



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, 2016



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

March 10, 2017

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, 2016, 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 have rendered an unqualified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2016, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The following are the significant observations and recommendations for the CY 2016:

1. Weak internal control on the collection policy and procedure on airport fees of the agency resulted to large amount of past due Assets Held in Trust - Accounts Receivable - Trade aged more than sixty days amounting to P711,696.19 as of December 31, 2016. Thus, collection efforts of the agency remained inadequate.

We have recommended that Management establish a more strict collection policy and procedure on various airport fees. We have also recommended that management continue sending demand letters to defaulting clients. Further, we

have also recommended management to elevate the matter to the Bases Conversion Development Authority for possible write-off of these receivables.

2. The conduct of Stakeholders' Satisfaction Survey for CY 2016 amounting to P170,000.00 was awarded directly to a private educational institution which is not PhilGEPS registered contrary to Section 8.5.1 of 2016 R.A. 9184 and its implementing rules and regulations (IRR), hence affecting the legality and propriety of the transaction.

We have recommended that Management strictly follow/observe Section 53.6 and Section 8.5.1 of 2016 RA 9184 and its implementing rules and regulations.

3. The Agency could have avoided the payment of P50,080.00 as surcharge for fringe benefit tax pertaining to CY 2007 had the Agency withheld and remitted the correct amount of taxes on time contrary to Section 2.57.A of BIR Revenue Regulation No. 2-98 dated April 17, 1998. Hence, it is a clear indication of negligence/laxity on the part of the personnel in charge tasked with compliance of tax obligation of the agency.

We have recommended that management 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.


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

The report consists of three parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III – Status of Prior Years' Audit Recommendations. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 22, 2017. 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 96 of the General Provisions of Republic Act No. 10717, otherwise known as the General Appropriations Act of 2016, 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.D. SICANGCO
Regional Director



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

March 10, 2017

ATTY. FELIX S. RACADIO
President and CEO
Poro Point Management Corporation
City of San Fernando, La Union

Sir Racadio:

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, 2016, 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 have rendered an unqualified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2016, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The following are the significant observations and recommendations for the CY 2016:

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We have recommended that Management establish a more strict collection policy and procedure on various airport fees. We have also recommended that management continue sending demand letters to defaulting clients. Further, we

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We have recommended that Management strictly follow/observe Section 53.6 and Section 8.5.1 of 2016 RA 9184 and its implementing rules and regulations.

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

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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 96 of the General Provisions of Republic Act No. 10717, otherwise known as the General Appropriations Act of 2016, 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

Presented below is the summary of comparative financial highlights for the CYs 2015-2016:

	2016	2015	Percentage of Change
Assets	P174,789,341.56	P143,616,518.82	21.71%
Liabilities	92,056,738.90	69,920,570.79	31.66%
Government Equity	82,732,602.66	73,695,948.03	12.26%
Income	62,586,089.74	61,960,395.36	1.01%
Expenses	P 52,509,254.12	P 52,746,447.91	(0.45%)

	2016	2015	Percentage of Change
Budget	P58,978,731.00	P60,490,249.00	(2.50%)
Actual Expenditures	P52,509,254.12	P52,746,447.91	(0.45%)

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, 2016. 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 an unqualified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2016, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

E. Significant Audit Observations and Recommendations

It is worthy to note that the Agency implemented Gender and Development (GAD) activities which resulted in the conduct of provision of technical assistance and guidance to locators in their compliance with labor laws in relation to GAD, trainings on applicable GAD laws, livelihood training, orientation of new employees on GAD Focal Point System and promotion of gender awareness totaling to P132,175.85, 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.

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

1. Weak internal control on the collection policy and procedure on airport fees of the agency resulted to large amount of past due Assets Held in Trust - Accounts Receivable - Trade aged more than sixty days amounting to P711,696.19 as of December 31, 2016. Thus, collection efforts of the agency remained inadequate.

We have recommended that Management establish a more strict collection policy and procedure on various airport fees. We have also recommended that management continue sending demand letters to defaulting clients. Further, we have also recommended management to elevate the matter to the Bases Conversion Development Authority for possible write-off of these receivables.

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We have recommended that Management strictly follow/observe Section 53.6 and Section 8.5.1 of 2016 RA 9184 and its implementing rules and regulations.

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We have recommended that management 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.

F. Summary of Audit Suspensions, Disallowances and Charges

For the CY 2016, PPMC has no outstanding suspensions and charges, however, disallowances totaling to P1,234,904.05 are under appeal.

G. Status of Prior Year's Audit Recommendations

All of the four audit recommendations contained in the previous year's Annual Audit Report were fully implemented.

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PART I

AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
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, 2016, 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 unqualified opinion.

Opinion

In our opinion the accompanying financial statements present fairly the financial position of the Poro Point Management Corporation as of December 31, 2016, 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, 2017



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 Statement of Financial Position as of December 31, 2016 and the related Statement of Comprehensive Income, 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


ATTY. FELIX S. RACADIO
President & CEO

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
Detailed Statement of Financial Position
As of December 31, 2016
(With comparative figures as of December 31, 2015)

	Notes	2016	2015
ASSETS			
Current Assets			
Cash and Cash Equivalents			
Cash on Hand			
Cash-Collecting Officer	2 P	160,090.42	476,645.25
Cash in Bank	3		
Cash in Bank-Local Currency, CA		6,784,702.16	10,468,771.20
Cash in Bank-Local Currency, SA		71,754.32	-
Cash Equivalents			
Time deposits-Local Currency	4	6,937,416.85	42,065,422.93
Total		<u>13,953,963.75</u>	<u>53,010,839.38</u>
Investments			
Investments in Time Deposits			
Invst. in Time Dep.-Loc. Currency	5	<u>50,701,626.06</u>	<u>-</u>
Receivables			
Loans and Receivables Account			
Accounts Receivable	6	1,398,989.78	1,344,491.39
Interest Receivable		79,538.90	106,121.60
Intra-Agency Receivables			
Due from BCDA	7	6,550,461.66	5,756,074.97
Other Receivables			
Duc from Officers and Employees	8	527,635.81	642,344.22
Total		<u>8,556,626.15</u>	<u>7,849,032.18</u>
Inventories			
Inventory Held for Consumption	9		
Office Supplies Inventory		981,732.23	893,513.93
Accnt. Forms, Plates and Stickers Inv.		4,690.00	18,600.00
Food Supplies Inventory		14,092.00	17,706.25
Chem. and Filtering Supplies Inventory		45,208.45	34,848.02
Construction Materials Inventory		250,006.25	369,981.70
Elect. Supplies and Materials Inv.		30,767.50	56,430.87
Total		<u>1,326,496.43</u>	<u>1,391,080.77</u>
Other Assets			
Advances			
Advances to Officers and Employees		-	-
Prepayments	10		
Advances to Contractors		2,225,244.46	6,310,288.85

	Notes	2016	2015
Prepaid Registration		30,799.95	43,759.14
Prepaid Insurance		461,052.81	1,346,913.34
Deposits			
Guaranty deposits	11	168,884.00	168,884.00
Other Assets			
Other Assets		169,706.00	325,936.75
Total		<u>3,055,687.22</u>	<u>8,195,782.08</u>
Total Current Assets	P	<u>77,594,399.61</u>	<u>P 70,446,734.41</u>
Non-Current Assets			
Investments	12		
Investments in Joint Venture			
Investments in Joint Venture		15,000,000.00	15,000,000.00
Other Investments			
Investment in Stocks		15,000.00	15,000.00
Total		<u>15,015,000.00</u>	<u>15,015,000.00</u>
Investment Property	13		
Land and Buildings			
Investment Property, Land		21,441,469.65	21,441,469.65
Investment Property, Buildings		6,676,047.56	-
Construction in Progress			
CIP-Invst. Property, Buildings		42,891,995.79	22,287,417.13
Total		<u>71,009,513.00</u>	<u>43,728,886.78</u>
Property, Plant and Equipment	14		
Land Improvements			
Other Land Improvements		276,082.12	276,082.12
Accum. Dep.-Other Land Imp.		(262,278.01)	(248,473.91)
Infrastructure Assets			
Power Supply Systems		516,605.02	516,605.02
Accum. Dep.-Power Supply Sys.		(490,774.77)	(445,572.10)
Buildings and Other Structures			
Buildings		6,309,335.20	6,309,335.20
Accum. Dep.-Buildings		(3,154,667.92)	(2,839,201.18)
Other Structures		2,669,275.51	2,669,275.51
Accum. Dep.-Other Structures		(2,111,962.53)	(1,810,343.52)
Machinery and Equipment			
Office Equipment		4,683,871.00	5,058,831.76
Accum. Dep.-Office Equipment		(4,100,682.75)	(4,037,291.12)
Info. and Comm. Tech. (ICT) Equip.		4,590,844.24	4,179,766.24
Accum. Dep.-ICT Equipment		(3,736,404.17)	(3,470,324.31)
Communication Equipment		333,345.00	343,595.00
Accum. Dep.-Comm. Equipment		(301,809.58)	(290,455.71)
Technical and Scientific Equipment		413,387.52	413,387.52
Accum. Dep.-Tech. and Scientific Equip.		(343,581.06)	(245,306.88)
Furniture, Fixtures and Books			

	Notes	2016	2015
Furniture and Fixtures		2,188,063.49	2,149,726.24
Accum. Dep.-Furniture and Fixtures		(1,939,238.68)	(1,852,414.50)
Transportation Equipment			
Motor Vehicle		13,727,286.91	14,219,241.15
Accum. Dep.-Motor Vehicle		(11,070,259.73)	(10,014,271.25)
Watercrafts		773,325.00	773,325.00
Accum. Dep.-Watercrafts		(260,469.97)	(185,598.06)
Total		<u>8,709,291.84</u>	<u>11,469,918.22</u>
Intangible Assets			
Intangible Assets	15		
Computer Software		695,724.13	695,724.13
Accum. Dep.-Computer Software		(654,927.07)	(601,778.72)
Total		<u>40,797.06</u>	<u>93,945.41</u>
Other Assets			
Other Assets	16	<u>2,420,340.05</u>	<u>2,862,034.00</u>
Total Non-Current Assets		<u>97,194,941.95</u>	<u>73,169,784.41</u>
TOTAL ASSETS		<u>P 174,789,341.56</u>	<u>P 143,616,518.82</u>

LIABILITIES AND EQUITY

Current Liabilities

Financial Liabilities

Payables

Accounts Payable

17	P	<u>5,279,554.14</u>	P	<u>7,107,020.80</u>
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Inter-Agency Payables

Inter-Agency Payables

Due to BIR

	275,883.87	229,701.69
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Due to Pag-ibig

	108,166.62	100,061.88
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Due to Philhealth

	27,375.00	22,300.00
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Due to SSS

	160,727.61	151,089.47
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Income Tax Payable

	975,160.60	722,162.05
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Total

	<u>1,547,313.70</u>	<u>1,225,315.09</u>
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Intra-Agency Payables

Intra-Agency Payables

Due to Other Funds

	89,480.31	75,799.98
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Due to BCDA

	<u>58,228,682.10</u>	<u>38,083,453.88</u>
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Total

	<u>58,318,162.41</u>	<u>38,159,253.86</u>
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Trust Liabilities

Trust Liabilities

Trust Liabilities

19		957,687.35	997,958.18
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Guaranty/Security Deposits Payable

	75,275.60	75,275.60
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	Notes	2016	2015
Total		<u>1,032,962.95</u>	<u>1,073,233.78</u>
Other Payables			
Other Payables			
Other Payables	20	<u>7,441,635.94</u>	<u>3,918,637.50</u>
Total Current Liabilities		<u>73,619,629.14</u>	<u>51,483,461.03</u>
Non-Current Liabilities			
Intra-Agency Payables			
Intra-Agency Payables			
Due to BCDA	21	<u>18,437,109.76</u>	<u>18,437,109.76</u>
Total Liabilities	P	<u>92,056,738.90</u>	<u>P 69,920,570.79</u>
Equity			
Stockholders' Equity			
Stockholders' Equity			
Share Capital	22	68,143,720.23	68,143,720.23
Other Equity Instruments	23	<u>15,000,000.00</u>	<u>15,000,000.00</u>
Total		<u>83,143,720.23</u>	<u>83,143,720.23</u>
Retained Earnings/(Deficit)			
Retained Earnings/(Deficit)			
Retained Earnings/(Deficit)		(411,117.57)	(9,447,772.20)
Total Equity		<u>82,732,602.66</u>	<u>73,695,948.03</u>
TOTAL LIABILITIES AND EQUITY	P	<u>174,789,341.56</u>	<u>P 143,616,518.82</u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION

(A Member of The BCDA Group)

Detailed Statement of Comprehensive Income

For the year ended December 31, 2016

(With comparative figures as of December 31, 2015)

	Notes	2016	2015
Revenues			
Service and Business Income			
Business Income			
Management Fees	24 P	61,129,731.00 P	60,490,249.00
Interest Income		802,987.31	768,737.48
Miscellaneous Income			
Miscellaneous Income	25	653,371.43	701,408.88
Total Revenues		<u>62,586,089.74</u>	<u>61,960,395.36</u>
Less: Expenses			
Personnel Services			
Salaries and Wages			
Salaries and Wages-Regular		12,151,283.81	11,300,164.84
Other Compensation			
Representation Allowance		640,800.00	640,800.00
Transportation Allowance		640,800.00	640,800.00
Clothing/Uniform Allowance		68,250.47	128,823.25
Overtime and Night Pay		866,376.35	947,498.11
Year-End Bonus		1,005,066.00	937,322.04
Cash Gift		-	273,000.00
Other Bonuses and Allowances		3,180,930.64	2,887,280.44
Personnel Benefit Contributions			
Pag-ibig Contributions		67,427.75	66,800.00
Philhealth Contributions		135,537.50	130,025.00
Emp. Comp. Insurance Premiums		19,700.00	19,170.00
Provident/Welfare Contribution		594,081.95	562,049.52
Other Personnel Benefit Contributions			
Retirement Gratuity		-	46,616.50
Other Personnel Benefit Contrib.		1,145,366.17	1,326,921.37
Total Personnel Services		<u>20,515,620.64</u>	<u>19,907,271.07</u>
Maintenance and Other Operating Expenses			
Travelling Expenses			
Travelling Expenses-Local		2,675,701.42	3,420,449.06
Training and Scholarship Expenses			
Training Expenses		1,388,574.00	1,724,601.65
Supplies and Materials Expenses			

	Notes	2016	2015
Office Supplies Expenses		1,661,538.45	1,541,841.46
Accountable Forms Expenses		3,000.00	-
Food Supplies Expenses		112,795.87	147,728.14
Medical, Dental and Lab. Supplies Exp.		22,515.40	26,431.00
Fuel, Oil and Lubricants Expenses		465,583.03	650,402.67
Chemical and Filtering Supplies and Exp.		104,276.17	65,070.86
Other Supplies and Materials Expense		38,194.07	373,186.62
Utility Expenses			
Electricity Expenses		1,244,738.18	970,533.76
Communication Expenses			
Postage and Courier Services		69,657.00	85,756.73
Telephone Expenses		1,173,806.56	1,239,571.92
Conf. Intelligence & Extraordinary Exp.			
Extraordinary and Miscellaneous Exp.		409,409.70	308,635.30
Professional Services			
Auditing Services		1,169,441.06	809,190.94
Consultancy Services		302,222.22	21,333.33
General Services			
Janitorial Services		357,415.74	363,732.21
Security Services		314,085.05	439,824.30
Repair and Maintenance			
Repair and Main.-Bldg. and Other Structures		109,069.63	59,198.44
Repair and Main.-Transportation Equipment		719,954.41	760,432.53
Repair and Main.-Furniture and Fixtures		45,194.00	13,180.00
Taxes, Insurance Premiums and Other Fees			
Taxes, Duties and Licenses		196,588.75	182,395.96
Fidelity Bond Premiums		8,437.50	3,375.00
Insurance Expenses	26	1,671,568.22	1,759,323.99
Income Tax Expenses		3,974,506.42	3,619,375.70
Other Maintenance and Operating Expenses			
Advertising, Promotional and Mark	27	1,359,056.88	1,454,514.18
Representation Expenses		1,252,859.35	1,204,993.46
Rent/Lease Expenses		157,182.16	213,389.14
Subscription Expenses		87,875.00	86,762.66
Dir. and Committee Members Fees		1,682,000.00	1,888,000.00
Other Main and Other Oper. Exp.	28	6,592,255.54	7,003,538.80
Total Maint. and Other Oper. Exp.		<u>29,369,501.78</u>	<u>30,436,769.81</u>
Non-Cash Expenses			
Depreciation			
Depreciation-Infrastructure Assets		45,202.67	46,494.48
Depreciation-Buildings and Other Structures		617,085.75	524,154.96
Depreciation-Machinery and Equipment		595,064.52	587,464.82
Depreciation-Transportation Equipment		1,247,161.40	1,149,511.90
Depreciation-Furniture, Fixtures and Books		95,543.58	71,020.87
Amortization			

	Notes	2016	2015
Amortization-Intangible Assets		<u>24,073.78</u>	<u>23,760.00</u>
Total Non-Cash Expenses		<u>2,624,131.70</u>	<u>2,402,407.03</u>
Total Expenses		<u>52,509,254.12</u>	<u>52,746,447.91</u>
NET INCOME / (LOSS)	P	<u>10,076,835.62</u>	P <u>9,213,947.45</u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
Statement of Changes in Equity
For the year ended December 31, 2016
(With comparative figures as of December 31, 2015)

	2016	2015
Share Capital		
Balance at Beginning of the Period		
Authorized, issued and fully paid 800,000 shares, P100.00 par value	P 68,143,720.23	P 68,143,720.23
Balance at End of the Period	<u>68,143,720.23</u>	<u>68,143,720.23</u>
Other Equity Investments		
Balance at Beginning of the Period	15,000,000.00	15,000,000.00
Additions		
Deductions		
Balance at End of the Period	<u>15,000,000.00</u>	<u>15,000,000.00</u>
Retained Earnings		
Balance at Beginning of the Period	(9,447,772.20)	(19,649,013.56)
Correction of prior year's errors	29 (1,040,180.99)	987,293.91
As restated	(10,487,953.19)	(18,661,719.65)
Net Income (Loss)	10,076,835.62	9,213,947.45
Balance at End of the Period	<u>(411,117.57)</u>	<u>(9,447,772.20)</u>
TOTAL EQUITY	<u>P 82,732,602.66</u>	<u>P 73,695,948.03</u>

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
Statement of Cash Flows
For the year ended December 31, 2016
(With comparative figures as of December 31, 2015)

	2016	2015
Cash Flow from Operating Activities		
Cash Inflow		
OPEX funds received from BCDA	P 60,695,030.00	P 60,490,249.00
Coll. of Zone revenues in behalf of BCDA	63,036,530.17	48,790,441.00
Collection of Receivables	17,342,132.78	23,633,851.39
Coll. of Permits at CCA in behalf of BCDA	1,306,820.00	1,083,191.30
Collection of Miscellaneous Income	583,400.00	670,391.20
Total Cash Inflow	<u>142,963,912.95</u>	<u>134,668,123.89</u>
Cash Outflow		
Payment to Employees and Suppliers	(60,688,124.80)	(64,394,546.64)
Remittance of Collections to BCDA	(64,659,904.88)	(49,832,082.87)
Payment of Taxes	(6,840,406.63)	(5,812,408.95)
Reclass. of Time Deposit more than 90 days	(50,701,626.06)	
Total Cash Outflow	<u>(182,890,062.37)</u>	<u>(120,039,038.46)</u>
Net Cash Provided by (used in) Operating Activities	<u>(39,926,149.42)</u>	<u>14,629,085.43</u>
 Cash Flow from Investing Activities		
Cash Inflow		
Interest received	829,493.81	704,833.48
Cash Outflow		
Capital Expenditure projects	(20,879,047.10)	(23,442,921.32)
Acquisition of Land	-	-
Total Cash Outflow	<u>(20,879,047.10)</u>	<u>(23,442,921.32)</u>
Net Cash Provided by (used in) Investing Activities	<u>(20,049,553.29)</u>	<u>(22,738,087.84)</u>
 Cash Flow from Financing Activities		
Cash Inflow		
Capex from BCDA	20,918,827.08	23,622,868.33
Net Cash Provided by (used in) Financing Activities	<u>20,918,827.08</u>	<u>23,622,868.33</u>
 Net Increase in Cash and Cash Equivalents	(39,056,875.63)	15,513,865.92
 Add: Cash and Cash Equivalents, Beginning	53,010,839.38	37,496,973.46
 Cash and Cash Equivalents, Ending	<u>P 13,953,963.75</u>	<u>P 53,010,839.38</u>

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1. 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, especially the American Military Bases into alternative productive civilian uses for the benefit of the Filipino people.

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

Performance Agreement

Pursuant to EO No. 62 issued on February 27, 1993 on the prescribed policies and guidelines for the implementation of RA No. 7227, BCDA is mandated to perform oversight over subsidiaries and adopt and implement an oversight mechanism to

implement efficient utilization of scarce resources and to ensure that the plans and programs of subsidiaries are proceeding according to national goals and objectives.

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

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

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

- BCDA as property owner of the PPFZ shall earn from lease rentals, joint venture agreements, and other business arrangements generated in the PPFZ and from dividends to be declared by PPMC. PPMC shall record these revenues as Trust Liability and remit the same to BCDA through a designated bank account. The same shall now be recorded as income of BCDA.

- PPMC as estate manager shall earn estate management fees due from BCDA either a 50 percent share in the revenues of the PPFZ or fixed amount of Php60.5 million annually for the next two (2) years beginning 2014 to cover Personal Services (PS) and Maintenance & Other Operating Expenses (MOOE), whichever is higher. In addition, PPMC shall receive a 10 percent share on the net income of the zone.

- PPMC shall ensure that all necessary and appropriate insurance coverage for properties within the zone as well as security services for the property are secured. Insurance coverage, maintenance and depreciation expenses of BCDA properties within the zone, as well as maintenance and security services for the property, however, shall be charged to BCDA as owner of the land.

- PPMC shall formulate an annual work plan and budget to be submitted to BCDA for approval in accordance with Financial Policy No. 502-2.

- PPMC shall submit a rolling five-year OPEX schedule for BCDA funding and approval while maintaining the expected Return on Assets (ROA) and Return on Equity (ROE) targets for BCDA. A yearly submission of the actual OPEX for review and next year's projected OPEX schedule for consideration and approval of BCDA shall be presented during the planning and budgeting deliberations.

Note 1 – Summary of Significant Accounting Policies

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

Basis of preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines. These are the Company's first financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS), where PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, was then applied.

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

Use of Estimates and Judgements

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

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

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

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

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

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

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 the moving average 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 No. 2004-3 dated October 4, 2004 and COA Circular No. 2015-002 dated March 9, 2015 the computation of depreciation expense shall start on the following month after the purchase/completion of the PPE, irrespective of date within the month. The current and subsequent month depreciation expense shall be computed as follows:

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

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

Assets acquired with value of not more than PhP15,000.00 are recorded under supplies and materials expense upon issue to the end-user pursuant to COA Circular No. 2015-007 dated October 22, 2015. However, items with individual values below the threshold of PhP15,000.00 but which work together in the form of a group of network asset whose total value exceeds the threshold shall be recognized as part of the primary PPE, e.g. computer network.

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

Revenue Recognition

Fund released for operating expenditures (OPEX) from BCDA are reflected as 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-Collecting Officer

The cash-collecting officer account consists of cash and check collections received on December 29-30, 2016 representing zone revenues such as regulatory fees and lease rentals. PPMC entered into a deposit pick-up arrangement with the Land Bank of the Philippines (LBP) on November 7, 2014, wherein LBP collects daily at the PPMC Office from Monday through Friday, from 8:30 a.m. to 3:00 p.m. The undeposited cash collections were received after the cut-off time.

Note 3 – Cash in Bank – Local Currency

This account is consists of the following:

	2016	2015
Cash in Bank-Local Currency, LBP Opex Current	P 168,280.22	P 148,947.19
Cash in Bank-Local Currency, DBP Opex Current	5,034,888.04	8,781,755.37
Cash in Bank-Local Currency, DBP Capex Current	1,581,533.90	1,538,068.64
Cash in Bank-Local Currency, DBP Opex Savings	71,754.32	0.00
Total Cash In Bank-Local Currency	P6,856,456.48	P10,468,771.20

Cash in Bank-Local Currency, LBP Opex Current Account

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.

Cash in Bank-Local Currency, DBP Opex Current Account

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.

Cash in Bank-Local Currency, DBP Capex Account

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.

Cash in Bank, Local Currency, DBP Opex Savings Account

On 30 June 2016, PPMC opened a savings account for its Electronic Government (e-Gov) services account at DBP as approved by the PPMC Board per Resolution No. 2016-05-372 on 20 May 2016. The facility allows PPMC to pay premiums and loans online to the SSS, Pag-ibig Fund and Philhealth.

Note 4 – Cash Equivalents

This account represents authorized placements of time deposit at the Land Bank of the Philippines (LBP) with a maturity of 90 days.

Note 5 – Investments in Time Deposits

This account represents authorized placements of time deposit at the Land Bank of the Philippines (LBP) and Development Bank of the Philippines with maturities of 120 days.

Note 6 – Accounts Receivables

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

Note 7 – Due from BCDA

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

Note 8 – Due from Officers and Employees

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

Note 9 - Inventories

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

Note 10 - Prepayments

This account includes:

	2016	2015
Advances to Contractors	P2,225,244.46	P6,310,288.85
Prepaid Registration	30,799.95	43,759.14
Prepaid Insurance	461,052.81	1,346,913.34
Total Prepayments	P2,717,097.22	P7,700,961.33

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

Prepaid registration refers to various prepayments made for the renewal of vehicles, firearm and radio licenses with a minimum coverage period of one (1) year.

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

Note 11 - Guaranty Deposits

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

Note 12 - Investments

This account includes investment in joint venture pertains to the 15% investment share of PPMC to Poro Point Industrial Corporation (PPIC) pursuant to the Pre-Incorporation Agreement dated September 21, 1999.

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

Note 13 – Investment Property

This account is consists of:

	2016	2015
Investment Property-Land	P21,441,469.65	P21,441,469.65
Investment Property-Building	6,676,047.56	-
Construction in Progress	42,891,995.79	22,287,417.13
Total Investment Property	P71,009,513.00	P43,728,886.78

Investment property-land refers to the validated land held-in trust 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.

Investment property-buildings represents finished capital expenditure projects such as provision of lighting at the industrial area and the relocation and replication of the Philippine Air Force (PAF) fence and guardhouse amounting to Php2,959,962.96 and Php3,716,084.60 respectively. These projects were already liquidated to BCDA on 11 February 2016 and 14 September 2016. However, BCDA will issue accounting instructions to PPMC to effect the liquidation in the books once the Certificate of Acceptance has been released by PPMC to the Contractors.

Construction in progress held in trust of P42,891,995.79 constitutes capital expenditure projects for the construction of baywalk with events center which is being funded by BCDA. Upon completion, this project together with relevant documents will be turned-over to BCDA and the corresponding advances granted to PPMC are liquidated.

Note 14 – Property, Plant and Equipment (PPE)

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

Note 15 – Intangible Assets

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

Note 16 – Other Assets

This account is consist of accounts receivable held in trust by PPMC for BCDA amounting to P2,299,640.05 and assets-in transit of P120,700.00. The accounts receivable-current of P1,289,915.55 refer to collectibles from locators representing revenues generated within the Poro Point Freeport Zone 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.

Asset held in transit amounting to P120,700.00 will be reversed upon receipt of the items from the suppliers.

Note 17 – Accounts Payable

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

Note 18 – Intra-Agency Payables

Due to other funds refers to the provident fund premium contributions and loans payable. Provident premiums of PPMC employees corresponds to 2.5% of their monthly salary and PPMC counterpart of 5% as provided under PPMC Policy No.011-2003. This will pool funds to serve as a financial facility to be utilized at some time in the future at more favorable terms and conditions. Provident loans payable 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.

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 current of P1,289,915.55. This account also includes funds released by BCDA for capital expenditure projects such as construction of bay walk with events center per accounting instructions issued by BCDA. Upon completion of these construction projects, PPMC has to liquidate the advances made by turning over the completed projects to BCDA.

Note 19 – Trust Liabilities

This account is consists of trust liabilities and performance security payables. Trust liabilities refer to bid fees collected from bidders. Performance security payable is posted by a bidder to guarantee the faithful performance of its obligations of an awarded contract, which may be forfeited or refunded in accordance with RA 9184.

Note 20 – Other Payables

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

Note 21 – Due to BCDA

This account refers to the cash advances from BCDA for the acquisition of private lots within the Wallace Area.

Note 22 – Share Capital

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

Note 23 – Other Equity Instruments

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 24 – Management Fees

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

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 2016, BCDA earned a total revenues of P87,127,669.01, 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 3% amounted to PhP24,825,791.30 for the year 2016. 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 25 – Miscellaneous Income

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 during the event.

Note 26 – Insurance Expense

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 – Advertising, Promotional and Marketing Expenses

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

Note 28 – Other Maintenance and Other Operating Expenses

This account is consists of:

	2016	2015
Special Projects	P5,900,081.72	P6,448,433.33
Other Board Expense-Meals	652,072.50	504,176.79
MV Registration	40,101.32	50,928.68
Total Other MOOE	P6,592,255.54	P7,003,538.80

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

Special projects also included community development or inclusive growth which is paramount to PPMC. Alongside the development efforts and creation of business opportunities in the PPFZ, PPMC pursued community development projects to improve the quality of life of the impact communities. PPMC HELPS was institutionalized as PPMC'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.

Also part of the special projects is the trade mission to provide 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 29 – Retained Earnings

Correction of Prior Year's Errors charged to Retained Earnings for the CY 2016 are shown below:

Date	Reference	Particulars	Amount
1/31/16	JV2016-01-009	Reversal of 10% salvage value of transferred car plan	(55,000.00)
1/31/16	JV2016-01-009	Adjustment of prepaid expense	1,257.25
1/31/16	JV2016-01-010	Cancellation of stale cheques	85,580.00
1/31/16	JV2016-010-010	Adjustment of other compensation of Mr. Runas	4,500.00
1/31/16	JV2016-01-008	Adjustment of miscellaneous accruals	180,837.25
1/31/16	CDB	Miscellaneous expenses of prior year	(105,364.76)
2/29/16	JV2016-02-015	Electric charges of PPMEC for November 2015	1,349.47
2/29/16	JV2016-02-018	Adjustment of miscellaneous accruals	18,285.25
2/29/16	JV2016-02-020	Adjustment of miscellaneous expenses of prior year	(20,758.54)
2/29/16	CDB	Adjustment of miscellaneous expenses of prior year	(15,330.91)
3/31/16	JV2016-03-025	Premium refund of motor vehicle from GSIS for 2015	43,863.35
3/31/16	JV2016-03-029	Adjustment of insurance expense of prior years	(885,451.40)
3/31/16	CDB	Miscellaneous expenses of prior year	(27,760.00)
4/30/16	JV2016-04-035	Electric charges of PPMEC for December 2015	2,292.42
4/30/16	JV2016-04-040	Cancellation of stale check no. 50083682	2,000.00
5/31/16	JV2016-05-045	Electric consumption of Werr Construction for Aug to Dec 2015	5,137.75
5/31/16	JV2016-05-050	Reversal of miscellaneous payables	338,176.11
6/30/16	JV 2016-06-052	Performance-Based Bonus of employees for CY 2015	(1,101,888.00)
6/30/16	JV 2016-06-060	Reclassification of expenses incurred of prior years	(467,828.19)
6/30/16	CDB	Miscellaneous expenses of prior year	(71,236.70)
7/31/16	JV 2016-07-061	Electric consumption of locators for CY2015	3,431.38
7/31/16	JV 2016-07-	Income from Sillag golf cup for CY 2015	34,958.98

	065		
7/31/16	JV 2016-07-065	Reversal of miscellaneous expenses of prior years	5,845.00
7/31/16	JV 2016-07-070	Reversal of miscellaneous expenses of prior years	12,017.86
7/31/16	CDB	Miscellaneous expenses of prior year	(2,432.81)
8/31/16	CDB	Miscellaneous expenses of prior year	(21,633.99)
8/31/16	JV 2016-08-080	Adjustment of interest income as of Dec 31, 2015	0.01
9/30/16	Various ref	Miscellaneous adjustments	200,213.73
10/31/16	JV 2016-10-100	Reversal of miscellaneous accounts payable	77,864.40
10/31/16	CDB	Miscellaneous expenses of prior year	(19,254.53)
11/30/16	CDB	Miscellaneous expenses of prior year	(12,950.00)
11/30/16	JV 2016-11-110	Miscellaneous expenses of prior year	28,791.96
12/31/16	JV 2016-12-120	Reversal of miscellaneous accounts payable	1,489,511.95
12/31/16	JV 2016-12-121	Adjustments of depreciation expenses	(769,205.28)
TOTAL			(1,040,180.99)

Note 30 – 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	-The court ruled in favor of PPMC in its decision dated 08 November 2016. The defendant filed a motion for reconsideration.
2. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007 Collection of Sum of Money PhP1,031,258.80	-Submitted for decision by the court on 11 November 2016.
3. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shiplside Incorporated Re: Expropriation Cases (for eminent domain)	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. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the

<p>4. Bulk Handler's Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (PPIC) vs. BCDA and PPMC</p> <p>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>Government Corporate Counsel (OGCC)</p> <p>BCDA opted to wait for the final decision of the higher court and did not approve the proposal to enter into a compromise agreement with BHI. The case is pending in the Supreme Court where BCDA elevated the adverse decision of the Court of Appeals. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC).</p>
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PART II

**AUDIT OBSERVATIONS
AND RECOMMENDATIONS**

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AND COMPLIANCE

Uncollected Accounts Receivable Aged More than Sixty Days - P711,696.19

1. Weak internal control on the collection policy and procedure on airport fees of the agency resulted to large amount of past due Assets Held in Trust - Accounts Receivable - Trade aged more than sixty days amounting to P711,696.19 as of December 31, 2016. Thus, collection efforts of the agency remained inadequate.

Evaluation of Assets Held in Trust - Accounts Receivable – Trade per Schedule of Ageing disclosed the following information:

Age	Amount	Status
0 - 30 days	P556,009.36	Current (45%)
31 - 60 days	22,210.00	
Sub-Total	578,219.36	
61 - 90 days	7,757.20	Past Due (55%)
91 - 120 days	6,477.20	
121 - 365 days	58,190.20	
1 - 2 years	233,817.50	
over 2 years	405,454.09	
Sub-Total	711,696.19	
Total	P1,289,915.55	

Analysis of Ageing Receivables disclosed that out of the total amount of P1,289,915.55 accounts receivable from 118 customers of the agency, P578,219.36 or 45% are current and P711,696.19 or 55% are past due.

Based on the Agency's policy, a penalty shall be imposed upon non-payment after sixty days from its billing date, hence a receivable aged more than sixty days shall be considered as past due. These receivables are composed of billings arising from landing and take-off fees, parking fees and other operational charges from various aviation companies and individual pilots. Also, these receivables are only held in trust since they are due for remittance to the Bases and Conversion Development Authority (BCDA), PPMC's parent corporation.

Review of the Collection Policy and Procedure of the Agency as per Board Resolution No. 2014-08-77 dated August 15, 2014 disclosed that Statements of Accounts were only prepared by the Finance Office upon receipt of the monthly report on air traffic movement from the Airport Management Office which will be sent to airport users through courier and registered mail. The said policy is considered inadequate since it will take almost a month before the enforcement of collection

which causes difficulty on the part of the Finance Office to collect particularly from the individual pilots.

Inquiry from management revealed that various demand letters were already sent and legal actions were already enforced against defaulting clients with receivables aged more than two years. Also, only regular clients were covered by a contract, hence causing greater probability of uncollectibility from non-regular clients that were not covered by a contract especially to private individual pilots who are not connected to any aviation company.

We have recommended that Management establish a more strict collection policy and procedure on various airport fees. We have also recommended that management continue sending demand letters to defaulting clients. Further, we have also recommended management to elevate the matter to the Bases Conversion Development Authority for possible write-off of these receivables.

During the exit conference, Management commented that they will make representation to the Civil Aviation Authority of the Philippines (CAAP), requesting for the payment of the liabilities of the pilots and aviation companies to PPMC before the renewal of their license/permits. They also commented to establish an electronic billing system for faster billing and collection of various airport fees. Also, they commented to elevate the matter to BCDA for possible write-off.

Awarded Consultant is not PhilGEPS Registered

- 2. The conduct of Stakeholders' Satisfaction Survey for CY 2016 amounting to P170,000.00 was awarded directly to a private educational institution which is not PhilGEPS registered contrary to Section 8.5.1 of 2016 R.A. 9184 and its implementing rules and regulations (IRR), hence affecting the legality and propriety of the transaction.**

The Agency conducted Stakeholders' Satisfaction Survey for CY 2016 as part of the Performance Target under the Performance Agreement with Governance Commission for GOCCs (GCG). It includes measurement of the extent of quality services provided by the agency to its locators, clients and other stakeholders. However, certain lapses were noted in the procurement of the said service.

Post-audit of disbursement vouchers revealed the following information as presented in next page:

Particulars	Date
First Philgeps Posting – Request for Expression of Interest under Small Value Procurement - Consulting (Failed)	October 25, 2016
Second Philgeps Posting - Request for Expression of Interest under Small Value Procurement - Consulting (Failed)	November 10, 2016
Board Resolution Approving the Recommendation Directly to Saint Louis College	November 29, 2016
Effectivity of the Memorandum of Agreement	December 13, 2016

It can be gleaned from the above table that the procurement was done twice previously under Small Value Procurement (SVP) - Consulting which was posted in the PhilGEPS in the form of a Request for Expression of Interest (REI). Post-audit of disbursements disclosed that Saint Louis College (SLC), a private educational institution is not included in the lists of consultants as per REIs. Inquiry from the Chairman of the Bids and Awards Committee disclosed that SLC is not PhilGEPS registered, hence should not be included in the list of requested consultants in the REIs.

After the two failures under Small Value Procurement, the agency directly negotiated under a Memorandum of Agreement with Saint Louis College (SLC), a private educational institution as per Section 53.6 of 2016 R.A 9184 and its IRR, to wit:

Section 53.6 of 2016 R.A. 9184 and its IRR states the following:

“Scientific, Scholarly or Artistic Work, Exclusive Technology and Media Services. Where Goods, Infrastructure Projects and Consulting Services can be contracted to a particular supplier, contractor or consultant and as determined by the HoPE, for any of the following:

b. Scientific, academic, scholarly work or research, or legal services; Xxx”

However, Section 8.5.1 of 2016 R.A. 9184 and its IRR states the following:

“To ensure the widest dissemination of the Invitation to Bid/Request for Expression of Interest, manufacturers, suppliers, distributors, contractors and/or consultants shall register with the PhilGEPS. All Procuring Entities already maintaining an electronic registry upon the effectivity of this IRR shall integrate the same with that of the PhilGEPS. A manufacturer, supplier, distributor, contractor or consultant duly registered with the PhilGEPS may participate in a procurement undertaken by any Procuring Entity, provided that the said manufacturer, supplier, distributor, contractor or consultant maintains its registration current and updated in accordance with the provisions

of this IRR, and its registration is proper and relevant to the particular type of procurement.”

Viewed from the above criteria, SLC is not allowed to enter nor participate in any government procurement being a non-PhilGEPS registered entity. The above transaction is a clear violation of pertinent provisions of 2016 RA 9184 and its implementing rules and regulations, hence affecting the legality and propriety of the procurement.

We have recommended that Management strictly follow/observe Section 53.6 and Section 8.5.1 of 2016 RA 9184 and its implementing rules and regulations.

Management remarked that the listed consultants that they had requested cannot accommodate the subject procurement due to a very low approved budget amounting to P170,000.00 and there were some conflicts in the terms of the survey. However, SLC was amenable, thus accepted and accommodated the contract. Nevertheless, it was noted that the agency benefited and generated savings from it since the cost of survey is very low as compared to other cost of surveys from other survey organizations. Management further commented that they will require SLC to submit PhilGEPS registration in the next survey this CY 2017.

The Audit Team commented to Management that benefiting or generating savings from a lower cost of service is not a valid justification of the Agency to award directly to a consultant who is not PhilGEPS registered. The Audit Team maintains its stand that only those PhilGEPS registered manufacturer, supplier, distributor, contractor or consultant may participate in government procurement.

B. NON-COMPLIANCE WITH TAX LAWS

Surcharge for fringe benefit tax - P50,080.00

- 3. The Agency could have avoided the payment of P50,080.00 as surcharge for fringe benefit tax pertaining to CY 2007 had the Agency withheld and remitted the correct amount of taxes on time contrary to Section 2.57.A of BIR Revenue Regulation No. 2-98 dated April 17, 1998. Hence, it is a clear indication of negligence/laxity on the part of the personnel in charge tasked with compliance of tax obligation of the agency.**

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 withhold 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 P50,080.00 to the Bureau of Internal Revenue (BIR) pertaining to surcharge on late remittance of fringe 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 that such tax deficiency was caused by under withholding/non-withholding of taxes on fringe benefits received by the employees among others.

The Audit Team was also informed that a letter request to the BIR was made by the agency together with other documentary requirements needed for the abatement or condonation of surcharges, but unfortunately, it was disapproved for lack of legal basis by the BIR Regional Evaluation Board.

The said surcharge is an addition to the penalties previously paid by the agency in CY 2014 amounting to P580,536.49. Had Management judiciously complied with the payment of their tax obligations, the surcharge amounting to P50,080.00 could have been avoided and used to defray other needs/expenses of the agency.

We have recommended that management 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 commented that they will comply with the given recommendations.

C. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES FOR CY 2016

As of December 31, 2016, total suspensions, disallowances and charges amounted to P0.00, P1,234,904.05 and P0.00, respectively. The total amount of disallowances which were issued in CY 2014 are under appeal.

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 CY 2015.

Audit Observations and Recommendations	Reference	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>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.</p> <p>We have recommended that Management take-up the necessary adjusting entry.</p> <p>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.</p>	2015 AAR	Necessary adjusting entries were already made. Completed projects under Construction-in-Progress Account was already reclassified to its respective asset account.	FI	
2. Accounts payable aged more than one year amounting to P3,264,094.39 lacks supporting	2015 AAR	Management already sent various confirmation letters	FI	

Audit Observations and Recommendations	Reference	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>documents, hence no basis to be used to establish the validity of these payables. Consequently, this rendered the account doubtful.</p> <p>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.</p> <p>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.</p>		<p>of Accounts Payable to several creditors. The Accounts Payable account aged more than one year was already reduced to P699,619.75.</p>		
<p>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</p>	<p>2015 AAR</p>	<p>The Accountant already reclassified those unserviceable assets to Other Asset Account and the same was disposed during CY 2016.</p>	<p>FI</p>	

Audit Observations and Recommendations	Reference	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>Assets" account.</p> <p>We have recommended that Management facilitate the immediate disposal of these unserviceable inventories and reclassify them to "Other Assets" account.</p> <p>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.</p>				
<p>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.</p> <p>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.</p>	2015 AAR	<p>Management took cognizance of the recommendation. There were no missing property noted during the 2016 Sillag Festival.</p>	FI	