

EXECUTIVE SUMMARY

A. Introduction

The Subic Bay Metropolitan Authority (SBMA) was established in November 1992 under Sec.13 of Republic Act No. 7227, otherwise known as the "Bases Conversion and Development Act of 1992". 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.

The SBMA is authorized 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.

B. Financial Highlights

The SBMA's assets, liabilities and equity stood at P28.09 billion, P11.11 billion and P16.97 billion, respectively, as of December 31, 2013. It reported a net income of P1.11 billion in its operations for 2013, an improvement from last year's net income of P799.62 million. This is due primarily on the effect of revaluation of foreign currency transactions.

The SBMA had a confirmed P3.77 billion budget sourced from corporate internally-generated funds and borrowings in the amount of P2.60 billion and P1.17 billion, respectively.

C. Scope of Audit

The audit covered the examination, on test basis, of the accounts and financial transactions of the SBMA for the year ending December 31, 2013. The audit was conducted to (a) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

D. Operational Highlights

The SBMA is committed to attaining its goal of creating a business environment that will make it the most competitive Freeport Zone in the country.

In CY 2013, the Agency managed to attract investments in tourism, export industries and other businesses in excess of P24 billion by the end of the third quarter of the year. This marked an eight-fold increase in investments compared to CY 2012 investment commitments of over P3 billion.

Other significant achievements for the year include the following:

1. Good Governance

- a. Awarded ISO 9001:2008 certification for the development of quality management systems on 12 April 2013.
- b. Signed Integrity Pledge for the commitment to ethical business practices and good corporate governance on 28 June 2013.
- c. Raised over P10 million in donations for victims of Typhoon Yolanda and sent rescue team to Tacloban to assist with search and rescue efforts.
- d. Rescue teams were awarded the 2013 Gawad Kalasag Best Government Emergency Response Management Team on 25 October 2013 making the Agency a two-time winner of such award.
- e. Requested NBI on 27 June 2013 to investigate and recommend charges against those parties involved in the failed RFID project in 2007.

2. Increased Tourism

- a. Hosted several major sports events such as the Century Tuna 5150 Triathlon on 23 June 2013, the Safeguard 5150 Triathlon on 6 October 2013, the Asian Triathlon Championship and the TRAP National Triathlon Championship on 26-29 April 2013, the Subic Bay to Boracay Race on 16 February 2013, the Commodore's Cup Regatta on 2-6 April 2013 and the Subic Duathlon Open Championships on 1 December 2013 contributing to a 20% increase in sports-oriented or related events and an unprecedented 134% increase in participants as of September 2013.
- b. Hosted several MICE events such as the PICE National Convention resulting in a 52% increase in MICE participants as of September 2013.
- c. Visitor, tourist and guest arrivals have increased by 8.3%, 0.86% and 0.89% as of October 2013.

3. Improved Security

- a. No further incidents of rice smuggling.
- b. Refurbishing of two (2) harbor police boats allowing for increased patrols to combat against illegal fishing and shipwreck looting in Subic Bay.

- c. Procurement of eight (8) brand new service vehicles for the Law Enforcement Department to augment security efforts in the Freeport.
- d. Continued hosting of US military vessels for routine port visits.
- e. Considerable decrease in crime rates from 47 incidents in 2012 to 27 incidents as of September 2013, or a 32% drop in crime rate.

4. Environmental Protection

- a. Full implementation of "No Plastic Policy" by January 2013.
- b. No further incidents of waste dumping.
- c. Holding of Water Summit to assure adequate clean water in the medium term on 21-22 March 2013.
- d. Coordinated with the City of Olongapo in making studies and representations with the DPWH to dredge the Kalaklan River to minimize the disastrous flood that regularly plague the city.
- e. Co-sponsored the Annual Earth beach clean-up and conducted the Kalaklan River clean-up together with the City of Olongapo on 21 September 2013.

5. Investment Promotion Enhancement

- a. Full implementation of CUSA policy allowing for the cost recovery of and sustained maintenance of quality municipal services.
- b. Full implementation of increased admission fees for second-hand trucks and heavy equipment allowing for the cost recovery of and sustained maintenance of quality port services.
- c. Finalized two (2) Memoranda of Agreement with the DOST for the development of the National Government Data Center 3 in Subic Bay which will improve the attractiveness of the Freeport as a destination for IT and BPO oriented businesses.
- d. Issued Board Resolution in full support of the construction and development of the Redondo Peninsula Energy, Inc. 600 MW coal-fired power plant project expected to provide reliable and affordable power in the Freeport and the rest of Luzon.
- e. Maintenance of stable employment generation numbers specifically from 89,377 total workers in 2012 to 89,280 total workers in 2013.
- f. Worked out with PEZA and DBM the final arrangement for the continued subsidy of Hanjin power rates which is a commitment of the national government agency.

6. Additional areas for development

- a. In cooperation with the Municipality of San Antonio, finalized the territorial expansion of the Freeport thru the augmenting of 10,000 hectares composed of world-class beaches ideal for tourism and resort development.
- b. In cooperation with the Municipality of Subic, negotiated the territorial expansion of the Freeport thru the augmenting of 650 hectares worth of properties composed of coastal land ideal for shipbuilding and ship repair.

E. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2013 owing to significant accounting errors and deficiencies which resulted in the following impact on the statement of financial position:

CY Obs. No.	PY Obs. No.	Nature of Errors	Accounts Affected	With Effect on the FS Under/(Over) Statement
Errors affecting asset accounts				
1.0		Unrecorded cash collections and payments made through the banks	Cash in Bank Receivables	7,633,059.06 (7,633,059.06)
4.0		Unaccounted/non-existing prior years' stock inventory	Inventory	(86,468,547.74)
	3.c	Unrecorded consumed spare parts	Spare Parts Inventory – Direct Issuances	(60,138.76)
5.0		Non-existing inventories	Medical, Dental, Laboratory Inventory/ Inventory Items for sale – tourism promotional/ Materials for sale other than tourism promotional sale	(2,361,825.11)
7.0		Non-derecognized cost of demolished buildings and structures	PPE – Buildings and Structures Accumulated Depreciation	(915,760,803.52) 886,661,072.07
	4.c	Non-existing motor vehicles	PPE – Equipment and Machinery Accumulated Depreciation	(139,331.61)
	5.b	Non-existing works of art	Other Assets – Art, Archeological Specimen and other Exhibits	(5,000.00)
8.0		Cost of deceased work animals not derecognized in the books	Other Assets – Work Animals	(4,335,876.77)
9.0		Non-existing peso time deposit	Other Assets – Missing Peso Time Deposit	(21,488,667.49)
		Net errors affecting total Assets		(143,959,118.93)
		Total Assets		28,089,040,000.00
		% of Error to Total Assets		0.51%
Errors affecting liabilities and stockholders' equity accounts				
4.0		Unaccounted/non-existing prior years' stock inventory	Retained Earnings	(86,468,547.74)
	3.c	Unrecorded consumed spare parts	Retained Earnings	(60,138.76)
5.0		Non-existing inventories	Retained Earnings	(2,361,825.11)
7.0		Non-derecognized cost of demolished buildings and structures	Retained Earnings	(29,099,731.45)
	4.c	Non-existing motor vehicles	Retained Earnings	(139,331.61)
	5.b	Non-existing works of art	Retained Earnings	(5,000.00)
8.0		Cost of deceased work animals not derecognized in the books	Retained Earnings	(4,335,876.77)
9.0		Non-existing peso time deposit	Retained Earnings	(21,488,667.49)

		Net errors affecting liabilities and stockholders' equity	(143,959,118.93)
		Total Liabilities and Stockholders' Equity	28,089,040,000.00
		% of Error to Liabilities and Stockholders' Equity	0.51%

F. Summary of Significant Audit Observations and Recommendations

Summarized below are the significant audit observations noted during the audit and the corresponding recommendations which are discussed in detail in Part II of the report. Management views and comments including those given during the exit conference were incorporated in the report, where appropriate.

FINANCIAL AUDIT

1. *Collections and payments in CY 2013 made thru the bank amounting to P7,769,811.23 and P136,752.17, respectively, remained unrecorded thus, understated Cash in Bank by P7,633,059.06.*

We recommended that Management prepare the necessary adjusting entries to record adjustments accruing at year-end and furnish COA a copy of journal entry vouchers or equivalent records to prove compliance with the recommendation.

2. *The correctness of the net realizable value of Accounts Receivable-Trade amounting to P927.17 million as of December 31, 2013 was not established due to poor results of confirmations sent to locators and residents.*

We recommended that Management coordinate with the six (6) locators who replied with exceptions for purposes of bringing into agreement their respective records. Management was likewise advised to establish the probability or improbability of collecting the amount of P526.67 million from the 26 residents and 21 locators who were not located in their respective leased properties. In case high improbability of collection was established, the Management was advised to consider requesting the write-off of said receivables from COA. For the 48 lessees who failed or chose not to send their replies, the Management was requested to follow up their responses notwithstanding the presumption of accuracy accorded to their respective account balances.

3. *Review of SBMA dispensaries' medicines, medical, dental and laboratory stock controls, usage, recording and reporting as well as the monitoring of availment of medcap benefits revealed that (1) medical supplies worth P18,468.73 acquired in prior years have expired due to lack of monitoring and control on utilization/distribution, in violation of Section 2 of P.D. 1445; (2) expired medical supplies used in the administration of medical services were billed to patients contrary to Section 10(l) of R.A. 9711; (3) erroneous entries in the inventory report were noted, thus, casting doubt on the accuracy of the cost of ending inventory reported at year-end; (4) donations of*

medicines from the U.S. Military Forces were not reported for proper accounting and recording, thus, understating the inventory and income accounts at year-end; (5) quantity of stocks issued and reported in the inventory report was different from quantity of stocks actually issued based on issuance slips, thus, questioning the accuracy of the reported cost of ending inventory; (6) moving average method was not consistently applied in valuating medicines, medical and laboratory supplies contrary to NGAS policy on inventory costing; (7) medical supplies issued by Pharmacist to requesting sections in the dispensary were recorded as outright expense contrary to the intention of A.O. 103 directing the continued adoption of austerity measures in the government; (8) the Subic dispensary failed to submit monthly report of accountable forms to the Commission on Audit in violation of Section 98 of GAAM Volume I; and (9) erroneous entry in the individual medical consumption report resulted in erroneous summary of Medcap consumption, thus, depleting the entitlement of affected employees to Medcap benefits in case errors remain undetected or uncorrected.

We recommended that Management:

- (1) institute effective monitoring controls in the stocking, utilization and disposition of medical supplies to prevent further build-up of expired supplies and avoid unnecessary wastage and meaningless use of public funds. The Management was advised to require regular communication between both dispensaries to facilitate inter-transfer of medicines and/or medical supplies with nearing expiry dates for timely disposition. The Management was further advised to institute accountability measures to hold negligent personnel answerable for losses arising from the failure to implement the safeguard controls.
- (2) discontinue the practice of using expired medical supplies and the charging of its equivalent costs to patients as the same fall under acts prohibited by R.A. 9711. To avoid possible re-use of expired medical supplies, the immediate and safe disposal thereof was recommended.
- (3) require process owner, with assistance from the Accounting Department, to correct erroneous data entered in the previous year's inventory report and to effect necessary adjustment in the books, if warranted. For future reporting requirements, the concerned staff was advised to carefully prepare the monthly inventory report by recording only the accurate information and figures needed in the preparation of financial statements. The Management was likewise advised to assign Accounting personnel who would be responsible in reviewing the monthly inventory report prepared and submitted by the in-charge process owner.
- (4) require responsible personnel from both dispensaries to regularly report to the Accounting Department all medicines, medical and other supplies received through donations for proper accounting or disclosure. The Management was advised to create a policy prohibiting the acceptance of expired health products from donors in keeping with the national policy banning the proliferation of and patronage for expired health products.

(5) require concerned staff to correct erroneous entries in the issuance column of the inventory reports and submit the corrected report to Accounting Department to serve as basis in effecting necessary adjustment in the books of accounts. The Management was likewise advised to instruct the concerned staff to carefully prepare the inventory report so that only accurate figures are supplied to the Accounting Department.

(6) require the Accounting Department to patiently orient dispensary personnel assigned in the preparation of inventory report with the computation of cost of ending inventory using the moving average method. The Management was instructed to consistently apply moving average method in costing inventories. Otherwise, the Management was informed to qualify its assertion in the Notes to Financial Statements by fully disclosing the type of valuation applied to each kind of inventory to avoid giving misleading information.

(7) consider adopting a policy that requires accounting for and reporting of medical and laboratory supplies issued to various sections/units in the dispensary but which remain unused at the end of the year.

(8) require Subic dispensary to regularly submit to COA the required monthly report of accountable forms in compliance with COA rules and regulations.

(9) designate another staff who would review and correct outputs prepared by the monitoring staff. The monitoring staff should not be given access to the system allowing the rectification of erroneous input he/she has entered. Preparation and review functions should be distributed to different staff for check and balance purposes. Further, the system facility used in monitoring the medcap consumption should be enhanced in a manner as would effectively alert the process owner of an occurrence of overused medcap benefits. The amount of Medcap benefits consumed in excess of the limit should be collected from the concerned employee.

4. *The accuracy of the reported balance of inventories at P112.03 million as of year-end could not be guaranteed in view of the unaccounted prior years' stock inventories amounting to P86.47 million.*

We reiterated that Management designate Accounting personnel and counterpart staff from Property Department, with the assistance and supervision of COA representative, to search for available disposal documents at the COA stockroom. If despite such effort there still remains an unaccounted difference, the Management was advised to secure authority from the Commission Proper of the COA for the dropping/writing off of unaccounted balances of prior years' stock inventories.

We further recommended that Management instruct the Accounting Department to adjust the account Spare Parts Inventory to take up the P5.34 million worth of located excess spare parts using the CY 2012 Inventory Report of the Inventory Committee.

5. *The accuracy of the reported balance of inventories at P112.03 million as of year-end could not be guaranteed in view of the inclusion of non-existing inventories amounting to P2.36 million.*

We reiterated our recommendation that Management require the Accounting Department to adjust the inventory account by dropping from the book of accounts assets determined by PPMD to be non-existent. Where disposal documents are necessary to support the deletion, we advised the Management to coordinate with the COA for purposes of retrieving records at the COA stockroom. If despite such effort there still remains an unaccounted difference, the Management was advised to request authority from the Commission Proper of the COA for the dropping/writing off of unaccounted balances of non-existent stock inventories.

6. *The Management failed to liquidate the sum of P110,353.50 representing advance payments made to two (2) contractors with projects contracted in prior years.*

We reiterated for the last time the recommendation to immediately settle the amount by demanding refund/restitution of the unrecovered advance payments paid to IP Santos and Associates. The Management was informed that a notice of disallowance would be issued making the officials who authorized the payment of advances but failed to recover the advances or properly monitor the recoupment of said advances from progress billings liable for the entire unrecovered amount.

Insofar as the accountability of ProConsult, Inc. was concerned, we recommended that Management establish with absolute certainty whether or not there remains an unsettled amount collectible from the firm. If an amount remains due from ProConsult, Inc., the Management was directed to demand immediate settlement thereof. Otherwise, the Management was instructed to adjust entries in the books of account to correct possible error committed.

7. *Reliance on Management's assertion of accurate reported net book value as of December 31, 2013 at P25.41 billion and existence of assets at the close of the year could not be certified in view of the discrepancies of information in the Accounting and Property Records, thus, grossly affecting the fair presentation of total assets as at year-end.*

We reiterated that Management require both the Accounting Department and Land and Asset Management Department (LAMD) to exert extra effort in reconciling the cost variances. The LAMD was advised to provide reports on demolished buildings, facilities and other structures so that the Accounting Department could drop from the book of accounts the corresponding book value.

8. *The accuracy of the Work Animal account's year-end balance of P9.36 million was doubtful due to the inclusion of the amount P4.33 million representing the acquisition cost of deceased work animals, thus, affecting the reliability of the reported total assets as of year-end.*

We recommended that Management immediately determine the accountable officer responsible for filing the necessary relief from property accountability with COA. Thereafter, the Management was advised to submit the required request duly supported with complete documents required under pertinent COA rules and regulations.

9. *The accuracy of the reported ending balance of Other Assets account amounting to P56.68 million could not be supported in view of the inclusion of non-existing peso time deposit worth P21.49 million.*

We reiterated that Management determine with finality how the peso time deposit was utilized or disposed of by the Management. In the event that anomaly in the use of the amount was established, consider the filing of appropriate charges against responsible officers and/or employees.

10. *(1)The accuracy and reliability of the reported balances of Accounts Payable amounting to P182.05 million and P157.64 million as of December 31, 2012 and May 31, 2013, respectively, could not be ascertained due to (1) non-reversion of long outstanding unliquidated balances of payables worth P85.09 million to unappropriated surplus of the general fund, (2) discrepancies of the peso and dollar amounts recorded in the books of SBMA and various creditors amounting to P23.96 million (net) and \$8.74, (3) unaccounted balances reported in the accounting records amounting to P2.64 million, and (4) inadequate functionality of the agency's computerized accounting system, thus, casting doubt on the fair presentation of the account in the financial statements as of the given dates.*

We recommended that Management require the concerned account officers to review and analyze all recorded payable accounts and to prepare adjusting entries to correct the erroneous double recording of entry and the improper set up of liability for the counterclaim filed in court; prepare journal voucher for purposes of reverting accounts payable that remained outstanding for two (2) years or more. A copy of said journal voucher certified by the Accountant and supported by a list of accounts payable reverted and amounts due each payee should be submitted to COA; and adopt alternative procedures such as sending confirmation letters to creditors on record in order to ascertain the validity of remaining less than two-year old liabilities reported in the accounting records.

We likewise recommended that Management immediately require the Accounting Department to (1) communicate with concerned creditors especially those whose replies were favorable to SBMA, (2) request breakdown of SBMA payables reported in the creditors' accounting records, (3) evaluate the accuracy of information supplied by creditors, (4) effect necessary adjustments in the books of accounts, if warranted, and (5) inform COA of adjustments made in the accounting records as a result of the reconciliation.

We further recommended that Management assist the concerned Accounting personnel by providing support staff from the Maintenance Department that could help in locating

possible available documents at the COA stockroom. The Accounting personnel were advised to evaluate the validity of obligations on the basis of obtained relevant documents and, thereafter, prepare journal voucher to revert those obligations which remained outstanding for more than two years.

(2) The inadequate functionality of the agency's computerized accounting system has contributed to the existence of abnormal debit/positive balances worth P11.195 million as of May 31, 2013 in the subsidiary records of accounts payable.

We recommended that Management direct the Accounting department to coordinate with MIS department accounting concerns affecting the use of IFMS and its functionalities including, but not limited to, the lack of account "SBMA payroll" in the selection option for debit entries. We further recommended that Management instruct both departments to come up with a common solution that could address errors caused by the system's deficiency. The solution must be able to remove from the subsidiary ledgers all abnormal positive/debit balances caused by the inadequate functionality of IFMS.

11. Trust funds worth P2.21 million were not fully spent for intended purposes, thus, depriving employees of their salaries and allowances in violation of Section 4(3) of the P.D. 1445.

(a) Due to Officers and Employees – Clothing Allowance

We recommended that Management require all concerned departments to determine those employees, whether delisted or active, who were entitled to U/CA but failed to collect the full amount or a portion of it. We also recommended that Management set aside funds to cover the payment of said U/CA preferably in cash for practical reason and, in the spirit of just and equity, cause the immediate release of said funds to affected employees.

(b) Salary Trust Fund of CS Personnel

We recommended that Management (1) properly identify all separated employees whose salaries were retained and held in the trust account; (2) determine with finality the remaining accountability of said separated employees; (3) record necessary adjustment to take up overpayment and/or accountability, if any; (4) cause the refund of excess salary trust fund to entitled former SBMA employees, subject to availability of funds; (5) instruct the Accounting Department to record refunds made; and for similar transactions in the future, (6) inform the Accounting Department to determine the propriety of refund of salary trust fund simultaneously with the processing of request for final pay to avoid similar audit observation and undue injustice to affected employees.

COMPLIANCE AUDIT

12. The agency has earmarked funds for Gender and Development activities below the national threshold of 5% of total budget appropriations, contrary to Section 28 of the General Provisions of CY 2013 General Appropriations Act (GAA) as reiterated in

Section 4.4 of DBM/NEDA/NCRFW Joint Circular No. 2004-1, Section 36(a) of R.A. 9710, and Sections 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01.

We recommended that Management allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of objectives in the pursuit of equality and development of women and men in the agency.

13. The Management used GAD budget for activities explicitly identified by law as non-chargeable against GAD Budget, in violation of PCW/NEDA/DBM Joint Circular No. 2.

We recommended that Management, through the created SBMA-GAD Program Committee, identify concrete programs, activities and projects that are gender-related, aligned with the 30-year comprehensive perspective plan of the Philippine Plan for Gender Responsive Development (PPGD), responsive to PCW/NEDA/DBM Joint Circular where related expenses are properly chargeable against the GAD budget.

14. The appropriated budget for GAD programs, actions, and projects were not fully consumed, resulting in the failure of the Management to achieve the targets set in the Annual GAD Plan.

We recommended that Management, through the created SBMA-GAD Program Committee, exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets. The Management was likewise advised to carry out the plan to its fullest extent by utilizing the budget set aside for purposes of ensuring the full implementation of the GAD Plan.

15. Weaknesses in the monitoring of earned leave credits of employees resulted in an inaccurate and unreliable reported balance of Accounts Payable Due to Officers – Unpaid Compensated Absences amounting to P154,509,257.66 as of December 31, 2013, in disregard of Sec. 111 of P.D. 1445 and Section 3(a) of GAAM Vol. II.

(a) Balances of leave credits earned in prior years were not reconciled with the balances forwarded in the ensuing year, hence, casting doubt on the accuracy and reliability of the reported year-end balance for Accounts Payable Due to Officers – Uncompensated Balances.

(b) Monetized leave credits were recorded late in the records of the HRMD personnel.

To address the internal control weaknesses pointed above, we recommended that Management:

- (1) require the HRMD to review the Employee Leave Record, particularly the data for the ending balances of employees' earned leave credits as of CY 2005 that were inconsistently carried over in CY 2006. The Management should aim for a zero difference in the reconciliation of figures;
- (2) instruct the HRMD to coordinate with the Accounting Department for purposes of identifying monetized leave credits that were not recorded in the Employee Leave Record;
- (3) direct the HRMD to adjust entries in the Employee Leave Record based on the results of reconciliation of inconsistent balances and recording of unposted monetization transactions;
- (4) require the HRMD to prepare a logbook or similar record for purposes of monitoring requests for monetization of leave credits;
- (5) provide HRMD an access to IFMS functionality to view transactions showing monetized leave credits to be used as basis in adjusting entries in the Employee Leave Record;
- (6) oblige the HRMD to prepare Certificate of Accumulated Leave Credits Earned for distribution to all concerned employees at the end of the year to keep the employees informed of their actual/updated earned leave credits; and
- (7) require the HRMD to supply only the accurate information on the number of accumulated leave earnings of all employees as well as the equivalent value thereof for funding purposes.

CONTRACT/POLICY REVIEW

16. The Management failed to consistently monitor the compliance of locators with their contractual obligations particularly the (1) submission of annual report on the progress of investment/development commitments to be infused on leased properties, (2) posting of performance bond, (3) payment of security deposits and (4) payment of advance rental resulting in the failure of the Management (1) to fully account for the actual worth of investment/development commitments infused on the leased areas as at year-end and (2) to collect (a) performance cash bonds amounting to US\$7.23 million, exclusive of the undetermined amount of performance bond due from two locators, and P9.22 million, (b) security deposits amounting to US\$146,030.52 and P14.14 million and (c) advance rental payments amounting to US\$130,025.71 and P6.24 million.

(16.1) Investment/development commitments

We recommended that Management:

- (1) require BPSD, with the assistance of Engineering Department or in-house appraisal committee, to carefully evaluate and validate the reported actual accomplishments of locators taking into consideration the actual physical development/investment introduced/invested on the leased properties vis-à-vis the actual development/improvement cost declared by locators;
- (2) instruct the BPSD to determine possible violations committed by locators such as but not limited to late delivery of actual development/investment commitments, and/or installation of commitments different from those agreed upon in the contract, and to recommend proper sanctions/penalties if warranted;
- (3) exercise remedies available to the agency as provided in the lease agreements in the event of breach of obligations;
- (4) constitute an ad hoc committee primarily responsible for the monitoring of investment/development commitment of locators and reporting thereof to the Management for appropriate action;
- (5) require BID to follow up the letters sent to locators who have yet to submit the required progress report of investment/development commitments on their respective leased premises;
- (6) remind BID to submit updated status report to COA in response to this audit observation; and
- (7) impose administrative sanctions upon SBMA personnel who fail to exercise the degree of care in the dispatch of monitoring and reporting duty thereby causing undue financial disadvantage to the agency.

(16.2) Performance Bond

To serve the purpose for requiring the posting of performance bond and to guard the interest of the agency from empty promises of locators, we recommended that Management require all concerned locators with investment/development commitments to post performance bond following the applicable rates stated in the agency's policy. In case of repeated failure of locators to abide by the policy, we recommended that Management exercise other available remedies including the suspension of the renewal of CRTE/RC of lessee, where applicable, as well as the imposition of penalties in accordance with the SBMA Policy on Imposition of Performance Bond and its Applicable Rates.

(16.3) Security Deposit

We recommended that Management require the Accounting Department to re-compute locators' unpaid security deposits and thereafter order lessees to immediately settle and pay their respective unpaid security deposits. We likewise suggested that Management enforce remedies agreed upon in the contract in the event of locators' non-compliance with the order despite repeated demand. We also advised that Management attentively monitor the compliance of locators with their contractual obligations in order to protect the interest of the agency.

(16.4) Advance rental payment

We recommended that Management require the Accounting Department to re-compute locators' unpaid advance rents and thereafter order lessees to immediately settle their accounts. We likewise suggested that Management enforce remedies agreed upon in the contract in the event of locators' failure to comply with the order despite repeated demand for payment, including the right to eject locators from the leased property. We also advised the Management to religiously monitor the compliance of locators with their contractual obligations in order to protect the interest of the agency.

17. The Management favored directors, officers and employees by allowing long-term leases at reduced lease rates and/or authorizing deferment of rental payments until upon severance of employment with SBMA, thus, preventing the agency from earning full lease income as they fall due, in violation of Section 3(e) of R.A. 3019.

In view of the constitutional guarantee on non-impairment of contracts, the Management was advised to treat equally the SBMA officers, employees and the general public who wish to avail of future long term leases by adopting uniform policy applicable to them. The Management was likewise advised to stop giving reduced lease rates to qualified SBMA officers or employees as the same is not only prejudicial to or unauthorized by the government but is also unfair to other stakeholders of the agency. We likewise recommended that Management determine the standard period when rental payments should be made due and payable taking into consideration the greatest interest of the agency.

18. The Management neglected to exercise its duty by failing to strictly implement the provisions of the policy into the lease contracts, in violation of Section 46(b)(3) of Book V of Executive Order No. 292.

We recommended that Management consider revising the lease agreements of concerned officers or employees to align the stipulations therein strictly in accordance with the provisions of the policy without necessarily impairing the parties' rights and obligations. We also recommended that Management create a quality assurance team in charge of reviewing stipulations in the lease contracts and monitoring compliance and consistency of contract stipulations with the policy. The Management was also advised to impose sanctions against officers or employees who neglect in the performance of their

respective duties causing unnecessary damage or injury to any party, including the SBMA.

19. *The Management failed to monitor compliance of officers and employees with their contractual obligations, thus, compromising the best interest of the agency.*

We recommended that Management require all concerned officers and employees to immediately pay in full the required security deposits, secure the necessary insurance policy, and demand down payment in faithful compliance with the lease agreements. We likewise recommended that Management create a quality assurance team who will monitor lessees' compliance with their contractual obligations. In the event of lessees' refusal to fulfil their respective contractual obligations despite demands, the Management was advised to exercise remedies available in the contract.

20. *The validity of claims for meal and other reimbursements amounting to at least P107,210.96 could not be ascertained in view of non-submission of complete documentation necessary to execute independent verification, contrary to Section 4(6) of Presidential Decree (P.D.) No. 1445.*

We recommended that Management submit the requested documents and/or information in compliance with pertinent auditing rules and regulations.

21. *Procurement of traveling bags given as token of appreciation to media reporters and editors amounting to P167,973.75 was suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184.*

We recommended that Management settle the above audit suspension through compliance with the requirements indicated in the Notice of Suspension. We reminded the Management that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

22. *Sponsorship of meals of 200 persons during the 2nd Century Tuna 5i50 Triathlon Series held on June 22, 2013 amounting to P454,200.00 was suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184*

We recommended that Management settle the above audit suspension through compliance with the requirements indicated in the Notice of Suspension. We reminded the Management that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

23. *Sponsorship of 180 room nights per year covered by MOA between SBMA and the Triathlon Association of the Philippines (TRAP) amounting to P119,399.00 was*

suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184.

We recommended that Management settle the above audit suspension through compliance with the requirements indicated in the Notice of Suspension. We reminded the Management that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

24. *Various expenses charged against Extraordinary and Miscellaneous Expenses (EME) funds for the period January to December 31, 2013 amounting to P199,060.81 were suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184*

We recommended that Management settle the above audit suspension through compliance with the requirements indicated in the Notice of Suspension. We reminded the Management that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

25. *Various expenses incurred by members of the SBMA Board of Directors in CY 2013 amounting to P504,731.50 were suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445.*

We recommended that Management settle the above audit suspension through compliance with the requirements indicated in the Notice of Suspension. We reminded the Management that items suspended in audit which are not settled within ninety (90) days from receipt of the notice shall become a disallowance pursuant to Section 82 of P.D. No. 1445.

VALUE FOR MONEY AUDIT

26. *The SBMA spent approximately P23.38 million for the CY 2007 RFID Project which never became operational owing to the Management's (1) lack of preparation to implement the Project as evidenced by the failure to (a) appoint Project Coordinator responsible for the coordination of activities, resources, and information; (b) assign roles, responsibilities and accountabilities to concerned departments and (c) formulate policies and procedures necessary in managing the post-implementation phase of the Project; (2) lack of consultation with concerned departments in drafting the terms of reference for the procurement of RFID-related IT equipment; (3) non-compliance of Contractor with its contractual obligations particularly the commissioning of various equipment and application system according to the intended design and purpose; and (4) absence of strong willpower to make the Project work as evidenced by the Management's*

inaction to protect the interest of the agency despite knowledge of the causes leading to the failure of the Project.

We recommend that Management:

- (1) consider filing appropriate charges against:
 - a. Messrs. Jeffrey C. Salazar and Rani C. Cruz for accepting the project and certifying its completion despite knowledge to the contrary, thus, compromised the interest of the agency;
 - b. members of the RFID Project Team for failure to fulfill their tasks which inaction is equivalent to nonfeasance amounting to neglect of duty, thus, contributed to the failure of the Project causing serious damage to the agency;
 - c. drafter of the terms of reference for the RFID Project for failure to consult with and confirm the IT requirements of OSD, thus, facilitated the incurrence of unutilized property resulting in wastage of public funds;
 - d. Atty. Martinez et al. for failure to finalize and submit policies and procedures necessary for the operation of the systems and post implementation of the Project;
 - e. PMTI for failure to commission the various IT equipment according to the intended security system design and for failure to deliver several IT equipment on time, which failure amounted to breach of contract; and
 - f. former Administrator Armand C. Arreza for failure to exercise the degree of diligence required of him under the given circumstances.
- (2) coordinate with PS-DBM for purposes of imposing and collecting liquidated damages from PMTI;
- (3) instruct MIS, TCD, LED, IAS, PPMD and other concerned departments to re-inventory RFID-related equipment stored in Building N and Seaport Building and those deployed at the gates and elsewhere for purposes of accounting and recording in the books of accounts;
- (4) require incumbent officials who were involved in the procurement of RFID-related IT equipment to immediately file the necessary request for relief from accountability for the missing items;
- (5) assign accountability over remaining IT equipment to the departments presently in custody over said items to prevent further loss thereof; and

(6) consider disposing off unserviceable IT equipment for purposes of recovering portion of the investment cost spent in procuring the items.

F. Status of Implementation by the Agency of Prior Year's Audit Recommendations

Out of 40 audit recommendations embodied in the Annual Audit Report for CY 2012, six (6) were fully implemented, 33 were partially implemented, and one (1) was not implemented. These were discussed in detail in Part III of the report proper.

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**Part I –
Audited Financial Statements**



Republic of the Philippines
COMMISSION ON AUDIT

Regional Office No. III
City of San Fernando, Pampanga

Telephone No. (045) 455-4272 • Telefax No. (045) 455-4266 • Website: www.coa.gov.ph

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, 2013, 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 Parts II and III of this report, significant accounting errors and deficiencies were noted in the audit of accounts and transactions, as follows: (a) the Cash in Bank was understated by P7.63 million due to unrecorded collections received thru the banks; (b) the correctness of the net realizable value of Accounts Receivable-Trade account amounting to P927.17 million as of December 31, 2013 was not established due to poor turnout of confirmations sent to locators and residents; (c) the inventory account was overstated by as much as P88.89 million arising from deficiencies noted in 2012 which remained uncorrected at year-end; (d) the Property, Plant and Equipment account was overstated by P29.24 million arising from non-recording of demolished buildings and structures noted in 2011 which remained uncorrected at year-end; and (e) the accuracy of the balance of Other Assets in the amount of P56.68 million is doubtful due to the inclusion of missing time deposit and unaccounted cash on hand/assets aggregating to P25.83 million noted in 2012 but remained uncorrected at year-end.

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 at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

By: 

DANILO M. LAGASON
Supervising Auditor

February 28, 2014



SUBIC BAY METROPOLITAN AUTHORITY
ACCOUNTING DEPARTMENT

Rm. 214, Bldg. 229, Waterfront Road, Subic Bay Freeport Zone, Philippines 2222
Tel (6347) 252-4045/4419 Fax (6347) 252-4858



Certificate Number: AJA13/16628

**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 Balance Sheet as of December 31, 2013 and the related Profit and Loss Statement and Cash Flow for the year then ended. 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.


PAULITA R. YEE

OIC – Deputy Administrator for Finance
sw ju


ROBERTO V. GARCIA *pre*

Chairman/Head of the Agency

SUBIC BAY METROPOLITAN AUTHORITY
BALANCE SHEET

December 31, 2013

(With Comparative Figures for December 31, 2012)
 In Thousand Pesos

	2013	2012
ASSETS		
Current Assets		
Cash (Note 4)	P 1,152,799	P 730,872
Receivables (Note 5)	332,078	215,095
Inventories (Note 6)	112,026	111,483
Miscellaneous Assets (Note 7)	8,561	9,407
Total Current Assets	1,605,464	1,066,857
Non-Current Assets		
Investments (Note 8)	395,800	358,481
Receivables (Note 5)	621,161	640,525
Property, Plant and Equipment (Note 9)	25,409,930	25,902,623
Other Assets (Note 10)	56,684	52,303
Total Non-Current Assets	26,483,575	26,953,932
TOTAL ASSETS	28,089,039	28,020,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Payables & Accrued Expense (Note 11)	171,479	163,076
Loans Payable (Note 12)	382,873	678,092
Accrued Interest	28,739	45,761
Deferred Credits to Income (Note 13)	57,137	68,523
Security Deposits & Advance Rental (Note 14)	182,202	170,927
Trust Liabilities (Note 15)	260,777	218,247
Total Current Liabilities	1,083,207	1,344,626
Non-Current Liabilities		
Other Payables (Note 11)	173,480	169,130
Loans Payable - net of current portion (Note 12)	6,798,686	7,768,812
Deferred Credits to Income (Note 13)	2,588,444	2,584,471
Security Deposits (Note 14)	470,332	400,784
Total Non-Current Liabilities	10,030,942	10,923,197
Total Liabilities	11,114,149	12,267,823
Stockholders' Equity	16,974,890	15,752,966
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	P 28,089,039	P 28,020,789

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF INCOME

For the Year Ended December 31, 2013

(With Comparative Figures for December 31, 2012)
 In Thousand Pesos

	2013	2012
REVENUES		
Leases	P 1,166,705	P 1,009,336
Port Services	450,782	346,525
Tourism Services	11,880	9,747
Gain on Revaluation (Note 20)	854,878	1,113,237
Other Operating Income (Note 21)	436,671	300,278
Total Revenues	2,920,916	2,779,123
OPERATING EXPENSES		
Depreciation	471,656	742,264
Bad Debts Expense	262,673	131,848
Salaries and Benefits	388,789	641,432
Power and Water	87,026	87,589
Supplies, Materials and Fuels	41,613	45,692
Loss on Revaluation (Note 20)	-	-
Others (Note 22)	503,311	319,370
Total Operating Expenses Before Income Tax	1,755,068	1,968,195
Provision for Income Tax	55,398	11,313
Total Operating Expenses After Income Tax	1,810,466	1,979,508
NET INCOME	P 1,110,450	P 799,615

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2013

(With Comparative Figures for December 31, 2012)

In Thousand Pesos

	2013	2012
Paid-in Capital (Note 16)		
Balance at beginning of year	P 19,942,815	P 19,942,815
Additions/(deductions)	-	-
Balance at end of year	19,942,815	19,942,815
Appraisal Surplus (Note 17)		
Balance at beginning of year	31,767	259,493
Partial realization of Appraisal Surplus	-	(227,726)
Balance at end of year	31,767	31,767
Invested Capital-Held in Trust (Note 18)		
Balance at beginning of year	307	307
Additions/(deductions)	-	-
Balance at end of year	307	307
Donated Capital (Note 19)		
Balance at beginning of year	37,618	37,618
Additions/(deductions)	-	-
Balance at end of year	37,618	37,618
Retained Earnings		
Balance at beginning of year	(4,259,541)	(5,519,433)
Net income (loss) for the year	1,110,450	799,615
Correction of fundamental errors	111,474	460,277
Balance at end of year	(3,037,617)	(4,259,541)
TOTAL STOCKHOLDERS' EQUITY	P 16,974,890	P 15,752,966

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

(With Comparative Figures for December 31, 2012)

(In Thousand Pesos)

	2013	2012
Cash Flows From Operating Activities:		
Cash received from customers	P 684,809	P 527,724
Sale of Unserviceable Properties	803	-
Cash received in payment of customers' account	965,699	887,747
Cash received from customers for unearned income	234,738	410,778
Interest received	(171)	6,702
Customers' security deposits	14,237	13,989
Trust fund received non-customers	243,076	249,434
Cash paid to employees and suppliers	(862,417)	(875,899)
Refund of customers' security deposits	(1,812)	(3,241)
Cash paid from non-customers' trust fund	(177,418)	(230,651)
Cash paid for financing charges	(189,388)	(204,165)
Net cash provided by operating activities	912,156	782,418
Cash Flows From Investing Activities:		
Investment in Bonds	16,465	29,773
Other Investments	-	32,800
Investment on Dollar Time Deposit - Sinking Fund	16,577	1,615
Joint Venture - Subic Water	14,853	-
Port Dev. - JBIC II & locally funded projects	(328)	(68,615)
Capital expenditures - Local	(935)	(734)
Net cash used in investing activities	46,632	(5,161)
Cash Flows From Financing Activities:		
Loan Proceeds - LandBank	305,228	-
Principal loan repayments - Subic 1	(325,553)	(172,282)
Gain on repayment - Subic 1	(6,666)	999
Principal loan repayments - Subic 2	(81,913)	(78,698)
Loss on repayment - Subic 2	58	394
Principal loan repayments - JBIC 1	(17,464)	(20,866)
Loss on repayment - JBIC 1	401	304
Principal loan repayments - JBIC 2	(229,300)	(280,986)
Loss on repayment - JBIC 2	3,471	34
Principal loan repayments - Eximbank	(14,884)	-
Loss on repayment - Eximbank	-	-
Repayment of Loan - LBP	(130,000)	-
Investment in Dollar Bond (LBP)	(20,677)	(7,407)
Resticted Cash (\$LBP)- SBMA Debt Service Account	(16,404)	-
Placement of Dollar Time Deposit - Sinking fund	(11,463)	(606)
Net cash used in financing activities	(545,166)	(559,114)
Effect of Exchange Rate Changes on Cash	8,305	(82,490)
Net (Decrease) Increase in Cash	421,927	135,653
Cash at Beginning of Year	730,872	595,219
Cash at End of Year	P 1,152,799	P 730,872

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY

Notes to Financial Statements

As of December 31, 2013

1. CREATION

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 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:

1. **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.
2. **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.
3. **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 three months 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 bad debts) 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 reorganisation, and default in payments are considered indicators that the amount to be received is impaired.

The Allowance for Bad Debts is established based at certain percentage that considers the age of Accounts Receivable. New guidelines, policies and procedures for the setting up of Allowance for Bad Debts and write-offs are being drafted for the approval of the SBMA Board and the Commission on Audit.

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 is 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	
	2013	2012
Freeport Service Corporation	100.00	100.00
Subic Techno-Park	49.99	49.99
SBDMC	48.60	48.60
Subic Water	20.00	20.00
BCDA and CDC-SCADC	33.30	33.30
Subic Bay Yacht Club	0.37	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 remains non-operational; a council called SCAD council is managing the pre- operational stage of the SCADC. No Financial Report 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 de-recognition 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, PPMD 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 difference 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

This account consists of the following:

	2013	2012
Cash in Bank – Foreign Currency	P 751,033,021.40	P 378,220,382.59
Cash in Bank – Local Currency	378,677,130.94	322,237,675.15
Cash on Hand – Foreign Currency	5,160,510.42	20,504,461.49
Cash on Hand – Local Currency	17,925,522.75	9,906,188.91
Cash Disbursing Officers	3,017.14	3,017.14
	P 1,152,799,202.65	P 730,871,725.28

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

The cash account included the collection of 2% tax for Local Government Units (LGU) amounting to P110.66 million as of December 31, 2013. As per compliance with R.A. 7227 and Department of Finance Order No. 3-08, the collected amount is for distribution to the city/municipality concerned every February 1 and August 1 of each year, net of 10% retention for possible request for refund of locators. The aforesaid retained amount is to be distributed after two years from date of retention.

5. RECEIVABLES

This account consists of the following:

	2013	2012
Current		
Trade		
Locator	P 365,980,016.13	P 223,290,893.93
Less: Allowance for Doubtful Accounts	55,984,150.05	29,909,978.64

Deferred Lease Revenue (459-007)	-	-
Net Realizable Value - Locator	309,995,866.08	193,380,915.29
Residential	13,531,389.94	11,063,053.46
Less: Allowance for Doubtful Accounts	1,732,928.01	894,720.58
Deferred Lease Revenue (459-008)	276,677.76	558,286.43
Net Realizable Value - Housing	11,521,784.17	9,610,046.45
Equitable Card Net Inc.	2,200,103.22	512,573.49
Total Trade - Current	323,717,753.47	203,503,535.23
Add: Non-Trade	8,360,490.78	11,592,055.86
Total Current Receivables	P 332,078,244.25	P 215,095,591.09
Non-Current		
Trade		
Locator	P 3,137,465,533.11	P 2,897,408,347.39
Less: Allowance for Doubtful Accounts	2,305,567,433.58	2,076,280,392.88
Deferred Revenues (459-116 to 459-121)	251,891,087.73	218,435,181.30
Net Realizable Value - Locator	580,007,011.80	602,692,773.21
Residential	211,650,397.78	201,299,221.93
Less: Allowance for Doubtful Accounts	157,358,614.86	149,177,573.23
Deferred Lease Revenue (459-109)	30,849,773.82	31,736,539.02
Net Realizable Value - Housing	23,442,009.10	20,385,109.68
Total Trade - Non-Current	603,449,020.90	623,077,882.89
Non-Trade	17,711,909.10	17,447,153.00
Total Non-Current Receivables	P 621,160,930.00	P 640,525,035.89

Non-Current Trade Receivable includes the Receivable from the former SBMA Treasurer for the cash (P322,296.18 and \$25,315.67) which were stolen in a robbery which occurred in the Treasury Department in November 2005.

Trade Receivables with age 360 days and below are classified as *Current Trade Receivables* while those with age over one (1) year are reported under *Non-Current Trade Receivables*.

Non Trade Current Receivables includes Due from BIR, Due from DBM for procurement, Due from GOCC-GSIS/SSS/PAG-IBIG/PHIC, Advances to 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.

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

6. INVENTORIES

This account consists of the following:

	2013	2012
Supplies and Materials	P 35,409,646.05	P 35,400,875.65
Accountable Forms	1,021,572.45	582,484.90
Medical and Laboratory Supplies	2,303,886.03	2,622,213.02
Gasoline, Oil and Lubricants	21,883,949.47	22,278,466.49
Spare Parts	47,315,220.17	46,610,960.02
Construction Materials	1,046,398.81	1,628,012.49
Other Inventory Items	2,359,755.52	2,359,755.52
Foreclosed/ Garnished Properties	685,500.00	0.00
	P 112,025,928.50	P 111,482,768.09

The Inventory account includes the amount of P67.8 million pertaining to general ledger balances that are not reconciled with inventory reports, as shown in the table below:

Account Name	Amount
Unreconciled Supplies and Materials	P 3,744,595.47
Unreconciled IT Supplies & Materials	5,118,529.41
Unreconciled Medical, Dental & Laboratory Supplies	2,179,352.16
Unreconciled Gas, Mogas	13,356,711.38
Unreconciled Gas, Diesel	4,836,146.53
Unreconciled Spare Parts Inventory	41,062,938.36
Total per prior years' balance	70,298,273.31
Less: Adjustments made in year 2010-2011	2,481,837.72
Balance as of September 30, 2011	P 67,816,435.59

The Inventory account likewise includes inventories for reconciliation of P24.8 million which were reclassified under JGL 12-02-0327 and JGL 12-02-331 following the Commission on Audit recommendation in COA-SAOM 2012-004 (2011). Efforts are being made by various departments to determine the reasonable amount of unreconciled inventory for probable write-off of non-existing inventory items which are booked under 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:

		2013		2012
Prepayments	P	4,637,353.36	P	5,647,425.25
Bill/ Guarantee Deposit to Subic Enerzone		3,676,637.33		3,513,072.83
Advances to Contractors		246,853.26		246,853.26
	P	8,560,843.95	P	9,407,351.34

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

Guarantee deposits were 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. LONG-TERM INVESTMENTS

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

		2013		2012
Freeport Service Corporation	P	5,998,500.00	P	5,998,500.00
Subic Technopark		20,272,306.04		20,272,306.04
Subic Bay Development and Mgt. Corp.		13,007,540.00		13,007,540.00
Joint Venture - Subic Water		155,058,567.37		131,951,376.37
BCDA and CDC - SCADC		2,083,333.33		2,083,333.33
Subic Bay Yacht Club (net)		6,600,000.00		6,600,000.00
Subtotal	P	203,020,246.74	P	179,913,055.74
Investment in LBP				
Certificate of Peso Time Deposit		10,000,000.00		0.00
Bonds		182,780,001.48		178,567,500.82

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 to and operated 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 September 30, 2012. Beginning October 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 AND EQUIPMENTS

This account consists of the following:

	Land & Land Improvements	Building & Building Structures	Furniture & Other Equipments	Total
Cost, December 31, 2012	P 18,657,248,818.42	P 19,758,831,361.14	P 2,393,784,604.10	P 40,809,864,783.66
Construction In-progress	239,163,696.62	2,402,608.18	0.00	241,566,304.80
Accumulated Depreciation, December 31, 2012	(2,315,983,392.80)	(11,098,628,995.45)	(1,734,196,129.49)	(15,148,808,517.74)
Net Book Value, December 31, 2012	16,580,429,122.24	8,662,604,973.87	659,588,474.61	25,902,622,570.72
Construction In-progress	(225,652,164.14)	0.00	0.00	(225,652,164.14)
Additions/Transfer	226,120,485.20	(198,027,092.82)	8,063,708.72	36,157,101.10
Depreciation for the Year	(141,108,804.82)	(80,555,040.34)	(81,533,811.20)	(303,197,656.36)
Total PPE December 31, 2013	P 16,439,788,638.48	P 8,384,022,840.71	P 586,118,372.13	P 25,409,929,851.32

An ongoing reconciliation is currently being made by the Accounting Department, the Land and Asset Management Department (LAMMD) 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 equipments. 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:

	2013	2012
¹ Restricted Cash in LBP - Sinking Fund for LBP	P -	P 14,978,438.94
Restricted Cash (\$LBP)- SBMA Debt Service Account	16,404,234.46	
Arts, Archeological Specimen and Other Exhibits	3,517,000.00	3,517,000.00
Work Animals	9,358,732.45	8,667,096.08
² Peso Time Deposit - LBP	21,488,667.49	21,488,667.49
Miscellaneous Receivable	-	1,719,152.11
³ Peso Cash on Hand	856,754.66	856,754.66
Due from Investors - EWT on rent/services	-	4,279.08
Due from Officers & Employees	5,059,136.63	1,064,984.52
Telegraph,Tel.,etc. - In Transit		7,000.00
	P 56,684,525.69	P 52,303,372.88

¹ The Subic Bay Metropolitan Authority (SBMA) entered into a loan agreement with the Japan International Cooperation Agency (JICA) covering the Subic Bay Freeport Environment Project-Phase II under Loan number PH-P238 on March 28, 2003.

In compliance with the pre-condition of the Department of Finance (DOF) for the issuance of the "Willingness to Guarantee" the said loan, SBMA established a Sinking Fund at Land Bank of the Philippines (LBP) intended for payment of the loan.

New development/factors came up that led to a decision by the SBMA Board of Directors to cancel the project. Accordingly, loan PH-P238 was cancelled in 2009 and the restriction on the cash had likewise ended.

On March 16, 2012, following the approval by the Land Bank of the Philippines (LBP) of the establishment of USD Denominated Term Loan Facility and upon the recommendation of the Chief, Investment Management Division of SBMA, the SBMA Board of Directors issued Board Resolution No. 12-03-4309 approving the creation of debt service account/sinking fund through the closure of the existing sinking fund originally intended for the Subic Bay Freeport Environmental Project. The debt service account is among the several conditions of LBP for the approval of the USD Denominated term loan facility.

² The Peso Time Deposit of P21 million is being accounted for. Documents of prior years (1994 and part of 1995) can no longer be located which prevented us from completing the verification of the account.

³ For the Peso Cash on Hand of P856,754.66, a letter dated May 26, 2009 was sent to former SBMA Treasurer requesting explanation as to why collection of US\$ 34,566.71 with peso equivalent of P916,017.82 was not deposited. SBMA received a reply from the former Treasurer on July 2, 2009 stating that she is not knowledgeable of any undeposited collection. Please note that part of the difference between cash on hand of P916,017.82 and

P856,754.66 has been accounted for as rate of exchange difference at the time collection was received and deposited.

11. PAYABLES & ACCRUED EXPENSES

This account consists of the following:

	2013	2012
Current		
Accounts Payable		
Capital Outlay	P 7,418,343.61	P 6,834,850.93
Unliquidated Obligation	25,842,943.52	18,718,061.51
Unclaimed Checks	-	4,306.50
Miscellaneous	2,479,924.30	2,479,924.30
	35,741,211.43	28,037,143.24
Accrued Expenses		
Maintenance and Operating Expenses	104,407,866.36	101,134,070.36
Due to Officers and Employees	16,025,478.63	14,657,775.56
Guaranty	15,304,446.57	19,247,104.01
	135,737,791.56	135,038,949.93
Sub Total- Current	171,479,002.99	163,076,093.17
Non-Current		
Accounts Payable - Miscellaneous	18,970,445.13	18,975,083.63
AP-Due to Officers-Unpaid Compensated Absences	154,509,257.66	150,154,874.11
Sub Total- Non-Current	173,479,702.79	169,129,957.74
Grand Total	P 344,958,705.78	P 332,206,050.91

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.

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	In YEN	In USD	2013(In Peso)	2012 (In Peso)
Foreign Loans				
World Bank I		-	P -	P 313,311,009.31
World Bank II		7,789,403.74	345,849,526.06	399,548,013.53
Exim Bank		9,617,104.32	426,999,431.81	447,420,957.84
JBIC / OECF I	525,366,000.00	5,269,821.28	222,702,647.40	270,121,793.40
JBIC / OECF II	13,872,060,000.00	139,147,331.61	5,880,366,234.00	6,886,501,608.00
Loan Payable- LBP \$ Loan (Long-Term)	-	6,883,814.04	305,641,343.37	-
Sub Total - Foreign Loans			7,181,559,182.64	8,316,903,382.08
Domestic Loan				
LBP			-	130,000,000.00
Total Loans Payable			7,181,559,182.64	8,446,903,382.08
Less Current Portion			382,872,878.40	678,091,915.70
Long-term Portion			P 6,798,686,304.24	P 7,768,811,466.38

Foreign loans are recorded at restated value. Revaluation rate as of December 31, 2013 and December 31, 2012 are \$1:P44.40, JPY1: P0.4239 and \$1:P41.05, JPY1: P0.4787, respectively.

Current portion of loans payable as follows:

Creditor	Payment Period	Foreign Currency Amount	Creditor	Peso Equivalent (Based on Current Exchange Rate)
Foreign Loans				
World Bank II	Jan-15-2014	USD	1,016,800.00	45,145,920.00
	Jul-15-2014	USD	1,047,400.00	46,504,560.00
Exim Bank	Feb-06-2014	USD	641,155.00	28,467,282.00

	Aug-06-2014	USD	641,155.00	28,467,282.00
JBIC / OECF I	Sep-20-2014	JPY	19,458,000.00	8,248,246.20
	Mar-20-2014	JPY	19,458,000.00	8,248,246.20
JBIC / OECF II	Feb-20-2014	JPY	256,890,000.00	108,895,671.00
	Aug-20-2014	JPY	256,890,000.00	108,895,671.00
Loans Payable - Current Portion				P 382,872,878.40

13. DEFERRED CREDITS

This account consists of the following:

	2013	2012
Total Deferred Credits to Income	P 2,645,580,957.01	P 2,652,994,564.92
Current Portion	57,137,184.86	68,523,145.13
Non-Current Portion	P 2,588,443,772.15	P 2,584,471,419.79

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

14. SECURITY DEPOSITS & ADVANCE RENTAL

This account consists of the following:

	2013	2012
Security Deposit and Advance Rental on Short - Term Lease:		
Security Deposit - Locator	P 37,381,729.53	P 36,021,145.55
Security Deposit - Housing & Others	436,582.73	436,582.73
Advance Rental	144,383,826.51	134,469,642.90
Sub Total	182,202,138.77	170,927,371.18
Security Deposit on Long - Term Lease	470,332,631.43	400,783,678.39
	P 652,534,770.20	P 571,711,049.57

The Security Deposits represent cash payments made by tenants as a guarantee for unpaid utility bills at the end of the lease term. Advance rentals, on the other hand, 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:

		2013	2012
National Government			
BIR	P	31,221,459.83	P 14,242,709.89
BOC		1,654,600.00	1,654,600.00
Government Owned and Controlled Corp.			
GSIS		6,622,133.24	6,998,762.64
PAG-IBIG		2,968,110.16	3,149,928.27
PHILHEALTH		624,276.75	610,714.25
SSS		56,447.73	54,204.73
LGU's (2% Share on 5% Preferential Tax)		110,663,154.96	100,477,239.95
Retention Fees		5,106,247.77	4,155,286.68
Various Liabilities		101,860,266.78	86,903,747.93
	P	260,776,697.22	P 218,247,194.34

16. PAID- IN CAPITAL

This account consists of the following:

		2013	2012
Cost of Fixed Assets	P	19,100,000,000.00	P 19,100,000,000.00
Cash Contribution from the Nat'l Gov't		842,815,498.00	842,815,498.00
	P	19,942,815,498.00	P 19,942,815,498.00

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 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 are 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 (8) motor vehicles from Hanjin and Summa Kumagai and furniture and office equipments from CPPAP.

19. DONATED CAPITAL

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

20. GAIN (LOSS) ON REVALUATION

This account consists of the following:

	2013	2012
Gain (Loss) on Foreign Exchange	P (12,197,068.56)	(62,212,788.64)
Gain (Loss) on Foreign Exchange – Cash	(19,914,294.17)	(64,262,780.55)
Gain (Loss) on Revaluation of Foreign Loans	743,699,721.28	1,345,144,587.02
Gain (Loss) on Revaluation of:		
Dollar Accounts Receivable	143,459,705.57	(105,795,480.16)
Dollar Security Deposits	753,356.96	1,119,376.26
Dollar Deferred Credits	(1,112,579.74)	(663,377.14)
Dollar Advances	188,899.75	(93,027.09)
	P 854,877,741.09	P 1,113,236,509.70

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 INCOME

This account consists of the following:

	2013	2012
Interest Income	P 46,081,339.16	P 38,508,458.38
Regulatory Fees	207,598,632.65	154,622,508.28
Other Gov't Business Income	170,411,542.65	-
Miscellaneous	12,579,651.01	107,146,771.05
	P 436,671,165.47	P 300,277,737.71

22. OTHER EXPENSES

This account consists of the following:

	2013	2012
Interest Loans	P 106,420,164.74	P 130,493,915.65
Guarantee Fees and Other Charges	76,871,409.70	95,573,550.89
Others	320,019,534.60	93,302,136.48
	P 503,311,109.04	P 319,369,603.02

Guarantee Fees are paid to the Bureau of Treasury and Development Bank of the Philippines to guaranty payment of outstanding foreign loans. Contractual Service-SBMA (CS-20%) is included under Other Maintenance and Operating Expenses, amounting to P155,398,846.46 starting on August 31, 2013, and as of December 31, 2013, the ending balance is P320,019,534.60.

23. RELATED PARTY TRANSACTIONS

The Authority has entered into a service and management contracts with Freeport Service Corporation (FSC), its wholly-owned subsidiary since the latter'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. The overhead mark-up 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 will last until 2009, SBMA pays FSC a management fee of P6 million per month while SBMA receives 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 was no longer extended beginning January 2010. With FSC's dormancy of operation beginning September 26, 2010, the provision for gross revenue sharing has also

been stopped since FSC's facilities were taken over by SBMA 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 pursue the Enterprise Resource Planning System (ERPS). The parallel run in the IFMS and manual preparation of Financial Statements continues.

SBMA is planning to adopt the ERPS to replace the existing IFMS with integrated, commercially off-the-shelf package software that will re-use 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.