

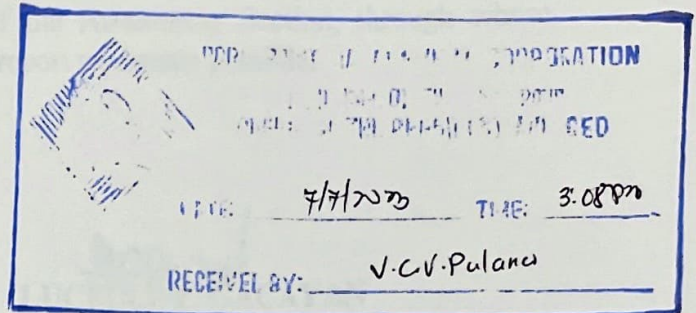


REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
CORPORATE GOVERNMENT SECTOR 7  
WATER DISTRICTS AND OTHER CGS STAND ALONE AGENCIES  
City of San Fernando, La Union

**Office of the Auditor – Audit Team No. R1-03**

**MEMORANDUM**

**FOR : TERESITA A. PAJARA**  
Regional Director  
Commission on Audit  
Regional Office No. I



**THRU : ATTY. ROBERT V. OCAMPO, SR.**  
Supervising Auditor

**DATE : May 8, 2023**

In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, we conducted financial and compliance audit on the accounts and operations of Poro Point Management Corporation, San Fernando City, La Union for the year ended December 31, 2022.

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

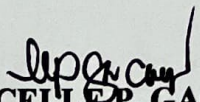
Our report consists of three parts. Part I is the Audited Financial Statements, Part II contains the Observations with the corresponding Recommendations, which were discussed with Management in an exit conference and Part III presents the Status of Implementation by the Auditee of Prior Years' Audit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

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

fairly, in all material respects, the financial position of the Poro Point Management Corporation as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

We discussed our observations and their corresponding recommendations with the agency officials and personnel during the exit conference held on May 5, 2023. We are pleased to note their favorable reactions to our recommendations.

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

  
**LUCELLE P. GACAYAN**  
State Auditor II  
OIC - Audit Team Leader



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
City of San Fernando, La Union

May 8, 2023

**ATTY. FELIX S. RACADIO**  
President and Chief Executive Officer  
Poro Point Management Corporation  
City of San Fernando, La Union

Stamp: PORO POINT MANAGEMENT CORPORATION  
A MEMBER OF THE BCLAGROUP  
OFFICE OF THE PRESIDENT AND CEO  
DATE: 5/29/2023 TIME: 4:49 PM  
RECEIVED BY: VICTORIA CHAVEZ V. PULLON

*Edwin L. Mariano*  
Board Secretary  
May 21, 2023

Dear **President Racadio**:

We are pleased to transmit the Annual Audit Report on the Poro Point Management Corporation (PPMC) for the Calendar Year 2022 pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the PPMC in view of the significance of the exceptions noted in audit as stated in the Independent Auditor's Report.

The audit observations together with the recommended courses of action, which were discussed with the concerned management officials and staff during the exit conference held on May 5, 2023, are presented in detail in Part II of the report.

We request that the recommendations contained in the report be immediately implemented and we appreciate being informed of the action taken thereon within 60 days from receipt hereof pursuant to Section 97 of the General Provisions of the General Appropriations Act of Fiscal Year 2022 (Republic Act No. 11639), using the Agency Action Plan and Status of Implementation (AAPSI) Form to be submitted to the Audit Team.

We acknowledge the support and cooperation that you and your staff extended to the Audit Team, thus, facilitating the submission of this report.

Very truly yours,

  
**TERESITA A. PAJARA**  
Regional Director

*Copy furnished:*

*President of the Republic of the Philippines*  
*Vice-President of the Republic of the Philippines*  
*President of the Senate*  
*Speaker of the House of Representatives*  
*Chairperson-Senate Finance Committee*  
*Chairperson – Appropriations Committee*  
*Secretary of the Department of Budget and Management*  
*Governance Commission of the Government-Owned and Controlled Corporations*  
*Presidential Management Staff, Office of the President*  
*National Library (soft copy)*  
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*COA Commission Central Library (soft copy)*

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

**AGENCY ACTION PLAN and  
STATUS of IMPLEMENTATION  
Audit Observations and Recommendations**  
For the Calendar Year 2022  
As of \_\_\_\_\_

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/ Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date				
					From	To			

Agency Sign-off

\_\_\_\_\_  
Name and Position of Accountable Officer

\_\_\_\_\_  
Date

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed



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

# **ANNUAL AUDIT REPORT**

**on the**

**PORO POINT MANAGEMENT  
CORPORATION**

**City of San Fernando, La Union**

**For the Year Ended December 31, 2022**

## EXECUTIVE SUMMARY

### A. Introduction

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

### B. Financial Highlights

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

#### Comparative Financial Position and Results of Operations

Particulars	2022 (₱)	2021 (₱)	Increase /(Decrease)	
			Amount (₱)	%
Total Assets	226,283,136.05	239,805,201.64	(13,522,065.59)	(5.64)
Total Liabilities	125,163,190.25	134,479,687.32	(9,316,497.07)	(6.93)
Total Equity	101,119,945.80	105,325,514.32	(4,205,568.52)	(3.99)
Total Income	82,227,857.19	84,466,874.88	(2,239,017.69)	(2.65)
Total Expenses	72,257,977.43	61,638,319.89	10,619,657.54	17.23

#### Budget and Actual Expenditures

Particulars	2022 (₱)	2021 (₱)	Increase /(Decrease)	
			Amount (₱)	%
Budget	126,218,283.00	157,470,964.00	(31,252,681.00)	(19.85)
Actual Expenditures	72,257,977.43	61,638,319.89	10,619,657.54	17.23

### C. Scope of Audit

A comprehensive audit was conducted on the accounts and operations of PPMC for the year ended December 31, 2022. The audit was conducted to ascertain the propriety of financial transactions and the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements in accordance with the Philippine Financial Reporting Standards (PFRS). It was also aimed at determining the compliance by the District with applicable laws, rules and

regulations. It also entailed verification/validation on the implementation of prior years' audit recommendations.

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

The Auditor rendered a qualified opinion on the fairness of presentation of the Financial Statements (FS) of PPMC as of December 31, 2022 due to the following:

1. Overstatement of the Accounts Receivable account by ₱1,721,836.68 due to misclassification of Due from Other Government Corporations, Due from Officers and Employees and Other Receivables amounting to ₱1,080,830.00, ₱598,867.67 and 42,139.01, respectively.
2. Improper classification of past due Receivables amounting to ₱1,254,265.39 as Non-Current Assets, which could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
3. Recognition of ₱170,251.46 and ₱69,365.15 Construction Supply Inventories and Other Supplies and Materials Inventories, respectively as Office Supplies Inventories, thus, overstating Office Supplies Inventory account by ₱239,616.61.
4. Understatement of Depreciation Expense and overstatement of the Net Book Value (NBV) of Property, Plant and Equipment (PPE) account by ₱154,100.03 due to inconsistent application of the 5% estimated residual values to PPEs.
5. Non-recognition of Depreciation Expense of PPE items with depreciable amounts thereby overstating Retained Earnings and the NBV of PPE account by ₱113,723.14.

#### **E. Summary of Significant Observations and Recommendations**

In addition to the foregoing observations that materially affected the financial statements, discussed hereunder are the other significant audit observations and recommendations, to wit:

1. The Aging Schedule that supports the ₱2,109,883.23 Accounts Receivable and the ₱296,294.64 Due from Officers and Employees accounts were not maintained and kept providing the necessary details, thus, precluding the Management to monitor and analyze the composition of the accounts and failed to ensure the prompt collection of the receivables. Likewise, the accumulation of past due receivables amounting to ₱1,927,736.44 deprived the Corporation of the funds due to them.

We recommended that Management instruct the Finance Unit to maintain and keep the accounts of the Corporation in such detail as is necessary to meet its



needs to enforce collection and at the same time be adequate to furnish the information needed by the Audit Team to verify the account balances, and to conduct monitoring and analysis of receivable accounts regularly to ensure that these are collected when become due and demandable.

2. Asset and Liability accounts totaling ₱5,823,511.57 and ₱116,292,242.41, respectively were not properly supported with details, thus, failed to meet the needed information of the Audit Team thereby casting doubt on the reliability of the account balances, and consequently affecting the fair presentation of the Financial Statements.

We recommended that Management direct the Finance Unit to prepare, maintain and keep the necessary details of the Asset and Liability account balances as these would support and justify the faithful representation of the balances in the Financial Statements.

3. Various deficiencies were noted on the payments of expense reimbursements of the Board of Directors (BOD), thereby affecting the validity and legality of the transactions.
  - a. Meal expenses amounting to ₱60,868.00 were reimbursed to members of the Board of Directors despite having incurred on dates when there are no official business activities;
  - b. Transportation expenses amounting to ₱148,652.24 represent costs of fuel reimbursed to members of the Board of Directors (BOD) notwithstanding the conduct of board meetings online using the zoom platform, their residence and employment and the specific details appearing in the invoices used to support their claims, and
  - c. Hotel accommodations on account of attending board meetings totaling ₱130,500.00 were provided to members of the Board of Directors (BOD) who are officially residing within the Region where board meetings are held.

We recommended that Management to: (1) stop paying reimbursements of expenses which are not in accordance with existing rules and regulations; (2) cause the refund of the amounts as determined; and (3) adopt control mechanism aimed at ascertaining the necessity and propriety of the amounts of expenses claimed as reimbursements.

Detailed discussions of the observations and recommendations are presented in Part II of this report. These were discussed with Management during the Exit Conference conducted on May 5, 2023, and that comments were incorporated in the report where appropriate.

**F. Status of Implementation of Prior Years' Audit Recommendations**

Of the 5 prior years' audit recommendations, 2 were implemented and 3 were not implemented.

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

As of December 31, 2022, PPMC had no outstanding suspensions and charges, however, its disallowances totaling ₱1,234,904.05 are under appeal.



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**PART I**

**AUDITED FINANCIAL STATEMENTS**



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
CORPORATE GOVERNMENT SECTOR 7  
WATER DISTRICTS AND OTHER STAND ALONE AGENCIES  
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

### **Qualified Opinion**

We have audited the financial statements of the Poro Point Management Corporation (PPMC), which comprise the Statement of Financial Position as at December 31, 2022, and the Statement of Financial Performance, Statement of Changes in Equity, and Statement of Cash Flow and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Bases of Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Poro Point Management Corporation as at December 31, 2022, and its financial performance and its cash flow for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

### **Bases for Qualified Opinion**

The bases for the qualified opinion on the fairness of the presentation of the financial statements of PPMC for the year ended December 31, 2022 were the following:

1. Overstatement of the Accounts Receivable account by ₱1,721,836.68 due to misclassification of Due from Other Government Corporations, Due from Officers and Employees and Other Receivables amounting to ₱1,080,830.00, ₱598,867.67 and 42,139.01, respectively.
2. Improper classification of past due Receivables amounting to ₱1,254,265.39 as Non-Current Assets, which could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.

3. Recognition of ₱170,251.46 and ₱69,365.15 Construction Supply Inventories and Other Supplies and Materials Inventories, respectively as Office Supplies Inventories, thus, overstating Office Supplies Inventory account by ₱239,616.61.
4. Understatement of Depreciation Expense and overstatement of the Net Book Value (NBV) of Property, Plant and Equipment (PPE) account by ₱154,100.03 due to inconsistent application of the 5% estimated residual values to PPEs.
5. Non-recognition of Depreciation Expense of PPE items with depreciable amounts thereby overstating Retained Earnings and the NBV of PPE account by ₱113,723.14.

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

### **Key Audit Matters**

Except for the matters described in the Bases for Qualified Opinion section, we have determined that there are no other key audit matters to communicate in our report.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibility**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**COMMISSION ON AUDIT**

By:

  
**ATTY. ROBERT V. OCAMPO, SR.**  
Supervising Auditor

May 8, 2023





## PORO POINT MANAGEMENT CORPORATION

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

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

The MANAGEMENT of the Poro Point Management Corporation (PPMC) is responsible for the preparation of the financial statement as of December 31, 2022, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the fair presentation of financial statements that are free from material misstatement whether due to fraud, error or negligence, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

**LENIMA B. JUDAN**

Finance Manager

January 27, 2023

Date Signed

**ATTY. FELIX S. RACADIO**

President and CEO/

OIC-Chairman of the Board

January 27, 2023

Date Signed

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

**STATEMENT OF FINANCIAL POSITION**

All Funds  
As at December 31, 2022

ASSETS	Note	2022	2021
<b>Current Assets</b>			
Cash and Cash Equivalents			
Investments	3	24,414,311.69	38,343,774.94
Receivables	4	60,194,133.33	40,533,473.79
Inventories	5	6,516,883.31	14,781,618.54
Other Current Assets	6	766,176.50	1,051,287.03
<b>Total Current Assets</b>	7	<u>1,887,422.46</u>	<u>1,319,508.82</u>
		<u><b>93,778,927.29</b></u>	<u><b>96,029,663.12</b></u>
<b>Non-Current Assets</b>			
Investments			
Investment Property	8	15,015,000.00	15,015,000.00
Property, Plant and Equipment	9	107,204,123.83	116,924,764.20
Intangible Assets	10	9,030,819.54	10,561,032.03
Other Non-Current Assets	11	0.00	20,476.90
<b>Total Non-Current Assets</b>	12	<u>1,254,265.39</u>	<u>1,254,265.39</u>
		<u><b>132,504,208.76</b></u>	<u><b>143,775,538.52</b></u>
<b>TOTAL ASSETS</b>		<u><b>226,283,136.05</b></u>	<u><b>239,805,201.64</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities	13	12,272,622.72	10,433,211.22
Inter-Agency Payables	14	82,795,907.06	96,670,420.59
Trust Liabilities	15	1,864,405.02	1,904,599.38
Other Payables	16	9,793,145.69	7,034,346.37
<b>Total Current Liabilities</b>		<u>106,726,080.49</u>	<u>116,042,577.56</u>
<b>Non-Current Liabilities</b>			
Inter-Agency Payables	17	18,437,109.76	18,437,109.76
<b>Total Non-Current Liabilities</b>		<u>18,437,109.76</u>	<u>18,437,109.76</u>
<b>TOTAL LIABILITIES</b>		<u><b>125,163,190.25</b></u>	<u><b>134,479,687.32</b></u>
<b>EQUITY</b>			
Stockholders' Equity	18	83,143,720.23	83,143,720.23
Retained Earnings/(Deficit)		<u>17,976,225.57</u>	<u>22,181,794.09</u>
<b>Total Equity</b>		<u><b>101,119,945.80</b></u>	<u><b>105,325,514.32</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>226,283,136.05</b></u>	<u><b>239,805,201.64</b></u>

*See Accompanying Notes to Financial Statements*

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

**STATEMENT OF COMPREHENSIVE INCOME**  
All funds  
For the Year Ended December 31, 2022

	Note	2022	2021
<b>INCOME</b>			
Service and Business Income	19	82,227,857.19	84,466,874.88
<b>EXPENSES</b>			
Personnel Services	20	55,496,035.09	48,295,809.72
Maintenance and Other Operating Expenses	21	15,186,329.90	12,080,139.56
Non-Cash Expenses	22	1,575,612.44	1,262,370.61
<b>TOTAL EXPENSES</b>		<b>72,257,977.43</b>	<b>61,638,319.89</b>
<b>PROFIT/LOSS BEFORE TAX</b>		<b>9,969,879.76</b>	<b>22,828,554.99</b>
Income Tax Expense/Benefit		2,357,571.43	5,579,852.49
<b>PROFIT/LOSS AFTER TAX</b>		<b>7,612,308.33</b>	<b>17,248,702.50</b>
Net Assistance/Subsidy/(Financial Assistance/Subsidy)		-	-
<b>NET INCOME</b>		<b>7,612,308.33</b>	<b>17,248,702.50</b>

*See Accompanying Notes to Financial Statements*

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

**STATEMENT OF CHANGES IN EQUITY**  
All Funds

For the year ended December 31, 2022

	Notes	2022	2021
<b>Share Capital</b>			
Balance at Beginning of the Period			
Authorized, issued and fully paid			
800,000 shares, P100.00 par value		68,143,720.23	68,143,720.23
<b>Balance at End of the Period</b>		<b>68,143,720.23</b>	<b>68,143,720.23</b>
<b>Other Equity Investments</b>			
Balance at Beginning of the Period		15,000,000.00	15,000,000.00
Additions		-	-
Deductions		-	-
<b>Balance at End of the Period</b>		<b>15,000,000.00</b>	<b>15,000,000.00</b>
<b>Retained Earnings</b>			
Balance at Beginning of the Period		22,181,794.09	54,140,618.74
Correction of prior year's errors	23	(3,193,525.60)	(1,191,707.93)
As restated		18,988,268.49	52,948,910.81
Dividends	24	(8,624,351.25)	(48,015,819.22)
Net Income (Loss)		7,612,308.33	17,248,702.50
<b>Balance at End of the Period</b>		<b>17,976,225.57</b>	<b>22,181,794.09</b>
<b>TOTAL EQUITY</b>		<b>101,119,945.80</b>	<b>105,325,514.32</b>

*See Accompanying Notes to Financial Statements*

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

**STATEMENT OF CASH FLOW**  
All Funds  
For the year ended December 31, 2022

	2022	2021
<b>Cash Flow from Operating Activities</b>		
Cash Inflow		
Collection of Income/Revenue	81,575,137.31	83,315,613.43
Collection of Receivables	34,110,592.63	17,107,164.90
Receipt of Inter-agency Fund Transfers	21,891,033.32	7,020,987.04
Receipt of proceeds from termination of investment account	40,835,947.73	122,059,640.03
Total Cash Inflow	<u>178,412,710.99</u>	<u>229,503,405.40</u>
Cash Outflow		
Payment of Expenses	68,586,740.97	63,004,621.91
Purchase of Inventories	799,760.40	782,705.26
Payment of Accounts Payable	26,238,988.29	8,554,430.51
Remittance of Personnel Benefit Contributions and Mandatory Deductions	5,906,619.29	14,482,157.95
Adjustments	60,000,000.00	91,278,957.58
Total Cash Outflow	<u>161,532,108.95</u>	<u>178,102,873.21</u>
Net Cash Provided by (used in) Operating Act.	<u>16,880,602.04</u>	<u>51,400,532.19</u>
<b>Cash Flow from Investing Activities</b>		
Cash Inflow		
Receipt of Interest Earned	539,594.03	415,927.04
Cash Outflow		
Purchase/Construction of Investment Property	20,957,765.56	6,895,704.35
Purchase/Construction of Property, Plant and Equipment	1,767,542.51	6,237,861.83
Capital Expenditure projects	-	-
Total Cash Outflow	<u>22,725,308.07</u>	<u>13,133,566.18</u>
Net Cash Provided by (used in) Investing Activities	<u>(22,185,714.04)</u>	<u>(12,717,639.14)</u>
<b>Cash Flow from Financing Activities</b>		
Cash Inflow		
Capex from BCDA	-	-
Cash Outflow		
Payment of Dividends	8,624,351.25	48,015,819.22
Net Cash Provided by (used in) Financing Activities	<u>(8,624,351.25)</u>	<u>(48,015,819.22)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(13,929,463.25)	(9,332,926.17)
<b>Add: Cash and Cash Equivalents, Beginning</b>	38,343,774.94	47,676,701.11
<b>Cash and Cash Equivalents, Ending</b>	<u>24,414,311.69</u>	<u>38,343,774.94</u>

## **Notes to Financial Statements**

### **1. Corporate Information**

BCDA was created under RA No. 7227 dated March 13, 1993. Its 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 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 (JHPDC) as the authorized operating and implementing arm of the BCDA to manage the John Hay Special Economic Zone (JHSEZ) and the PPFZ and its contiguous areas.

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

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

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

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

### **Performance Agreement**

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

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

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

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

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

## **2. Summary of Significant Accounting Policies**

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

## 2.1 Basis of preparation

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

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

## 2.2 Use of Estimates and Judgments

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

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

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

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

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



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

### **2.3 Cash and Cash Equivalents**

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

### **2.4 Supplies and Materials**

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

### **2.5 Investment in Joint Ventures**

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

### **2.6 Property, Plant and Equipment (PPE)**

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

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

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

Assets acquired with value of more than ₱50,000.00 are recorded under Property, Plant and Equipment (PPE) pursuant to COA Circular No. 2022-004 dated May 31, 2022. The threshold shall be applied on an individual asset or per item basis. Each item within the bulk acquisition such as library books, small equipment, computer peripherals, work animals, and the like, will need to meet the amount of below ₱50,000.00 to be recognized as semi-expendable property.

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.

For issued tangible items acquired prior to CY 2022 with amounts from ₱15,000.00 to below ₱50,000.00 previously classified as PPE, the carrying amount shall be expense/charged to Retained Earnings. The corresponding accumulated depreciation shall be closed in the books of accounts.

## 2.7 Revenue Recognition

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

## 2.8 Collections received in trust

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

## 3. Cash and Cash Equivalents

This account consists of the following:

Particulars	2022	2021
Cash in Bank-Local Currency, LBP Opex Current	18,620,322.07	32,829,530.72
Cash in Bank-Local Currency, LBP Capex Current	5,793,989.62	5,514,244.22
<b>Total Cash In Bank-Local Currency</b>	<b>24,414,311.69</b>	<b>38,343,774.94</b>

### Cash in Bank-Local Currency, LBP Opex Current Account

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

### Cash in Bank-Local Currency, LBP Capex Account

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

#### 4. Investments

This is composed of Investment in Time Deposits.

##### Investments in Time Deposits

This account represents authorized placements of time deposit at the LBP with maturity of 180 days, comparative details are shown below:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Investments in Time Deposits-Local Currency	60,194,133.33	40,533,473.79

#### 5. Receivables

The account is composed of the following:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Loans and Receivables Account</i>		
Accounts Receivable	2,109,883.23	1,782,063.10
Interest Receivable	124,421.27	93,217.98
<i>Intra-Agency Receivables</i>		
Due from Parent Corporation - BCDA	3,986,284.17	12,533,759.87
<i>Other Receivables</i>		
Due from Officers and Employees	296,294.64	372,577.59
<b>Total Receivables</b>	<b>6,516,883.31</b>	<b>14,781,618.54</b>

##### Accounts Receivables

The accounts receivable pertains to various receivables from vendors/customers and former Officers of PPMC.

##### Intra-Agency Receivables

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

## Other Receivables

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

## 6. Inventories

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

## 7. Other Current Assets

Other Assets is composed of the following:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Prepayments</i>		
Advances to Contractors	1,668,343.40	678,981.11
Prepaid Registration	-	92,256.83
Other Prepayments		6,888.26
<i>Deposits</i>		
Guaranty deposits	168,884.00	168,884.00
<i>Withholding Tax at Source</i>		
Withholding Tax at Source	50,195.06	51,747.52
<i>Other Assets</i>		
Other Assets	-	320,751.10
<b>Total Other Assets</b>	<b>1,887,422.46</b>	<b>1,319,508.82</b>

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.

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

Withholding Tax at Source pertains to tax withheld by customers for services rendered by PPMC to be applied to the income tax due.

## 8. Investments and Equity in Joint Ventures

This account includes:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Investments in Joint Ventures	15,000,000.00	15,000,000.00
<i>Other Investments</i>		
Investment in Stocks	15,000.00	15,000.00
<b>Total Investments</b>	<b>15,015,000.00</b>	<b>15,015,000.00</b>

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

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

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

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

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

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

### **Other Investments**

The Investment in Stocks represents subscription of shares of stock with PLDT.

## 9. Investment Property

This account consists of:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Investment Property-Land	21,441,469.65	21,441,469.65
Investment Property-Building	20,013,190.52	13,821,515.95
Construction in Progress	65,749,463.66	81,661,778.60
<b>Total Investment Property</b>	<b>107,204,123.83</b>	<b>116,924,764.20</b>

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

There are 47 original land titles already forwarded to BCDA out of the 73 land titles covering 5.43 hectares, more or less. Titles of the remaining lots are still subject to reconstitution as a result of the fire that gutted the Register of Deeds building on August 26, 2000.

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

Investment property-buildings represents PPMC's various 2019 Capex Infrastructure projects with project final acceptance date issued on December 19, 2022. The said completed project will be due for liquidation to BCDA.

Construction in progress held in trust of ₱65,749,463.66 constitutes capital expenditure projects for the construction of a baywalk with an events center, construction of drainage system and slope protection at the San Fernando Airport and 2021 various repair and maintenance projects which are being funded by BCDA. Upon completion, these projects together with relevant documents will be turned-over to BCDA and the corresponding advances granted to PPMC are liquidated.

## 10. Property, Plant and Equipment

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

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Land Improvements	276,082.12	276,082.12
Buildings & Other Structures	12,055,679.41	12,055,679.41
Infrastructure Assets	516,605.02	516,605.02

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Machinery and Equipment	6,262,107.24	11,554,997.51
Furniture, Fixtures and Books	901,045.01	2,834,393.10
Transportation Equipment	8,681,939.06	13,723,397.02
<b>Total</b>	<b>28,693,457.86</b>	<b>40,961,154.18</b>
<i>Less: Accumulated Depreciation</i>	19,662,638.32	30,400,122.15
<b>Total Property, Plant and Equipment</b>	<b>9,030,819.54</b>	<b>10,561,032.03</b>

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

### 11. Intangible Assets

This account consists of computer software used by PPMC in its operations. The total intangible assets were already fully amortized and dropped from the books as of December 31, 2022, due to its obsolescence. The various computer software currently used by PPMC are now pre-installed in computer hardware thus, already part of the ICT Equipment.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Computer Software	-	851,469.58
<i>Less: Accumulated Amortization-Computer Software</i>	-	830,992.68
<b>Total Intangible Asset</b>	<b>-</b>	<b>20,476.90</b>

### 12. Other Non-Current Assets

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

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Other Assets	1,254,265.39	1,254,265.39

### 13. Financial Liabilities

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

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Accounts Payable	12,272,622.72	10,433,211.22

#### 14. Inter-Agency Payables

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

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Due to BIR	1,248,841.21	763,756.74
Due to Pag-ibig	2,276.70	600.00
Due to Philhealth	1,185.95	387.38
Due to SSS	2,317.50	630.00
Due to Parent Corporation - BCDA	81,541,285.70	95,448,855.98
Income Tax Payable	-	456,190.49
<b>Total Inter-Agency Payables</b>	<b>82,795,907.06</b>	<b>96,670,420.59</b>

Due to Parent Corporation pertains to funds released by BCDA for capital expenditure projects such as the construction of a baywalk with an events center, construction of 2019 various infrastructure projects, drainage system and slope protection at the San Fernando Airport per accounting instructions issued by BCDA. PPMC will liquidate the advances made by turning over the completed projects to BCDA. Also included in this account are 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 outstanding airport fees due from Ace Pilots Aviation Academy in the amount of ₱1,009,724.50 subject to a legal move to pursue collections in courts; and the accounts receivable from airport clients of ₱244,540.89.

#### 15. Trust Liabilities

This account consists of trust liabilities, guaranty deposits and security deposit payables. Trust liabilities refer to bid fees collected from bidders. Performance security payable is posted by a bidder to guarantee the faithful performance of its obligations of an awarded contract, which may be forfeited or refunded in accordance with RA 9184. Balances appearing at year-end are as follows:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Trust Liabilities	1,785,405.02	1,834,599.38
Guaranty Deposits Payable	47,000.00	38,000.00
Security Deposit	32,000.00	32,000.00
<b>Total Trust Liabilities</b>	<b>1,864,405.02</b>	<b>1,904,599.38</b>

#### 16. Other Payables

This account consists of bid bond payables, retention payables and miscellaneous payables. Bid bond or bid security is posted by a bidder as a guarantee that the latter will enter into contract with the procuring entity. Retention payable represents the



amount due to the contractor which shall be due for release upon final acceptance of its works to PPMC.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Other Payables	9,793,145.69	7,034,346.37

#### **17. Inter-Agency Payables – Due To Parent Corporation (BCDA)**

This account refers to the cash advances from BCDA for the acquisition of private lots within the Wallace Area which amounted to ₱18,437,109.76.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Due to Parent Corporation-BCDA	18,437,109.76	18,437,109.76

#### **18. Stockholders' Equity**

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

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Stockholders' Equity</i>		
Share Capital	68,143,720.23	68,143,720.23
Other Equity Instruments	15,000,000.00	15,000,000.00
<b>Total Stockholders' Equity</b>	<b>83,143,720.23</b>	<b>83,143,720.23</b>

#### **Share Capital**

PPMC was authorized to issue 800,000 shares at ₱100.00 cost per share. BCDA has approved an increase of authorized capital stock from ₱80 million to ₱300 million per letter dated May 4, 2012.

On October 15, 2014, PPMC wrote a letter to the Governance Commission for Government Owned and Controlled Corporation (GCG), requesting for the latter's endorsement/clearance/recommendation for the amendment of the Articles of Incorporation of PPMC prior to submission to the SEC for approval. On October 27, 2014, GCG directed PPMC to submit documents to be used in the evaluation process of the latter's request. On November 2, 2016, PPMC submitted additional documents required by GCG in the evaluation process. Finally, on November 23, 2016, the GCG approved the request for increase in capitalization of PPMC. PPMC is now reviewing the request for increase in capitalization in coordination with BCDA. The latter has not yet given its final nod on the matter it being the 99% owner of the totality of the stocks of PPMC.

## 19. Service and Business Income

The income of PPMC is derived from the following sources:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<b>Service and Business Income</b>		
<i>Service Income</i>		
Permit Fees	3,502,135.16	3,686,353.79
<i>Business Income</i>		
Management Fees	77,599,733.00	80,271,376.07
Interest Income	539,594.03	509,145.02
<i>Miscellaneous Income</i>		
Miscellaneous Income	586,395.00	-
<b>Total Revenues</b>	<b>82,227,857.19</b>	<b>84,466,874.88</b>

### 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 period ending December 31, 2022, BCDA/PPMC earned a total zone revenue of ₱101,404,433.47, net of ₱53,822,312.00 uncollectible PPIC account subject to litigation.

The entry of Thunderbird Pilipinas Hotels and Resorts, Inc, whose Casino opened for business on April 28, 2006, provided a significant share in the revenues generated. Total percentage share in net winnings of 4% amounted to ₱34,998,811.15 for the period ending December 31, 2022. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals of ₱1,797,646.25.

All collections accruing BCDA are deposited to BCDA's sole bank account.

### Permit Fees

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

## 20. Personal Services

These include the following expenses of PPMC as presented:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Salaries and Wages</i>		
Salaries and Wages-Regular	36,475,713.89	31,460,529.14
<i>Other Compensation</i>		
Personnel Economic Relief Allowance	1,370,954.53	1,374,200.00
Representation Allowance	810,000.00	810,000.00
Transportation Allowance	810,000.00	810,000.00
Clothing/Uniform Allowance	342,000.00	342,000.00
Longevity Pay	-	30,000.00
Overtime and Night Pay	1,133,231.85	1,047,840.28
Year-End Bonus	3,007,525.19	2,626,637.00
Cash Gift	284,999.81	285,000.00
Mid-Year Bonus	2,997,419.00	2,638,609.00
Directors and Committee Members' Fees	1,865,000.00	1,721,000.00
Other Bonuses and Allowances	1,428,000.00	855,000.00
<i>Personnel Benefit Contributions</i>		
Retirement and Life Insurance Premiums	1,403,860.00	1,430,932.50
Pag-ibig Contributions	68,100.00	68,700.00
Philhealth Contributions	603,834.02	385,555.44
Employees Compensation Insurance Premiums	19,830.00	20,370.00
<i>Other Personnel Benefit Contributions</i>		
Terminal Leave Benefits	2,875,566.80	2,389,436.36
<b>Total Personnel Services</b>	<b>55,496,035.09</b>	<b>48,295,809.72</b>

## 21. Maintenance and Other Operating Expenses

PPMC paid the following expenses as presented:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Travelling Expenses</i>		
Travelling Expenses-Local	2,287,899.21	1,190,169.36
<i>Training and Scholarship Expenses</i>		
Training Expenses	173,924.93	140,300.00
<i>Supplies and Materials Expenses</i>		
Office Supplies Expenses	2,505,406.20	2,800,338.06
<i>Utility Expenses</i>		
Electricity Expenses	840,356.86	899,129.41
<i>Communication Expenses</i>		
Postage and Courier Services	36,398.18	32,878.94
Telephone Expenses	730,221.96	760,111.33

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Internet Subscription	55,992.15	44,579.70
<i>Confidential, Intelligence and Extraordinary Expenses</i>		
Extraordinary and Miscellaneous Expenses	142,103.04	248,003.36
<i>Professional Services</i>		
Auditing Services	1,095,151.15	1,244,282.00
<i>General Services</i>		
Janitorial Services	504,190.13	320,995.55
Security Services	1,199,778.02	1,135,285.68
<i>Repair and Maintenance</i>		
Building and Other Structures	371,165.01	26,991.00
Transportation Equipment	130,050.24	84,795.00
Furniture and Fixtures	88,412.44	67,105.00
<i>Taxes, Insurance Premiums and Other Fees</i>		
Taxes, Duties and Licenses	72,761.81	79,616.38
Insurance Expenses	354,906.73	259,847.18
<i>Other Maintenance and Operating Expenses</i>		
Advertising, Promo. and Marketing Expense	636,902.58	353,572.20
Representation Expenses	1,534,111.80	1,243,119.51
Subscription Expenses	20,631.00	2,346.00
Other Main. and Other Operating Expenses	2,405,966.46	1,146,673.90
<b>Total MOOE</b>	<b>15,186,329.90</b>	<b>12,080,139.56</b>

#### Other Maintenance and Other Operating Expenses

This account consists of:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
SP-ISO Certification	65,897.62	155,680.00
SP-Corporate Social Responsibility	338,288.90	403,572.00
SP-Stakeholder Satisfaction Survey	257,649.60	196,257.60
SP-Environmental Management System	1,065.00	304,976.00
BOD-Meals	394,795.20	86,188.30
SP-Automation of Permit System	11,111.11	-
SP-Website Design and Development	260,000.00	-
SP-Competency-Based HR System	2,049.00	-
Christmas Activities	1,075,110.03	-
<b>Total Other MOOE</b>	<b>2,405,966.46</b>	<b>1,146,673.90</b>

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

Program. HELPS stands for the various components of the program – health, education/environment, livelihood program and strengthening linkages.

Also part of the special projects are the ISO Certification, Environmental Management System (EMS), Stakeholder Satisfaction, Website Design and Development, Competency-Based HR System, Automation of Permit System and Christmas Activities.

Stakeholder Satisfaction is one of PPMC’s strategic objectives and is one of the metrics used by the Governance Commission for Government Owned or Controlled Corporation (GCG) and BCDA in assessing PPMC’s performance. Saint Louis College conducted the survey according to the guidelines crafted by GCG.

PPMC aligns with the policy of the state to promote sustainable development by encouraging the business or individual sector to engage in environment improvement activities and advance self-regulation and mandatory compliance with environmental standards. Thus, Macro Vision Consultancy provided technical expertise support to facilitate the establishment of PPMC’s EMS certifiable to ISO 14001:2015 standards.

PPMC gives focus on meeting stakeholders and applicable statutory and legal requirements and commits to continually improve its Quality Management System (QMS). Thus, PPMC has ventured into QMS certification in order to be globally-competitive since ISO certification is a recognized mark for quality worldwide. Once ISO-certified, investors would be assured of quality service which could give PPMC an edge in enticing and retaining investors. PPMC passed the certification audit and surveillance audit conducted by TUV Nord Philippines, Inc. in 2022.

## 22. Non-Cash Expenses

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

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Depreciation</i>		
Depreciation-Buildings and Other Structures	469,320.09	353,930.14
Depreciation-Machinery and Equipment	466,389.87	303,292.51
Depreciation-Transportation Equipment	554,228.88	516,050.32
Depreciation-Furniture, Fixtures and Books	65,196.70	89,097.64
Amortization – Computer Software	20,476.90	-
<b>Total Non-Cash Expenses</b>	<b>1,575,612.44</b>	<b>1,262,370.61</b>

### 23. Retained Earnings

Correction of Prior Year's Errors charged to Retained Earnings as of December 31, 2022, are shown below:

<b>Date</b>	<b>Reference</b>	<b>Particulars</b>	<b>Amount</b>
1/28/2022	JV 13422	Collection of electricity charges for CY 2021 of JJJ-A Construction & Supply (Contractor for the San Fernando. Airport Slope Protection/Drainage System)	45,004.44
2/3/2022	JV 13488	Reimbursement of prior year's expenses	(1,697.00)
2/4/2022	JV 13657	Collection of electricity charges for CY 2021 of JJJ-A Construction & Supply (Contractor for the San Fdo. Airport Slope Protection/Drainage System)	1,096.40
2/10/2022	JV 13531/13532	Loyalty Incentive for CY 2021	(20,000.00)
2/17/2022	JV 13569	Reimbursement of prior year's expenses	(8,460.00)
2/22/2022	JV 13643	Reimbursement of prior year's expenses	(14,870.63)
2/28/2022	JV 13705	Collection of electricity charges for CY 2021 of R.A. Fanglayan General Construction, Inc. (Contractor for the various repair and maintenance works)	6,005.19
3/18/2022	JV 13735/13959	Reimbursement of prior year's expenses	(15,365.93)
3/22/2022	JV 14104	Collection of electricity charges of R. Buffet	6,481.02
3/24/2022	JV 14122/29	Retroactive pay of PPMC Employees-CPCS	(1,436,205.38)
4/30/2022	JV 14235/14387/14673	Reimbursement of prior year's expenses	(72,639.02)
5/12/2022	JV 14834	PBB 2019 of employees	(1,347,801.40)
5/23/2022	JV 14811; 14895; 14896	Collection of electricity charges of prior years from various locators/contractors	115,397.79
5/24/2022	JV 14898	SSS premiums refund	43,280.00

<b>Date</b>	<b>Reference</b>	<b>Particulars</b>	<b>Amount</b>
		(employer share)	
6/3/2022	JV 15067	Receipt of funds-CPCS 2021	1,600,932.00
6/3/2022	JV 15068	Receipt of funds-Outstanding obligations	257.00
6/7/2022	JV 15078	Prior period adjustments	(41,404.90)
6/9/2022	JV 15078; 15111-113	PBB 2019 of employees	(26,680.80)
6/24/2022	JV 15341	Receipt of PBI 2008-2010 from Atty. Agno-Canuto	150,000.00
6/29/2022	JV 14391	Reclassification of receivables	(75,542.11)
6/30/2022	JV 15439	Reclassification of receivables for internet charges-2020-2021	(59,129.75)
7/12/2022	JV 15505	Monetization of leaves for CY 2021	(164,727.00)
7/26/2022	JV 15755	Janitorial services- Nov to Dec 2021	(72,870.91)
9/30/2022	Various reference	Reclassification/adjustment of A/P accts.	761,132.20
11/18/2022	JV 17444-17447	PBI of Board of Directors for CY 2019	(156,875.00)
11/30/2022	JV 17775	Adjustment of payables after final confirmation of balances	113,695.14
11/30/2022	JV 17796	Reclassification of Office Equipment due to increase in capitalization threshold per COA Circular No. 2022-004 dated May 31, 2022	(558,084.74)
11/30/2022	JV 17796	Reclassification of ICT Equipment due to increase in capitalization threshold per COA Circular No. 2022-004 dated May 31, 2022	(1,478,227.62)
11/30/2022	JV 17796	Reclassification of Communication Equipment due to increase in capitalization threshold per COA Circular No. 2022-004 dated May 31, 2022	(5,319.25)
11/30/2022	JV 17796	Reclassification of Furniture and Fixtures due to increase in capitalization threshold per COA Circular No. 2022-004 dated May 31, 2022	(265,373.93)

<b>Date</b>	<b>Reference</b>	<b>Particulars</b>	<b>Amount</b>
12/14/2022	JV 17855; 18407	Reclassification of entries	162,109.61
12/31/2022	JV 18423	Reclassification of Communication Equipment and Furniture and Fixtures due to increase in capitalization threshold per COA Circular No. 2022-004 dated May 31, 2022	(56,889.92)
12/31/2022	JV 18424	Reclassification of accounts (SMI-in transit account)	(320,751.10)
		<b>TOTAL</b>	<b>(3,193,525.60)</b>

#### 24. Dividends

For the dividends due for CY 2021, PPMC remitted an amount of ₱8,624,351.25 which was based on 50% of Net Income.

#### 25. Receipt Of Inter-Agency Fund Transfers

This account pertains to funds received from BCDA for capital expenditure projects such as the CY 2019 Various Capex projects, Drainage System and Slope Protection at the San Fernando Airport. Upon completion of these construction projects, PPMC will liquidate the advances made by turning over the completed projects to BCDA.

#### 26. Status of Pending Litigations

<b>CASE</b>	<b>STATUS/UPDATE</b>
1. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007 Collection of Sum of Money PhP1,031,258.80	-The Honorable Court issued a Notice of Garnishment on July 11, 2018 and served upon BPI and BDO head offices, Makati on July 17, 2018 and July 19, 2018 respectively. BPI and BDO in their reply dated 19 July 2018, stated that the defendant had no account with their bank. Thus, the Sheriff failed to execute the judgment against the Defendant corporation. Defendant ceased operations. Recommend to consider the account as “bad debt” pursuant to the provisions of NIRC.
2. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shipline	- Pending in RTC



CASE	STATUS/UPDATE
<p>Incorporated Re: Expropriation Cases (for eminent domain)</p> <p>3. Bulk Handler’s Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (PPIC) vs. BCDA and PPMC Re: Petition for Injunction brought under the Interim Rules of Procedure Governing Intra-Corporate Controversies (to prevent implementation of PPMC Resolution No. 2006-01-10 declaring the Pre-Incorporation Agreement null and void <i>ab initio</i>.)</p> <p>4. PPMC vs. Poro Exim Corporation Re: Collection of Sum of Money with damages.</p>	<p>-The case is now pending in the Supreme Court. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. Awaiting resolution/decision from the SC for the same is long ripe for resolution/decision.</p> <p>-PPMC filed in court, RTC Branch 26, City of San Fernando, La Union. Summon was served to defendants on 23 November 2018. Mediation failed in Court Annexed Mediation (CAM). Hearing was set for mediation before RTC Branch 26, City of San Fernando, La Union on July 2, 2019. Judicial Dispute Resolution (JDR) is scheduled on February 5, 2020 after several postponements. PPMC presented its first witness on January 8, 2021.</p> <p>Following the withdrawal of the in-house counsel approved by the Court, BCDA and PPMC due to his heavy pressure of work because PPMC has only one lawyer in its department, with the approval of PPMC, BCDA, OGCC and COA, an outside lawyer was hired to handle the case. Plaintiff has rested its case. Defendants’ turn to present its second witness.</p>

<b>ERRATA</b>				
<b>Particulars</b>	<b>Date Published</b>	<b>Location/ Page</b>	<b>As Published in the COA Website</b>	<b>Correction</b>
Annual Audit Report on the Poro Point Management Corporation (PPMC) for the Year Ended December 31, 2022	June 6, 2023	1 <sup>st</sup> paragraph, page 9 of Notes to Financial Statements (NFS)	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.	Its 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.
		1 <sup>st</sup> bullet of page 10 of NFS	PPMC shall record these revenues as Trust Liability and remit the same to BCDA through a designated bank account.	PPMC shall record these revenues as Trust Liability and remit the same to BCDA through a designated bank account solely in the name of BCDA.
		Insert a paragraph before Item 2.7 Revenue Recognition		For issued tangible items acquired prior to CY 2022 with amounts from ₱15,000.00 to below ₱50,000.00 previously classified as PPE, the carrying amount shall be expense/charged to Retained Earnings. The corresponding accumulated depreciation shall be closed in the books of accounts.

## ERRATA

Particulars	Date Published	Location/ Page	As Published in the COA Website	Correction
		Item 8 of page 15 of NFS	8. Investments	8. Investments and Equity in Joint Ventures
		Insert last sentence of last paragraph of page 20 of NFS		The latter has not yet given its final nod on the matter it being the 99% owner of the totality of the stocks of PPMC.
		Delete the whole note for Equity in Joint Venture contained on pages 20 to 21 of NFS	<p>The Pre-Incorporation Agreement entered into on September 24, 1999 by and between the BCDA and JHPDC now, PPMC and Bulk Handlers, Inc. (BHI), a corporation duly organized under Philippine laws, created a joint venture corporation under the name of PPIC.</p> <p>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.</p>	(Delete)

## ERRATA

Particulars	Date Published	Location/ Page	As Published in the COA Website	Correction
			<p>Section 1, paragraph 1.03 also provides that the authorized capital stock of PPIC shall initially be in the amount of ₱100,000,000. BCDA/PPMC shall subscribe to shares equal to ₱30,000,000 constituting 30% ownership of the total outstanding capital stock. On the other hand, BHI and/or its consortium shall subscribe to and fully pay for shares equal to ₱70,000,000.00 for a 70% ownership of the total outstanding capital stock of PPIC.</p> <p>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.</p> <p>To date, PPMC equity share amounts to</p>	

## ERRATA

Particulars	Date Published	Location/ Page	As Published in the COA Website	Correction
			₱15,000,000.00 equivalent to 15% of the total authorized and subscribed capital stock of PPIC.	
		Last sentence of 3 <sup>rd</sup> paragraph of page 22 of NFS	All collections accruing BCDA are deposited to BCDA bank account.	4 <sup>th</sup> paragraph of page 22 of NFS  All collections accruing BCDA are deposited to BCDA's sole bank account.
		Item 20 of page 22 of NFS	20. Personal Services	20. Personnel Services
		Last sentence of 4 <sup>th</sup> paragraph of page 24 of NFS	PPMC procured the services of Saint Louis College to undertake the survey according to the guidelines crafted by GCG.	Saint Louis College conducted the survey according to the guidelines crafted by GCG.
		Last sentence of 5 <sup>th</sup> paragraph of page 24 of NFS	Thus, PPMC procured and engaged the services of Macro Vision Consultancy to provide technical expertise support to facilitate the establishment of PPMC's EMS certifiable to ISO 14001:2015 standards.	Thus, Macro Vision Consultancy provided technical expertise support to facilitate the establishment of PPMC's EMS certifiable to ISO 14001:2015 standards.
		Item 2, BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shipside Incorporated	From  -Defendants filed a petition for Certiorari from the decision of the Court of Appeals to remand the case to the	To  -Pending in RTC

## ERRATA

Particulars	Date Published	Location/ Page	As Published in the COA Website	Correction
		<p>Re: Expropriation Cases (for eminent domain), of Status of Pending Litigations, page 28 of NFS</p>	<p>trial court. The case is pending in the Supreme Court (SC). PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. Awaiting resolution from the SC in other pending incidents.</p> <p>-BCDA opted to wait for the final decision of the higher court and did not approve the proposal to enter into a compromise agreement with BHI. The case is pending in the Supreme Court where BCDA elevated the adverse decision of the Court of Appeals. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. No feedback yet from OGCC. No latest feedback from the handling lawyers, OGCC and OSG.</p>	

## ERRATA

Particulars	Date Published	Location/ Page	As Published in the COA Website	Correction
		Item 3, Bulk Handler's Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (PPIC) vs. BCDA and PPMC, of Status of Pending Litigations, page 29 of NFS	From  PPMC filed in court, RTC Branch 26, City of San Fernando, La Union. Summon was served to defendants on 23 November 2018. Mediation failed in Court Annexed Mediation (CAM). Hearing was set for mediation before RTC Branch 26, City of San Fernando, La Union on July 2, 2019. Judicial Dispute Resolution (JDR) is scheduled on February 5, 2020 after several postponements. PPMC presented its first witness on January 8, 2021. Next hearing was set for January 29, 2021.	To  -The case is now pending in the Supreme Court. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC) as the handling and statutory counsel. Awaiting resolution/decision from the SC for the same is long ripe for resolution/decision.
		Item 4, PPMC vs. Poro Exim Corporation Re: Collection of Sum of Money with damages, of Status of Pending Litigations, page 29 of NFS	From  Following the compliance of withdrawal of the in-house counsel, PPMC hired a lawyer outside to handle the case. Plaintiff rested in its case. Defendants' turn to present evidence.	To  -PPMC filed in court, RTC Branch 26, City of San Fernando, La Union. Summon was served to defendants on 23 November 2018. Mediation failed in Court Annexed Mediation (CAM). Hearing was set for mediation before RTC Branch 26, City of San Fernando, La Union on July 2, 2019.

**ERRATA**

<b>Particulars</b>	<b>Date Published</b>	<b>Location/ Page</b>	<b>As Published in the COA Website</b>	<b>Correction</b>
				<p>Judicial Dispute Resolution (JDR) is scheduled on February 5, 2020 after several postponements. PPMC presented its first witness on January 8, 2021.</p> <p>Following the withdrawal of the in-house counsel approved by the Court, BCDA and PPMC due to his heavy pressure of work because PPMC has only one lawyer in its department, with the approval of PPMC, BCDA, OGCC and COA, an outside lawyer was hired to handle the case. Plaintiff has rested its case. Defendants' turn to present its second witness.</p>

**Authorized by:**

  
**TERESITA A. UAJARA**  
 COA Region I, Director

**Date:**



## **PART II**

# **OBSERVATIONS AND RECOMMENDATIONS**

## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AUDIT

#### *Improper recognition of Accounts Receivable - ₱1,721,836.68*

1. The ₱2,109,883.23 year-end balance of Accounts Receivable includes ₱1,721,836.68 receivables not arising from regular trade and business transactions, which is not in accordance with the International Accounting Standards (IAS) 1 and the Revised Chart of Accounts (RCA), thereby overstating the account and understating Due from Other Government Corporations, Due from Officers and Employees and Other Receivables by ₱1,080,830.00, ₱598,867.67 and ₱42,139.01, respectively.

1.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions **in accordance with the definitions and recognition criteria** for assets, liabilities, income, and expenses set out in the Framework.

1.2 The RCA provides the definition of Accounts Receivable account as follows:

This account is debited to recognize the amount due from customers arising from regular trade and business transactions. This is also used to recognize the amount of billings made to the customer related to construction contract. This account is credited upon collection, transfers, write-off, and/or adjustments of receivables.

1.3 Review of the Accounts Receivable account of the Corporation as of December 31, 2022, disclosed a year-end balance of ₱2,109,883.23. The said balance is supported by its Aging Schedule. However, the schedule does not provide the necessary details of the ₱2,109,883.23 accounts receivable.

1.4 Initially, Management disclosed that PPMC has no receivables pertaining to revenues from customers as these were being recorded by its parent company – the BCDA. Thus, the Audit Team reiterated the provision in the RCA which states that a receivable qualifies as an Accounts Receivable when arising from regular trade and business transactions.

However, the Audit Team was later informed that the amount of ₱388,046.55 pertains to regulatory fees due from Thunderbird Pilipinas Hotels and Resorts (TPHR), thus correctly recorded as Accounts Receivable. While the remaining amount of ₱1,721,836.68 consists of Due from Other Government Corporations, Due from Officers and Employees and Other Receivables broken down as ₱1,080,830.00, ₱598,867.67, and ₱42,139.01, respectively. As such, it can be concluded that Management overlooked recording the ₱1,721,836.68 as Accounts Receivable.

- 1.5 Consequently, the year-end balance of Accounts Receivable is overstated by ₱1,721,836.68 and the receivable accounts - Due from Other Government Corporations, Due from Officers and Employees and Other Receivables are understated by ₱1,080,830.00, ₱598,867.67, and ₱42,139.01, respectively.
- 1.6 **We recommended that Management direct the Accountant to keep and maintain complete details of the ₱388,046.55 Accounts Receivable and immediately reclassify the ₱1,080,830.00, ₱598,867.67, and ₱42,139.01 to Due from Other Government Corporations, Due from Officers and Employees and Other Receivables, respectively for a fair presentation of the accounts in the Financial Statements.**
- 1.7 Management agreed and had reclassified its Accounts Receivable to its appropriate receivable accounts supported with Journal Entry Voucher No. 00019784 dated March 31, 2023.

***Past Due Receivables presented as Non-Current Assets totaling ₱1,254,265.39***

2. **Past due receivables totaling ₱1,254,265.39 were presented as Non-Current Assets in the Statement of Financial Position, instead of Current Assets, which is not in conformity with International Accounting Standards (IAS) 1, thus, affecting the fair presentation of the Financial Statements.**

- 2.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

2.2 Item 1.66 provides,

An entity classifies an asset as current when:

- a. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- b. It holds the asset primarily for the purpose of trading;
- c. It expects to realize the asset within twelve months after the reporting period; or
- d. The asset is cash or a cash equivalent unless the asset is restricted for at least twelve months after the reporting period.

If none of the above criteria is met, an asset is classified as non-current.

2.3 The Statement of Financial Position of the Corporation as of December 31, 2022, showed Non-Current – Other Assets amounting to ₱1,254,265.39. Review of the Notes to FS revealed that this balance consist of past due receivables, ₱1,009,724.50 of which pertains to receivables from Ace Pilots Aviation Academy, Incorporated. A civil case for Collection of Sum of Money was filed and the Honorable Court issued a Notice of Garnishment on July 11, 2018, and was served upon BPI and BDO head offices, Makati on July 17, 2018, and July 19, 2018, respectively. BPI and BDO replied that the defendant had no account with their banks. Thus, the Sheriff failed to execute the judgment against the defendant Corporation. The latest update was that defendant already ceased operations.

2.4 It bears emphasizing, that based on the above-quoted provision of IAS 1.66, assets which an entity expects to realize within the normal operating or within 12 months after the reporting period are current assets. In the case of receivables, the phrase to realize would mean to collect. An entity begins to expect the collection of receivables when it becomes due and demandable. With the Notice of Garnishment issued by the Court in 2018, the amount owed by the Aviation Academy is already past due. Since the ₱1,009,724.50 receivable had become overdue, it is appropriate to classify this as current assets.

2.5 With regard to the remaining ₱244,540.89, the NFS disclosed that “*The accounts receivable-current of ₱244,540.89 refer to collectibles from airport users representing revenues generated within the PPFZ held in trust by PPMC for BCDA*”. As it is, the NFS itself stated that this amount is current.

- 2.6 **We recommended that Management require the Finance Unit to reclassify the Non-Current Assets - Other Assets as Current Assets – Other Receivables for fair presentation in the Financial Statements.**
- 2.7 Management commented that they will comply with the recommendation. Further, Management had reclassified its Non-Current Assets-Other Assets to Current Assets-Other Receivables supported by Journal Entry Voucher No. 00019730.

***Doubtful composition of Inventory account - ₱766,176.50***

**3. The Inventories of the Corporation which only include Office Supplies Inventory (OSI) account amounting to ₱766,176.50 in the Statement of Financial Position is inconsistent with the Report on Physical Count of Inventories, which is not in conformity with International Accounting Standards (IAS) 1, thus, casting doubt on the accuracy and reliability of its year-end balance and consequently affecting its fair presentation in the Financial Statements.**

3.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

3.2 Likewise, Item 17 of the Standard provides that,

An entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

Xxx

(b) to present information, including accounting policies, in a manner that provides relevant, **reliable**, comparable and understandable information.

3.3 The Statement of Financial Position (SFPo) as of December 31, 2022, showed that the Corporation has only one class of Inventory which is its OSI amounting to ₱766,176.50. While the Notes to Financial Statements disclosed that the Inventories of the Corporation includes office supplies inventory, accountable forms, food supplies, chemical and filtering

supplies inventory, construction materials and electrical supplies inventory. To verify the reliability of the account balance, we have reviewed the Report on Physical Count of Inventories (RPCI) prepared by the Property Unit as of December 22, 2022. The RPCI disclosed that the Committee has physically counted OSI, Janitorial Supplies, Common Groceries and Construction Supplies. It was further noted that the RPCI does not show the total cost of inventories physically counted as of December 22, 2022, but reflected the total cost of inventories physically counted as of November 30, 2022, which amounted to ₱1,002,634.01. Information regarding the physical count conducted on December 22, 2022, only includes the actual quantities on hand. Details of purchases and issuances for the period December 23-31, 2022 were also not provided. As such, a direct comparison between the year-end balance and the RPCI submitted could not be made.

- 3.4 However, review of the SFPO as of November 30, 2022, affirmed the fact that on record, the Corporation only held OSI under its Inventories. For this period, the balance amounted to ₱811,462.12. Clearly, there was inconsistency as to the composition of inventories that the Corporation actually held and as presented in the SFPO. Likewise, comparing the total costs of inventories as of November 30, 2022, resulted in a discrepancy of ₱191,171.89. With this, although the RPCI submitted is not updated as of December 31, 2022, the noted inconsistency and discrepancy cast doubt on the accuracy and reliability of the inventory balance presented in the Financial Statements of the Corporation as of December 31, 2022. Given that these deficiencies exist even in prior months, it can be deduced that the Finance Unit and the Property Unit are not reconciling their records regularly.
- 3.5 IAS 1 requires that financial statements must present fairly the financial position of an entity. The standard further provides among others that a fair presentation of financial position requires reliable information. Reliability connotes the degree to which the result of a measurement, calculation, or specification can be depended on to be accurate. With this, the inventories in the Financial Statements should be comparable with the RPCI to strengthen the dependability of information that users of Financial Statements need to form an intelligent financial decision.
- 3.6 **We recommended that Management direct:**
- a. **The Finance Unit and the Property Unit to reconcile their inventory records regularly, and**
  - b. **The Finance Unit adjusts its records accordingly for a fair presentation of inventory balance in the Financial Statements.**

- 3.7 Management reclassified its Office Supplies Inventory to Construction Supplies Inventory and Other Supplies and Materials Inventory amounting to ₱170,251.46 and ₱69,365.15, respectively as supported by Journal Entry Voucher No. 00019813 dated March 31, 2023.

***Non-recognition of Depreciation Expense for PPE items totaling ₱2,109,907.80***

4. **Depreciation Expenses for PPE items totaling ₱2,109,907.80 were not recognized for CY 2022, which is not in accordance with International Accounting Standards (IAS) 16, thereby understating Depreciation Expense and Accumulated Depreciation and consequently overstating the Retained Earnings of the Corporation and carrying amounts of the PPE items.**

- 4.1 The objective of IAS 16 is to prescribe the accounting treatment for PPE. Item 52 of the Standard provides,

Depreciation is recognized even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

- 4.2 Further, Item 55 states that “*depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated*”.

- 4.3 Review of the lapsing schedule of the Corporation disclosed that items of PPE with an aggregate cost of ₱2,109,907.80 were not provided with Depreciation Expense for CY 2022. Further review of these items revealed the following details:

PPE Account - Asset ID	Acquisition Cost (AC) (₱)	Accumulated Depreciation as of 12/31/2022 (₱)	Carrying Amount (CA) as of 12/31/2022 (₱)	Residual Value (₱)	Depreciable Amount (₱)
<b>BUILDINGS</b>					
BLDG-00002	1,216,592.80	1,102,722.75	113,870.05	60,829.64	53,040.41
<b>Sub-Total</b>	<b>1,216,592.80</b>	<b>1,102,722.75</b>	<b>113,870.05</b>	<b>60,829.64</b>	<b>53,040.41</b>
<b>INFORMATION AND COMMUNICATION TECHNOLOGY EQUIPMENT</b>					
2015OE0021	55,000.00	40,195.83	14,804.17	2,750.00	12,054.17
2016OE0059	64,990.00	27,945.69	37,044.31	3,249.50	33,794.81
<b>Sub-Total</b>	<b>119,990.00</b>	<b>68,141.52</b>	<b>51,848.48</b>	<b>5,999.50</b>	<b>45,848.98</b>
<b>MOTOR VEHICLES</b>					
20VE0909-01-01	773,325.00	719,825.00	53,500.00	38,666.25	14,833.75
<b>Sub-Total</b>	<b>773,325.00</b>	<b>719,825.00</b>	<b>53,500.00</b>	<b>38,666.25</b>	<b>14,833.75</b>
<b>TOTAL</b>	<b>2,109,907.80</b>	<b>1,890,689.27</b>	<b>219,218.53</b>	<b>105,495.39</b>	<b>113,723.14</b>

- 4.4 Based on the table, there are four items of PPE which still have depreciable amounts since residual values do not exceed its carrying amounts. Suffice it to say these PPE items are not yet fully depreciated. To emphasize, IAS 16 states that depreciation ceases when an asset is fully depreciated. As such, depreciation expense for these PPE items should still have been recognized in the profit or loss of the Corporation.
- 4.5 Nonetheless, it was observed that the Corporation had recognized depreciation expenses for other PPE items, thus, it can be presumed that this deficiency has been overlooked by the Finance Unit. Due to limited information regarding these four PPE items, the Audit Team could not recommend the appropriate adjusting entry for noted deficiency.
- 4.6 We recommended that Management direct the Finance Unit to review and analyze the details of the four PPE items and take up the necessary adjusting entry to correct the Retained Earnings and the carrying amounts of the four PPE items accordingly.**
- 4.7 Management had prepared the necessary adjusting entries to correct the Retained Earnings and the NBV of the four PPEs as supported by Journal Entry Voucher No. 00019729 dated March 31, 2023.

***Inconsistent Application of the 5% Residual Value for PPE amounting to ₱4,505,679.69***

- 5. The Corporation's policy on the application of five percent residual value was not consistently applied to properties with an aggregate cost of ₱4,505,679.69, which is not in conformity with COA Circular No. 2017-004 dated December 13, 2017, thus, rendering the Net Book Value of PPE account overstated by ₱154,100.03.**
- 5.1 COA Circular No. 2017-004 prescribes the guidelines on the preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises.
- 5.2 Item 6 (e) (3) of the Circular provides that,
- The effect on the recognition of depreciation as a result of the change in the estimated residual value to at least five percent (5%) of the cost of the asset shall be applied prospectively.



5.3 Review of the lapsing schedule of the Corporation revealed the following information:

PPE Account - Asset ID	Acquisition Cost (AC)	Accumulated Depreciation as of 12/31/2022	NBV as of 12/31/2022	Should be NBV - at least 5% of AC	Understate- ment of NBV
<b>OFFICE EQUIPMENT</b>					
19OE9707-01-01	91,200.00	91,199.00	1.00	4,560.00	(4,559.00)
19OE9707-01-02	91,200.00	91,199.50	0.50	4,560.00	(4,559.50)
19OF9710-05-01	52,264.00	52,263.00	1.00	2,613.20	(2,612.20)
19PE9807-01-01	78,797.50	78,796.50	1.00	3,939.88	(3,938.88)
20OE0004-01-01	73,000.00	72,999.00	1.00	3,650.00	(3,649.00)
20OE0704-27-01	81,252.83	81,251.83	1.00	4,062.64	(4,061.64)
20OE0704-29-01	96,916.68	96,915.68	1.00	4,845.83	(4,844.83)
20OF0605-02-01	64,659.90	64,658.90	1.00	3,233.00	(3,232.00)
20OF0608-09-01	70,000.00	69,999.00	1.00	3,500.00	(3,499.00)
<b>Sub-Total</b>	<b>699,290.91</b>	<b>699,282.41</b>	<b>8.50</b>	<b>34,964.55</b>	<b>(34,956.05)</b>
<b>MOTOR VEHICLE</b>					
19VE9703-04-01	700,000.00	699,999.00	1.00	35,000.00	(34,999.00)
20 VE 1209-04-1	1,606,970.91	1,547,070.91	59,900.00	80,348.55	(20,448.55)
20VE0612-28-01	974,393.15	963,119.71	11,273.44	48,719.66	(37,446.22)
<b>Sub-Total</b>	<b>3,281,364.06</b>	<b>3,210,189.62</b>	<b>71,174.44</b>	<b>164,068.20</b>	<b>(92,893.76)</b>
<b>FURNITURE AND FIXTURES</b>					
20OF0605-05-01	155,024.72	155,023.72	1.00	7,751.24	(7,750.24)
20OF0606-20-01	370,000.00	369,999.99	0.01	18,500.00	(18,499.99)
<b>Sub-Total</b>	<b>525,024.72</b>	<b>525,023.71</b>	<b>1.01</b>	<b>26,251.24</b>	<b>(26,250.23)</b>
<b>TOTAL</b>	<b>4,505,679.69</b>	<b>4,434,495.74</b>	<b>71,183.95</b>	<b>225,283.98</b>	<b>(154,100.03)</b>

5.4 As can be gleaned from the table, the five percent residual value was not applied to its PPE totaling ₱4,505,679.69. As such, the PPE NBV of the Corporation was understated by ₱154,100.03, consequently affecting its fair presentation in the Financial Statements. These may have been overlooked by the Corporation as it was observed that residual values of most of its PPE were correctly adjusted at five percent.

5.5 We recommended that Management instruct the Finance Unit to consistently effect the application of five percent residual value to its ₱4,505,679.69 PPE and to take up the following adjusting entry:

Accumulated Depreciation	
Office Equipment	34,956.05
Motor Vehicle	92,893.76
Furniture and Fixtures	26,250.23
Retained Earnings	154,100.03

5.6 To correct the NBV of the PPE items, Management had adjusted its accumulated depreciation and retained earnings through Journal Entry Voucher No. 00019722 dated March 31, 2023.

***Insufficient details for various Asset and Liability Accounts - ₱5,823,511.57 and ₱116,292,242.41***

**6. Asset and Liability accounts totaling ₱5,823,511.57 and ₱116,292,242.41, respectively were not properly supported with details, which is not in conformity with International Accounting Standards (IAS) 1 and Section 111 of Presidential Decree (PD) No. 1445, thereby casting doubt on the reliability of the account balances, and consequently affecting the fair presentation of the Financial Statements.**

6.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

6.2 Likewise, Item 17 of the Standard provides that,

An entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

Xxx

(b) to present information, including accounting policies, in a manner that provides relevant, **reliable**, comparable and understandable information.

6.3 In the conduct of our audit engagement, we always make use of PD No. 1445 as a reference which laid down the general audit objectives which state among others that the 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. While in the audit of liabilities, the review shall seek to establish that all obligations of the agency have been accurately recorded and only bona fide obligations have been included. Premised on these audit objectives, Section 111 of the same law requires that,

The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.

- 6.4 In the course of our audit of the Financial Statements of the Corporation for CY 2022, the necessary details of the following account balances were not immediately available:

Accounts	Year-End Balance (₱)
<b>ASSET Accounts</b>	
Due from Parent Corporation	3,986,284.17
Advances to Contractors	1,668,343.40
Guaranty deposits	168,884.00
<b>Sub-Total</b>	<b>5,823,511.57</b>
<b>LIABILITY Accounts</b>	
Accounts Payable	12,272,622.72
Due to BIR	1,248,841.21
Due to Phil health	1,185.95
Trust Liabilities	1,785,405.02
Customer's Deposit Payable	47,000.00
Guaranty/Security Deposits Payable	32,000.00
Other payables	34,986.55
Due to Officers and Employees	891,805.50
Due to Parent Corporation	18,437,109.76
Due to Parent Corporation	81,541,285.70
<b>Sub-Total</b>	<b>116,292,242.41</b>
<b>TOTAL</b>	<b>122,115,753.98</b>

- 6.5 Thus, as can be gleaned from the table, the Audit Team was not able to ascertain the appropriateness of the items composing ₱5,823,511.57 asset accounts or whether the liabilities of ₱116,292,242.41 only include bona fide obligations of the Corporation. As such, the reliability of the account balances is uncertain. Consequently, the fairness of presentation of the balances of the Asset and Liability Accounts in the Financial Statements could not be affirmed.
- 6.6 **We recommended that Management direct the Finance Unit to prepare, maintain and keep the necessary details of the Asset and Liability account balances as these would support and justify the faithful representation of the balances in the Financial Statements.**
- 6.7 Management submitted the details of the accounts.

**AUDITOR’S REJOINDER**

6.8 The Audit Team verified the report submitted by Management and noted the following:

<b>Accounts</b>	<b>Audit Remarks</b>
Due from Parent Corporation	Specific details of the account balance were not provided. Still subject to further verification.
Advances to Contractors	Details were provided.
Guaranty deposits	Some details are still subject to further verification.
Accounts Payable	Particulars of the recorded payables were not provided.
Due to BIR	Details were provided.
Due to Phil health	Details were provided.
Trust Liabilities	Details were provided.
Customer's Deposit Payable	Details were provided.
Guaranty/Security Deposits Payable	Details were provided.
Other payables	Particulars of the recorded payables were not provided.
Due to Officers and Employees	Particulars of the recorded payables were not provided.
Due to Parent Corporation	Specific details of the account balance were not provided. Still subject to further verification.
Due to Parent Corporation	Specific details of the account balance were not provided. Still subject to further verification.

***Improper presentation of Liability Accounts in the Statement of Financial Position – 9,758,158.50***

**7. Trust Liabilities-Guaranty/Security Deposits Payable, Intra-Agency Payables – Due to Other Funds and Financial Liabilities - Due to Officers and Employees amounting to ₱ 8,845,453.64, ₱20,900.00 and 891,805.50, respectively were inappropriately presented under Other Payables, which is not in conformity with the International Accounting Standards (IAS) 1 and the Revised Chart of Accounts (RCA), thereby affecting the fair presentation of the Financial Statements.**

7.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation

requires the faithful representation of the effects of transactions, other events, and conditions **in accordance with the definitions and recognition criteria** for assets, liabilities, income, and expenses set out in the Framework.

- 7.2 Review of the Notes to Financial Statements of the Corporation as of December 31, 2022, disclosed that the Other Payables account of the Corporation amounting to ₱9,793,145.69 is composed of the following accounts:

Account	Amount (₱)
Other Payable – Retention Payable	8,845,453.64
Other Payable – Due to Other Funds	20,900.00
Other Payable – Due to Officers & Employees	891,805.50
Other Payables	34,986.55
<b>TOTAL</b>	<b>9,793,145.69</b>

- 7.3 Due to the nature of the items, the Other Payables - Retention Payable , Due to Other Funds and Due to Officers and Employees totaling ₱9,758,159.14 should have been recorded as Trust Liabilities-Guaranty/Security Deposits Payable, Intra-Agency Payables – Due to Other Funds and Financial Liabilities - Due to Officers and Employees, respectively. As provided for in the RCA, these accounts are defined as:

Trust Liabilities-Guaranty/Security Deposits Payable – This account is credited to recognize the incurrence of liability arising from the receipt/withholding of cash equivalents to guaranty (a) that the winning bidder shall enter into contract with the procuring entity; (b) performance by the contractor of the terms of the contract; and (c) that the contractor shall correct all discovered defects and clear/settle all third-party liabilities.

Intra-Agency Payables – Due to Other Funds – This account is credited to recognize the authorized receipt of funds from one fund to another fund maintained by the same government corporation.

Financial Liabilities - Due to Officers and Employees – This account is credited to recognize incurrence of liability to officers and employees for salaries, benefits and other emoluments including authorized expenses paid in advance by the officers and employees, and/or adjustments.

- 7.4 While the Other Payable is defined as “*credited to recognize other liabilities not falling under any of the specific payable accounts*”.
- 7.5 Finding that there are accounts available, we find the use of Other Payable account inappropriate.
- 7.6 The Corporation may have overlooked presenting Guaranty/Security Deposits Payable, Due to Other Funds, and Due to Officers and Employees under Other Payables however, adjusting the presentation of these accounts is necessary as this affects the fair presentation of the Financial Statements of the Corporation.
- 7.7 We recommended that Management instruct the Finance Unit to present Guaranty/Security Deposits Payable, Due to Other Funds, and Due to Officers and Employees under Trust Liabilities, Intra-Agency Payables and Financial Liabilities, respectively for a fair presentation of the Financial Statements.**
- 7.8 Management commented that they will comply with the recommendation.

## **B. COMPLIANCE AUDIT**

### ***Insufficient Information Disclosed in the Aging Schedule of Various Receivables***

- 8. The Aging Schedule that supports the ₱2,109,883.23 Accounts Receivable and the ₱296,294.64 Due from Officers and Employees accounts were not maintained and kept providing the necessary details, which is not in accordance with Section 111 of Presidential Decree (PD) No. 1445, thus, precluding the Management to monitor and analyze the composition of the accounts and failed to ensure the prompt collection of the receivables. Likewise, the non-compliance of the Corporation with Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016, resulted in the accumulation of past due receivables amounting to ₱1,927,736.44, thereby depriving the Corporation of the funds due to them.**
- 8.1 Section 111 of PD No. 1445 provides,
- The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.
- 8.2 In the verification of the Accounts Receivable and Due from Officers and Employees accounts of the Corporation as of December 31, 2022, aging of the receivables was provided to support the account balances amounting to

₱2,109,883.23 and ₱296,294.64, respectively. Review of the schedule showed that the following were the only available information – name of the obligor, amounts due and age of the receivable. Specific periods of being outstanding were not provided for those receivables aged 3 years and onwards. Details are shown below:

**Accounts Receivable**

<b>Due From</b>	<b>Amount (₱)</b>	<b>Current (₱)</b>	<b>Past Due (Over 1 year and onwards) (₱)</b>
Corporate Directors	178,231.57	2,801.42	175,430.15
Corporation Provident Fund	42,139.01		42,139.01
<b>Sub-Total</b>			<b>217,569.16</b>
BIR	1,009,763.33	403,850.72	605,912.61
GSIS	5,992.15		5,992.15
SSS	71,066.67	70,000.00	1,066.67
Thunderbird HPRI	382,346.55		382,346.55
Others	420,343.95	450.00	419,893.95
<b>TOTAL</b>	<b>2,109,883.23</b>	<b>477,102.14</b>	<b>1,632,781.09</b>

- 8.3 As can be gleaned from the table, 77% of the Accounts Receivable, or ₱1,632,781.09 is past due, 13% of which or ₱217,569.16 is due from those connected with the Corporation.

**Due from Officers and Employees**

<b>Due From</b>	<b>Amount (₱)</b>	<b>Current (₱)</b>	<b>Past Due (Over 1 year and onwards) (₱)</b>
Corporate Employees	296,294.64	1,339.29	294,955.35
<b>TOTAL</b>	<b>296,294.64</b>	<b>1,339.29</b>	<b>294,955.35</b>

- 8.4 In sum, past due receivables from those connected with the Corporation amounted to ₱512,524.51. With this, it bears emphasizing Section 6.1 of COA Circular No. 2016-005 which requires that,

All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable and that cash advances and fund transfers are liquidated within the prescribed period depending upon their nature and purpose;

- 8.5 The Corporation, being a government entity, is mandated to conduct regular monitoring and analysis of its receivable accounts to ensure that these are collected when they become due. However, as observed, 1,927,736.44 were already past due and still outstanding receivable in the

books of the Corporation. More important is the fact that ₱512,524.51 of which is due from those connected with the Corporation where the latter could have easily enforced its collection. Likewise, the Corporation is continuously transacting business with BIR, GSIS, SSS, and TPHRI but their past-due obligations to the Corporation remained unsettled. As a result, the Corporation is deprived of the funds due to them.

8.6 Based on the foregoing, it can be inferred that the Corporation failed to comply with Section 6.1 of the COA Circular. This is attributable to the absence of necessary details in the aging schedule which supports the account balances. Monitoring and analysis could hardly be done if data were not available.

**8.7 We recommended that Management instruct the Finance Unit:**

**a. Maintain and keep the accounts of the Corporation in such detail as is necessary to meet its needs to enforce collection and at the same time be adequate to furnish the information needed to verify the account balances, and**

**b. Conduct monitoring and analysis of receivable accounts regularly to ensure that these are collected when become due and demandable.**

8.8 Management submitted the details of Accounts Receivable, however the ₱639,987.16 of the account balance and the ₱296,294.64 of Due from Officers and Employees will still be subjected to further verification and reconciliation.

***Meal expenses incurred beyond official business activities amounting to ₱128,080.30***

**9. Meal expenses amounting to ₱128,080.30 were reimbursed to members of the Board of Directors despite having incurred on dates when there are no official business activities, contrary to Section 4 of PD No. 1445, COA Circular 2012-001 dated June 14, 2012 and BCDA Revised Policy and Guidelines on the Reimbursable Expenses of the Board of Directors (BCDA RPGRE) dated October 25, 2017, thereby affecting the validity and legality of the transactions.**

9.1 Section 4 of PD No. 1445 sets out the fundamental principles governing financial transactions and operations of any government agency which state among others:

Government funds or property shall be spent or used solely for public purpose.



9.2 Likewise, COA Circular 2012-001 provides the general requirements for all types of expenditures which includes:

Xxx

3. Legality of transactions and conformity with laws, rules, and regulations

9.3 While the BCDA RPGRE expressly states that:

Reimbursement for meals or representation expenses during meetings is allowed, subject to the following conditions Xxx

9.4 The members of the governing board of the Corporation are granted the authority to reimburse the necessary expenses incurred in the performance of official function. Reimbursable expenses include traveling expenses, transportation expenses, communication expenses and representation expenses.

9.5 Post audit of the reimbursements of the members of the Board of Directors (BOD) disclosed that ₱128,080.30 worth of meal expenses were spent before and after actual dates of board meetings as evidenced by the dates of the receipts attached. Expenses before and after the actual dates of board meetings may be allowed to those members who are residing outside the province of La Union on account of their traveling time going to the Corporation and back to their residences, however, in this case the meetings were conducted using the zoom platform, thus, it can be inferred that BOD members need not travel to attend the meeting.

9.6 Also, it was observed that even those BOD members who are residing within La Union reimbursed expenses incurred on dates before and after the scheduled meetings. Meal expenses on weekends and holidays were also noted to have been paid.

9.7 It bears emphasizing the fundamental principle that government funds shall be spent solely for public purposes. To justify the public purpose of any expense charged against government funds, the expense should be incurred in relation to the performance of official function. Further, the BCDA RPGRE is clear that only meal expenses incurred during business meetings are allowed to be reimbursed.

9.8 Logically, it can be deduced that the ₱128,080.30 meal expenses were incurred not for public purpose as these were incurred on dates when there were no official business activities. This may have been the practice of the Corporation for how many years, however, the Audit Team reminds the

Corporation that paying these reimbursements are irregular and therefore are not allowed.

**9.9 We recommended that Management stop paying reimbursements of meal expenses claimed and incurred by BOD members on dates when there are no official business activities.**

9.10 Management submitted a Board Resolution stating therein that the Board had never exceeded the yearly Board's reimbursement threshold for meals as prescribed under its parent (BCDA) company's financial policy and will continue the accustomed practice or manner of claiming reimbursable expenses due to each of them.

**AUDITOR'S REJOINDER**

9.11 However, the Audit Team stands firm that all claims of reimbursements against the government funds must be supported with complete documentation and shall only be allowed if incurred for public purposes, hence, reimbursement of meal expenses must be documented and justified to have been incurred during the actual business activity or actual performance of official duty. This is to ascertain and properly evaluate the validity and propriety of the transaction by the Audit Team. Reimbursement or claim in general purports to be irregular if incurred beyond the date of business activity particularly in the absence of documents to support such claim.

The threshold as stated is the management comment as prescribed ceiling, however, it cannot be validly used to justify the use of government funds other than those that are related to the discharge of official functions of its BODs.

***Unjustified Transportation Expenses incurred during virtual BOD Meetings amounting to ₱148,652.24***

**10. Transportation expenses amounting to ₱148,652.24 representing costs of fuel were reimbursed to members of the Board of Directors (BOD) notwithstanding the board meetings were conducted online using the zoom platform, the place of meetings were in close proximity with their residence and employment and the inconsistency of details appearing in the invoices used to support their claims, contrary to PD No. 1445 and COA Circular 2012-001 dated June 14, 2012, thereby affecting the necessity, validity, and legality of the transactions.**

10.1 Section 4 of PD No. 1445 sets out the fundamental principles governing financial transactions and operations of any government agency which state among others:

Government funds or property shall be spent or used solely for public purpose.

- 10.2 While COA Circular 2012-001 provides the general requirements for all types of expenditures which includes:

X x x

3. Legality of transactions and conformity with laws, rules, and regulations

- 10.3 Post audit of reimbursement of transportation expenses claimed by the members of BOD showed that bulk of which constitutes costs of fuel asserted to have been incurred in relation to the discharge of the director's official duty of attending board meetings. However, the necessity, propriety and legality of the amounts claimed could not be verified with certainty due to the following observations:

- a. The board meetings were conducted online through the zoom platform. The highest amount of receipt reimbursed for a half-day board meeting was ₱6,468.36 or 93 liters, necessity of expenses incurred were doubtful.
- b. Costs of fuel consumption of a member of the BOD who is at the same time organic employee of the Corporation were reimbursed. His reimbursements range from ₱2,500.00 to ₱3,000.00 per board meeting, hence seemingly excessive.
- c. The member of the board who is residing in the same barangay as the Corporation also claimed reimbursement of fuel consumption. His reimbursements range from ₱1,500.00 to ₱3,500.00 per board meeting, hence, seemingly excessive.
- d. Expense for the payment of gasul amounting to ₱1,046.50 was also reimbursed but was made it to appear as reimbursement of cost of fuel, hence, irregular.
- e. An invoice amounting to ₱1,521.24 pertaining to a PUJ/PUV was used to claim reimbursement of seemingly cost of fuel officially consumed. The expense was irregular and further noted that it has been paid twice, thus, an overpayment.

- 10.4 Based from the foregoing observations, the Corporation has paid fuel reimbursements as claimed by the members of the BOD. Control mechanisms to at least ascertain the necessity and propriety of the amounts claimed were not in placed.

**10.5 We recommended that Management:**

- a. **Justify the following:**
  - i. **Payment of fuel reimbursements despite board meetings online through zoom platform;**
  - ii. **Payment of fuel reimbursements ranging from ₱2,500.00 to ₱3,000.00 to a member of the BOD who at the same time organic employee of the Corporation;**
  - iii. **Payment of fuel reimbursements ranging from ₱1,500.00 to ₱3,500.00 to a member of the BOD who resides in the same barangay as the Corporation;**
- b. **Cause the refund of transportation expenses amounting to ₱148,652.24 representing the costs of fuel reimbursed to members of the Board of Directors. Details are as follows:**

<b>Director</b>	<b>Amount (₱)</b>
Director A	37,660.98
Director B	6,000.00
Director C	21,521.24
Director D	28,667.25
Director E	24,802.80
Director F	29,999.97
<b>TOTAL</b>	<b>148,652.24</b>

- c. **Adopt control mechanism aimed at ascertaining the necessity and propriety of the amounts claimed as fuel reimbursements.**

10.6 The same Board Resolution as mentioned in the preceding observation was submitted by Management to comment on this observation.

**AUDITOR’S REJOINDER**

10.7 The Audit Team maintains its recommendations and reiterates to Management the adoption of control mechanism aimed at ascertaining the necessity and propriety of the amounts claimed as fuel reimbursements.

***Irregular Hotel Accommodations totaling ₱130,500.00***

**11. Hotel accommodations on account of attending board meetings totaling ₱130,500.00 were provided to members of the Board of Directors (BOD) who are officially residing within the Region where board meetings are held, contrary to COA Circular 2012-001 dated June 14, 2012, and BCDA Revised Policy and Guidelines on the Reimbursable Expenses of the Board of Directors (BCDA RPGRE) dated October 25, 2017, thereby rendering the transactions irregular expenditures.**

11.1 COA Circular 2012-001 sets forth the general requirements for all types of expenditures which includes:

X x x

3. Legality of transactions and conformity with laws, rules, and regulations

11.2 While the BCDA RPGRE provides the following:

In the exigency of the service, the Directors concerned may advance the cost of only the following expenses necessary in the performance of their official functions, subject to reimbursement in accordance with accounting, and auditing rules and regulations:

- Transportation expenses in going to and from the place of meetings;
- Travel expenses during official travel
- Communication Expenses
- Representation expenses during business meetings

**Travel Expenses** – expenses incurred in traveling to or from a place of meeting when such place is **outside the region/country where the director resides**. X x x Such expenses include transportation, airfare, travel per diems, hotel and accommodation, airport or terminal fee and similar expenses. (Emphasis ours)

11.3 Review of the attendance sheets during board meetings disclosed that meetings are scheduled online using the zoom platform. However, some of the Directors opted to physically attend. Hence, the Corporation provides hotel accommodations for its BODs. This is allowed under Executive Order No. 24 and BCDA RPGRE.

11.4 However, post audit of hotel accommodations paid by the Corporation for its BODs disclosed that even members who are officially residing within Region 1 are provided with accommodations. It is worth pointing out that the BCDA RPGRE expressly provides that travel expenses, which include hotel accommodation, are only allowed when the place of the meeting is outside the region or the country where the Director resides. Board meetings of the BODs are held at the official address of the Corporation which is in Region 1. Hence, the provision of hotel accommodations totaling ₱130,500.00 for members of the BOD who are residing within

Region 1 is considered irregular expenditures as these were incurred not in accordance with BCDA RPGRE.

**11.5 We recommended that Management cause the refund of ₱130,500.00 costs of hotel accommodations paid by the Corporation for members of the BOD who reside within the Region where board meetings are held.**

11.6 The Board Resolution mentioned in the preceding observation was submitted to comment on this observation. Also, during the exit conference, Management commented its plan to seek clarification with BCDA on possible amendments with the BCDA RPGRE.

#### **AUDITOR'S REJOINDER**

11.7 For the meantime, the Audit Team maintains its recommendation based on the existing BCDA RPGRE.

#### **C. GENDER AND DEVELOPMENT (GAD)**

12. The Corporation allocated ₱6,315,215.14 or 5% of the ₱126,218,283.00 Corporate Budget (COB) as GAD Budget. Review of the Corporation's GAD Accomplishment Report revealed that its actual GAD Expenditure for CY 2022 amounted to ₱16,076,003.87 or 7.74 higher than the budgeted amount.

#### **D. COMPLIANCE TO SSS, PAGIBIG AND PHILHEALTH CONTRIBUTIONS**

13. The Corporation remitted taxes, GSIS, PAGIBIG and PHILHEALTH mandatory premium contributions, as well as loan amortizations withheld during the year. Details are as follows:

<b>Remittance for CY 2022</b>	
BIR	9,064,468.26
SSS	1,131,062.71
PAGIBIG	1,075,858.45
PHILHEALTH	530,460.18

#### **E. STATUS OF SETTLEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

14. As of December 31, 2022, PPMC had no outstanding suspensions and charges, however, its disallowances totaling ₱1,234,904.05 are under appeal.

## **PART III**

# **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 5 prior years' audit recommendations, 2 were implemented and 3 were not implemented as detailed below:

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>1. The Head of the Procuring Entity declared a failure of bidding the procurement of the Contract for the Supply and Delivery of Information Technology Equipment amounting to P1,880,715.00 despite compliance by the Bids and Awards Committee of the bidding procedures as prescribed in the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184, thus resulting in confusion and inconsistent application of the law and its IRR.</p> <p><b>We recommended that Management should no longer require the submission of Letter of Intent pursuant to Sections 23 and 36 of the 2016 Revised IRR of RA No. 9184 and strictly apply the same until such provision has been declared invalid by a competent authority.</b></p>	<p>AAR CY 2021 (page 29)</p>	<p>Management is now requiring the letter of intent in its bidding documents for both goods and infrastructure projects.</p>	<p><b>Implemented</b></p>



Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>2. Accounts Receivables amounting to P2,154,640.69 as of December 31, 2021, has been long outstanding and remained uncollected for more than 2 to 10 years, thus rendering the collectability of the account doubtful and depriving the agency of additional funds to finance its activities or settle its obligations.</p> <p><b>We recommended that Management direct the Finance Officer to:</b></p> <p><b>a. Send a demand letter to the concerned employees/officials to enforce collection of the amounts due from them; and</b></p> <p><b>b. Take appropriate action and have the accounts written-off pursuant to the existing laws, rules and regulations for the amount with remote or nil recovery.</b></p>	<p>AAR CY 2021 (page 32)</p>	<p>Management already sent letters to COA both dated May 6, 2022 requesting for authority to write-off of accounts receivables amounting to P332,768.50 and P77,715.00 respectively.</p>	<p><b>Not Implemented</b> Reiterated in Observation No. 8, page 40 of this Report.</p> <p><b>Implemented</b></p>
<p>3. The inaction of the Management to require the contractor to perform its obligations under the construction contract caused delay in the work completion of the project,</p>	<p>2019 AAR Page 27</p>		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>Baywalk with Events Center, costing P60,156,383.46 contrary to pertinent provisions of 2016 Revised IRR of RA No. 9184, thus, had been incurring liquidated damages of P5,464,892.98 from May 31, 2016 to September 30, 2018. Likewise, several damages were noted during technical inspection.</p> <p><b>We reiterated the prior years' recommendation that Management:</b></p> <p><b>a. Require the contractor for the immediate completion of the project, otherwise, enforce legal action against the latter, terminate the contract and enforce rights against the performance security posted by the contractor.</b></p> <p><b>b. Charge the contractor for the liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination; Provide the Audit Team the</b></p>		<p>As a result of the over-all review of the BCDA of the Baywalk Project, the BCDA had already granted the request of Management of the release of retention money to repair/replace the damaged gazebos and other items inside the Poro Point Baywalk which was refused by WERR to replace or repair despite written demands.</p> <p>As a result of the overall review of the Baywalk Project, the BCDA laid down its recommendations in its letter to PPMC dated July 22, 2021 which includes the following: a)</p>	<p><b>Not Implemented</b> The project remains unfinished. No legal action yet was initiated against the contractor.</p> <p><b>Not Implemented</b> PPMC's completion of documents needed by BCDA for the release of</p>

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p><b>actual Statement of Work Accomplishment showing that the contractor resumed work after expiry date of the project which serve as basis for the reduction of liquidated damages incurred for the period covering May 31, 2016 to the actual completion or termination;</b></p>		<p>For PPMC to revise the Contract Price of the project by using its own figures and denying WERR's proposed amounts; b) For PPMC to terminate the contract with WERR due to the latter's delay in the completion of the project of more than the maximum threshold of delay allowed by RA 9184 and its abandonment of the project; c) For PPMC to deduct liquidated damages from the remaining collectibles of WERR; d) For PPMC to forfeit, after terminating the contract, the remaining collectibles of WERR in lieu of the Performance Security in case the latter is no longer valid; e) For PPMC to use retention money to replace the damaged items in the Baywalk, and: f) For PPMC to recommend to the proper body the blacklisting of WERR from participating in any government procurement for one year.</p>	<p>Retention Money to be used in the repair of damaged gazebos and other items inside the Poro Point Baywalk still on-going.</p>