <p>We recommended that the recognition of the aforementioned assets together with its accumulated depreciation be transferred to BCDA.</p>	<p>BCDA issued Accounting Instruction No. AF-A1-2014-05 on July 21, 2014, adjusting the PPE account of PPMC and the corresponding accumulated depreciation. PPMC adjusted its books accordingly through JV No. 2014-07-070 dated July 31, 2014.</p>	Fully Implemented	
2.	<p>Non implementation of controls in the Lease Agreement to validate the two percent government share from the casino gaming revenue.</p> <p>The 2% Government share from the Casino gaming revenue is collected without validation controls.</p>	<p>Conducted the first inspection/witnessing of money counting at the Thunderbird Casino on August 28, 2014.</p> <p>Succeeding conduct of inspection/witnessing will be done at least once a month.</p>	Fully Implemented	

	<p>We recommended that in compliance with the provisions of the Lease Agreement and to protect the interest of the government, PPMC should assign a representative to conduct spot check/inspection or act as witness of money counting on table games and slot machines.</p>			
3.	<p>Dormant accounts payable of P906,157.00</p> <p>Accounts payable in the amount of P906, 157.00 have been dormant for more than two years.</p> <p>We recommended that the finance section should trace supporting documents of long outstanding accounts payable-trade and miscellaneous accounts and review as to its validity and 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.</p>	<p>Wrote the various suppliers and contractors and requested confirmation of their balances as of August 31, 2014.</p>	<p>Partially Implemented</p>	<p>There are no confirmations received yet from those suppliers and contractors.</p>



4.	<p><b>Retirement Benefits</b></p> <p>The retirement plan for PPMC officers and employees lacks the prior approval of the President of the Philippines.</p> <p>We recommended that management stop the granting of retirement as provided in PPMC Policy No. 012-2003 but instead apply the amount equivalent to ½ month salary for every year of service in accordance with RA 7641, the Retirement Pay Law.</p>	<p>To undertake further review on Retirement Benefits. To file an appeal on Retirement Benefits.</p>	<p>Partially Implemented</p>	<p>Ongoing review of legal basis for retirement benefits.</p>
5.	<p>Disbursements on educational assistance, life and health insurance of employees in the total amount of P1, 532,241.00 are granted without legal basis.</p> <p>We recommended management to discontinue the granting of educational assistance and payment of life and health insurance of employees.</p>	<p>Discontinued the grant of disallowed benefits pursuant to Notice of Disallowance dated June 30, 2014.</p> <p>Filed an appeal with the COA Cluster Director on disallowed benefits.</p>	<p>Partially Implemented</p> <p>Partially Implemented</p>	<p>PPMC has discontinued the health insurance in October, 2013 and life insurance in August, 2014.</p> <p>Ongoing review of legal basis for disallowed benefits.</p>
6.	<p><b>Gender and Development (GAD)</b></p> <p>GAD activities were carried out in accordance with set objectives towards the attainment of the GAD mandate.</p>	<p>Implemented the GAD Program as endorsed by the Philippines Commission on Women.</p>	<p>Fully Implemented</p>	

	We commend management for its contributions for the upliftment of its organization and employees aligned with the GAD mandate.			
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**PART IV - ANNEXES**


ANNEX A  
Observation No. 6, Page 36

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

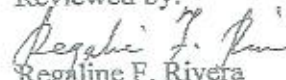
**Unsubmitted Disbursement Vouchers**  
as of January 10, 2015

Month	Number of Vouchers	Amount
July 2014	109	4,856,633.31
August 2014	123	6,095,965.38
September 2014	90	2,997,183.25
October 2014	145	24,437,356.14
November 2014	113	3,153,536.17
December 2014	130	3,564,711.46
<b>Total</b>	<b>710</b>	<b>PhP 45,105,385.71</b>

Prepared by:

  
Jervy A. Baklayan  
SA I/ATM

Reviewed by:

  
Regaline F. Rivera  
SA III/ATL




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

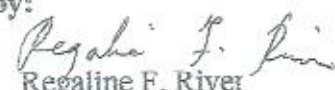
**Schedule of Unremitted Taxes for CY 2014**  
**As of January 25, 2015**

	<b>Unremitted Taxes as of 12/31/2014</b>	<b>Remittances as of Jan. 2015</b>	<b>Unremitted as of January 2015</b>
Withholding Tax on Compensation	340,177.67	211,840.28	128,337.39
Withholding Tax on Supplier	188,061.92	115,734.26	72,327.66
Withholding Tax on Professional Tax	46,151.59	3,100.00	43,051.59
Withholding Tax on Per Diem	25,147.21	25,800.00	(652.79)
Withholding Tax on Insurance	10,021.56	-	10,021.56
<b>Total</b>	<b>609,559.95</b>	<b>356,474.54</b>	<b>253,085.41</b>

Prepared by:

  
Jervy A. Baklayan  
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Regaline F. River  
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