

EXECUTIVE SUMMARY

A. Introduction

Sec.13 of Republic Act No. 7227 created the corporate body known as the Subic Bay Metropolitan Authority (SBMA). The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000-hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

To accomplish this, it shall embark to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructure; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit results. The audit covered the examination, on test basis, of the accounts and financial transactions of the SBMA for the year ending December 31, 2016. The audit was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

B. Financial Highlights

The financial position and results of operations for CYs 2016 and 2015 are shown below:

Financial Position	(In Thousands of Pesos)			
	2016	2015	Increase/ (Decrease)	
			Amount	%
Total Assets	30,018,781	29,235,554	783,227	2.68%
Total Liabilities	11,720,095	11,190,156	529,939	4.74%
Stockholders' Equity	18,298,686	18,045,398	253,288	1.40%
Results of Operations	2016	2015	Increase/ (Decrease)	%
Total Revenues	2,890,890	2,745,148	145,742	5.31%
Total Expenses	2,211,074	1,979,073	232,001	11.72%
Total Net Income	679,816	766,075	(86,259)	(11.26%)

The approved Corporate Operating Budget for Calendar Year (CY) 2016 is presented below together with the comparative figures for CY 2015.

Corporate Operating Budget (COB)	(In Thousands of Pesos)		
	2016	2015	Increase/ (Decrease) Amount %
Personnel Services (PS)	938,447	617,303	321,144 52.02%
Maintenance and Other Operating Expenses (MOOE)	3,770,686	1,274,554	2,496,132 195.84%
Operating Expenses	707,612	706,218	
Other MOOE	1,033,966	568,336	
Power Charges (HHIC-Phil, Inc.)	2,029,108	0	
Capital Outlays (CO)	117,943	95,223	22,720 23.86%
Total	4,827,076	1,987,080	2,839,996 142.92%

As can be gleaned from the above table, there was a 195.84% increase in the budget for MOOE due to the additional National Government Subsidy for the power charges of the Hanjin Heavy Industries and Construction Philippines, Inc. (HHIC-Phil, Inc.), one of the SBMA's major investors which was granted subsidy under Executive Order (EO) 701.

C. Independent Auditor's Report

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2016 because the (a) accuracy, validity and reliability of the Property Plant and Equipment accounts could not be ascertained due to (i) unsubstantiated carrying amount of ₱24.1 billion representing 80.42% of the entity's total assets; and (ii) non-application of the capitalization threshold of ₱15,000 which resulted in the overstatement of the PPE by at least ₱8.4 million; (b) total balance of the various inventory accounts amounting to ₱109.8 million which includes non-existent items totaling to ₱86.7 million or 78.9% of the total reported inventories remained unsubstantiated; and (c) reported balance of the Construction In Progress accounts could not be relied upon due to unsupported ending balance of ₱16 million and the unreconciled difference in the balances of the controlling and the subsidiary accounts in the Integrated Financial Management System (IFMS) amounting to ₱2.6 billion.

For the above noted deficiencies, we recommended that Management (a) (i) consider the upgrading of the existing IFMS as well as the system being used by the PPMD or the acquisition of new functional systems whichever is more advantageous to the entity, pending the materialization of the more integrated Enterprise Resource Planning System (ERPS); (ii) prioritize the conduct of a complete inventory of all property, plant and equipment items owned by SBMA and the reconciliation of the accounting, the land and asset department, and the property department records by augmenting the personnel assigned to the inventory team in order to establish the actual existence, quantity and amount of the same by effecting the necessary adjustments in order to present fairly the account balances in the financial statements; and (iii) effect the necessary adjustments

pertaining to the capitalization threshold on PPE, and to henceforth adopt the existing regulation on the same; (b) *(i)* conduct a thorough study and proper planning to determine the appropriate and effective automated system that will address the needs of the agency; *(ii)* augment the workforce involved in the inventory management system; and *(iii)* direct the concerned heads of the accounting and the property departments to closely monitor the progress/status of the reconciliation of the records, the preparation, maintenance and submission of the required documents such as the Stock Cards, the Supplies Ledger Cards, the Reports of Supplies and Materials Issued, and the Reports on the Physical Count of Inventories, among others; and (c) *(i)* account for the beginning balances of the CIP accounts by submitting subsidiary records/details thereof as uploaded in the IFMS, for our verification and tracking of the movements of the amounts recognized; and *(ii)* identify the reconciling items and make the necessary corrections/adjustments in order to arrive at reconciled ending balances of the general and the subsidiary ledger accounts.

D. Summary of Other Significant Audit Observations and Recommendations

Summarized below are the significant audit observations noted during the audit and the corresponding recommendations.

1. Total receivables were understated by at least \$21,944.46 or ₱1,091,103.41 due to unrecorded receivable from Hualong International, Inc. Moreover, of the Total Receivables of ₱4,268,222,966.43 for locators and residents as of September 30, 2016, ₱1,547,852,059.59 or 36.26% (excluding the dormant accounts of Financial Building Corp., Home Guaranty Corporation and Legenda International Resorts Limited aggregating to ₱2,050,221,252.81) were doubtful since their existence and correctness were not ascertained. Relative to this, a discrepancy in the confirmed balances amounting to ₱132,457,871.35 was noted. Likewise, instances of laxity in the implementation of the provisions of the lease agreements and existing policies on delinquent/defaulting lessees have been noted which further resulted in uncollected accounts. Lastly the inefficiency of Management to collect receivables resulted in the accumulation of Doubtful Accounts of ₱3,908,308,166.14 or 86.73% of the Total Receivables, leaving only a net realizable value (NRV) of ₱598,082,488.46 or 13.27% as of December 31, 2016. (*Observation No. 4*)

We recommended that Management (a) direct the accounting department and the concerned units to study, determine and effect the appropriate accounting treatment for the uncollected fines and penalties from Hualong Inc., and recognize the same in the books if the recognition criteria are met pursuant to PAS 39; (b) review the claims of SBMA against PAGCOR, Manila Times College of Subic, Inc. and Philippine Coastal Storage and Pipeline Corporation as well as the other accounts with pending unresolved issues and take appropriate steps to expedite and arrive at concrete resolutions which are advantageous on the part of the entity; (c) strengthen, and improve the control and monitoring system to stop the lessee's practice of assigning the housing units to other parties/lessees without prior clearance from SBMA; and (d) *(i)* revisit the existing policies and sanctions for the uncollected financial considerations due from lessees especially the proper implementation thereof within the prescribed period as stipulated in the lease agreements; *(ii)* institute

reforms in the enforcement of the lease agreement provisions as well as in the monitoring and collection of all amounts due from lessees in order to curtail the increasing rate of uncollectible accounts, and thus promoting the interest of the SBMA.

2. The correctness, validity and reliability of the reported balances of the Accounts Payable amounting to ₱146,956,682.91 as of December 31, 2016 could not be determined due to (a) the results of the confirmation showing net discrepancies of ₱248,535.32; and (b) the long outstanding payables aggregating to ₱71,496,901.05 or 48.65% of the reported balance as of year-end contrary to the Conceptual Framework for Financial Reporting and Section 73 of the Manual on the New Government Accounting System (MNGAS) requiring the faithful representation of the accounts in the Financial Statements thereby affecting the total liabilities figure as well as that of the corresponding expense accounts. (*Observation No.5*)

We recommended that Management (a) continuously analyze the discrepancies noted in the confirmation and effect the adjustments where necessary; and (b) ensure that recording of accounts payable is based on valid claims evidenced by actual delivery of goods and rendition of services. A review of the long outstanding payables should be made and effect necessary management actions thereon. If deemed necessary, revert the corresponding amounts to the appropriate equity account in accordance with existing rules and regulations.

3. The balances of 41 asset and 24 liability accounts totaling to ₱26,812,209,632.12 and ₱10,721,472.57 representing 89.32% and 0.09% of total assets and total liabilities respectively, remained unsubstantiated and/ or dormant for more than five years (based on a 2011 cut-off), thus, casting doubt on their validity and reliability thereby affecting the relevance and faithful representation of the financial information as presented in the Financial Statements contrary to the requirements set forth under the Conceptual Framework for Financial Reporting, Philippine Accounting Standard (PAS) 1, and Sections 72 and 73 of the Manual on the New Government Accounting System (MNGAS). (*Observation No. 6*)

We recommended that Management (a) require the Accountant to exert more efforts to review the non-moving/dormant accounts, locate the necessary documents to substantiate their balances, and effect the necessary corrections/ adjustments; (b) take appropriate action to recover the amounts due arising from the robbery that transpired in 2005 and to substantiate the missing peso cash on hand account balance and effect applicable measures to recover the same; and (c) see to it that the presentation of all financial information are in accordance with the Conceptual Framework and existing standards in order to be useful to all stakeholders and users thereof.

4. The accounting department failed to comply with the provisions of PAS 36 on the assessment of assets and recognition of any impairment thereof thus, failing to present a more reliable carrying value of the assets considered obsolete, unserviceable or damaged, therefore affecting the fair presentation of the assets and the income in the Statement of

Financial Position and in the Statement of Comprehensive Income, respectively. (*Observation No. 7*)

We recommended that Management direct the accounting department to comply with PAS 36 by assessing the conditions of its assets subject for impairment and to recognize the impairment loss if warranted, to reflect the realizable value of the assets which is also necessary for the Financial Statements to fairly present the account balances and thus, become more useful to the stakeholders and users of the same.

5. Disbursement amounting to One Billion Four Hundred Sixty Six Million Six Hundred Eighty Eight Thousand Pesos (P1,466,688,000.00) representing the power subsidy granted to HHIC-PHIL, Inc. for the period November 2009-December 2015 was made in spite of the absence of the proper validation of the claims made which is an indication of lapses in the Corporation's internal control system, thus, casting doubt on the propriety, validity, accuracy and reliability of the huge amount involved in the said transaction. (*Observation No. 8*)

We recommended that Management adhere to the prescribed financial controls prior to disbursement of funds especially those involving huge amounts in order to fully safeguard the interest of the government and likewise avoid any audit suspension or disallowance.

6. The entity's mandate on environmental protection and management could have been better attained had there been more adequate logistics and equipment support to ensure the full implementation of and monitoring of the compliance to environmental standards within the Subic Freeport Zone (SFZ). Likewise, the objective of providing world-class facilities and services responsive to the needs of stakeholders could have been better achieved had the four marine vessels (two patrol, one rescue, and one garbage collection and firefighting vessel) and the eight transportation equipment (three garbage compactors and five dump trucks) intended for solid waste disposal been fully operational. (*Observation No. 9*)

We recommended that Management revisit its priorities to include actions geared towards addressing the mandate of the SBMA as a whole, specifically in the attainment of its goal of making SBMA a safer, healthier, and a cleaner place as embodied in the agency's set goals and objectives.

7. Total budget for GAD during the year in the amount of P5,412,620.00 was 97.8% below the required threshold as set forth under the Philippine Council on Women/National Economic and Development Authority/Department of Budget and Management (PCW/NEDA/DBM) Joint Circular No. 2012-01 thereby failing to fully institutionalize gender mainstreaming within the entity. Likewise, lapses have been noted in the GAD focal point system's project implementation as in the case of diaper changing stations which remained uninstalled, and the continuous lack of GAD impact assessment tool. Moreover, lapses in the documentation of GAD-related activities/transactions have been noted. (*Observation No. 10*)

We recommended that Management direct the whole GAD Focal Point System as well as all other units concerned to (a) comply with the existing guidelines for the preparation of the GAD plans and budgets; (b) improve further the project implementation schemes in order to fully attain the desired outcomes as duly assessed and validated; and (c) comply with the necessary documentary requirements related to all GAD transactions in order to avoid audit suspensions.

8. Withholding taxes amounting to ₱128,384,470.31 were remitted to the Bureau of Internal Revenue (BIR) within the required period in accordance with Revenue Regulation No. 2-98 dated April 17, 1998 and Revenue Memorandum Circular No. 17-2003 dated March 31, 2003. However, taxes withheld pertaining to previous years in the amount of ₱666,235.51 remained unremitted due to unreconciled records. (*Observation No. 11*)

We recommended that Management instruct the concerned Accounting Department personnel to trace and reconcile the available records pertaining to previous years and make sure that all taxes due the government are withheld and remitted to the BIR within the prescribed period as per BIR Revenue Regulation No. 2-98 and Revenue Memorandum Circular No. 17-2003.

9. Premium contributions, loan amortizations and other amounts due to Government Service Insurance System (GSIS) were deducted and duly remitted to the System in compliance with R.A. No. 8291, the Government Service Insurance System law of 1997, and its Revised IRR. However, the amount of ₱150,661.72 pertaining to forwarded balances from previous years remained unaccounted for as of year-end. (*Observation No. 12*)

We recommended that Management instruct the concerned Accounting Department personnel to trace, review and reconcile all documents supporting the Due to GSIS account and effect adjustments, if necessary.

E. Summary of Total Suspensions, Disallowances and Charges at year-end

Audit suspensions and disallowances amounting to ₱970,370.42 and ₱15,451,322.12, respectively, remained unsettled as of year-end contrary to COA Circular No. 2009-006 dated September 15, 2009. Likewise, audit disallowances prior to the effectivity of the aforementioned Circular amounting to ₱140,605,881.78 remained unsettled.

F. Status of Implementation of Prior Year's Unimplemented Audit Recommendations

Out of the 29 audit recommendations contained in the Annual Audit Report for CY 2015, nine were fully implemented while 20 were partially implemented.

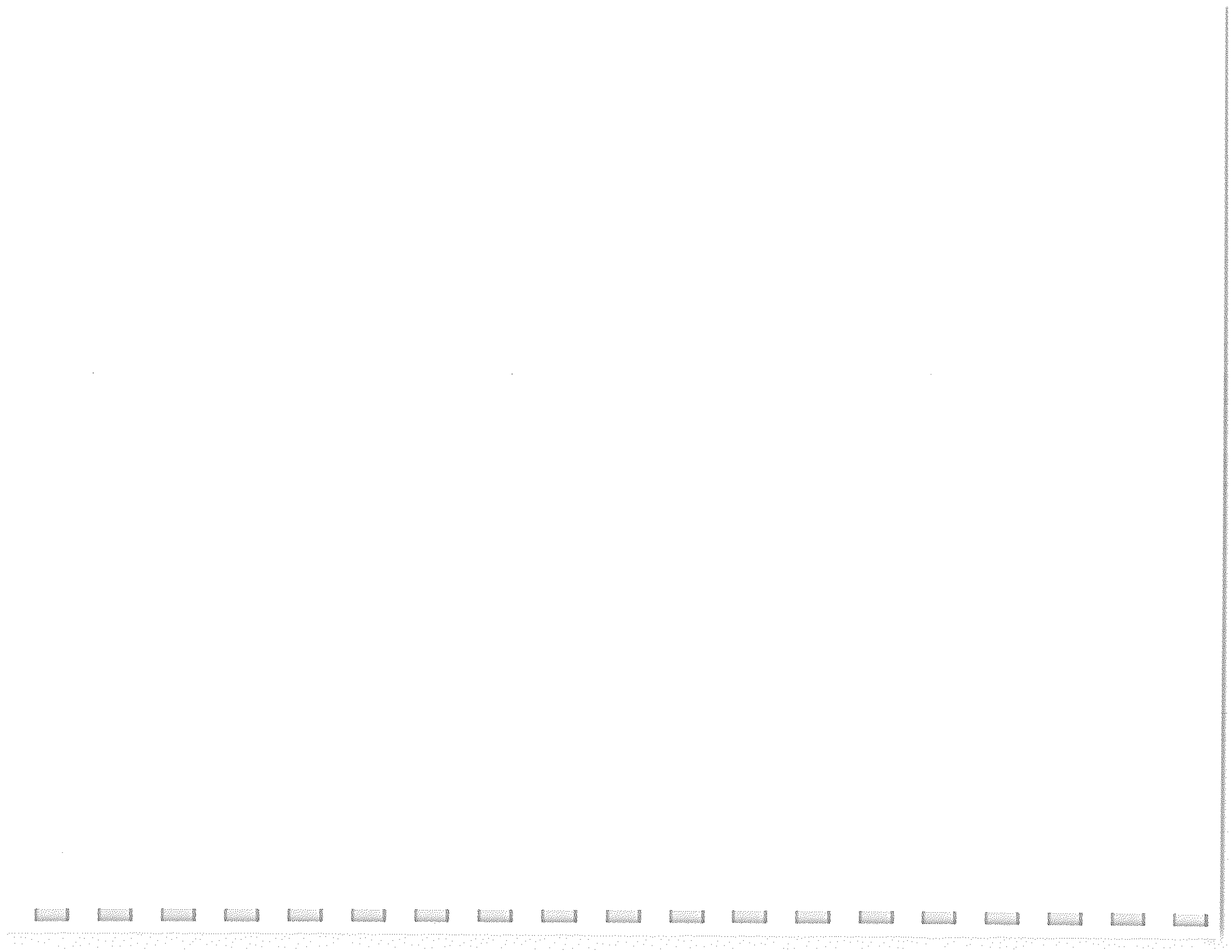


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PART I- AUDITED FINANCIAL STATEMENTS



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Subic Bay Metropolitan Authority
Subic Bay Freeport Zone, Olongapo City

We have audited the accompanying financial statements of the Subic Bay Metropolitan Authority which comprise the statement of financial position as of December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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, whether 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies 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 qualified audit opinion.

Bases for Qualified Opinion


As discussed in Part II of this report, the (a) accuracy, validity and reliability of the Property Plant and Equipment accounts could not be ascertained due to (i) unsubstantiated carrying amount of ₱24.1 billion representing 80.42% of the entity's total assets; and (ii) non-application of the capitalization threshold of ₱15,000 which resulted in the overstatement of the PPE by at least ₱8.4 million; (b) total balance of the various inventory accounts amounting to ₱109.8 million which includes non-existent items totaling to ₱86.7 million or 78.9% of the total reported inventories remained unsubstantiated; and (c) reported balance of the Construction In Progress accounts could not be relied upon due to unsupported ending balance of ₱16 million and the unreconciled difference in the balances of the controlling and the subsidiary accounts in the Integrated Financial Management System (IFMS) amounting to ₱2.6 billion.

Qualified Opinion

In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Subic Bay Metropolitan Authority as of December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

By:


VIRGINIA A. YACAT
OIC-Supervising Auditor

February 28, 2017



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Subic Bay Metropolitan Authority is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2016 and the related Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Government Equity and Statement of Cash Flows for the year ended December 31, 2016. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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


ANTONIETTA P. SANOLI
Deputy Administrator for Finance


ATTY. WILMA L. FISMA
Administrator and C.E.O.

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SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF FINANCIAL POSITION
December 31, 2016
(With Comparative Figures for December 31, 2015)
(In Thousands of Pesos)

	<i>Notes</i>	2016	2015
ASSETS			
Current Assets			
Cash and Cash Equivalent	4	1,965,494	2,759,176
Receivables	5	301,883	219,107
Inventories	6	109,835	107,844
Miscellaneous Assets	7	11,637	12,596
Total Current Assets		2,388,849	3,098,723
Non-Current Assets			
Investments	8	2,531,897	842,126
Receivables	5	296,199	260,637
Property, Plant and Equipment	9	24,158,391	24,583,772
Other Assets	10	643,445	450,296
Total Non-Current Assets		27,629,932	26,136,831
TOTAL ASSETS		30,018,781	29,235,554
LIABILITIES AND GOVERNMENT EQUITY			
Current Liabilities			
Payables and Accrued Expenses	11	134,509	195,072
Loans Payable	12	563,844	325,907
Accrued Interest		20,774	18,853
Deferred Credits to Income	13	76,450	49,401
Dividend Payable		177,298	0
Security Deposits and Advance Rental	14	270,054	222,381
Trust Liabilities	15	545,989	384,310
Total Current Liabilities		1,788,918	1,195,924
Non-Current Liabilities			
Payables and Accrued Expenses	11	222,618	170,418
Loans Payable - net of current portion	12	5,986,006	6,321,614
Deferred Credits to Income	13	3,070,319	2,981,549
Security Deposits and Advance Rental	14	652,234	520,651
Total Non-Current Liabilities		9,931,177	9,994,232
Total Liabilities		11,720,095	11,190,156
Stockholders' Equity		18,298,686	18,045,398
TOTAL LIABILITIES AND GOVERNMENT EQUITY			
EQUITY		30,018,781	29,235,554

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 For the Year Ended December 31, 2016
 (With Comparative Figures for December 31, 2015)
 (In Thousands of Pesos)

	<i>Notes</i>	2016	2015
REVENUES			
Leases		1,445,850	1,342,240
Port Services		945,181	933,583
Tourism Services		13,722	12,631
Other Operating Income	21	651,529	531,304
Total Revenues		3,056,282	2,819,758
OPERATING EXPENSES			
Depreciation		452,939	453,939
Bad Debts Expense		296,666	305,132
Salaries and Benefits		735,954	518,169
Power and Water		86,682	84,342
Supplies, Materials and Fuels		33,604	40,185
Loss on Revaluation	20	165,392	74,610
Other Expenses	22	516,816	491,384
Total Operating Expenses Before Income Tax		2,288,053	1,967,761
Provision for Income Tax		88,413	85,922
Total Operating Expenses After Income Tax		2,376,466	2,053,683
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		679,816	766,075

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CHANGES IN GOVERNMENT EQUITY

For the Year Ended December 31, 2016

(With Comparative Figures for December 31, 2015)

(In Thousands of Pesos)

	<i>Notes</i>	2016	2015
Paid-in Capital	<i>16</i>		
Balance at beginning of year		19,942,815	19,942,815
Additions/(deductions)		0	0
Balance at end of year		19,942,815	19,942,815
Appraisal Surplus	<i>17</i>		
Balance at beginning of year		31,767	31,767
Partial realization of Appraisal Surplus		0	0
Balance at end of year		31,767	31,767
Invested Capital-Held in Trust	<i>18</i>		
Balance at beginning of year		307	307
Additions/(deductions)		0	0
Balance at end of year		307	307
Donated Capital	<i>19</i>		
Balance at beginning of year		37,618	37,618
Additions/(deductions)		0	0
Balance at end of year		37,618	37,618
Retained Earnings			
Balance at beginning of year		(1,967,109)	(2,297,824)
Net income (loss) for the year		679,816	766,075
Dividend Paid to the National Government		(323,215)	(437,753)
Correction of fundamental errors		(103,313)	2,393
Balance at end of year		(1,713,821)	(1,967,109)
TOTAL GOVERNMENT EQUITY		18,298,686	18,045,398

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016
(With Comparative Figures for December 31, 2015)
(In Thousands of Pesos)

	<i>Note</i>	2016	2015
Cash Flows From Operating Activities:			
Cash received from customers		1,137,563	1,192,654
Sale of Unserviceable Properties		0	0
Cash received in payment of customers' account		1,265,146	1,129,272
Cash received from customers for unearned income		731,619	403,954
Interest received		(9,391)	9,377
Customers' security deposits		31,123	12,106
Trust fund received non-customers		2,535,243	377,027
Cash paid to employees and suppliers		(1,505,449)	(1,098,779)
Refund of customers' security deposits		(1,198)	(97)
Cash paid from non-customers' trust fund		(2,321,210)	(263,057)
Advances - Payment of FSC's Manpower Reduction		0	0
Advances to Contractors		0	(13,908)
Cash paid for financing charges		(149,181)	(132,657)
Net cash provided by operating activities		1,714,265	1,615,892
Cash Flows From Investing Activities:			
Investment in Bonds		0	0
Restricted Cash (\$LBP)- SBMA Debt Service Account		0	0
Investment on Dollar Time Deposit - Sinking Fund		0	0
Investment in Dollar Bond /TD(LBP)		(1,695,603)	(215,666)
Proceeds on Sale of Disposal of Scrap Materials		0	0
Subic Bay Exhibition Convention Center		0	0
Joint Venture - Subic Water		20,000	16,000
Joint Venture - Subic Bay International Terminal Corp.		0	0
Port Dev. - JBIC II & locally funded projects		0	0
Capital expenditures - Local		(55,243)	(35,954)
Net cash used in investing activities		(1,730,846)	(235,620)
Cash Flows From Financing Activities:			
Net borrowings		0	0
Loan Proceeds - LandBank		0	105,884
Principal loan repayments - WB1		0	0
Gain on repayment - WB1		0	0
Principal loan repayments - WB2		(109,250)	(98,405)
Loss on repayment - WB2		106	(266)
Principal loan repayments - JBIC 1		(17,000)	(14,693)
Loss on repayment - JBIC 1		139	(32)
Principal loan repayments - JBIC 2		(218,331)	(190,869)
Loss on repayment - JBIC 2		(13,518)	(5,544)
Principal loan repayments - Eximbank		0	0
Loss on repayment - Eximbank		0	0
Repayment of Loan - LBP		(257,296)	0
Gain on Repayment of LBP Loan		(155)	0
Restricted Cash (\$LBP)- SBMA Debt Service Account		(66,474)	(13,954)
Payment of Dividend		(145,918)	(437,753)
DBP- Trust Fund Various		24,169	11,506
LBP- Trust Fund Various		(159,753)	(92,207)
Placement of Dollar Time Deposit - Sinking fund		0	0
SBDMC's Reimbursement to SBMA for Loan Repayment		0	0
Dividend to National Government		0	0
Net cash used in financing activities		(963,281)	(736,333)
Effect of Exchange Rate Changes on Cash		186,180	118,786
Net (Decrease) Increase in Cash and Cash Equivalent		(793,682)	762,725
Cash and Cash Equivalent at Beginning of Year		2,759,176	1,996,451
Cash and Cash Equivalents at the End of the Year	4	1,965,494	2,759,176

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
Notes to Financial Statements

For the year ended December 31, 2016
(With Comparative Figures for December 31, 2015)
In Thousands of Pesos

1. PROFILE

The Administration

Sec.13 of Republic Act No. 7227 created the corporate body known as the Subic Bay Metropolitan Authority (SBMA). The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000-hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

On March 13, 1992, the Philippine Congress passed Republic Act 7227, known as the Bases Conversion and Development Act of 1992, creating the Subic Bay Freeport in anticipation of the pullout of the US naval base facilities. Section 13 of RA 7227 created the Subic Bay Metropolitan Authority (SBMA) and with free port incentives, an amendment granting tax and duty-free privileges and incentives was inserted during the bicameral committee hearings.

The area for development comprises of 13,600 hectares of leasable land (based on the actual survey made by the DENR) and 53,852 hectares of protected area covering the Subic Bay Freeport (SBF) or what was the former US Naval facility in Subic Bay into a self-sustaining tourism, industrial, commercial, financial, and investment center to generate employment opportunities.

Agency Roles

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

To accomplish this, it shall embark to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructure; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

SBMA Vision

By 2030, the Greater Subic Bay Area shall be a (the) premier Freeport Zone in Asia

In line with this goal and vision, SBMA shall undertake to create a business environment that will make us the most competitive Freeport Zone in the country and within the Asian region. To accomplish this, it shall embark on the following:

a. **To make way for a leading and green port.** With the depth of the bay, clean air and water, and biodiversity as its advantage, SBMA aims to be the busiest port in the Philippines and Asia by moving cargoes and tourists by the sea. It shall develop a super yacht haven and a cruise ship destination.

b. **To create a major tourist destination.** We envision Subic as the theme park capital of the country, a venue for major sports events, luxury destinations for casinos and shopping, and medical tourism.

c. **To continue to develop the most protected environment in Southeast Asia.** Residential areas are envisioned to rise in the heart of nature for local and international elite offering high class modern living and investments. Consequently, a bigger per capita income for Freeport constituents is foreseen that will produce more purchasing power that will uplift their lifestyle.

Today, the SBMA continues to attract local and foreign investments for the socio-economic benefit of nearby local communities, as well as Central Luzon and the rest of the country; to sustain an investment-friendly and stable business environment and assist investors in setting up their businesses by providing quality services; to pursue the development of the Freeport not only as an investment site but also as a tourism destination; and to promote environmental protection amidst rapid development.

SBMA Mission

To generate broad-based business and job opportunities by offering unique maritime, eco-tourism and high-tech industrial services and infrastructure to the world as a showcase of Philippine economic progress and development.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of Preparation

The financial statements have been prepared on historical cost convention

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires SBMA to exercise its judgement in the process of applying its accounting policies.

Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that SBMA's financial statements therefore present the financial position and results fairly.

Adoption of New Government Accounting System (NGAS) Revised Chart of Accounts

The accompanying financial statements were prepared using National Government Accounting System (NGAS) Revised Chart of Accounts per COA Circular No. 2008-01 dated January 29, 2008 superseding COA Circular Nos. 2003-01, 2004-02 and 2004-008 dated June 17, 2003, April 29, 2004 and September 20, 2004, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, other short-term highly liquid investments with original maturities of one year or less.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are reported net of allowance for bad debts. A provision for impairment (allowance for doubtful accounts) is established when there is objective evidence that SBMA will not be able to collect all amounts to be received. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization, and default in payments are considered indicators that the amount to be received is impaired.

The Allowance for Doubtful Accounts is established based at certain percentage that considers the age of Accounts Receivable. As approved per Board Resolution No. 14-04-5063 issued on the 22nd day of May 2014, "Revised Policy on Allowance for Doubtful Accounts", the following table is used as a basis in determining the Allowance for Doubtful Accounts.

Revised Policy on Allowance for Doubtful Accounts is as follows:

Age of Accounts Receivable	Percentage of Allowance
1-30 days	0%
31-60 days	5%
61-90 days	10%
91-120 days	15%
121-150 days	20%
151-180 days	30%
181 days to 1 year	40%
Over 1 year to 2 years	50%

Age of Accounts Receivable	Percentage of Allowance
Over 2 years to 3 years	65%
Over 3 years to 4 years	80%
Over 5 years	100%

Bond Investment

Straight line method is being adopted in amortizing bond premium.

Inventories

Inventories are stated at cost and issuances are recorded using the moving-average method. The inventories stated in the financial statements are items held for use in the operation of the agency.

Investments

a. Subsidiaries

Subsidiaries are all entities over which SBMA has the power to govern the financial and operating policies generally accompanying a shareholding of an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, and are consolidated.

b. Associates

An associate is an entity, including an unincorporated entity such as a partnership, over which SBMA has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The equity method is used in accounting for investments in common stock of subsidiaries which are controlled, directly or indirectly, by the investor; and investees where the investment in voting common stock gives the investor the ability to exercise significant influence over the operating and financial policies of an investee even though the investor holds 50% or less of the voting stock.

Percentages of ownership in investments in shares of common stock of the following subsidiary and associates are as follows:

	Percentage of Ownership
Freeport Service Corporation	100.00
Subic Techno-park	49.99
SBDMC	48.60
Subic Water	20.00
BCDA and CDC-SCADC	33.30
Subic Bay Yacht Club	0.37

Investments in shares of common stocks of Freeport Service Corporation (FSC) are accounted for under the cost method. Adoption of the equity method of accounting was deferred since their records were destroyed by fire last January 2004. Also, the deferral of the use of equity method of accounting was concurred by the Commission on Audit pending completion of audit of the 2003 financial transactions and the resolution of the qualification in the audit opinion of FSC's 2002 financial statements because of the wide disparities between the gross profit rates of FSC's business units with the actual gross profit rates of the services being rendered. The Commission gave an adverse opinion on the financial statements of FSC for the years that followed rendering the financial statements unreliable.

Although SBMA is able to exercise significant influence over its investments in SBDMC and SCADC, the cost method is being adopted in accounting for the said investments. Investment in SBDMC is accounted under the cost method pending resolution of issues on the proper accounting of transactions affecting both SBMA and SBDMC concerning the ICDF loan. In our inquiry with the SCAD council, the SCADC is still non-operational, a council called SCAD council is managing the pre operational stage of the SCADC. No Financial Reports for the SCADC is available, thus, pending their actual operation, the cost method of accounting is used for the said investment.

The investments in shares of common stocks of STEP and Subic Water are accounted under the equity method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its acquisition cost and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the Straight-Line Method that is, Asset Cost less Estimated Residual/ Salvage Value over the estimated useful life of the asset. The estimated useful life of the asset was based on COA Circular 2003-007.

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement for the period.

Revenue and Expense Recognition

The modified accrual basis of accounting for income and expenses is being adopted. Penalty on past due accounts and contested accounts receivable are taken up as income upon collection.

Revenues are derived mainly from leasing of land and buildings, seaport and airport operation, tourism, and from various services being rendered by the agency to attend to the needs of the locators, residents and other parties in their conduct of business inside the Freeport like medical services, equipment, furniture and fixtures rentals, PPMMD services, regulatory services etc.

Foreign Currency Transactions

The peso equivalent of dollar denominated transactions is booked at the Philippine Dealing System (PDS) reference rate at transaction date. Any difference in exchange rate between two related transactions for operations is charged to profit or loss on foreign exchange while differences in exchange rate on transactions pertaining to capital outlays is included in the cost of the asset up to the amount of lower of replacement cost and the amount recoverable from the use or sale of the asset. All foreign currency monetary items (Cash, Account Receivable, Loan Payables, Security Deposit) are revalued at the closing rate at the end of the month.

4. CASH AND CASH EQUIVALENT

This account consists of the following:

	2016	2015
Cash in Bank- Foreign Currency	1,262,327	2,136,791
Cash in Bank- Local Currency	699,136	614,375
Cash on Hand- Foreign Currency	186	296
Cash on Hand- Local Currency	3,842	7,711
Cash Disbursing Officers	3	3
Total Cash and Cash Equivalent	1,965,494	2,759,176

The depository banks of the SBMA are Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP).

5. RECEIVABLES

This account consists of the following:

	2016	2015
Receivables - Current		
Trade		
Locator	349,419	264,389
Less: Allowance for Doubtful Accounts	65,250	66,141
Net Realizable Value - Locator	284,169	198,248
Residential	12,531	17,158
Less: Allowance for Doubtful Accounts	2,509	4,244
Net Realizable Value - Housing	10,022	12,914
Equitable Card Net Inc.	889	491

	2016	2015
Total Trade - Current	295,080	211,653
Add: Non-Trade	6,803	7,454
Total Receivables - Current	301,883	219,107
Receivables - Non-Current		
Trade		
Locator	3,848,829	3,604,505
Less: Allowance for Doubtful Accounts	3,617,593	3,375,651
Net Realizable Value - Locator	231,236	228,854
Residential		
Less: Allowance for Doubtful Accounts	230,820	219,980
Net Realizable Value - Housing	222,955	213,312
Total Trade - Non- Current	7,865	6,668
Non-Trade	239,101	235,522
57,098	25,115	
Total Receivables -- Non- Current	296,199	260,637

Trade Receivables with age 360 days and below are classified as *Current Trade Receivables* while those with age over one year are reported under *Non-Current Trade Receivables*.

Non Trade Receivables- Current includes Due from BIR, DBM for procurement, Due from GOCC-GSIS/SSS/PAG-IBIG/PHIC, Advances Officers and Employees and Receivables Treasurer while *Non Trade Non-Current Receivables* includes Interest Receivables from Time Deposits, Bonds, Receivables from NGO/PO's and Receivables from Officers, Employees and former Board of Directors.

Trade Receivable- Non- Current includes the Receivable from the former SBMA Treasurer for the cash (₱322,296.18 and \$25,315.67) which were stolen in a robbery that occurred in the Treasury Department in November 2005.

The penalty on past due accounts are being recorded as income upon collection.

Following the revision in determining the Allowance for Doubtful Accounts as per revised policy under SBMA Board Resolution No. 14-04-5063 issued on May 22, 2014, the reporting of Accounts Receivable was changed from net of Allowance for Doubtful Accounts and Accounts Receivable from Unearned Revenue to net of Allowance for Doubtful Accounts only.

6. INVENTORIES

This account consists of the following:

	2016	2015
Supplies and Materials	34,033	34,086
Accountable Forms	1,125	793
Medical and Laboratory Supplies	3,861	2,236

	2016	2015
Gasoline, Oil and Lubricants	21,457	21,487
Spare Parts	45,854	45,984
Construction Materials	459	212
Other Inventory Items	2,360	2,360
Foreclosed/ Garnished Properties	686	686
Total Inventories	109,835	107,844

The Inventory which includes Un-reconciled Inventory account amounting to P67.8 million and Inventories for Reconciliation of P24.8 million were reclassified per Commission on Audit recommendation with COA-SAOM 2012-004 (2011) under JGL 12-02-0327 and JGL 12-02-331 respectively. Efforts are being made by various departments to determine the reasonable amount of un-reconciled inventory for probable write-off of non- existing inventory items which are booked under the said accounts. Approval for write off shall be requested from the Commission on Audit upon completion of the actual inventory of existing items to document the unaccounted inventories.

7. MISCELLANEOUS ASSETS

This account consists of the following:

	2016	2015
Prepayments	5,054	2,926
Bill/ Guarantee Deposit to Subic Enerzone	3,514	5,235
Advances to Contractors	3,069	4,435
Total Miscellaneous Assets	11,637	12,596

Prepayments include prepaid expenses for insurance, licenses, subscriptions and registrations that are subject to regular monthly amortization as expense when incurred.

Guarantee deposits made to Subic Enerzone to guaranty installation of transformers, power lines and power accounts of SBMA.

The Advances to Contractors are for project mobilization or as required in the contract. These amounts are for recoupment against their claims to SBMA for the succeeding periods.

8. INVESTMENTS

This account consists of equity Investment of SBMA on the following Subic Bay Freeport registered companies:

	2016	2015
Freeport Service Corporation	5,999	5,999
Subic Technopark	43,003	28,836

	2016	2015
Subic Bay Development and Mgt. Corp.		
Joint Venture - Subic Water	13,008	13,008
BCDA and CDC - SCADC	182,174	202,174
Subic Bay Yacht Club (net)	2,083	2,083
Subtotal	6,600	6,600
Investment in LBP	252,867	258,700
Certificate of Peso Time Dep.	10,000	10,000
LBP SBMA Dollar TD Acct.	2,269,030	573,426
Total Investments	2,531,897	842,126

The winding up of the Freeport Service Corporation (FSC) corporate affairs started in August 2010 and its entire operation was dormant since September 26, 2010. All FSC employees were retrenched and paid corresponding separation pays. At present, all FSC managed properties and facilities were turned over and operated to/by SBMA. SBMA likewise took over FSC's current sub lessees and directly collects the sublease rentals as payment of FSC's unpaid obligations to SBMA until Sept. 30, 2012. Beginning Oct. 1, 2012, all of FSC's sub lessees were transferred to SBMA as direct lessees. FSC's movable properties were also turned over to SBMA for safekeeping and proper disposition.

9. PROPERTY, PLANT AND EQUIPMENT (PPE)

This account consists of the following:

	Land and Land Improvements	Building Structures	Building and Furniture and Other Equipment	Total PPE
Cost	16,328,673	8,125,737	583,199	25,037,609
Construction In-progress	61	0	0	61
Accumulated Depreciation	(128,307)	(256,473)	(69,118)	(453,898)
Carrying Amount-December 31, 2015	16,200,427	7,869,264	514,081	24,583,772
Construction in Progress	0	0	0	0
Additions/ Transfer	7,707	1,786	18,008	27,501
Depreciation for the Year	(131,576)	(256,917)	(64,389)	(452,882)
Depreciation Prior Year	0	0	0	0
Carrying Amount-December 31, 2016	16,076,558	7,614,133	467,700	24,158,391

An ongoing reconciliation is currently being made by the Accounting Department, the Land and Asset Management Department (LAMd) and the Procurement and Property Management Department (PPMD) to reconcile the records of the departments on the actual inventory of all existing properties particularly land, buildings, building improvements, furniture, fixtures and other equipment. This is an initial action to

reinstate the assets' value to its realizable amount/ fair value and assure the reliability of the amounts presented in the statement of financial position.

10. OTHER ASSETS

This account consists of the following:

	2016	2015
Restricted Cash (\$LBP)- SBMA Debt Service Acct	163,369	96,894
LBP- - Trust Fund Various	407,713	247,855
DBP - Trust Fund Various	54,287	87,064
Arts, Archeological Specimen and Other Exhibits	3,517	3,517
Work Animals	8,091	9,339
Peso Time Deposit - LBP	0.00	0.00
Peso Cash on Hand	857	857
Due from Officers & Employees	5,611	4,770
Total Other Assets	643,445	450,296

For the Peso Cash on Hand of ₱856,754.66, Please note that part of the difference between cash on hand of ₱856,754.66 has been accounted as rate of exchange difference at the time collection was received and when deposited.

11. PAYABLES AND ACCRUED EXPENSES

This account consists of the following:

	2016	2015
Payables - Current		
Capital Outlay	8,385	34,930
Unliquidated Obligation	22,915	23,441
Unclaimed Checks	0	0
Miscellaneous	617	617
Total Payables - Current	31,917	58,988
Accrued Expenses - Current		
Maintenance and Operating Expenses	71,219	102,094
Due to Officers and Employees	12,957	13,161
Guaranty	18,416	20,829
Total Accrued Expenses - Current	102,592	136,084
Total Payables and Accrued Expenses - Current	134,509	195,072
Payables -- Non-Current		
Accounts Payable - Miscellaneous	12,447	12,435
AP-Due to Officers-Unpaid Compensated Absences	210,171	157,983
Total Payables - Non-Current	222,618	170,418
Total Payables and Accrued Expenses	357,127	365,490

The payables account includes various obligations to suppliers, contractors and personnel. The obligations incurred are payables for such items of MOOE, Capital Expenditures, (Capex) and Personnel Services (PS). The latter represents accumulated earned leave credits of SBMA employees.

The SBMA had a liability of ₱10,173,295.12 to the National Labor Relation Commission (NLRC) arising from the Writ of Execution issued by Hon. Mariano L. Bactin, Executive Labor Arbitration Board III, City of San Fernando, Pampanga for the NLRC Case No. RABIII-08-20448-13 filed by FSC employees against the FSC, a 100% owned subsidiary of SBMA. The Accounting Department is waiting for the advise/instruction from the Legal Department on the status of the case before recognizing the said amount in the SBMA's Books of Accounts.

Unpaid Guarantee Fees for the current year are also reported in this section of the statement of financial position.

12. LOANS PAYABLES

This account represents drawdowns from the following bilateral lending institutions net of repayments:

Creditor	Interest	Approved Loan	Total Drawdown In	Total Repayment	In YEN	In USD	2016 (In Peso)	2015 (In Peso)
USD/YEN								
World Bank II	0.66% p.a. 2.50% p.a. (Category A - Consulting) and 2.10% p.a. (Category B - Civil Works) 0.95% p.a. (Category A - Consulting) and 0.75% p.a. (Category B - Civil Works)	\$ 60 M	25,528	24,313		1,215	60,405	166,423
JBIC / OECS I		JPY 1.03 B	797,857	389,239	408,618	3,494	173,704	175,434
JBIC / OECS II		JPY 16.45B	15,683,166	3,352,446	12,330,720	105,426	5,241,789	5,035,044
Loan Payable- LBP \$ Loan (Long- Term)	floating rate (prevailing 3 mo. London Interbank Offered Rate (LIBOR) plus a spread of 232 basis points (bps)	\$27M	27,000	5,400	21,600	1,073,952	1,270,620	

Creditor	Interest	Approved Loan	Total Drawdown In USD/YEN	Total Repayment In USD	2016 (In Peso)	2015 (In Peso)
Sub Total						
- Foreign Loans					6,549,850	6,647,521
Domestic Loan						
Total Loans					0	0
Payable					6,549,850	6,647,521
Less Current Portion						
Long-term Portion					563,844	325,907
					5,986,006	6,321,614

Foreign loans are recorded at restated value. Revaluation rate as of December 31, 2016 and December 31, 2015 are \$1: ₱49.72, JPY1: ₱0.4251 and \$1: 47.06, JPY1: ₱0.3920, respectively.

Current portion of loans payable as follows:

Creditor	Payment Period	Foreign Currency Amount	Peso Equivalent (Based on Current Exchange Rate)
Foreign Loans			
World Bank II	Jan-15-2017	USD	1,214,903.74
JBIC / OECF I	Sep-20-2017	JPY	19,458,000.00
	Mar-20-2017	JPY	19,458,000.00
JBIC / OECF II	Feb-20-2017	JPY	256,890,000.00
	Aug-20-2017	JPY	256,890,000.00
Land Bank	Dec-26, 2017	USD	5,400,000.00
Loans Payable- Current Portion			563,844

13. DEFERRED CREDITS TO INCOME

This account consists of the following:

	2016	2015
Current		
Deferred Credits to Income Non-Cash	28,744	67
Deferred Credits to Income -Cash	47,706	49,334
Total Deferred Credits to Income- Current Non- Current	76,450	49,401
Deferred Credits to Income Non-Cash	372,145	332,236
Deferred Credits to Income -Cash	2,698,174	2,649,313
Total Deferred Credits to Income- Non-Current	3,070,319	2,981,549

	2016	2015
Total Deferred Credits to Income	3,146,769	3,030,950

Deferred credits include rentals received in advance from various investors/locators/residents related to long-term lease.

14. SECURITY DEPOSITS AND ADVANCE RENTAL

This account consists of the following:

	2016	2015
Current		
Security Deposit and Advance Rental on Short - Term Lease		
Security Deposit - Locator	40,233	38,533
Security Deposit - Housing & Others	437	437
Advance Rental	229,384	183,411
Total Security Deposits and Advance Rental- Current	270,054	222,381
Non- Current		
Security Deposit on Long - Term Lease	652,234	520,651
Total Security Deposits and Advance Rental- Non- Current	652,234	222,381
Total Security Deposits and Advance Rentals	922,288	743,032

The Security Deposits represent cash payments made by tenants as a guarantee for unpaid utility bills at the end of the lease term. While advance rentals represent payments from Locators and Residents to be applied against the last month/s of the customer's occupancy of the leased facility. In no case shall this amount, during the term of the lease agreement, be applied to the customer's unpaid obligation unless the customer has given its intention to vacate the leased property. In the event that there is no outstanding account at the end of the lease term, the advance rental shall be refunded accordingly.

15. TRUST LIABILITIES

This account consists of the following:

	2016	2015
National government		
BIR	40,613	37,824
BOC	8,713	6,330
Government Owned and Controlled Corporations		
GSIS	16,826	7,055
PAG-IBIG	2,972	3,457
PHILHEALTH	1,100	773
SSS	61	58
LGUs (2% Share on 5% Preferential Tax)	205,463	160,673
Retention Fees	19,671	14,815

	2016	2015
Various Liabilities		
Total Trust Liabilities	250,570	153,325
	545,989	384,310

Due to Other Funds account includes amounts paid by Financial Building Corporation (FBC) and EMS Corporation's Subleasees' that have court cases amounting to ₱37,614,816.97 and ₱914,429.19 respectively.

16. PAID IN CAPITAL

This account consists of the following:

	2016	2015
Paid-in Capital		
Cost of Fixed Assets	19,100,000	19,100,000
Cash Contribution from the National Government	842,815	842,815
Total Paid-in Capital	19,942,815	19,942,815

17. APPRAISAL SURPLUS

The Appraisal Surplus represents the additional net book value of Buildings and Structures turned over by the U.S. Naval Base in 1993 booked based on the result of the physical inventory completed by the Fixed Asset Inventory Team in December 2003. The piecemeal realization of Appraisal Surplus was initially recorded in July 2005. This represents amortization of appraisal surplus.

The Land and Asset Management Department (LAMD) is currently in the process of verifying the inventory list of all SBMA properties particularly Land and Building. Appraisal and valuation of the properties to its Fair Market Value is being worked out by the LAMD which may affect the Appraisal Surplus account upon recording of the properties to its realizable and fair amounts.

18. INVESTED CAPITAL – HELD IN TRUST

The Invested Capital – Held in Trust includes eight motor vehicle from Hanjin and Summa Kumagai and furniture and office equipments from CPPAP.

19. DONATED CAPITAL

The Donated Capital are composed of the Instrument Landing System (ILS) partly financed by the Federal Express Corp. amounting to ₱34,367,662.00 and the 10 mural paintings of Artist Rene Robles amounting to ₱3,250,000.00.

20. GAIN/(LOSS) ON REVALUATION

This account consists of the following:

	2016	2015
Gain on Revaluation		
Realized Gain		
Gain on Foreign Exchange	183,112	104,744
Gain on Foreign Exchange - Cash	25,143	70,835
Subtotal- Realized Gain	208,255	175,579

Unrealized Gain

Gain on Revaluation of:		
Dollar Accounts Receivable	128,149	106,904
Dollar Security Deposits	0	54
Dollar Advances	2	30
Subtotal- Unrealized Gain	128,151	106,988

Unrealized Loss

Loss on Revaluation of:		
Foreign Loans	(485,559)	(356,998)
Dollar Deferred Credits	(7,310)	(179)
Dollar Security Deposits	(8,929)	0
Subtotal- Unrealized Loss	(501,798)	(357,177)
TOTAL GAIN/(LOSS) ON REVALUATION- NET	(165,392)	(74,610)

Gain/(Loss) on Foreign Exchange represents realized gain or loss from transactions such as collection of foreign denominated receivables, payments of foreign denominated loans and other payables, application of advance rentals against outstanding receivables and other transactions with similar cases.

Gain (Loss) on Revaluation represents unrealized gain or loss from translation of foreign denominated accounts to its peso equivalent using the month end rate for the period.

21. OTHER OPERATING INCOME

This account consists of the following:

	2016	2015
Interest Income	101,525	65,108
Regulatory Fees	274,628	260,125
Other Gov't Business Income	224,847	201,061
Miscellaneous	50,529	5,010
Total Other Operating Income	651,529	531,304

22. OTHER EXPENSES

This account consists of the following:

	2016	2015
Interest on Loans		
Guarantee Fees and Other Charges	93,757	81,821
Others	57,139	54,937
Total Other Expenses	365,920	354,626
	516,816	491,384

Guarantee Fees are paid to the Bureau of Treasury to guaranty payment of outstanding foreign loans. Full payment was made on February 6, 2014 on International Cooperative and Development Fund (ICDF) loans. Contractual Services-SBMA is included under Other Maintenance and Operating Expenses starting of August 31, 2013 and Other Professional Services-Fuel, Meals, Accommodation & Other Reimbursement, Travel and Communication are included starting April 30, 2014. Contractual Services-SBMA and Total Other Professional Services as of September 30, 2014 are ₱122,751,091.97 and ₱4,004,750.49, respectively.

23. RELATED PARTY TRANSACTIONS

The Authority has entered into a service and management contracts with Freeport Service Corporation (FSC), its wholly-owned subsidiary, since FSC's start of operations in 1996. Contracts include FSC's provision of manpower services to SBMA on a reimbursable basis plus 10% overhead mark up. However, the overhead markup has been increased from 10% to 13% effective December 17, 2004. Facilities management contract requires FSC's management of tourism-related facilities of SBMA. Under this arrangement, the term of which lasted until 2009, SBMA paid FSC a management fee of P6 million per month while SBMA received 5% of FSC's gross income on these facilities.

However, in SBMA's effort to wind up the operation of FSC, the management fee of P6 million per month were no longer extended beginning January 2010. With FSC's dormancy of operation beginning September 26, 2010, the provision for gross revenue sharing had also been stopped since FSC's facilities were taken over by SBMA, based on the Omnibus Agreement between SBMA and FSC, for management by the Tourism Department and the LAMD.

24. TAXATION

As a territorial tax privilege in accordance with Section 43 of RA No. 7227, enterprises located within the Subic Bay Freeport Zone (SBFZ) shall be exempt from all national and local taxes. In lieu of paying taxes, the SBF enterprises, including SBMA, shall pay a final tax of 5% of their gross income earned from sources within the SBFZ. As defined in the same section of RA No. 7227, "gross income earned" shall mean gross sales or gross revenues derived from any business activity, net of returns, discounts and

allowances, less cost of sales, but before deduction for administrative expenses and incidental losses during a given taxable period.

25. ASIAN ECONOMIC EVENTS

The Authority had obtained several loans with bilateral lending institutions to finance the infrastructure development of Subic Bay Freeport Zone. Most of these loans were negotiated and became effective before the Asian economic crisis hit the country in late 1997.

The peso depreciation vis-à-vis the US dollar, Japanese yen and Euro have had a great impact on SBMA's debt service requirements. Loans' peso value depreciates when pegged against their original peso value using the negotiated foreign exchange rate at loan dates.

To address the issue on the uncontrolled depreciation and appreciation of peso against foreign currencies from time to time, new lease contracts being entered by SBMA are now peso denominated.

26. IMPLEMENTATION OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS)

On June 1, 2004, the Authority had implemented the IFMS concurrent with the manual accounting. Three modules were developed to facilitate the recording of all transaction and information presented in duly certified and approved Journal Entry Vouchers. The function of each module is briefly discussed as follows:

- i. **GENERAL LEDGER MODULE (GL).** Facility to record all adjustments, corrections & reversing entries that cannot be recorded in the other modules replacing the manual recording/ reporting in the General Journal.
- ii. **ACCOUNTS RECEIVABLE MODULE (AR).** Facility to record all billing and collection transactions replacing the manual recording/ reporting in the Journal of Bills Rendered and the Journal of Collections and Deposits. The Journal of Accounts Receivable generated in this module replaces the aforesaid manual books.

Currently, Statement of Account (SOA) and Billing Statements issued to the Locators and residents are IFMS generated reports. The manual preparation of these reports has been stopped since the parallel run on the manual system and the IFMS AR module produced the same outputs.
- iii. **ACCOUNTS PAYABLE MODULE (AP).** Facility to record all obligation and disbursement transactions replacing the manual recording/ reporting on Voucher Payable Register and Journal of Checks Issued. The Journal of Accounts Payable generated in this module replaces the aforesaid manual books.

The Financial Statements are prepared manually based on the IFMS generated reports from the GL module, AR module and AP module. Although the three (3) modules produce reliable reports and outputs, the capability to integrate the outputs of the modules to produce the Financial Statements cannot be relied upon since development in the IFMS System has been stopped because of the Management's plan to require the Enterprise Resource Planning System (ERPS). The parallel run in the IFMS and manual preparation of Financial Statements will continue.

SBMA is planning to adopt the Enterprise Resource Planning System (ERPS) to replace the existing IFMS with integrated, commercially off-the-shelf package software that will reuse existing tools, data and processes. The ERPS is expected to remedy non-integration of data, which became a major dilemma in the implementation of the IFMS.

PART II -- AUDIT OBSERVATIONS AND RECOMMENDATIONS