



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, 2015



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

March 22, 2016

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

Dear Mesdames/Sirs:

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 completed projects amounting to P6,222,222.37 were still carried in the books under "Assets Held in Trust-Construction-in-Progress (CIP)" account, hence remained not reclassified to its respective fixed assets accounts. In addition, Assets Held in Trust-Construction in Progress amounting to P406,828.19 remained outstanding and not reclassified since CY 2012, due to the absence of supporting documents, hence casting doubt to the accuracy and reliability of the account; and accounts payable aged more than one year amounting to P3,264,094.39 lacks supporting documents, hence no basis to be used to establish the validity of these payables. Consequently, this rendered the account doubtful.

Anent the foregoing, we have recommended Management to:

a. Take up the necessary adjusting entry as follows:

Building and Structures	P2,959,962.96	
Assets Held in Trust-Construction-in-Progress (CIP)		P2,959,962.96
To reclassify the completion of Lighting at the Industrial Area project.		
Building and Structures	P3,598,937.01	
Assets Held in Trust-Construction-in-Progress (CIP)		P3,262,259.41
Accounts Payable(unpaid portion)		P 336,677.76
To reclassify the completion of Replication/Relocation of the PAF Fence project.		

We have also recommended Management to retrieve all records in order to reclassify the Assets Held in Trust-Construction-in-Progress account amounting to P406,828.19 to its respective asset account.

- b. To retrieve all records and trace supporting documents of unpaid payables. We have also recommended to trace those accruals which have not been reversed and other liabilities which are outstanding for two years or more and no actual claim, administrative or judicial, has been filed or which were not covered by perfected contracts on record, in order to revert them to unappropriated surplus or retained earnings.

Further, we have also recommended to send notification letters for at least three consecutive months to these creditors with past due accounts and require them to present valid and authentic supporting documents in order to validate the existence of these liabilities for them to be paid.

Aside from the audit observations which were the bases of the auditor's opinion, other significant observation was the following:

1. Unserviceable inventories costing P78,007.50, that unnecessarily occupy space and considered an eyesore in the Agency premises, are not yet disposed. Such inventories are also for reclassification to "Other Assets" account.

We have recommended that Management facilitate the immediate disposal of these unserviceable inventories and reclassify them to "Other Assets" account with the following journal entry:

Other Assets	P78,007.50
Supplies and Materials	P78,007.50

We have also recommended that the designated Property Officer monitor the expiration of various supplies and materials which could serve as a "time-benchmark" for their usage in order to maximize their utility value.

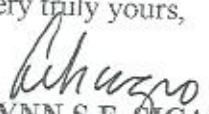
Details of other observations and recommendations were discussed in Part II – Audit Observations and Recommendations of the report.

The report consists of four parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III – Status of Prior Years' Audit Recommendations and Part IV - Annex. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 18, 2016. Management's comments are included in the report, where appropriate.

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 93 of the General Provisions of Republic Act No. 10651, otherwise known as the General Appropriations Act of 2015, 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

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

	2015	2014
Assets	P143,616,518.82	P109,998,931.73
Liabilities	69,920,570.79	46,504,225.06
Government Equity	73,695,948.03	63,494,706.67
Income	61,960,395.36	60,711,609.91
Expenses	P52,746,447.91	P52,830,973.65

	2015	2014
Budget	P60,490,249.00	59,852,137.00
Actual Expenditures	P52,746,447.91	52,830,973.65

C. Scope of Audit and Methodology

A financial and compliance audit was conducted on the accounts and operations of Poro Point Management Corporation for the year ended December 31, 2015. 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 Auditor rendered a qualified opinion on the presentation of the Financial Statements because completed projects amounting to P6,222,222.37 were still carried in the books under "Assets Held in Trust-Construction-in-Progress (CIP)" account, hence remained not reclassified to its respective fixed assets accounts. In addition, Assets Held in Trust-Construction in Progress amounting to P406,828.19 remained outstanding and not reclassified since CY 2012, due to the absence of supporting documents, hence casting doubt to the accuracy and reliability of the

account; and accounts payable aged more than one year amounting to P3,264,094.39 lacks supporting documents, hence no basis to be used to establish the validity of these payables. Consequently, this rendered the account doubtful.

E. Significant Audit Observations and Recommendations

In the conduct of audit for the CY 2015, the following favorable observations were noted:

1. Implementation of Gender and Development (GAD) activities resulted in the conduct of Family Day, Sports Activities, and various GAD related seminars and trainings totaling to P309,322.00, which were found in compliance with PPMC's GAD Plan and Budget. As a result, the programs, activities and projects addressing gender issues, monitoring, evaluating and enhancing the agency's gender mainstreaming and women's empowerment efforts, were attained.

We have commended Management for being dutifully compliant in the conduct of GAD activities.

2. The agency was able to withheld and remit taxes amounting to P6,152,740.71 and P9,315,772.00, respectively, thus compliant to the existing rules and regulations of BIR.

We have commended Management for being dutifully compliant on existing BIR's rules and regulations.

However, presented below is a summary of the significant Audit Observations and Recommendations, which affects the fair presentation of the Financial Statements, operations and performance of the agency. These were discussed with the agency officials concerned during the exit conference and their corresponding comments were incorporated in Part II of the report:

- a. Completed projects amounting to P6,222,222.37 were still carried in the books under "Assets Held in Trust-Construction-in-Progress (CIP)" account, , hence remained not reclassified to its respective fixed assets accounts. In addition, Assets Held in Trust-Construction in Progress amounting to P406,828.19 remained outstanding and not reclassified since CY 2012, due to the absence of supporting documents, hence casting doubt to the accuracy and reliability of the account.

We have recommended that Management take-up the necessary adjusting entry as follows:

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We have also recommended that Management retrieve all records in order to reclassify the Assets Held in Trust-Construction-in-Progress account amounting to P406,828.19 to its respective asset account.

- a. Accounts payable aged more than one year amounting to P3,264,094.39 lacks supporting documents, hence no basis to be used to establish the validity of these payables. Consequently, this rendered the account doubtful.

We have recommended that the Finance Department retrieve all records and trace supporting documents of unpaid payables. We have also recommended to trace those accruals which have not been reversed and other liabilities which are outstanding for two years or more and no actual claim, administrative or judicial, has been filed or which were not covered by perfected contracts on record, in order to revert them to unappropriated surplus or retained earnings.

Further, we have also recommended to send notification letters for at least three consecutive months to these creditors with past due accounts and require them to present valid and authentic supporting documents in order to validate the existence of these liabilities for them to be paid.

- b. Unserviceable inventories costing P78,007.50, that unnecessarily occupy space and considered an eyesore in the Agency premises, are not yet disposed. Such inventories are also for reclassification to "Other Assets" account.

We have recommended that Management facilitate the immediate disposal of these unserviceable inventories and reclassify them to "Other Assets" account with the following journal entry:

Other Assets	P78,007.50
Supplies and Materials	P78,007.50

We have also recommended that the designated Property Officer monitor the expiration of various supplies and materials which could serve as a "time-benchmark" for their usage in order to maximize their utility value.

F. Summary of Audit Suspensions, Disallowances and Charges

For the CY 2015, PPMC has no outstanding suspensions and charges, however, disallowances totaling to P1,234,904.05 remained unsettled.

G. Status of Prior Year's Audit Recommendations

Out of the nine audit recommendations contained in the previous year's Annual Audit Report, eight were fully implemented and one was partially implemented, which was reiterated under Part II of the report.



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

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

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.

supporting documents, hence no basis to be used to establish the validity of these payables. Consequently, this rendered the account doubtful.

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, 2015, 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 26, 2016




PORO POINT MANAGEMENT CORPORATION


A Member of The BCDA Group
City of San Fernando, La Union
Tel. No. (072) 888-59-54

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, 2015 and the related Statement of Income and Expenses, Cash Flow and Changes in Equity 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 & CEO

PORO POINT MANAGEMENT CORPORATION
Detailed Balance Sheet
As of December 31, 2015
(with comparative figures for 2014)

<u>ASSETS</u>	Note	2015	2014
Current Assets			
Cash			
Petty Cash Fund	P	-	P -
Cash on Hand	2	476,645.25	458,845.82
Cash in Bank	3	10,468,771.20	10,237,111.91
Invst. in Premium Savings Account	4	42,065,422.93	26,801,015.73
Total		<u>53,010,839.38</u>	<u>37,496,973.46</u>
Receivables			
Accounts Receivable - Non Trade	5	1,344,491.39	1,309,288.95
Interest Receivables		106,121.60	42,217.60
Due from BCDA	6	5,654,401.77	11,440,299.58
Advances-BCDA		101,673.20	101,673.20
Advances to Officers and Employees		-	-
Due from Officers and Employees	7	642,344.22	640,440.71
Advances - Others	8	6,310,288.85	42,210.00
Allowance for Impairment		-	(524,892.11)
Total		<u>14,159,321.03</u>	<u>13,051,237.93</u>
Inventories			
Supplies and Materials		1,391,080.77	1,480,181.97
Supplies and Materials-In Transit	9	325,936.75	92,833.00
Total		<u>1,717,017.52</u>	<u>1,573,014.97</u>
Prepayments			
Prepaid Expense	10	1,390,672.48	1,560,452.69
Guaranty Deposits	11	168,884.00	168,884.00
Total		<u>1,559,556.48</u>	<u>1,729,336.69</u>
Total Current Assets		<u>70,446,734.41</u>	<u>53,850,563.05</u>
Long Term Investments			
Investment in PPIC	12	15,000,000.00	15,000,000.00
Other investments-PLDT Shares		15,000.00	15,000.00
Total		<u>15,015,000.00</u>	<u>15,015,000.00</u>

	Note	2015	2014
Property, Plant & Equipment			
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		12,067,652.05	13,768,881.76
Tools & other equipment		773,378.84	773,378.84
Land & Water Transportation Equip.		14,992,566.15	16,041,366.15
Total		37,604,894.89	40,354,924.60
Accumulated Depreciation		(26,041,031.26)	(26,733,008.12)
Total		11,563,863.63	13,621,916.48
Assets held in Trust	13	46,590,920.78	27,511,452.20
Total Non-Current Assets		73,169,784.41	56,148,368.68
TOTAL ASSETS	P	143,616,518.82	P 109,998,931.73

LIABILITIES AND EQUITY

Liabilities

Current Liabilities

Accounts Payable-Trade	14	P 7,107,020.80	P 6,455,131.91
EWT Payable-1%		4,686.76	1,919.32
EWT Payable-2%		10,472.78	35,814.53
EWT Payable-10%		1,750.00	46,151.59
EWT Payable-15%		24,450.00	25,147.21
Withholding Taxes Payable-Salaries		140,782.14	340,177.67
VAT Payable-5%		44,476.31	127,260.35
Income Tax Payable		722,162.05	3,277,433.39
Percentage Tax Payable-5%		-	10,021.56
Percentage Tax Payable-3%		3,083.70	23,067.72
SSS, EC & Medicare Premiums Payable		140,904.21	157,097.16
SSS Loans Payable		32,485.26	37,066.66
PAG-IBIG Premiums Payable		9,306.06	24,261.50
PAG-IBIG Loans Payable		90,755.82	61,425.56
Provident Fund Loans Payable	15	41,335.59	171,726.07
Provident Fund Premiums Payable	16	34,464.39	6,302.58
Advances from BCDA	17	8,953,199.60	8,953,199.60
Due to BCDA	18	29,130,254.28	5,265,776.40

	Note	2015	2014
Trust Liabilities-Honorarium		779,908.21	182,724.17
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		260,108.63	80,648.63
Retention Payable		2,094,564.74	348,781.23
Performance Security Payable		75,275.60	75,275.60
Trust Liabilities-Others		99,783.05	99,783.05
Accounts Payable-Miscellaneous		1,563,964.13	2,142,654.92
Total		<u>51,483,461.03</u>	<u>28,067,115.30</u>
Non-Current Liabilities			
Due to BCDA		<u>18,437,109.76</u>	<u>18,437,109.76</u>
Total Liabilities		<u>69,920,570.79</u>	<u>46,504,225.06</u>
Equity			
Capital Stock	19	68,143,720.23	68,143,720.23
Equity in Joint Venture	20	15,000,000.00	15,000,000.00
Retained Earnings		<u>(9,447,772.20)</u>	<u>(19,649,013.56)</u>
Total Equity		<u>73,695,948.03</u>	<u>63,494,706.67</u>
TOTAL LIABILITIES AND EQUITY	P	<u><u>143,616,518.82</u></u>	P <u><u>109,998,931.73</u></u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION

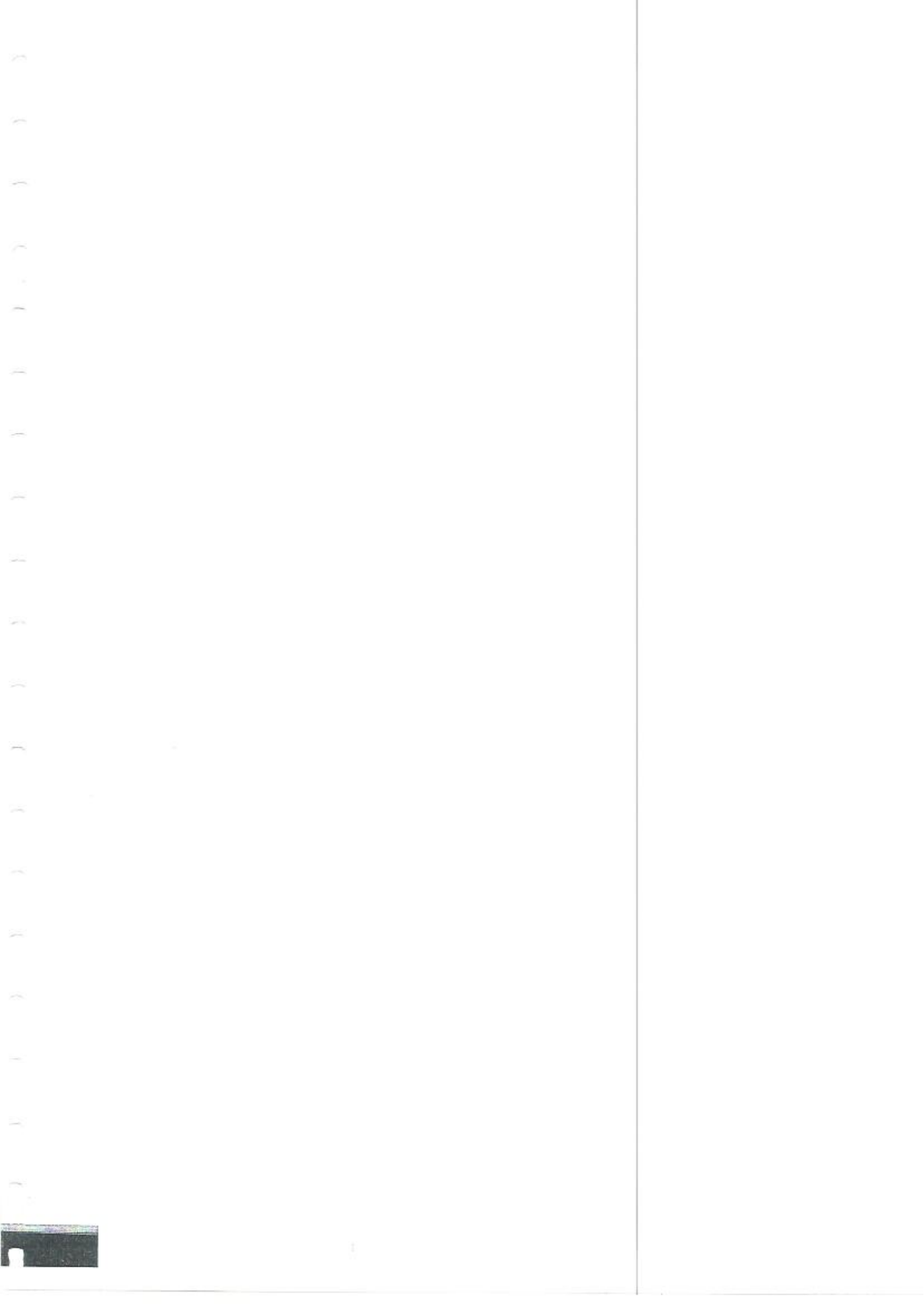
Detailed Statement of Income and Expenses

For the year ended December 31, 2015

(with comparative figures for 2014)

	Notes	2015		2014
Income				
Management Fee	21 P	60,490,249.00	P	59,852,137.00
Rental Income	22	42,115.98		55,000.08
Fees from Sillag Festival	23	538,906.72		571,182.16
Interest on Cash-in-Bank		768,737.48		233,291.67
Others		120,386.18		(1.00)
Total Income		61,960,395.36		60,711,609.91
 Less: Expenses				
Personal Services				
Salaries and Wages		11,300,164.84		11,127,046.93
Representation Allowance		640,800.00		592,598.45
Transportation Allowance		640,800.00		592,598.45
Uniform Allowance		128,823.25		105,540.00
13th Month Pay		937,322.04		925,007.81
Cash Gift		273,000.00		279,000.00
Anniversary Bonus		285,000.00		270,000.00
Productivity Enhancement Incentives		953,112.00		285,000.00
Educational Assistance		-		905,454.00
Overtime		947,498.11		638,466.58
Rice Subsidy		990,000.00		933,000.00
Life Insurance		-		112,608.00
Cost of Living Allowance		659,168.44		643,389.13
PAG-IBIG Premiums		66,800.00		66,800.00
Medicare Premiums		130,025.00		126,563.00
SSS & EC Premiums		777,345.70		782,172.91
Provident (EOSB)		562,049.52		510,208.20
Monetization of Leaves		568,745.67		439,423.27
Retirement Benefit		46,616.50		-
Total Personnel Services		19,907,271.07		19,334,876.73
 Maintenance and Other Operating Services				
Office Supplies & Materials		2,154,258.08		2,400,130.01
Gasoline and Oil		650,402.67		1,067,393.12

Transportation & Travelling (General)		1,130,942.29	1,276,571.27
Trainings and Seminar		983,462.37	766,112.83
Corporate Planning (Trainings & Seminars)		741,139.28	354,889.51
Water, Illumination and Power		970,533.76	1,246,031.54
Postage & deliveries		85,756.73	73,914.95
Telephone charges-landline		475,873.57	511,676.22
Telephone charges-mobiile		464,889.48	420,687.52
Marketing and Promotion	24	1,454,514.18	1,811,263.55
Impairment Loss		-	505.26
Taxes, Duties and Fees		182,395.96	198,019.87
Insurance & Registration	25	1,813,627.67	1,658,155.19
Representation		526,823.58	499,951.41
Rental Expense		213,389.14	229,042.08
Subscription Expense		86,762.66	89,260.33
Repair and Maintenance-Buildings and others		832,810.97	1,488,670.22
Audit Expenses		809,190.94	765,912.98
Consultancy Services		21,333.33	125,000.00
Security		439,824.30	472,101.78
Janitorial		363,732.21	350,995.00
Per Diem-Regular Board		1,179,000.00	1,109,000.00
Per Diem-Committee Meeting		594,000.00	579,000.00
Per Diem-Corporate Secretary		115,000.00	110,000.00
Other Board Expense-Transportation		818,559.74	761,328.08
Other Board Expense-Representation		678,169.88	596,888.23
Other Board Expense-Communication		298,808.87	310,150.80
Other Board Expense-Travel		1,470,947.03	1,228,723.35
Other Board Expense-Meals		504,176.79	733,864.27
Depreciation Expense - Land Development		-	15,193.75
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		600,476.73	753,197.75
Depreciation Expense - Tools & other equip.		81,768.96	81,768.96
Depreciation Expense - Land & water trans.		1,149,511.90	1,149,511.92
Extraordinary & Miscellaneous		308,635.30	220,651.58
Special Projects Expenditures	26	6,448,433.33	6,192,450.76
Income Tax Expense		3,619,375.70	3,277,433.39
Total Maintenance and Other Operating Exp.		32,839,176.84	33,496,096.92



Financial Expense	<u>-</u>	<u>-</u>
Total Expenses	<u>52,746,447.91</u>	<u>52,830,973.65</u>
NET INCOME	P <u>9,213,947.45</u>	P <u>7,880,636.26</u>

See Accompanying Notes to Financial Statements

Financial Expense	<u>-</u>	<u>-</u>
Total Expenses	<u>52,746,447.91</u>	<u>52,830,973.65</u>
NET INCOME	P <u>9,213,947.45</u>	P <u>7,880,636.26</u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION

Statement of Changes in Equity

Period Ended December 31, 2015

(with comparative figures for 2014)

	Notes	2015	2014
Capital Stock			
Balance at Beginning of the Period	P	68,143,720.23	P 80,000,000.00
Authorized, issued and fully paid - 800,000 shares, P100.00 par value			
Adjustments/Reclassifications			(11,856,279.77)
Balance at End of the Period		<u>68,143,720.23</u>	<u>68,143,720.23</u>
Deposit for Future Subscriptions			
Balance at Beginning of the Period		-	26,285,931.22
Additional Equity			- 607,727.00
Adjustments/Reclassifications			(26,893,658.22)
Balance at End of the Period		<u>-</u>	<u>-</u>
EQUITY IN JOINT VENTURE		<u>15,000,000.00</u>	<u>15,000,000.00</u>
Retained Earnings			
Balance at Beginning of the Period		(19,649,013.56)	(60,514,787.47)
Correction of prior years' errors	27	987,293.91	32,985,137.65
As restated		(18,661,719.65)	(27,529,649.82)
Net Income (Loss)		9,213,947.45	7,880,636.26
Balance at End of the Period		<u>(9,447,772.20)</u>	<u>(19,649,013.56)</u>
TOTAL EQUITY	P	<u>73,695,948.03</u>	P <u>63,494,706.67</u>

PORO POINT MANAGEMENT CORPORATION

Cash Flow Statement

For the year ended December 31, 2015

(with comparative figures for 2014)

	2015	2014
Cash Flow from Operating Activities		
Cash Inflow		
OPEX funds received from BCDA	P 60,490,249.00	P 76,252,373.00
Collections of Acct. Recev.-Trade in behalf of BCDA	48,790,441.00	46,123,136.34
Collection of Receivables	23,633,851.39	1,309,595.20
Collection of Permits at CCA in behalf of BCDA	1,083,191.30	676,682.45
Collection of Miscellaneous Income	670,391.20	664,107.82
Total Cash Inflow	134,668,123.89	125,025,894.81
Cash Outflow		
Payment to Employees and Suppliers	(64,394,546.64)	(64,178,672.05)
Remittance of Collections to BCDA	(49,832,082.87)	(46,067,502.02)
Payment of Taxes	(5,812,408.95)	(3,638,697.28)
Total Cash Outflow	(120,039,038.46)	(113,884,871.35)
Net Cash Provided by (used in) Operating Activities	14,629,085.43	11,141,023.46
Cash Flow from Investing Activities		
Cash Inflow		
Interest received	704,833.48	198,951.07
Cash Outflow		
Capital Expenditure projects	(23,442,921.32)	(2,539,621.44)
Acquisition of Land	-	(4,742,645.63)
Total Cash Outflow	(23,442,921.32)	(7,282,267.07)
Net Cash Provided by (used in) Investing Activities	(22,738,087.84)	(7,083,316.00)
Cash Flow from Financing Activities		
Cash Inflow		
CAPEX from BCDA	23,622,868.33	7,731,200.96
Net Cash Provided by (used in) Financing Activities	23,622,868.33	7,731,200.96
Net increase in Cash and cash equivalents	15,513,865.92	11,788,908.42
Add: Cash and Cash Equivalents-Beginning	37,496,973.46	25,708,065.04
Cash & Cash Equivalents Ending	P 53,010,839.38	P 37,496,973.46

PORO POINT MANAGEMENT CORPORATION
(A Member of the BCDA Group)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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:

- BCDA as property owner of the PPFZ shall earn from lease rentals, joint venture agreements, and other business arrangements generated in the PPFZ and from dividends to be declared by PPMC. PPMC shall record these revenues as Trust Liability and remit the same to BCDA through a designated bank account. The same shall now be recorded as income of BCDA.
- PPMC as estate manager shall earn estate management fees due from BCDA either a 50 percent share in the revenues of the PPFZ or fixed amount of PhP60.5 million annually for the next two 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 29-31, 2015 representing zone revenues such as regulatory fees, lease rentals and airport fees. 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 3:00 p.m. The un-deposited cash collections were received after the cut-off time.

Note 3 – Cash in Bank

This account is composed of the following as presented below:

	2015	2014
LBP-OPEX Acct. No. 0202-0218-24	P 148,947.19	P 145,446.86
PNB-OPEX Acct. No. 15469870001-1	-	433,488.60
PNB-CAPEX Acc. No. 15469870002-9	-	338,031.79
DBP-OPEX Acct. No. 0570-0048280-30	8,781,755.37	8,349,322.55
DBP-CAPEX Acct. No. 0570-0048280-31	1,538,068.64	970,822.11
Total	P 10,468,771.20	P 10,237,111.91

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.

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 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 costs 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

These accounts pertain to the advance payment (15% mobilization fee) made to the contractor of the Baywalk with events center project and misc. advances made to other suppliers.

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 year like premiums paid on insurance policies, motor vehicle registration fees and other similar expenses. These expenses are amortized over a period of one year.

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:

	2015	2014
Construction-in-Progress	P 22,287,417.13	P 3,366,791.15
Contingent Land	21,441,469.65	21,463,995.91
Accounts Receivable-Trade	1,852,309.50	1,220,306.14
Long-Term Receivables	1,009,724.50	1,460,359.00
Total	P 46,590,920.78	P 27,511,452.20

Construction in progress held in trust of P22,287,417.13 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 P21,441,469.65 refers to the validated land claims within the Poro Point Freeport Zone in behalf of BCDA. Acquisition cost was valued at P1,250.00/P2,300.00 per square meter plus documentary stamp taxes & other similar incidental charges.

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 P1,852,309.50 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 P1,009,724.50 is long outstanding airport fees due from Ace Pilots Aviation Academy subject of a legal move to pursue collection in Court. The total amount of P2,862,034.00 is part of the Intra-agency payable – Due to BCDA of P29,130,254.28.

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 there from are to be remitted to BCDA through the designated bank account. Part of this account is the long outstanding airport fees due from ACE Pilots Aviation Academy in the amount of P1,009,724.50 subject of a legal move to pursue collection in court; and the accounts receivable trade of P1,852,309.50. This account also includes funds released by BCDA for capital expenditure projects for the year 2015 such the construction of perimeter fence and guardhouse and construction of bay walk with events center per accounting instructions issued by BCDA.

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 - 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 2015, BCDA earned a total revenues of P81,866,658.79, 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 PhP18,214,058.14 for the year 2015. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals of PhP1,797,646.24.

Likewise, BCDA's 7.5% share on sales of real estate projects amounted to PhP10,317,862.64. All collections accruing BCDA are deposited to BCDA's bank account.

Note 22 – Rental Income

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

Note 23 – 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, motor show fees, trade/food fair booth rental and royalty fee from the sale of beverages during the event.

Note 24 – Marketing and Promotion

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

Note 25 - 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 26 – Special Projects Expenditures

This account is composed of the following:

	2015	2014
Trade Mission	-	P 339,344.76
Community Development/Labor Center	745,479.50	788,096.56
ISO 9000-2001 Certification	56,137.26	198,886.84
Sillag Festival	5,091,506.30	4,646,122.60
Business Research	-	20,000.00
Annual Report	100,000.00	200,000.00
Third Party Survey Provider	170,000.00	-
Gender and Development	285,310.27	-
	P 6,448,433.33	P 6,192,450.76

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 Corporate 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 27 - Retained Earnings

Correction of Prior Year's Errors charged to Retained Earnings for the CY 2015 are shown on next page:

Date	Reference	Particulars	Amount
1/31/15	2015-01-008	Funeral wreath given to the late Mr. Freddie Trinidad	(P 5,000.00)
1/31/15	2015-01-010	Cancellation of stale check nos. 22837 and 23491	4,229.06
1/31/15	2015-01-010	Adjustment of entry per DV 2014-12-1444	(1,500.00)
2/28/15	2015-02-015	Hotel charges balance for CY 2014	(1,600.00)
2/28/15	2015-02-020	Cancellation of stale checks	26,195.96
2/28/15	2015-02-0167	SSS, Medicare and Pag-ibig premiums of laborers	(4,390.70)
2/28/15	2015-02-0200	Petty cash expenses	(264.00)
2/28/15	2015-02-0262	Reimbursement of expenses	(1,406.00)
2/28/15	2015-02-0208	Reimbursement of expenses	(1,200.00)
3/31/15	2015-03-025	Electric consumption of Leading Edge for Dec 2014	31,291.71
3/31/15	2015-03-025	Electric consumption of Paidco for Dec 2014	1,754.17
3/3/15	2015-03-0288	Adjustment of newspaper subscription (Dec 2014)	1,706.33
3/4/15	2015-03-0302	Final gap assessment re: ISO certification	(33,600.00)
3/4/15	2015-03-0314	Video & photo presentation re: Poro Point Adventure Expo on Nov 28-30, 2014	(25,000.00)
3/6/15	2015-03-0327	Additional cost of audit (CY 2013 to CY 2014)	(71,986.08)
3/10/15	2015-03-0343	Reimbursement of expenses	(1,702.80)
3/12/15	2015-03-0356	Training kit re: PMAP Twin Learning Session	(5,000.00)
3/17/15	2015-03-0396	Petty cash expenses (CY2014)	(2,420.00)
3/23/15	2015-03-0411	Repair and maintenance of motor vehicles	(4,675.00)
3/24/15	2015-03-0430	PPMC identification cards of employees	(11,970.00)
3/31/15	2015-03-028	Excess of MCIT over normal tax of the previous years applied in 2014	3,277,433.39
4/30/15	2015-04-038	Adjustment of DV No. 15-03-0436	(6,000.00)
4/30/15	2015-04-	Printing expenses	(1,664.00)

	0533		
4/30/15	2015-04-0580	Garbage fee paid to Barangay Poro for the year 2014	(1,500.00)
4/30/15	2015-04-0591	Web services paid to Bitstop, Inc. for the year 2014	(729.85)
5/31/15	2015-05-043	Electric consumption of COVA –Dec 2014	3,016.74
5/31/15	2015-05-044	Excess of MCIT over normal tax for the CY 2014	524,233.00
5/31/15	2015-05-046	Reversal of allowance for impairment	524,892.11
5/31/15	2015-05-0715	Hotel accommodation at Sea Park on Dec 2014	(2,500.00)
6/30/15	2015-06-052	Reimbursement of BCDA land related expenses for the CY2014	(22,909.20)
7/30/15	2015-07-1007	Reimbursement of 2014 expenses	(2,880.00)
7/31/15	2015-07-067	Performance-Based Bonus of employees for CY2014	(1,112,149.50)
8/31/15	2015-08-077	Adjustment of entry made re: Family day on May 28, 2013	111,488.15
9/30/15	2015-09-087	Communication expense for CY 2014	(21,280.88)
9/30/15	Various ref.	Performance-Based Incentive of Directors	(2,164,782.21)
10/31/15	2015-10-097	Performance-Based Bonus of Ms. Vergara for 2014	(15,014.00)
10/31/15	2015-10-097	Communication expense for CY 2014	(12,150.71)
12/31/15	2015-12-108	Miscellaneous expense for CY 2014	(22,350.50)
12/31/15	2015-12-117	Miscellaneous adjustments for CY 2014	38,678.72)
TOTAL			P 987,293.91

Note 28 - Status of Pending Litigations

CASE	STATUS/UPDATE
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	Continued efforts and coordination to locate the subject vehicle which was allegedly registered by the new owner at the Land Transportation Office (LTO) Bangued, Abra. Meantime, summons was returned "unserved" due to addressee cannot be located by the process server.
2. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007	Continuation of ex-parte hearing for PPMC to present evidence against the defendant. The Court asked the Civil Aviation Authority of the

<p>Collection of Sum of Money PhP1,031,258.80</p>	<p>Philippines (CAAP) personnel to submit flight plan when defendant actually conducted its operation at the San Fernando Airport.</p>
<p>3. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shippers Incorporated Re: Expropriation Cases (for eminent domain)</p>	<p>Defendants filed petition for Certiorari from the decision of the Court of Appeals to remand the case to the trial court. The case is pending in the Supreme Court.</p>
<p>4. Bulk Handler's Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (PPIC) vs. BCDA and PPMC Re: Petition for Injunction brought under the Interim Rules of Procedure Governing Intra-Corporate Controversies (to prevent implementation of PPMC Resolution No. 2006-01-10 declaring the Pre-Incorporation Agreement null and void <i>ab initio</i>.)</p>	<p>BCDA opted to wait for the final decision of the higher court and did not approve the proposal to enter into a compromise agreement with BHI. The case is pending in the Supreme Court where BCDA elevated the adverse decision of the Court of Appeals.</p>

PART II

**AUDIT OBSERVATIONS
AND RECOMMENDATIONS**

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AND COMPLIANCE

Assets Held in Trust-Construction-in-Progress account amounting to P22,287,417.13 was not reclassified.

1. Completed projects amounting to P6,222,222.37 were still carried in the books under “Assets Held in Trust-Construction-in-Progress (CIP)” account, hence remained not reclassified to its respective fixed assets accounts. In addition, Assets Held in Trust-Construction in Progress amounting to P406,828.19 remained outstanding and not reclassified since CY 2012, due to the absence of supporting documents, hence casting doubt to the accuracy and reliability of the account.

Verification of subsidiary ledger disclosed the breakdown of “Assets Held in Trust-Construction-in-Progress” account as shown below:

Date	Particulars	Contractor	Amount
December 31, 2012	Beginning Balance		P 406,828.19
July 31, 2014	First Progress Billing - Lighting at the Industrial Area	J.D. Madrid Construction	1,989,523.63
October 31, 2014	Final Progress Billing - Lighting at the Industrial Area	J.D. Madrid Construction	970,439.33
July 31, 2015	First Progress Billing - Replication/Relocation of the PAF Fence	J.D. Madrid Construction	1,925,945.23
August 31, 2015	Second Progress Billing - Replication/Relocation of the PAF Fence	J.D. Madrid Construction	1,336,314.18
December 31, 2015	First Progress Billing - Construction of Baywalk with Events Center	WERR Corporation International	15,658,366.57
Total			P22,287,417.13

Section 128, Volume III of New Government Accounting System (NGAS) Manual states the following:

“Construction in Progress – Agency Assets. This account is used to record the cost or accumulated value of agency assets, which are still under construction.”

Debit this account for:

Materials, labor, overhead and other costs incurred while the asset is under construction

Credit this account for:

Transfer to appropriate agency asset account upon completion"

Inquiry from the Infrastructure Department revealed that the Construction of Baywalk with Events Center is the only on-going infrastructure project as of CY 2015, which is estimated to be completed in April, 2016. Further, the construction of Lighting at the Industrial Area and Replication/Relocation of the PAF Fence projects were already completed last March 21, 2014 and July 7, 2015, respectively. Hence, only the construction of Baywalk with Events Center with a partial payment of P15,658,366.57 should have been the outstanding balance of the Assets Held in Trust-CIP account. The completed portion amounting to P6,222,222.37, should have been reclassified to its respective fixed asset account, as shown below:

Date	Completed Projects	Contractor	Amount
July 31, 2014	First Progress Billing - Lighting at the Industrial Area	J.D. Madrid Construction	P1,989,523.63
October 31, 2014	Final Progress Billing - Lighting at the Industrial Area	J.D. Madrid Construction	970,439.33
Sub-total			2,959,962.96
July 31, 2015	First Progress Billing - Replication/Relocation of the PAF Fence	J.D. Madrid Construction	1,925,945.23
August 31, 2015	Second Progress Billing - Replication/Relocation of the PAF Fence	J.D. Madrid Construction	1,336,314.18
Sub-total			3,262,259.41
Total			P6,222,222.37

Further inquiry from Management disclosed that the reclassification of the Replication/Relocation of the PAF Fence project cannot be made because the contractor had not yet submitted its final billing. However, such project, though not fully paid, was already completed and operational, thus should have been recorded already as a fixed asset subject to monthly depreciation, in compliance with the "Asset Recognition" of Generally Accepted Accounting Principle, which states that:

"An asset shall be recognized when:

- 1. A future economic benefit shall flow to the entity; and*
- 2. Such amount can be measured reliably"*

From the above principle, it can be gleaned that PPMC has already benefited from the project since its completion and such amount can be measured reliably from its contract cost amounting to P3,598,937.01, hence should have been reclassified to its respective fixed assets account.

Further, Assets Held in Trust-CIP account amounting to P406,828.19, which represents the beginning balance as of CY 2015 remained not reclassified since CY 2012 due to the absence of supporting documents.

Section 58 of P.D.1445 dated June 11, 1978 states the following:

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

Inquiry from the Finance Department revealed that this amount is still subject for further verification in order to reclassify to its respective fixed assets account, hence casting doubt as to the accuracy and reliability of the account.

We have recommended that Management take-up the necessary adjusting entry as follows:

Building and Structures	P2,959,962.96
Assets Held in Trust-Construction-in-Progress (CIP)	P2,959,962.96
<i>To reclassify the completion of Lighting at the Industrial Area project.</i>	

Building and Structures	P3,598,937.01
Assets Held in Trust-Construction-in-Progress (CIP)	P3,262,259.41
Accounts Payable(unpaid portion)	P 336,677.76
<i>To reclassify the completion of Replication/Relocation of the PAF Fence project.</i>	

We have also recommended that Management retrieve all records in order to reclassify the Assets Held in Trust-Construction-in-Progress account amounting to P406,828.19 to its respective asset account.

PPMC agrees to reclassify the said project to the finished project and recognized the unpaid portion as payable as recommended by the Audit Team. However, they also stated that these completed projects are subject for liquidation to Bases Conversion and Development Authority upon their notification.

Further, the beginning balance of CY 2015 in the amount of P406,828.19 which remained unreclassified since CY 2012 represents the Proposed Relocation of the Philippine Air Force (PAF) at Urbiztondo, San Juan, La Union. The account includes surveying services paid during the period August 31, 2000 to March 31, 2001 and consultancy fee for the preparation of structural plans of the 15 door PAF housing units. PPMC will likewise liquidate the same to BCDA upon completion of the necessary documents, issuance of the Certificate of Project Completion and upon notification from BCDA.

Doubtful Validity of Accounts Payable amounting to P3,264,094.39

- 2. Accounts payable aged more than one year amounting to P3,264,094.39 lacks supporting documents, hence no basis to be used to establish the validity of these payables. Consequently, this rendered the account doubtful.**

Verification of subsidiary ledger of Accounts Payable-Trade disclosed that there were 82 creditors with a total amount of P3,264,094.39 remained unpaid as of CY 2015 (See Annex A). Further verification also revealed that there were no available records to support those payables aged more than one year and what Management had are supporting documents for the current year payables only. Section 59 of P.D. 1445 states the following:

“Audit of liabilities. In his audit of liabilities, the auditor shall seek to established that all obligations of the agency have been accurately recorded; only bonafide obligations of the agency have been included; the obligations incurred are properly authorized; all provisions of trust indentures or mortgages are complied with; and mortgages and other encumbrances are fully disclosed.”

Since there were no available documents to support the balances of accounts payable amounting to P3,264,094.39, validity of these obligation remained doubtful. Further, no demand letters or claims were received by PPMC from these creditors. Hence, it may be subjected for reversion to unappropriated surplus or retained earnings pursuant to Section 98 of P.D. 1445, quoted as follows:

“Reversion of unliquidated balances of accounts payable. The Commission, upon notice to the head of agency concerned, may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts

on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished."

Further, the Finance Department also claimed that these payables include accruals that were not reversed. They also disclosed that most of these are carry-over balances which remained outstanding for several years. No confirmation letter were sent to these creditors for the period CY 2015.

We have recommended that the Finance Department retrieve all records and trace supporting documents of unpaid payables. We have also recommended to trace those accruals which have not been reversed and other liabilities which are outstanding for two years or more and no actual claim, administrative or judicial, has been filed or which were not covered by perfected contracts on record, in order to revert them to unappropriated surplus or retained earnings.

Further, we have also recommended to send notification letters for at least three consecutive months to these creditors with past due accounts and require them to present valid and authentic supporting documents in order to validate the existence of these liabilities for them to be paid.

The agency took cognizance of the abovementioned recommendations and will cause the conduct of a thorough review of the accounts payable so that appropriate action can be taken.

Undisposed Unserviceable Inventories amounting to P78,007.50

- 3. Unserviceable inventories costing P78,007.50, that unnecessarily occupy space and considered an eyesore in the Agency premises, are not yet disposed. Such inventories are also for reclassification to "Other Assets" account.**

A physical inventory taking was conducted with Management and observed that inventories costing P78,007.50 were unserviceable and overdue for disposal as shown below:

Inventory Item	Quantity	Unit Cost	Total Cost
Ink Cartridge HP No. 28 Colored	31	960.00	P29,760.00
Ink Cartridge HP No. 95 Colored	10	1,210.00	12,100.00
Ink Cartridge HP No. 901 Colored	1	1,700.00	1,700.00
Ink Cartridge HP No. 27 Black	10	820.05	8,200.50
Ink Cartridge HP No. 60 Colored	15	625.00	9,375.00
Ink Cartridge HP No. 60 Black	17	603.00	10,251.00
Canon Pixma Cli8 Black	3	1,100.00	3,300.00
Disinfectant Spray	27	123.00	3,321.00
Total			P 78,007.50

Most of the unserviceable items were ink cartridges, which were procured several years ago. However, Management stopped using these ink cartridges since most of the existing printers were other brands which were incompatible to said ink cartridges, consequently this leads to their expiration and unserviceability. In addition, disinfectant sprays, which were procured few years ago, were not also used, hence became expired.

Attention of Management is invited to the provisions of Section 79 of PD 1445, quoted as follows:

“Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefor, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award Xxx”

Further, unserviceable inventories are still carried in the books contrary to the “Derecognition Principle” of Philippine Accounting Standards 16, which provides the following:

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

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

Derecognition means that the cost of the inventories should be removed from the accounts. PAS 16 calls for the necessary derecognition of the asset in the books so that stakeholders and readers of financial statements can discern information about the District’s actual status of inventory.

Likewise, Section 143, Volume III, of New Government Accounting System (NGAS), states the following:

“Other Assets. This account is used to record the value of obsolete and unserviceable assets awaiting final disposition as well as those assets still serviceable but are no longer being used. These items are not subject to depreciation.”

Thus, unserviceable inventories costing P78,007.50 should be reclassified to “Other Assets” while awaiting for disposal.

We have recommended that Management facilitate the immediate disposal of these unserviceable inventories and reclassify them to "Other Assets" account with the following journal entry:

Other Assets	P78,007.50
Supplies and Materials	P78,007.50

We have also recommended that the designated Property Officer monitor the expiration of various supplies and materials which could serve as a "time-benchmark" for their usage in order to maximize their utility value.

Management signified immediate compliance to the above-mentioned recommendations. In fact, they have already commenced the disposal process. Further, Management claimed that they will institutionalize a system of monitoring the expiration of office supplies and materials.

Lost Lent Items during 2015 Sillag Festival amounting to P26,428.00.

4. Certain lapses on how lent property were managed, resulted in the incurrence of additional expenses amounting to P26,428.00, representing cost of lost properties, thus resulted to inefficient utilization of property.

Verification of documents revealed that various property such as chairs, tables and tents were lent to Management and used during 2015 Sillag Festival for the period April 9 to 12, 2015.

Presented below is the summary of missing property lent by the agency as per inventory report of the Business Development Office:

Missing Items	Quantity	Payee	Amount
Monobloc Chairs	9	Provincial Government of La Union	P 3,600.00
Round Tables	2	San Miguel Corporation	2,000.00
Tents	2	Jun Verde	8,000.00
Monobloc Chairs	3	Brgy. San Agustin	1,050.00
Tents	3	Richard S. Manese	21,000.00
Monobloc Chairs	12	Metro La Union Houseware	5,428.00
Total			P41,078.00

In the post-audit of disbursement vouchers, it was noted that the missing tents and chairs costing P26,428.00 were paid by PPMC, as shown on next page:

Section 2 of P.D. 1445, otherwise known as The State Auditing Code of the Philippines, dated June 11, 1978 states the following:

DV No.	Payee	Particular	Amount
15-08-1107	Richard S. Manese	Payment of Three Missing Tents with Roofing during 2015 Sillag Festival.	P21,000.00
15-09-1253	Metro La Union Houseware	Payment of Twelve Missing Monobloc Chairs during 2015 Sillag Festival.	5,428.00
Total			P26,428.00

“Declaration of Policy. It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.”

While these lent tables, chairs and tents are not property of PPMC, resources used however are subject for safekeeping therefore they are still accountable for their efficient and economical use. It is incumbent upon those responsible to see to it that these are properly safeguarded against loss or improper use. Any loss/damage henceforth will be the accountability of the PPMC as a whole.

We have recommended that Management exercise diligence of a good father of a family with respect to the safekeeping/custody of properties in order to avoid loss of resources and inefficient utilization of funds.

Management assured the Audit Team that PPMC has always exercised due prudence and diligence of a good father of a family in the Management of its resources.

B. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES FOR CY 2015

For the CY 2015, suspensions amounting to P37,146.83 were issued representing various disbursement vouchers with lacking documentary requirements, however, the same was settled. Furthermore, disallowances totaling to P1,234,904.05 remained unsettled and under appeal. No outstanding suspensions and charges.

PART III

**STATUS OF PRIOR YEARS' AUDIT
RECOMMENDATIONS**

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

Hereunder is the status of implementation of recommendations made in relation to the audit of the accounts and transactions of the Calendar Years 2013-2014.

	Audit Observations and Recommendations	Reference	Management Action	Status of Implementation (FI/PI/NI)	Reason of Partial or Non Implementation
1.	<p>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.</p> <p>We have recommended management to stop the provision of doubtful accounts for the Accounts Receivable-Non Trade and make the necessary adjusting entries.</p>	2014 AAR	The Finance Division had already stop the provision for doubtful accounts and made the necessary adjusting entries.	FI	
2.	<p>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</p>	2014 AAR	Management already submitting the disbursement vouchers on time	FI	

	<p>balances of accounts in the Financial Statements.</p> <p>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.</p>			
3.	<p>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.</p> <p>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.</p>	2014 AAR	Management already stopped the release of educational assistance to employees and officers.	FI
4.	<p>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.</p> <p>We have recommended management to limit the</p>	2014 AAR	Management gave minimal financial support amounting to P50,000.00 only.	FI

	amount granted as financial assistance pursuant to Section 5 of COA Circular 2012-003 dated October 29, 2012 to avoid possible disallowance in audit.				
5.	<p>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.</p> <p>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.</p>	2014 AAR	Management complied with the given recommendations.	FI	
6.	<p>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.</p> <p>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</p>	2014 AAR	Management complied with the given recommendations.	FI	

	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.				
7.	<p>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.</p> <p>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.</p>	2014 AAR	Management remitted all withheld taxes to BIR.	FI	
8.	<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>	2013 AAR	Only contractors with retention and performance bid had given confirmation letters.	PI	No confirmation letters were sent to suppliers/creditors for CY 2015. Observation No. 2 of this Report

	<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>				
9.	<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>	2013 AAR	Management already complied giving retirement benefits pursuant to RA 7641, the Retirement Pay Law.	FI	

PART IV - ANNEXES

41	LUECO			14,982.94						14,982.94
42	Mac's Garden	-	5,000.00							5,000.00
43	Max's Restaurant/Bee Prime	1,802.90								1,802.90
44	Mckleene Premium Products, Inc.	22,875.00	16,100.00	17,000.00	1,513,084.48					1,569,059.48
45	Metro Market	-	-	417.00						417.00
46	Metro Vision	(7.00)								(7.00)
47	Mimbo Bytes Computer Sales & Services	16,750.00	43,370.00	5.00						60,125.00
48	Motorplaza, Inc.	17,590.00								17,590.00
49	Municipality of Aringay	5,000.00								5,000.00
50	Nationa Bookstore	-	-	350.00						350.00
51	New Malayan Commercial	4,288.00	8,602.50							12,890.50
52	Nisean Food, Inc.	-	7,350.00							7,350.00
53	Paz Floral Creation	-	1,000.00							1,000.00
54	PC 4 Me One Stop Computer Corp.	-	-	4,344.00						4,344.00
55	Philippine Fuji Xerox	-	-	6,193.73						6,193.73
56	PLDT	-	101,036.55							101,036.55
57	POD Studio Productions	-	538.77							538.77
58	Rudy Bamboo Craft	-	1,350.00							1,350.00
59	Rudy's Shell Service Station	-	-	-	-	-	3,299.62			3,299.62
60	Schoolmate Graphics and Print Solution	-	4,104.00	57,500.00						61,604.00
61	Selwyn Auto Supply	-	-	1,960.00	1,750.77					3,710.77
62	Seven Seagull Glass Arts	2,600.00	5,400.00							8,000.00
63	Silverdrops Purified Water Corp.	8,795.64								8,795.64
64	SKM Computer Trading	-	2,289.16							2,289.16
65	Smart Communications, Inc.	-	-	-	1,813.33					1,813.33
66	Sure Tire Trading	-	-	7,160.00						7,160.00
67	Tarp Mo Print Ko Atbp.	-	1,100.00							1,100.00
68	The Aminan Bulletin	2,500.00								2,500.00
69	The Ilocandia SI News Update	2,500.00								2,500.00
70	The Ilocos View Point	2,500.00								2,500.00
71	The Public Eye	2,500.00								2,500.00
72	The Philippine Star	24,931.20								24,931.20
73	The Second Coming Auto Repair Shop	-	-	2,565.00						2,565.00
74	The Star Northern Luzon	2,500.00								2,500.00
75	The Watching Eye	2,500.00								2,500.00
76	Tire Factors Corporation	-	-	5,360.00						5,360.00
77	Toyota Dagupan City, Inc.	23,979.58	7,526.15							31,505.73
78	Transpower System Corporation	-	-	66,200.00						66,200.00
79	Urduja Security Agency	-	312,985.82							312,985.82
80	Verdillo Electrical Shop	900.00								900.00
81	Villa Estrella	-	-	-	1,919.40					1,919.40
82	X Print Co.	-	-	14,800.00						14,800.00
TOTAL		P157,577.64	P992,221.89	P309,529.39	P1,626,593.39	P45,942.95	P78,777.80	P32,215.84	P21,235.49	P3,264,094.39

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