



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

On the

PORO POINT MANAGEMENT CORPORATION
City of San Fernando, La Union

For the Year Ended December 31, 2017



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

PPMC
OFFICE OF THE BOARD OF DIRECTORS
RECEIVED BY: <i>Fernando M. Amador</i>
DATE: <u>April 27, 2018</u>
TIME: <u>3:36 PM</u>

March 15, 2018

The Board of Directors

Poro Point Management Corporation
City of San Fernando, La Union

Dear Sirs:

We transmit herewith the report on the financial and compliance audit of the accounts and operations of the Poro Point Management Corporation, City of San Fernando, La Union for the year ended December 31, 2017, in compliance with Section 2, Article IX – D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations as well as the efficiency and effectiveness of operations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements.

The report consists of three parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III – Status of Prior Years' Audit Recommendations. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 9, 2018. Management's comments are included in the report, where appropriate.

We rendered an unqualified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2017, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

The following are the significant observations and recommendations for the CY 2017:

1. Cash advances were resorted to in the procurement and payment of supplies and meals during the conduct of Corporate Planning in Vigan City, Ilocos Sur. The use of the Cash Advance for the purchase of the regular supplies is contrary to COA Circular No. 97-002 dated February 10, 1997 and Section 4.114 Revenue Regulation

No. 2-98 dated April 17, 1998, as this tantamounts to evasion of the proper imposition of taxes to the sellers/suppliers and audit.

We recommended that Management conduct procurement for the Corporate Planning or any other events of the Agency in strict accordance with Sections 48.1, 52.1.b and 53.9 of 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184. The supplies needed should be procured from the Procurement Service (PS) -DBM for ordinary supplies and shopping may be resorted if items are not available at the Procurement Service (PS) -DBM and/or Small-Value Procurement for other supplies.

2. Bid security booked under Other Payables – Bid Bond Payable account amounting to P71,408.63 remained outstanding as of December 31, 2017 despite the release of the Notice of Award of the winning bidder contrary to Section 27.4 of Revised Implementing Rules and Regulations (IRR) of R.A. 9184. Also, performance security booked under Guaranty/Security Deposit Payable amounting to P39,873.00 remained outstanding as of December 31, 2017 due to the inaction of Management to issue a Certificate of Completion on time despite the expiration of the insurance coverage.

We recommended that Management take the following courses of action:

- a. Communicate to the bidders regarding the return of their bid security in order to facilitate its refund since contract had already signed and performance security was already posted by the winning bidder;
 - b. Issue a Certificate of Completion to the winning Contractor/Insurance Provider since the latter insurance coverage had already expired; and
 - c. Conduct strict monitoring on the receipt of bid bonds and performance bonds in order to ensure proper refund/return of these bonds to the bidder or winning bidders.
3. Management's complacency in firmly imposing the deadline in finishing the construction of baywalk with events center costing P60,156,383.46 led to the evident delay in the completion of the project and consequently Management's opportunity to generate revenues therefrom. This is tantamount to Management's non-compliance with Section 2 of the Presidential Decree 1445 (PD 1445) or the Government Auditing Code of the Philippines.

We recommended that Management cease to be complacent and compel the contractor to immediately finish the project. It is also recommended that the unjustified delay of the contractor be imposed with liquidated damages as to penalize the imprudence exhibited by the latter as required under Section 8.1 of Annex E of the Revised IRR of RA 9184.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section

88 of the General Provisions of Republic Act No. 10924, otherwise known as the General Appropriations Act of 2017, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

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

Very truly yours,


MICHAEL R. BACANI
OIC Regional Director 



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

PORO POINT MANAGEMENT CORPORATION
City of San Fernando, La Union

For the Year Ended December 31, 2017

EXECUTIVE SUMMARY

A. Introduction

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

B. Financial Highlights

Presented below is the summary of comparative financial highlights for the CYs 2016-2017:

	2017	2016	Percentage of Change
Assets	P186,070,933.93	P174,789,341.56	6.45%
Liabilities	96,323,846.18	92,056,738.90	4.64%
Government Equity	89,747,087.75	82,732,602.66	8.48%
Income	64,640,101.73	62,586,089.74	3.28%
Expenses	P 53,105,414.64	P 52,509,254.12	1.14%

	2017	2016	Percentage of Change
Budget	P62,425,187.91	P58,978,731.00	5.84%
Actual Expenditures	P 53,105,414.64	P52,509,254.12	1.14%

C. Scope of Audit and Methodology

A comprehensive audit was conducted on the accounts and operations of Poro Point Management Corporation for the year ended December 31, 2017. It was aimed at expressing an opinion as to whether the financial statements present fairly the Corporation's financial position, results of operations and cash flows and at determining the Corporation's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.

D. Auditor's Opinion on the Financial Statements

The Auditor rendered an unqualified opinion on the fair presentation of the Financial Statements as to the financial position of the Poro Point Management Corporation as of December 31, 2017, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

E. Significant Audit Observations and Recommendations

In the conduct of audit for CY 2017, favorable observations were noted as presented below:

1. Implementation of Gender and Development (GAD) activities resulted in the conduct of women capacity building, promotion of GAD awareness, GAD trainings and family and employee activity totaling to P471,749.22, which were found in compliance with District's GAD Plan and Budget. As a result, the programs, activities and projects addressing gender issues, monitoring, evaluating and enhancing the agency's gender mainstreaming and women's empowerment efforts, were attained.

We commended the Corporation for dutifully compliant and responsive to the implementation of GAD activities.

2. The Corporation withheld and remitted taxes amounting to P8,467,754.11 and P8,943,597.77 as of December 31, 2017, respectively which is composed of various taxes on compensation, purchases from suppliers/contracts, taxes on per diems, fringe benefit tax and corporate income tax. Hence, the District was found compliant to their tax obligations.

We commended the Corporation for dutifully compliant on their tax obligations.

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

1. Cash advances were resorted to in the procurement and payment of supplies and meals during the conduct of Corporate Planning in Vigan City, Ilocos Sur. The use of the Cash Advance for the purchase of the regular supplies is contrary to COA Circular No. 97-002 dated February 10, 1997 and Section 4.114 Revenue Regulation No. 2-98 dated April 17, 1998, as this tantamounts to evasion of the proper imposition of taxes to the sellers/suppliers and audit.

We recommended that Management conduct procurement for the Corporate Planning or any other events of the Agency in strict accordance with Sections

48.1, 52.1.b and 53.9 of 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184. The supplies needed should be procured from the Procurement Service (PS) -DBM for ordinary supplies and shopping may be resorted to if items are not available at the Procurement Service (PS) -DBM and/or Small-Value Procurement for other supplies.

2. Bid security booked under Other Payables – Bid Bond Payable account amounting to P71,408.63 remained outstanding as of December 31, 2017 despite the release of the Notice of Award of the winning bidder contrary to Section 27.4 of Revised Implementing Rules and Regulations (IRR) of R.A. 9184. Also, performance security booked under Guaranty/Security Deposit Payable amounting to P39,873.00 remained outstanding as of December 31, 2017 due to the inaction of Management to issue a Certificate of Completion on time despite the expiration of the insurance coverage.

We recommended that Management take the following courses of action:

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3. Management's complacency in firmly imposing the deadline in finishing the construction of baywalk with events center costing P60,156,383.46 led to the evident delay in the completion of the project and consequently Management's opportunity to generate revenues therefrom. This is tantamount to Management's non-compliance with Section 2 of the Presidential Decree 1445 (PD 1445) or the Government Auditing Code of the Philippines.

We recommended that Management cease to be complacent and compel the contractor to immediately finish the project. It is also recommended that the unjustified delay of the contractor be imposed with liquidated damages as to penalize the imprudence exhibited by the latter as required under Section 8.1 of Annex E of the Revised IRR of RA 9184.

F. Summary of Audit Suspensions, Disallowances and Charges

For the CY 2017, PPMC has no outstanding suspensions and charges, however, disallowances totaling to P1,234,904.05 are under appeal.

G. Status of Prior Year's Audit Recommendations

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

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PART I

AUDITED FINANCIAL STATEMENTS



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

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

We have audited the accompanying financial statements of the Poro Point Management Corporation, a wholly-owned subsidiary of the Bases Conversion and Development Authority (BCDA), which comprise the statement of financial position as of December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial and Reporting Standards (PFRS). This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes assessing the accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

Opinion

In our opinion the accompanying financial statements present fairly the financial position of the Poro Point Management Corporation as of December 31, 2017, and the results of its operations and cash flows for the year then ended in conformity Philippine Financial Reporting Standards (PFRS).

COMMISSION ON AUDIT

By:


MARIA CRISTINA N. POSERIO
Supervising Auditor

February 23, 2018



PORO POINT MANAGEMENT CORPORATION

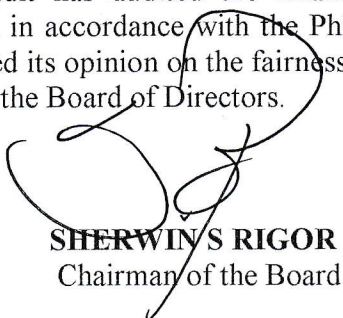
A Member of the BCDA Group
City of San Fernando, La Union
Tel. No. (072) 888-5954

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

The management of the Poro Point Management Corporation is responsible for the preparation of the financial statement as at December 31, 2017, 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 preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, 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.

The Commission on Audit has audited the financial statements of the Poro Point Management Corporation in accordance with the Philippine Public Sector Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.



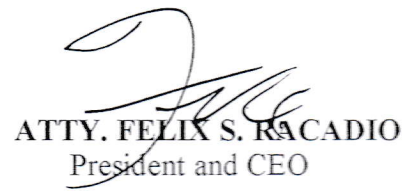
SHERWIN S RIGOR
Chairman of the Board

January 31, 2018
Date Signed



LENIMA B. JUDAN
Finance Manager

January 31, 2018
Date Signed



ATTY. FELIX S. RACADIO
President and CEO

January 31, 2018
Date Signed

PORO POINT MANAGEMENT CORPORATION

(A Member of The BCDA Group)

Detailed Statement of Financial Position

As of December 31, 2017

(With comparative figures as of December 31, 2016)

	Notes	2017	2016
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents			
Cash on Hand			
Cash-Collecting Officer	2 P	1,729,463.92 P	160,090.42
Cash in Bank	3		
Cash in Bank-Local Currency, CA		3,435,835.85	6,784,702.16
Cash in Bank-Local Currency, SA		25,116.16	71,754.32
Cash Equivalents			
Time deposits-Local Currency	4	6,993,741.96	6,937,416.85
Total		<u>12,184,157.89</u>	<u>13,953,963.75</u>
Investments			
Investments in Time Deposits			
Invst. in Time Dep.-Loc. Currenc	5	<u>50,811,153.62</u>	<u>50,701,626.06</u>
Receivables			
Loans and Receivables Account			
Accounts Receivable	6	1,867,392.33	1,398,989.78
Interest Receivable		98,604.65	79,538.90
Intra-Agency Receivables			
Due from BCDA	7	14,880,562.09	6,550,461.66
Other Receivables			
Due from Officers and Employee	8	465,456.96	527,635.81
Total		<u>17,312,016.03</u>	<u>8,556,626.15</u>
Inventories			
Inventory Held for Consumption	9		
Office Supplies Inventory		1,135,389.86	981,732.23
Accnt. Forms, Plates and Stickers Inv.		109,440.00	4,690.00
Food Supplies Inventory		556,340.94	14,092.00
Chem. and Filtering Supplies Inventory		53,050.25	45,208.45
Construction Materials Inventory		249,826.25	250,006.25

	Notes	2017	2016
Elect. Supplies and Materials Inv.		<u>94,433.50</u>	<u>30,767.50</u>
Total		<u>2,198,480.80</u>	<u>1,326,496.43</u>
Other Assets			
Advances			
Advances to Officers and Employees		-	-
Prepayments	10		
Advances to Contractors		1,172,604.34	2,225,244.46
Prepaid Registration		40,769.57	30,799.95
Prepaid Insurance		434,937.43	461,052.81
Deposits			
Guaranty deposits	11	168,884.00	168,884.00
Other Assets			
Other Assets		<u>316,211.10</u>	<u>169,706.00</u>
Total		<u>2,133,406.44</u>	<u>3,055,687.22</u>
Total Current Assets	P	<u>84,639,214.78</u>	<u>P 77,594,399.61</u>
Non-Current Assets			
Investments	12		
Investments in Joint Venture			
Investments in Joint Venture		15,000,000.00	15,000,000.00
Other Investments			
Investment in Stocks		<u>15,000.00</u>	<u>15,000.00</u>
Total		<u>15,015,000.00</u>	<u>15,015,000.00</u>
Investment Property	13		
Land and Buildings			
Investment Property, Land		21,441,469.65	21,441,469.65
Investment Property, Buildings		6,676,047.56	6,676,047.56
Construction in Progress			
CIP-Invst. Property, Buildings		<u>49,909,596.64</u>	<u>42,891,995.79</u>
Total		<u>78,027,113.85</u>	<u>71,009,513.00</u>
Property, Plant and Equipment	14		
Land Improvements			
Other Land Improvements		276,082.12	276,082.12
Accum. Dep.-Other Land Imp.		(262,278.01)	(262,278.01)
Infrastructure Assets			
Power Supply Systems		516,605.02	516,605.02
Accum. Dep.-Power Supply Sys.		(490,774.77)	(490,774.77)

	Notes	2017	2016
Buildings and Oher Structures			
Buildings		6,309,335.20	6,309,335.20
Accum. Dep.-Buildings		(3,470,134.60)	(3,154,667.92)
Other Structures		2,669,275.51	2,669,275.51
Accum. Dep.-Other Structures		(2,355,474.24)	(2,111,962.53)
Machinery and Equipment			
Office Equipment		5,282,020.13	4,683,871.00
Accum. Dep.-Office Equipment		(4,763,508.77)	(4,100,682.75)
Info. and Comm. Tech. (ICT) Equip.		3,906,476.11	4,590,844.24
Accum. Dep.-ICT Equipment		(3,213,280.79)	(3,736,404.17)
Communication Equipment		343,595.00	333,345.00
Accum. Dep.-Comm. Equipment		(329,906.75)	(301,809.58)
Technical and Scientific Equipment		413,387.52	413,387.52
Accum. Dep.-Tech. and Scientific Equip.		(358,700.13)	(343,581.06)
Furniture, Fixtures and Books			
Furniture and Fixtures		2,256,063.49	2,188,063.49
Accum. Dep.-Furniture and Fixtures		(1,927,288.42)	(1,939,238.68)
Transportation Equipment			
Motor Vehicle		13,727,286.91	13,727,286.91
Accum. Dep.-Motor Vehicle		(12,864,974.59)	(11,070,259.73)
Watercrafts		773,325.00	773,325.00
Accum. Dep.-Watercrafts		(335,341.93)	(260,469.97)
Total		<u>6,101,789.01</u>	<u>8,709,291.84</u>
Intangible Assets			
Intangible Assets	15		
Computer Software		695,724.13	695,724.13
Accum. Dep.-Computer Software		(675,248.23)	(654,927.07)
Total		<u>20,475.90</u>	<u>40,797.06</u>
Other Assets			
Other Assets			
Other Assets	16	<u>2,267,340.39</u>	<u>2,420,340.05</u>
Total Non-Current Assets		<u>101,431,719.15</u>	<u>97,194,941.95</u>
TOTAL ASSETS	P	<u>186,070,933.93</u>	<u>P 174,789,341.56</u>

	Notes	2017	2016
<u>LIABILITIES AND EQUITY</u>			
Current Liabilities			
Financial Liabilities			
Payables			
Accounts Payable	17 P	<u>6,466,735.35</u>	<u>5,279,554.14</u>
Inter-Agency Payables			
Inter-Agency Payables			
Due to BIR		305,124.44	275,883.87
Due to Pag-ibig		147,627.54	108,166.62
Due to Philhealth		26,935.00	27,375.00
Due to SSS		167,050.68	160,727.61
Income Tax Payable		<u>774,186.48</u>	<u>975,160.60</u>
Total		<u>1,420,924.14</u>	<u>1,547,313.70</u>
Intra-Agency Payables			
Intra-Agency Payables			
Due to Other Funds	18	79,039.22	89,480.31
Due to BCDA		<u>61,549,589.16</u>	<u>58,228,682.10</u>
Total		<u>61,628,628.38</u>	<u>58,318,162.41</u>
Trust Liabilities			
Trust Liabilities			
Trust Liabilities	19	940,354.02	957,687.35
Guaranty/Security Deposits Payable		<u>75,275.60</u>	<u>75,275.60</u>
Total		<u>1,015,629.62</u>	<u>1,032,962.95</u>
Other Payables			
Other Payables			
Other Payables	20	<u>7,354,818.93</u>	<u>7,441,635.94</u>
Total Current Liabilities		<u>77,886,736.42</u>	<u>73,619,629.14</u>
Non-Current Liabilities			
Intra-Agency Payables			
Intra-Agency Payables			
Due to BCDA	21	<u>18,437,109.76</u>	<u>18,437,109.76</u>
Total Liabilities	P	<u>96,323,846.18</u>	<u>92,056,738.90</u>

	Notes	2017	2016
Equity			
Stockholders' Equity			
Stockholders' Equity			
Share Capital	22	68,143,720.23	68,143,720.23
Other Equity Instruments	23	<u>15,000,000.00</u>	<u>15,000,000.00</u>
Total		<u>83,143,720.23</u>	<u>83,143,720.23</u>
Retained Earnings/(Deficit)			
Retained Earnings/(Deficit)			
Retained Earnings/(Deficit)		6,603,367.52	(411,117.57)
Total Equity		<u>89,747,087.75</u>	<u>82,732,602.66</u>
TOTAL LIABILITIES AND EQUITY	P	<u>186,070,933.93</u>	P <u>174,789,341.56</u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION

(A Member of The BCDA Group)

Detailed Statement of Comprehensive Income

For the year ended December 31, 2017

(With comparative figures as of December 31, 2016)

	Notes	2017	2016
Revenues			
Service and Business Income			
Business Income			
Management Fees	24 P	62,789,975.00 P	61,129,731.00
Interest Income		932,587.62	802,987.31
Miscellaneous Income			
Miscellaneous Income	25	917,539.11	653,371.43
Total Revenues		64,640,101.73	62,586,089.74
Less: Expenses			
Personnel Services			
Salaries and Wages			
Salaries and Wages-Regular		12,844,682.96	12,151,283.81
Other Compensation			
Representation Allowance		640,800.00	640,800.00
Transportation Allowance		640,800.00	640,800.00
Clothing/Uniform Allowance		103,782.00	68,250.47
Overtime and Night Pay		1,098,175.37	866,376.35
Year-End Bonus		1,071,756.89	1,005,066.00
Cash Gift		286,500.00	-
Other Bonuses and Allowances		3,231,457.22	3,180,930.64
Personnel Benefit Contributions			
Pag-ibig Contributions		69,000.00	67,427.75
Philhealth Contributions		140,512.00	135,537.50
Emp. Comp. Insurance Premiums		19,720.00	19,700.00
Provident/Welfare Contribution		632,444.48	594,081.95
Other Personnel Benefit Contributions			
Retirement Gratuity		-	-
Other Personnel Benefit Contrib.		1,042,816.10	1,145,366.17
Total Personnel Services		21,822,447.02	20,515,620.64

	Notes	2017	2016
Maintenance and Other Operating Expenses			
Travelling Expenses			
Travelling Expenses-Local		3,596,009.91	2,675,701.42
Training and Scholarship Expenses			
Training Expenses		1,520,995.74	1,388,574.00
Supplies and Materials Expenses			
Office Supplies Expenses		2,249,748.11	1,661,538.45
Accountable Forms Expenses		-	3,000.00
Food Supplies Expenses		87,774.50	112,795.87
Medical, Dental and Lab. Supplies Ex		2,504.00	22,515.40
Fuel, Oil and Lubricants Expenses		504,163.13	465,583.03
Chemical and Filtering Supplies and E		57,055.05	104,276.17
Other Supplies and Materials Expense		108,212.60	38,194.07
Utility Expenses			
Electricity Expenses		889,969.30	1,244,738.18
Communication Expenses			
Postage and Courier Services		88,992.13	69,657.00
Telephone Expenses		1,281,561.57	1,173,806.56
Conf. Intelligence & Extraordinary Exp.			
Extraordinary and Miscellaneous Exp.		468,993.70	409,409.70
Professional Services			
Auditing Services		1,298,547.78	1,169,441.06
Consultancy Services		-	302,222.22
General Services			
Janitorial Services		287,916.31	357,415.74
Security Services		459,731.04	314,085.05
Repair and Maintenance			
Repair and Main.-Bldg. and Other Str		64,966.39	109,069.63
Repair and Main.-Transportation Equi		221,570.00	719,954.41
Repair and Main.-Furniture and Fixtur		7,390.00	45,194.00
Taxes, Insurance Premiums and Other Fees			
Taxes, Duties and Licenses		233,932.82	196,588.75
Fidelity Bond Premiums		29,562.50	8,437.50
Insurance Expenses	26	1,226,130.17	1,671,568.22
Income Tax Expenses		4,543,756.90	3,974,506.42
Other Maintenance and Operating Expenses			
Advertising, Promotional ar	27	1,057,504.99	1,359,056.88
Representation Expenses		1,600,692.43	1,252,859.35
Rent/Lease Expenses		-	157,182.16
Subscription Expenses		86,304.75	87,875.00
Dir. and Committee Members Fees		1,639,000.00	1,682,000.00

	Notes	2017	2016
Other Main and Other Oper.	28	6,051,502.29	6,592,255.54
Total Maint. and Other Oper. Exp.		<u>29,664,488.11</u>	<u>29,369,501.78</u>
Non-Cash Expenses			
Depreciation			
Depreciation-Infrastructure Assets		-	45,202.67
Depreciation-Buildings and Other Str		558,978.39	617,085.75
Depreciation-Machinery and Equipme		460,895.32	595,064.52
Depreciation-Transportation Equipme		523,172.92	1,247,161.40
Depreciation-Furniture, Fixtures and F		46,015.72	95,543.58
Amortization			
Amortization-Intangible Assets		29,417.16	24,073.78
Total Non-Cash Expenses		<u>1,618,479.51</u>	<u>2,624,131.70</u>
Total Expenses		<u>53,105,414.64</u>	<u>52,509,254.12</u>
NET INCOME / (LOSS)	P	<u>11,534,687.09</u>	<u>10,076,835.62</u>

See Accompanying Notes to Financial Statements

PORO POINT MANAGEMENT CORPORATION

(A Member of The BCDA Group)

Statement of Changes in Equity

For the year ended December 31, 2017

(With comparative figures as of December 31, 2016)

	2016	2015
Share Capital		
Balance at Beginning of the Period		
Authorized, issued and fully paid 800,000 shares, P100.00 par value	P 68,143,720.23	P 68,143,720.23
Balance at End of the Period	<u>68,143,720.23</u>	<u>68,143,720.23</u>
Other Equity Investments		
Balance at Beginning of the Period	15,000,000.00	15,000,000.00
Additions		
Deductions		
Balance at End of the Period	<u>15,000,000.00</u>	<u>15,000,000.00</u>
Retained Earnings		
Balance at Beginning of the Period	(411,117.57)	(9,447,772.20)
Correction of prior year's errors	29 (4,520,202.00)	(1,040,180.99)
As restated	(4,931,319.57)	(10,487,953.19)
Net Income (Loss)	11,534,687.09	10,076,835.62
Balance at End of the Period	<u>6,603,367.52</u>	<u>(411,117.57)</u>
TOTAL EQUITY	<u>P 89,747,087.75</u>	<u>P 82,732,602.66</u>

PORO POINT MANAGEMENT CORPORATION

(A Member of The BCDA Group)

Statement of Cash Flows

For the year ended December 31, 2017

(With comparative figures as of December 31, 2016)

	2017	2016
Cash Flow from Operating Activities		
Cash Inflow		
OPEX funds received from BCDA P	62,789,975.00	P 60,695,030.00
Coll. of Zone revenues in behalf of BCDA	65,398,791.60	63,036,530.17
Collection of Receivables	7,534,260.80	17,342,132.78
Coll. of Permits at CCA in behalf of BCDA	1,252,374.11	1,306,820.00
Collection of Miscellaneous Income	917,539.11	583,400.00
Total Cash Inflow	<u>137,892,940.62</u>	<u>142,963,912.95</u>
Cash Outflow		
Payment to Employees and Suppliers	(66,400,014.37)	(60,688,124.80)
Remittance of Collections to BCDA	(65,082,342.21)	(64,659,904.88)
Payment of Taxes	(8,781,163.97)	(6,840,406.63)
Reclass. of Time Deposit more than 90 days	-	(50,701,626.06)
Total Cash Outflow	<u>(140,263,520.55)</u>	<u>(182,890,062.37)</u>
Net Cash Provided by (used in)		
Operating Activities	<u>(2,370,579.93)</u>	<u>(39,926,149.42)</u>
Cash Flow from Investing Activities		
Cash Inflow		
Interest received	803,994.31	829,493.81
Cash Outflow		
Capital Expenditure projects	(5,466,420.88)	(20,879,047.10)
Acquisition of Land	-	-
Total Cash Outflow	<u>(5,466,420.88)</u>	<u>(20,879,047.10)</u>
Net Cash Provided by (used in)		
Investing Activities	<u>(4,662,426.57)</u>	<u>(20,049,553.29)</u>
Cash Flow from Financing Activities		
Cash Inflow		
Capex from BCDA	5,263,200.64	20,918,827.08
Net Cash Provided by (used in)		
Financing Activities	<u>5,263,200.64</u>	<u>20,918,827.08</u>
Net Increase in Cash and Cash Equivalents	(1,769,805.86)	(39,056,875.63)
Add: Cash and Cash Equivalents, Beginning	13,953,963.75	53,010,839.38
Cash and Cash Equivalents, Ending P	<u><u>12,184,157.89</u></u> P	<u><u>13,953,963.75</u></u>

PORO POINT MANAGEMENT CORPORATION
(A Member of The BCDA Group)
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. CORPORATE INFORMATION

The Bases Conversion and Development Authority (BCDA) was created under Republic Act (RA) No. 7227 dated March 13, 1993. The main objective is to accelerate the sound and balanced conversion of former military reservations, especially the American Military Bases into alternative productive civilian uses for the benefit of the Filipino people.

Pursuant to this Act, Presidential Proclamation No. 216 was issued creating and designating the area covered by the former Wallace Air Station, the San Fernando Seaport and Airport, and contiguous areas in Poro Point as Poro Point Special Economic and Freeport Zone (PPSEFZ), now the Poro Point Freeport Zone (PPFZ).

On June 29, 1993, Executive Order (EO) No. 103 was issued, establishing the John Hay Development Corporation (JHDC) as a subsidiary and implementing arm of BCDA for Club John Hay.

Subsequently, on October 07, 1998, EO No. 31 was issued amending Sections 1 and 3 of EO No. 103, series of 1993, renaming John Hay Development Corporation (JHDC) to John Hay Poro Point Development Corporation (JPDC) as the authorized operating and implementing arm of the BCDA to manage the John Hay Special Economic Zone (JHSEZ) and the PPFZ and its contiguous areas.

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

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

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

Performance Agreement

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies

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

Basis of preparation

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

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

Use of Estimates and Judgements

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

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

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

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

IAS 16 – Property, Plant and Equipment. This standard prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at cost. An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The residual value and the useful life of an asset shall be reviewed at least each financial year-end and, if expectations differ from previous estimates, the changes(s) shall be accounted for as change in an accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Cash and Cash Equivalents

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

Supplies and Materials

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

Property, Plant and Equipment

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

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

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

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

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

Revenue Recognition

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

Collections received in trust

PPMC shall remit to BCDA on a regular basis all revenues from contracts and other sources of revenues generated within the PPFZ and shall be recorded as "Cash or Accounts Receivable-Trade Accruing to BCDA" and credited to account "Due To BCDA". Collections are deposited daily to BCDA Land Bank of the Philippines (LBP) Account No. 0202-0177-54 at City of San Fernando, La Union. Results of these activities are being reported to BCDA on a monthly basis.

2. CASH ON HAND

The cash-collecting officer account consists of cash and check collections received on December 29, 2017 representing zone revenues such as regulatory fees and lease rentals. PPMC entered into a deposit pick-up arrangement with the Land Bank of the Philippines (LBP) on November 7, 2014, wherein LBP collects daily at the PPMC Office from Monday through Friday, from 8:30 a.m. to 3:00 p.m. The un-deposited cash collections were received after the cut-off time.

3. CASH IN BANK-LOCAL CURRENCY

This account consists of the following:

	2017	2016
Cash in Bank-Local Currency, LBP Opex Current	220,012.45	168,280.22
Cash in Bank-Local Currency, DBP Opex Current	2,107,768.17	5,034,888.04
Cash in Bank-Local Currency, DBP Capex Current	1,108,055.23	1,581,533.90
Cash in Bank-Local Currency, DBP Opex Savings	25,116.16	71,754.32
Total Cash In Bank-Local Currency	3,460,952.01	6,856,456.48

Cash in Bank-Local Currency, LBP Opex Current Account

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

Cash in Bank-Local Currency, DBP Opex Current Account

On 23 June 2014, PPMC opened a current account for its Operating Expenses (Opex) at the Development Bank of the Philippines (DBP) pursuant to the advice of the Department of Finance (DOF) to wind down PPMC's deposits at PNB and transfer the same to either LBP/DBP.

Cash in Bank-Local Currency, DBP Capex Account

On 22 October 2014, PPMC opened a current account for its Capital Expenditures (Capex) at the Development Bank of the Philippines (DBP) pursuant to the advice of the Department of Finance (DOF) to wind down PPMC's deposits at PNB and transfer the same to either LBP/DBP.

Cash in Bank, Local Currency, DBP Opex Savings Account

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

4. CASH EQUIVALENTS

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

5. INVESTMENTS IN TIME DEPOSITS

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

6. ACCOUNTS RECEIVABLES

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

7. INTRA-AGENCY RECEIVABLES

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

8. 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.

9. INVENTORIES

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

10. PREPAYMENTS

This account includes:

	2017	2016
Advances to Contractors	1,172,604.34	2,225,244.46
Prepaid Registration	40,769.57	30,799.95
Prepaid Insurance	434,937.43	461,052.81
Total Prepayments	1,648,311.34	2,717,097.22

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

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

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

11. GUARANTY DEPOSITS

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

12. INVESTMENTS

This account includes:

	2017	2016
Investments in Joint Venture	15,000,000.00	15,000,000.00
Other Investments-Investment in Stocks	15,000.00	15,000.00
Total Investments	15,015,000.00	15,015,000.00

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 dated September 21, 1999.

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

13. INVESTMENT PROPERTY

This account consists of:

	2017	2016
Investment Property-Land	21,441,469.65	21,441,469.65
Investment Property-Building	6,676,047.56	6,676,047.56
Construction in Progress	49,909,596.64	42,891,995.79
Total Investment Property	78,027,113.85	71,009,513.00

Investment property-land refers to the validated land held-in trust within the Poro Point Freeport Zone in behalf of BCDA. Acquisition cost was valued at P1,250.00/P2,300.00 per square meter plus documentary stamp taxes & other similar incidental charges.

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

On August 2, 2012, the Land Registration Administration (LRA) informed BCDA/PPMC that the following titles were issued with reconstitution orders: T-52521; T-52526; T-52530; T-52518; T-46198; T-52588. The LRA likewise informed BCDA that the rest of the TCT's with pending applications for reconstitution may have been damaged during the fire that destroyed the LRA office on July 22, 2011. PPMC will file the necessary documents in order to safeguard PPMC's rights to the properties.

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

Construction in progress held in trust of P49,909,596.64 constitutes capital expenditure projects for the construction of baywalk with events center which is being funded by BCDA. Upon completion, this project together with relevant documents will be turned-over to BCDA and the corresponding advances granted to PPMC are liquidated.

14. PROPERTY, PLANT AND EQUIPMENT (PPE)

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

	2017	2016
Land Improvements	276,082.12	276,082.12
Infrastructure Assets	516,605.02	516,605.02
Buildings & Other Structures	8,978,610.71	8,978,610.71
Machinery and Equipment	9,945,478.76	10,021,447.76
Furniture, Fixtures and Books	2,256,063.49	2,188,063.49
Transportation Equipment	14,500,611.91	14,500,611.91
Total	36,473,452.01	36,481,421.01
Less: Accumulated Depreciation	30,371,663.00	27,772,129.17
Total	6,101,789.01	8,709,291.84

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

15. INTANGIBLE ASSETS

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

16. OTHER ASSETS

This account consists of accounts receivable held in trust by PPMC for BCDA amounting to P2,267,340.39. The accounts receivable-current of P1,257,615.89 refer to collectibles from locators representing revenues generated within the Poro Point Freeport Zone held in trust by PPMC for BCDA while non-current trade receivables held in trust of P1,009,724.50 is long outstanding airport fees due from Ace Pilots Aviation Academy subject of a legal move to pursue collection in Court.

17. ACCOUNTS PAYABLE

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

18. INTRA-AGENCY PAYABLES

Due to other funds refers to the provident fund premium contributions and loans payable. Provident premiums of PPMC employees corresponds to 2.5% of their monthly salary and PPMC counterpart of 5% as provided under PPMC Policy No.011-2003. This will pool funds to serve as a financial facility to be utilized at some time in the future at more favorable terms and conditions. Provident loans payable refers to loans of PPMC employees to the Provident fund. The Board of Trustees approved the implementing guidelines for the Employees Provident Fund Loan Program on October 20, 2005.

Due to BCDA pertains to the earned revenues within the PPFZ held in trust by PPMC for BCDA. Collections there from are to be remitted to BCDA through the designated bank account. Part of this account is the long outstanding airport fees due from ACE Pilots Aviation Academy in the amount of P1,009,724.50 subject of a legal move to pursue collection in court; and the accounts receivable current of P1,257,615.89. This account also includes funds released by BCDA for capital expenditure projects such as construction of bay walk with events center per accounting instructions issued by BCDA. Upon completion of these construction projects, PPMC will liquidate the advances made by turning over the completed projects to BCDA.

19. TRUST LIABILITIES

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

20. 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.

21. DUE TO BCDA

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

22. CAPITAL STOCK

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

On October 15, 2014, PPMC wrote a letter to the Governance Commission for Government Owned and Controlled Corporation (GCG), requesting for the latter's endorsement/clearance/recommendation for the amendment of the Articles of Incorporation of PPMC prior to submission to the Securities and Exchange Commission (SEC) for

approval. On October 27, 2014, GCG directed PPMC to submit documents to be used in the evaluation process of the latter's request. On November 2, 2016, PPMC submitted additional documents required by GCG in the evaluation process. Finally, on November 23, 2016, the GCG approved the request for increase in capitalization of PPMC. PPMC is now currently processing the application of increase in authorized capital stock with the SEC.

23. EQUITY IN JOINT VENTURE

The Pre-Incorporation Agreement entered into on September 24, 1999 by and between the Bases Conversion and Development Authority (BCDA) and John Hay Poro Point Development Corporation (JPDC) now, Poro Point Management Corporation (PPMC) and Bulk Handlers, Inc. (BHI), a corporation duly organized under Philippine laws, created a joint venture corporation under the name of Poro Point Industrial Corporation (PPIC).

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

Section 1, paragraph 1.03 also provides that the authorized capital stock of PPIC shall initially be in the amount of P100,000,000. BCDA/PPMC shall subscribe to shares equal to P30,000,000 constituting thirty percent (30%) ownership of the total outstanding capital stock. On the other hand, BHI and/or its consortium shall subscribe to and fully pay for shares equal to P70,000,000.00 for a seventy percent (70%) ownership of the total outstanding capital stock of PPIC.

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

To date, PPMC's equity share amounts to P15,000,000.00 equivalent to fifteen percent (15%) of the total authorized capital stock of PPIC.

24. MANAGEMENT FEES

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

BCDA, as property owner is entitled to the revenues generated from the PPFZ which comprise of lease rentals, airport fees, gaming revenue share, share in the sale of real estate projects and regulatory fees.

For the year 2017, BCDA earned a total revenue of Php101,254,626.17, net of P48,929,375.00 uncollectible PPIC account subject to litigation.

The entry of Thunderbird Pilipinas Hotels and Resorts, Inc, whose Casino opened for business on April 28, 2006, provided a significant share in the revenues generated. Total percentage share in net winnings of 3% amounted to Php31,964,694.09 for the year 2017. This amount represents variable income for BCDA/PPMC on top of the monthly fixed lease rentals of PhP1,797,646.25.

Likewise, BCDA's 7.5% share on sales of real estate projects amounted to Php11,671,387.31. All collections accruing BCDA are deposited to BCDA's bank account.

25. MISCELLANEOUS INCOME

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

26. INSURANCE EXPENSES

This account consists of insurance coverage at the Government Service Insurance System (GSIS) of motor vehicles, building and contents and Directors', Officers' Liability Insurance (DOLI) coverage of the Board of Directors and key officers of PPMC. Registration expense pertains to the registration of motor vehicles at the Land Transportation Office (LTO).

27. ADVERTISING, PROMOTIONAL AND MARKETING EXPENSES

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

28. OTHER MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2017	2016
Special Projects	5,477,466.98	5,900,081.72
Other Board Expense-Meals	543,565.82	652,072.50
MV Registration	30,469.49	40,101.32
Total Other MOOE	6,051,502.29	6,592,255.54

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

Special projects also included community development or inclusive growth which is paramount to PPMC. Alongside the development efforts and creation of business

opportunities in the PPFZ, PPMC pursued community development projects to improve the quality of life of the impact communities. PPMC HELPS was institutionalized as PPMC's vehicle to implement Corporate Social Responsibility Program. HELPS stands for the various components of the program – health, education/environment, livelihood program and strengthening linkages.

Also part of the special projects is the trade mission to provide opportunity to showcase and promote the PPFZ as an investment destination in the Philippines. Trade missions also provide an avenue for PPMC to explore business opportunities as well as get insights on the developments and trends in the markets of Asia and other countries.

29. RETAINED EARNINGS

Correction of Prior Year's Errors charged to Retained Earnings for the CY 2017 are shown below:

Date	Reference	Particulars	Amount
1/31/17	JV 2017-01-008 to 001, CDB	Prior year's expenses	(138,278.80)
2/28/17	JV 2017-02-013	Step increment of employees for CY 2015 to CY 2016	(1,162,609.00)
2//28/17	JV 2017-02-016	Prior year's expenses	4,250.00
2//28/17	JV 2017-02-019	Prior year's expenses	(80,503.00)
2//28/17	JV 2017-02-020	Adjustment of depreciation expense of motor vehicles, from 10 years to 7 years per COA Circular No. 2004-03.	(1,362,501.39)
2//28/17	JV 2017-02-021	Prior year's expenses	85,437.73
2/28/17	CDB	Performance-based incentive of PPMC Directors for CY 2015	(1,421,202.50)
2//28/17	CDB	Prior year's expenses	(16,132.63)
3/31/17	JV 2017-03-030	Prior year's expenses	(25,000.00)
3/31/17	CDB	Prior year's expenses	(8,687.79)
4/30/17	CDB	Prior year's expenses	(16,710.06)
5/31/17	CDB	Prior year's expenses	(379,520.47)
5/31/17	JV 2017-05-043	Prior year's expenses	(33,827.00)
6/30/17	JV 2017-06-057	Electricity charges of Werr Intl. on Sept-Dec 2016	14,076.04
7/31/17	JV 2017-07-072	Sillag fees 2016	4,000.00
10/31/17	JV 2017-10-102	Prior year's expenses	(28,500.00)
12/31/17	JV 2017-12-122	Adjustment of prior year's expenses	45,506.87
		TOTAL	(4,520,202.00)

30. STATUS OF PENDING LITIGATIONS

CASE	STATUS/UPDATE
<p>1. PPMC vs. Spouses Reynaldo Q. Dyquiango and Yolanda V. Dyquiango Civil Case No. 5012 Recovery of Possession of Personal Property with Application for Issuance of Writ of Replevin</p>	<p>-The court ruled in favor of PPMC in its decision dated November 8, 2016. The defendant filed a motion for reconsideration. The Sheriff could not enforce the writ of execution because the subject vehicle cannot be located.</p>
<p>2. PPMC vs. Ace Pilots Aviation Academy, Inc. Civil Case No. 9007 Collection of Sum of Money PhP1,031,258.80</p>	<p>-The Honorable Court rendered a decision on June 30, 2017 in favor of PPMC. Subsequently, upon motion, a writ of execution was issued. Service of writ of execution against the defendant is scheduled by the Sheriff.</p>
<p>3. BCDA/PPMC vs. Lepanto Consolidated Mining Co. and Shippside Incorporated Re: Expropriation Cases (for eminent domain)</p>	<p>-Defendants filed petition for Certiorari from the decision of the Court of Appeals to remand the case to the trial court. The case is pending in the Supreme Court. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC).</p>
<p>4. Bulk Handler’s Inc. (BHI), Moran, Tan, Venturina and Poro Point Industrial Corporation (PPIC) vs. BCDA and PPMC Re: Petition for Injunction brought under the Interim Rules of Procedure Governing Intra-Corporate Controversies (to prevent implementation of PPMC Resolution No. 2006-01-10 declaring the Pre-Incorporation Agreement null and void <i>ab initio</i>.)</p>	<p>-BCDA opted to wait for the final decision of the higher court and did not approve the proposal to enter into a compromise agreement with BHI. The case is pending in the Supreme Court where BCDA elevated the adverse decision of the Court of Appeals. PPMC is waiting for an update from the Office of the Solicitor General (OSG) and Office of the Government Corporate Counsel (OGCC).</p>

PART II

**AUDIT OBSERVATIONS
AND RECOMMENDATIONS**

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AND COMPLIANCE

Irregular Procurement and Misuse of Cash Advance – P104,793.93

1. Cash advances were resorted to in the procurement and payment of supplies and meals during the conduct of Corporate Planning in Vigan City, Ilocos Sur. The use of the Cash Advance for the purchase of the regular supplies is contrary to COA Circular No. 97-002 dated February 10, 1997 and Section 4.114 Revenue Regulation No. 2-98 dated April 17, 1998, as this tantamounts to evasion of the proper imposition of taxes to the sellers/suppliers and audit.

Post-audit of accounts disclosed that the Corporate Planning Officer was granted a cash advance amounting to P124,000.00 purposely for the conduct of Corporate Planning in Vigan City, Ilocos Sur. Review of the liquidation report disclosed that out of the amount granted, regular expenditures amounting to P104,793.93 were paid for office and other supplies amounting to P8,574.72 and meals and beverages amounting to P96,219.21 . Also these expenditures were paid directly, instead of procuring through alternative method of procurement. Details are shown below:

Item No.	Date	Receipt / Invoice	Supplier	Amount	Particulars
1	6/16/2017	93639	Puregold Price Club Inc.	P 673.50	Office and Other Supplies
2	6/19/2017	498113	National Bookstore	662.00	Office and Other Supplies
3	6/19/2017	498115	National Bookstore	708.75	Office and Other Supplies
4	6/19/2017	498114	National Bookstore	981.75	Office and Other Supplies
5	6/24/2017	624201702 450001000 000	National Bookstore	597.25	Office and Other Supplies
6	6/24/2017	624201702 450003000 000	National Bookstore	453.75	Office and Other Supplies
7	6/24/2017	3962	Metrovision Cust. Printing & Gen. Mdse.	1,182.72	Office and Other Supplies
8	6/24/2017	624201702 445000000	National Bookstore	3,150.00	Office and Other Supplies

Item No.	Date	Receipt / Invoice	Supplier	Amount	Particulars
		000			
9	6/25/2017	98060	Arly Trading & Construction Supply	165.00	Office and Other Supplies
Sub-Total				P8,574.72	
10	6/24/2017	24886	Jollibee Foods Corporation	891.00	Meals and Beverages
11	6/26/2017	7218563	Savemore Market	3,009.08	Meals and Beverages
12	6/26/2017	29390	Marsha's Delicacies	60.00	Meals and Beverages
13	6/26/2017	29391	Marsha's Delicacies	445.00	Meals and Beverages
14	6/26/2017	1292861	Puregold Price Club Inc.	530.05	Meals and Beverages
15	6/26/2017	19331	Puregold Price Club Inc.	11,849.40	Meals and Beverages
16	6/26/2017	1355	Ammianance Bibingka Royal	180.00	Meals and Beverages
17	6/26/2017	10005	Rowlida's Loomweaving 1	610.00	Meals and Beverages
18	6/26/2017	18226	Uno Grille	1,248.40	Meals and Beverages
19	6/26/2017	14177	Lamong's Restaurant	385.00	Meals and Beverages
20	6/27/2017	3323	8.88 Restaurant and Sport Bar	23,518.00	Meals and Beverages
21	6/28/2017	575	Lance Manuela Inn	2,160.00	Meals and Beverages
22	6/28/2017	826	Diay Plaza Foodmart and Catering Services	1,500.00	Meals and Beverages
23	6/28/2017	11244	First Sinanglaw	780.00	Meals and Beverages
24	6/28/2017	827	Diay Plaza Foodmart and Catering Services	3,000.00	Meals and Beverages
25	6/28/2017	9937	Javier Trading Corporation	224.75	Meals and Beverages
26	6/28/2017	19351	Puregold Price Club, Inc.	12,709.55	Meals and Beverages
27	6/28/2017	828	Diay Plaza	1,000.00	Meals and

Item No.	Date	Receipt / Invoice	Supplier	Amount	Particulars
			Foodmart and Catering Services		Beverages
28	6/28/2017	33333	8.88 Restaurant and Sport Bar	8,656.00	Meals and Beverages
29	6/28/2017	17778	Victory Lechon Manok	3,500.00	Meals and Beverages
30	6/29/2017	829	Diay Plaza Foodmart and Catering Services	1,000.00	Meals and Beverages
31	6/29/2017	579	Lance Manuela Inn	960.00	Meals and Beverages
32	6/29/2017	24645	Hotel Luna	11,355.98	Meals and Beverages
33	6/29/2017	4349	Kusina De Kenyong	6,372.00	Meals and Beverages
34	6/29/2017	7725	Susan F. Joven Eatery	335.00	Meals and Beverages
Sub-Total				P96,219.21	
Total				P104,793.93	

Section 48.1 of 2016 Revised IRR of R.A 9184 states that *“Subject to the prior approval of the HoPE, and whenever justified by the conditions provided in this Act, the Procuring Entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement provided in this Rule. In all instances, the Procuring Entity shall ensure that the most advantageous price for the Government is obtained.”*

Also, Section 52.1.b of the same law states that *“Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the thresholds prescribed in Annex “H” of this IRR may be resorted through Shopping”*

Further, Section 53.9 of the same law states the following: *“Small Value Procurement. Procurement of Goods, Infrastructure Projects and Consulting Services, where the amount involved does not exceed the threshold prescribed in Annex “H” of this IRR: Provided, That in case of Goods, the procurement does not fall under shopping in Section 52 of this IRR.”*

It was further noted that the aforementioned purchases were not supported by the necessary documents, which could be doubted to have been intentionally done as such so not to facilitate audit trails. As it is, there were no basis to determine whether there was compliance to existing rules and regulations. Verification of receipts and invoices revealed that items procured included various supplies such as envelopes,

bond papers, clips, tarpauline and other seminar materials. Moreover, meals included fastfoods, delicacies, vinegars, catering services, assorted beverages and hotel meals which could raise doubts as to their regularity/legality because of the absence of supporting documents. There is no way/trails to determine if the most advantageous price was availed of by the Management which pertains to Alternative Method of Procurement under RA 9184 was not strictly followed. The liberty was all given to the officer-in-charge to disburse the cash advances drawn without due regard to existing rules and regulations.

All purchases were paid directly to various suppliers on various dates with official receipts and invoices only as attachments for the procurement. The necessary supporting documents such as Purchase Orders, Purchase Request, Request for Quotations, BAC Resolutions, print out of posting to PhilGEPS and other conspicuous places were not submitted.

Section 50 of Revised IRR of R.A 9184 provides the following:

“Direct contracting may be resorted to by concerned Procuring Entities under any of the following conditions:

- a) Procurement of Goods of proprietary nature which can be obtained only from the proprietary source, i.e. when patents, trade secrets, and copyrights prohibit others from manufacturing the same item;*
- b) When the procurement of critical components from a specific supplier is a condition precedent to hold a contractor to guarantee its project performance, in accordance with the provisions of its contract; or*
- c) Those sold by an exclusive dealer or manufacturer which does not have sub-dealers selling at lower prices and for which no suitable substitute can be obtained at more advantageous terms to the GoP.”*

Based on the above criteria, procurement of office and other supplies and meals and beverages did not fall under Direct Contracting, instead ordinary supplies should have been procured at the Procurement Service (PS) –DBM. Shopping may be resorted to if items are not available in the PS while Small-Value Procurement should be used for other supplies, meals and beverages. Thus, principles of transparency and competitiveness of procurement was not achieved, rendering the procurement irregular.

On the other hand, Section 3 of COA Circular No. 97-002 states that cash advances may be granted for *“Salaries and Wages, Commutable allowances, Honoraria and other similar payments to officials and employees, Petty operating expenses consisting of small payments for maintenance and operating expenses which cannot be paid conveniently by check or are required to be paid immediately, Current operating expenditures of the agency field office or of the activity of the agency undertaken in the field when it is impractical to pay the same by check, Travel expenditures, including transportation fare, travel allowance, hotel room/lodging*

expenses and other expenses incurred by officials and employees in connection with official travel”

Based on this criteria, disbursement for regular supplies, meals and allowances are beyond the scope of the cash advance, hence not allowed. Meanwhile, payments of meals and beverages and office and other supplies must be paid through check payable directly to the supplier and not through cash advance. Section 2 of COA Circular No. 97-002 dated February 10, 1997 provides that *“All payments must be made by check”*.

From the foregoing table, large amount of expenditures such as items “7, 8, 11, 15, 18 20, 21 and 22 should have been paid through check and not through cash advance. To do otherwise may result to misapplication of government funds and non-remittance of corresponding taxes pursuant to Section 4.114 Revenue Regulation No. 2-98 dated April 17, 1998, to wit:

“Sale of goods and services to the government subject to VAT shall be subject to withholding taxes. (1) In general, payments by the government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs) on account of its purchase of goods from sellers and services rendered by contractors who are subject to the value-added tax”

Had Management consolidated the procurement for office and other supplies as well as procurement for meals and beverages, the winning supplier for each of procurement should have been paid solely through check and corresponding taxes should have been withheld and remitted.

It bears to stress that all purchases should be completely supported with documents such as Purchase Orders, Purchase Request, Request for Quotations, BAC Resolutions and Posting Requirement in compliance with 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184. Also, payments must be made payable directly to the winning supplier and not from the Cash Advance drawn and corresponding taxes must be withheld and remitted.

We recommended that Management conduct procurement for the Corporate Planning or any other events of the Agency in strict accordance with Sections 48.1, 52.1.b and 53.9 of 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184. The supplies needed should be procured from the Procurement Service (PS) -DBM for ordinary supplies and shopping may be resorted if items are not available at the Procurement Service (PS) -DBM and/or Small-Value Procurement for other supplies.

PPMC’s Management took cognizance on the recommendations of the Audit Team. A review of the processes and procedures will be undertaken by Management to ensure the enforcement of applicable laws, rules and regulations specifically on the utilization of cash advances. PPMC affirmed its commitment to comply with procurement laws, rules and regulations.

Long Outstanding Liabilities - P111,281.63

2. Bid security booked under Other Payables – Bid Bond Payable account amounting to P71,408.63 remained outstanding as of December 31, 2017 despite the release of the Notice of Award of the winning bidder contrary to Section 27.4 of Revised Implementing Rules and Regulations (IRR) of R.A. 9184. Also, performance security booked under Guaranty/Security Deposit Payable amounting to P39,873.00 remained outstanding as of December 31, 2017 due to the inaction of Management to issue a Certificate of Completion on time despite the expiration of the insurance coverage.

Verification in the Schedule of Liabilities disclosed that bid security booked under Other Payables – Bid Bond Payable account amounting to P71,408.63 remained outstanding as of December 31, 2017. Details are shown below:

Date	Particulars	Contractor/ Service Provider	Amount	Reference	Date of Contract	Age in Years
9/30/ 2004	Bid payment for Security Services	Security Solutions, Inc.	P50,158.63	JV 04- 09-100	11/11/14	13
8/31/ 2012	Bid payment	Motorplaza	2,000.00	JV 12- 08-091	08/31/12	5
12/31/ 2014	Bid payment for Janitorial Services	McKleene Premium Products	14,250.00	JV 2014- 12-116	12/17/14	3
4/27/ 2017	Bid for the Manpower Services	McKleene Premium Products	5,000.00	JV 2017- 04-037	05/29/17	7/12
Total			P71,408.63			

Bid security are posted as guaranty that the successful bidder shall, within ten (10) calendar days from receipt of the notice of award, enter into contract with the Procuring Entity. Also, Section 27.4 of Revised Implementing Rules and Regulations (IRR) of R.A. 9184 provides the following provision of refunding/returning of bid security:

“Without prejudice to the provisions of the Act and this IRR on the forfeiture of bid securities, bid securities shall be returned only after the bidder with the Lowest Calculated Responsive Bid (LCRB) or Highest Rated Responsive Bid (HRRB), as the case may be, has signed the contract and furnished the performance security, except to those declared by the BAC as failed or post-disqualified in accordance with this IRR, upon

submission of a written waiver of their right to file a request for reconsideration and/or protest”

Based on the above table, the bid securities became outstanding from seven months to 13 years which cast doubt on the existence of these liabilities in the Financial Statements as of CY 2017, since these liabilities are said to be refunded after the bidder with the Lowest Calculated Responsive Bid (LCRB) or Highest Rated Responsive Bid (HRRB), as the case may be, has signed the contract and furnished the performance security. Verification of documents revealed that contracts were already awarded to the winning bidder and the latter had already posted its performance security hence already subject to refund.

Also, performance security booked under Guaranty/Security Deposit Payable amounting to P39,873.00 remained outstanding as of December 31, 2017 as per verification on the Schedule of Liabilities as follows:

Date	Particulars	Contractor	Amount	Reference	Date of Completion Issued as of 12/31/17	Age in Years
8/31/2012	Provision of life insurance coverage for the period August 2012-2013	Asian Life and Gen. Assurance Corp.	P7,047.00	JV 2012-08-091	none	5
10/31/2012	Provision of health insurance coverage of PPMC	Fortune Care	24,381.00	JV 2012-10-117	none	5
8/31/2013	PPMC employees life insurance	Asian Life Insurance	8,445.00	JV 13-08-072	none	4
Total			P39,873.00			

Performance security are posted by the Contractor or Service provider to guarantee the faithful performance by the latter of its obligations under the contract in accordance with the Bidding Documents. Also, Section 39.5 of the same law states the following provision of the release of performance security:

“The performance security may be released by the Procuring Entity after the issuance of the Certificate of Final Acceptance, subject to the following conditions:

- a) Procuring Entity has no claims filed against the contract awardee or the surety company;*
- b) It has no claims for labor and materials filed against the contractor; and*
- c) Other terms of the contract.”*

Gleaned from the table, these performance securities became outstanding from four to five years which also cast doubts on the existence of these liabilities in the Financial Statements as of CY 2017 since these liabilities are said to be released after the issuance of the Procuring Entity of the Certificate of Final Acceptance. Verification in the Contract states that these insurances has only one year coverage subject to renewal but it was not renewed in the year 2015 because of prior disallowances in the CY 2014. Hence, the insurance coverage has already expired by CY 2015, therefore a Certificate of Completion should have been issued by the procuring entity. However, as of CY 2017, no Certificate of Completion was issued, thus pending the issuance of the Certificate of Final Acceptance, since the latter is issued only after one year from the issuance of the Certificate of Completion.

Hence, Certificate of Final Acceptance was not yet issued which will be the basis for the refund of the performance security pursuant to Section 39.5 of the same law. Consequently, the said liabilities totaling P111,281.63 remained unpaid which is an indication of a weak internal control in the monitoring of liabilities.

Consequently, the said liabilities totaling to P111,281.63 became an eyesore in the Financial Statements and an indication of a weak internal control in the monitoring of liabilities.

We recommended that Management take the following courses of action:

- a. **Communicate to the bidders regarding the return of their bid security in order to facilitate its refund since contract had already signed and performance security was already posted by the winning bidder;**
- b. **Issue a Certificate of Completion to the winning Contractor/Insurance Provider since the latter insurance coverage had already expired; and**
- c. **Conduct strict monitoring on the receipt of bid bonds and performance bonds in order to ensure proper refund/return of these bonds to the bidder or winning bidders.**

During the exit conference, Management commented that they will comply with the given recommendations.

B. VALUE-FOR-MONEY

Extensions granted more than the allowable time

3. **Management's complacency in firmly imposing the deadline in finishing the construction of baywalk with events center costing P60,156,383.46 led to the evident delay in the completion of the project and consequently Management's opportunity to generate revenues therefrom. This is tantamount to**

Management's non-compliance with Section 2 of the Presidential Decree 1445 (PD 1445) or the Government Auditing Code of the Philippines.

The project is funded by the Bases and Conversion Development Authority (BCDA) being the parent entity of Poro Point Management Corporation (PPMC). Procurement and implementation of this project was conducted by the PPMC with the supervision of the BCDA. The original contract cost as per bid of Werr Corporation, the winning bid was P57,445,558.86. However, variation orders were approved by the Head of the Procuring Entity (HOPE) which resulted in a revised contract cost of P60,156,383.46. Table as herein presented details the chronology/sequence of project activities:

Activities	Date
Date of Proceed (Date of Contractor's receipt of NTP)	06/25/2015
Date of Start (Within 7 days after the receipt of NTP)	07/02/2015
Initial Date of Completion without extensions (180 days)	12/28/2015
Date of Completion as per First Notice of Extension (45 days)	02/11/2016
Date of Completion as per Second Notice of Extension (50 days)	04/01/2016
Date of Completion as per Third Notice of Extension (60 days)	05/31/2016

As shown by the table, the project was supposed to be completed within 180 days ending December 28, 2015. However, because the requests of the contractor for extension were granted thrice, the construction was extended by 155 days making May 31, 2016 as the final date of completion of the project. Despite the extensions granted the completion of the project remained to be uncertain. Since the delay in the completion of the work already exceeded the ten percent (10%) allowable time duration, Management should have considered the rescission of the contract. Section 8.4 of Annex E of Revised Implementing Rules and regulations (IRR) of R.A 9184.

“In case that the delay in the completion of the work exceeds a time duration equivalent to ten percent (10%) of the specified contract time plus any time extension duly granted to the contractor, the procuring entity concerned may rescind the contract, forfeit the contractor's performance security and takeover the prosecution of the project or award the same to a qualified contractor through negotiated contract.”

Further, the project was also due for rescission since the delay in the completion of the work accumulated to 579 days exceeded the allowable ten percent (10%) the specified contract time plus any time extension duly granted to the contractor totaling to 34 days. The relevant information is presented on next page:

Total Days of Completion as Specified in the Contract	180
Add: Total Number of Days of Extension (45+50+60)	<u>155</u>
Total Days of Completion	335
Maximum Threshold of Delay (10 Percent)	34
Total Days of Delay as of 12/31/2017	579

Aside from rescission, the procuring entity concerned has all the right to forfeit the contractor's performance security and takeover the prosecution of the project or award the same to a qualified contractor through negotiated contract. The farce contention of the VP of Infrastructure Management and quoting, "that the main cause of its non-completion was due to the delayed progress payments made by PPMC to the contractor," on its face magnifies the want of reason and logic of the VP.

Section 2 of PD 1445 states that *"It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned."*

Moreover, the prompt installation of the project would have realized its objectives of strengthening the tourism industry and create income that would rebound to the benefit of the Management and the BCDA. As the non-completion of the project had caused inconveniencies to Management which included among others the denial of accomplishing its objectives and generating more income, it would justify the imposition of liquidated damages. Presented below is the computation of the estimated liquidated damages as of December 31, 2017:

Balance of Works		Liquidated Damages			
Ending Period	Value of Uncompleted Portion	Per Day of Delay (1/10 of 1%)	No. of Days	Amount of Liquidated Damages (LD)	LD as of the Month
May 31, 2016	6,406,674.07	6,406.67	30	192,200.22	June 30, 2016
June 30, 2016	2,511,500.00	2,511.50	31	77,856.50	July 31, 2016
July 31, 2016	2,421,500.00	2,421.50	31	75,066.50	August 31, 2016
August 31, 2016	1,739,500.00	1,739.50	30	52,185.00	September 30, 2016
September 30, 2016	1,650,500.00	1,650.50	31	51,165.50	October 31, 2016
October 31, 2016	1,175,500.00	1,175.50	30	35,265.00	November 30, 2016

November 30, 2016	1,115,500.00	1,115.50	31	34,580.50	December 31, 2016
December 31, 2016	994,000.00	994.00	31	30,814.00	January 31, 2017
January 31, 2017	754,000.00	754.00	28	21,112.00	February 28, 2017
February 28, 2017	754,000.00	754.00	31	23,374.00	March 31, 2017
March 31, 2017	754,000.00	754.00	30	22,620.00	April 30, 2017
April 30, 2017	754,000.00	754.00	31	23,374.00	May 31, 2017
May 31, 2017	754,000.00	754.00	30	22,620.00	June 30, 2017
June 30, 2017	689,000.00	689.00	31	21,359.00	July 31, 2017
July 31, 2017	689,000.00	689.00	31	21,359.00	August 31, 2017
August 31, 2017	689,000.00	689.00	30	20,670.00	September 30, 2017
September 30, 2017	689,000.00	689.00	31	21,359.00	October 31, 2017
October 31, 2017	584,000.00	584.00	30	17,520.00	November 30, 2017
November 30, 2017	584,000.00	584.00	31	18,104.00	December 31, 2017
TOTAL			579	P782,604.22	

Section 8.1 of Annex E of the Revised IRR of RA 9184 states the following provisions for liquidated damages:

“Where the contractor refuses or fails to satisfactorily complete the work within the specified contract time, plus any time extension duly granted and is hereby in default under the contract, the contractor shall pay the procuring entity for liquidated damages, and not by way of penalty, an amount, as provided in the conditions of contract, equal to at least one tenth (1/10) of one (1) percent of the cost of the unperformed portion of the works for every day of delay.”

It is emphasized that one of the main objectives of the project is to strengthen the tourism industry in the Poro Point Freeport Economic Zone (PPFEZ) and generation of proceeds for remittance to BCDA through leasing of stalls and other generating activities. Had the project been completed within the specified time, various income generating activities and projects should have started and pursued to generate proceeds for remittance to the BCDA. Also, delays and liquidated damages should have been avoided.

It could not be stressed adequately that the partiality of the Management towards contractor manifested by the extensions granted thrice totaling 155 days unfavorably affected the interest of the Poro Point Management Corporation (PPMC). The extensions violated Section 8.4 of Annex E of Revised Implementing Rules and regulations (IRR) of R.A 9184.

We recommended that Management cease to be complacent and compel the contractor to immediately finish the project. It is also recommended that the unjustified delay of the contractor be imposed with liquidated damages as to penalize the imprudence exhibited by the latter as required under Section 8.1 of Annex E of the Revised IRR of RA 9184.

Management commented that they are currently reviewing all available legal actions for the completion of the project pursuant to the 2016 Revised Implementing Rules and Regulations Act 9184 and other applicable laws and regulation.

C. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES FOR CY 2017

Presented below is the summary of receipts and settlements of audit suspensions, disallowances and charges for CY 2017:

Particulars	Beginning Balance (January 1, 2017)	This Period January 1, 2017 to December 31, 2017		Ending Balance (December 31, 2017)
		NS/ND/NC	NSSDC	
Notice of Suspension	P 0.00	P0.00	P0.00	P 0.00
Notice of Disallowance	1,234,904.05	0.00	0.00	1,234,904.05
Notice of Charge	0.00	0.00	0.00	
Total	P1,234,904.05	P0.00	P0.00	P1,234,904.05

Disallowances totaling to P1,234,904.05 represents disallowed benefits for CY 2014 that lack legal basis and are under appeal.

PART III

**STATUS OF PRIOR YEARS' AUDIT
RECOMMENDATIONS**

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

Hereunder is the status of implementation of recommendations made in relation to the audit of the accounts and transactions of the CY 2017.

Audit Observations and Recommendations	Reference	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>1. Weak internal control on the collection policy and procedure on airport fees of the agency resulted in large amount of past due Assets Held in Trust - Accounts Receivable - Trade aged more than sixty days amounting to P711,696.19 as of December 31, 2016. Thus, collection efforts of the agency remained inadequate.</p> <p>We have recommended that Management establish a more strict collection policy and procedure on various airport fees. We have also recommended that management continue sending demand letters to defaulting clients. Further, we have also recommended management to elevate the matter to the Bases Conversion Development Authority for possible write-off of these receivables.</p>	2016 AAR	Various demand letter were sent to the defaulting customers.	FI	
2. The conduct of Stakeholders' Satisfaction Survey for	2016 AAR	The prospective surveyor of the Agency is already	FI	

<p>CY 2016 amounting to P170,000.00 was awarded directly to a private educational institution which is not PhilGEPS registered contrary to Section 8.5.1 of 2016 R.A. 9184 and its implementing rules and regulations (IRR), hence affecting the legality and propriety of the transaction.</p> <p>We have recommended that Management strictly follow/observe Section 53.6 and Section 8.5.1 of 2016 RA 9184 and its implementing rules and regulations.</p>		PhilGEPS registered.		
<p>3. The Agency could have avoided the payment of P50,080.00 as surcharge for fringe benefit tax pertaining to CY 2007 had the Agency withheld and remitted the correct amount of taxes on time contrary to Section 2.57.A of BIR Revenue Regulation No. 2-98 dated April 17, 1998. Hence, it is a clear indication of negligence/laxity on the part of the personnel in charge tasked with compliance of tax obligation of the agency.</p> <p>We have recommended that management be more prudent in the withholding and remittance of the correct</p>	2016 AAR	The agency became prudent on their tax liabilities incurring no surcharges this CY 2017.	FI	

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

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