



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

**ANNUAL AUDIT REPORT**

on the

**BASES CONVERSION  
AND DEVELOPMENT AUTHORITY**

**For the Year Ended December 31, 2016**



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

June 29, 2017

**Mr. VIVENCIO B. DIZON**  
President and Chief Executive Officer  
Bases Conversion and Development Authority  
2F Bonifacio Technology Center  
Bonifacio Global City, Taguig City

**BCDA**  
Bases Conversion and Development Authority  
EX2017-4442  
Central Receiving & Relaying Area

**RECEIVED**  
JUN 29 2017  
BY: Joanna Fernandez 5:59pm

Sir:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Bases Conversion and Development Authority (BCDA) for the year ended December 31, 2016.

We expressed an unqualified opinion on the fairness of the presentation of the financial statements of BCDA.

The significant observations and recommendations that need immediate action are as follows:

1. The share of the AFP on the dividends received from Fort Bonifacio Development Corporation (FBDC) was remitted to the Bureau of the Treasury (BTr) amounting to P1.125 billion and P1.860 billion in CYs 2016 and 2017, respectively, or a total of P2.985 billion. However, the share of the AFP relating to the proceeds from sale of property dividends received from FBDC is yet to be remitted to BTr.

We reiterated our recommendation that Management recognize as liability in BCDA's books of accounts the 50% share of the AFP from proceeds of sale/conversion to cash of property dividends in the total amount of P224.914 million and comply with the provisions of EO 309 by remitting the same to BTr.

2. Grant of financial assistance to Project Affected Persons (PAPs) at Clark Green City (CGC) appears to be irregular use of government funds.

We recommended Management to submit the legal bases, other than BCDA Board Resolution No. 2015-12-177, specifically authorizing the grant of financial assistance at P30 per sq.m. to occupants of land owned by the government or at the value of trees planted thereon, whichever is higher, and to discontinue the granting thereof, in case of lack of basis.

3. The objective to raise funds through the disposition of Lot B may not be fully achieved as envisioned because: a. the proposal submitted by Ayala Land Inc. (ALI) did not meet the guidelines and parameters set by BCDA; and b. the projected cash inflows in ALI's proposal may not be fully realized.

We recommended that Management perform its own assessment of operations/revenue generations from the Lot B Project and develop strategies to mitigate the risk of not realizing the targeted cash inflows from the Project.

4. The 17.16% deduction made by Megaworld from the net proceeds it received from the sale of BCDA-allocated units relative to the 3-hectare land it stands to lose to service the relocation needs of the schools and facilities within the Newport City in Villamor Airbase is unwarranted and remained uncollected.

We recommended that Management take appropriate action to recover the land compensation amounting to P82.170 million withheld/deducted by Megaworld from proceeds remitted to BCDA.

5. Portion of proceeds from the development of the Heritage Park (HP) Project was not accounted as government funds.

We recommended that Management:

- a. Revisit the existing arrangement with Heritage Park Management Corporation to ensure that any and all proceeds generated from the HP Project are accounted by BCDA as government funds; and
- b. Render an accounting of all the proceeds generated from the HP Project that remain unaccounted in BCDA's books of accounts.

The observations and recommended courses of action, which we have discussed with the concerned Management officials and staff during the exit conference conducted on May 31, 2017, are discussed in detail in Part II and Part IV of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed on the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**LEILA S. PARAS**  
Director IV

**Copy furnished:**

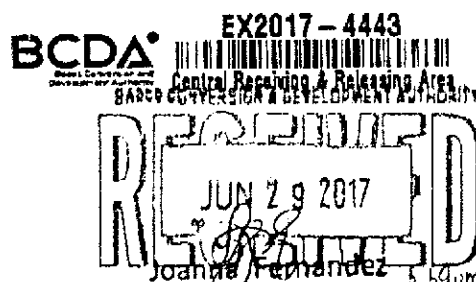
The President of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Senate Appropriations Committee  
The Secretary of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library



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

June 29, 2017

**The BOARD OF DIRECTORS**  
Bases Conversion and Development Authority  
Bonifacio Global City  
Taguig City



**Gentlemen:**

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The observations and recommended courses of action, which we have discussed with the concerned Management officials and staff during the exit conference conducted on May 31, 2017, are discussed in detail in Part II and Part IV of the report.

In a letter of even date, we requested the Authority's President and CEO to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**LEILA S. PARAS**  
Director IV

**Copy furnished:**

The President of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
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The Secretary of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
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The National Library

## EXECUTIVE SUMMARY

### Introduction

The Bases Conversion and Development Authority, or the Authority, was created under Republic Act (RA) No. 7227, otherwise known as the Bases Conversion and Development Act of 1992, which was approved on March 13, 1992. Section 8 of RA 7227, which pertains to the rates of distribution of the net proceeds from the sale of metro camps, was later amended by the passage of RA 7917 on February 21, 1995.

RA 7227 vested the Authority with the mandate to accelerate the sound and balanced conversion into alternative productive uses of the Clark and Subic military reservations and extensions, to raise funds by the sale of portions of Metro Manila military camps, to apply said funds for the development and conversion to productive civilian use of the lands covered under the 1947 Military Bases Agreement, and to promote the economic and social development of Central Luzon in particular, and the country in general.

### Scope and Objectives of Audit

The audit covered the accounts, transactions, and operations of the Authority for calendar years 2016 and 2015. It was aimed at expressing an opinion as to whether the financial statements present fairly the Authority's financial position, results of operations and cash flows, and at determining the Authority's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of its operations.

### Financial Highlights

	2016	2015	Increase/ (Decrease)
<i>Comparative Financial Position</i>			
Assets	128,115,022,088	130,682,464,739	(2,567,442,651)
Liabilities	37,311,166,654	39,306,540,825	(1,995,374,171)
Equity	90,803,855,434	91,375,923,914	(572,068,480)
<i>Comparative Results of Operations</i>			
Revenue	3,603,553,824	4,120,369,016	(516,815,192)
Other Income	1,381,970,146	2,027,432,713	(645,462,567)
Expenses	5,486,737,390	6,375,318,586	(888,581,196)
Personal services	280,473,938	245,097,773	35,376,165
Maintenance and other operating expenses	2,341,864,337	3,650,375,208	(1,308,510,871)
Financial expenses	422,076,226	389,842,495	32,233,731
Other Expenses	2,442,322,889	2,090,003,110	352,319,779
Net loss	(501,213,420)	(227,516,857)	(273,696,563)

## **Independent Auditor's Report on the Financial Statements**

We rendered an unqualified opinion on the fairness of presentation of the financial statements of the Authority for the years ended December 31, 2016 and 2015.

### **Significant Audit Observations and Recommendations**

1. The share of the AFP on the dividends received from Fort Bonifacio Development Corporation (FBDC) was remitted to the Bureau of the Treasury (BTr) amounting to P1.125 billion and P1.860 billion in CYs 2016 and 2017, respectively, or a total of P2.985 billion. However, the share of the AFP relating to the proceeds from sale of property dividends received from FBDC is yet to be remitted to BTr.

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We recommended that Management:

- a. Revisit the existing arrangement with HPMC to ensure that any and all proceeds generated from the HP Project are accounted by BCDA as government funds; and
- b. Render an accounting of all the proceeds generated from the HP Project that remain unaccounted in BCDA's books of accounts.

#### **Disallowances as of year-end**

In CY 2016, ND No. 16-01-(2016) dated September 19, 2016 was issued disallowing the P10 million donation to the Commission on Human Rights (CHR) to fund the production of martial law-related information, education and communication materials for being irregular and unnecessary, and for lack of legal basis. The said ND was settled by CHR on November 24, 2016 and subsequently, NSSDC No. 2016-001 dated December 12, 2016 was issued to Management.

As of December 31, 2016, unsettled audit disallowances totalled P3.108 million.

#### **Status of Implementation of Prior Year's Recommendations**

Of the twenty-two (22) audit recommendations contained in the CY 2015 Annual Audit Report, eight (8) were implemented, eight (8) were partially implemented and six (6) were not implemented.



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**PART I**

**AUDITED FINANCIAL STATEMENTS**



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

Bases Conversion and Development Authority  
2/F Bonifacio Technology Center  
31<sup>st</sup> Street corner 2<sup>nd</sup> Avenue  
Bonifacio Global City, Taguig City

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Bases Conversion and Development Authority (BCDA), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 audit opinion.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bases Conversion and Development Authority as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

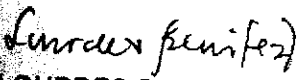
*Emphasis of Matter*

We draw attention to Note 33 to the financial statements which describes the contingent liabilities for lawsuits or claims filed by third parties against BCDA which are either pending in courts or under negotiation, and cases filed by BCDA against the Bureau of Internal Revenue and the Local Government of Taguig which are pending before the Supreme Court, Court of Appeals and the Local Board of Assessments of the Local Government Unit. Our opinion is not qualified in respect of these matters.

**Report on the Supplementary Information Required Under  
BIR Revenue Regulation 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties, and license fees paid or accrued during the taxable year described in Note 39 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**COMMISSION ON AUDIT**

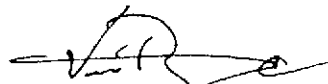
  
**LOURDES D. BENITEZ**  
State Auditor V  
Supervising Auditor

**May 31, 2017**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Bases Conversion and Development Authority is responsible for all information and representations contained in the accompanying Statements of Financial Position as of December 31, 2016 and 2015 and related Statements of Profit or Loss, Statement of Changes In Equity and Statements of Cash Flows for the years then ended. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards applied on a consistent basis and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration for materiality.

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



**VIVENCIO B. DIZON**  
President and Chief Executive Officer



**NENA D. RADO**  
Vice President and Chief Financial Officer

**BASES CONVERSION AND DEVELOPMENT AUTHORITY**  
**STATEMENTS OF FINANCIAL POSITION**

December 31, 2016 and 2015  
(In Philippine Peso)

	Note	2016	2015 As restated
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6	2,520,422,518	3,799,845,461
Investments in UITF	7	6,868,047,115	8,982,746,407
Receivables, net	8	4,651,666,124	4,671,313,193
Inventories	9	729,918,095	748,362,270
Prepayments and other current assets	10	2,290,364,845	2,153,556,815
		<b>17,060,418,697</b>	<b>20,355,824,146</b>
<b>Non-Current Assets</b>			
Investments in affiliates	11	18,437,603,309	19,069,029,850
Investments in government bonds	12	4,522,564,297	3,295,590,686
Investments in stocks	13	103,024,319	103,024,319
Property and equipment, net	14	1,469,455,262	1,528,420,680
Service concession assets	15	27,544,828,341	27,004,591,582
Investment properties	16	44,949,597,056	44,881,085,484
Deferred tax asset, net	27	3,141,549,093	2,694,476,249
Other non-current assets	17	10,885,981,714	11,750,421,743
		<b>111,054,603,391</b>	<b>110,326,640,593</b>
<b>TOTAL ASSETS</b>		<b>128,115,022,088</b>	<b>130,682,464,739</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payables	18	1,660,389,828	1,733,876,439
Inter-agency payables	19	4,836,869,940	7,727,554,329
Current portion of long-term borrowings	22	810,314,567	747,220,208
Provisions	20	20,152,746	23,954,585
Other payables	21	673,866,918	866,309,191
		<b>8,001,593,999</b>	<b>11,098,914,752</b>
<b>Non-Current Liabilities</b>			
Borrowings	22	19,447,549,618	18,680,505,200
Deferred credits	23	9,862,023,037	9,527,120,873
		<b>29,309,572,655</b>	<b>28,207,626,073</b>
<b>Equity</b>		<b>90,803,855,434</b>	<b>91,375,923,914</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>128,115,022,088</b>	<b>130,682,464,739</b>

See accompanying Notes to Financial Statements.

**BASES CONVERSION AND DEVELOPMENT AUTHORITY**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2016 and 2015  
(In Philippine Peso)

	Note	2016	2015 As restated
<b>REVENUES</b>	24	<b>3,603,553,824</b>	<b>4,120,369,016</b>
<b>EXPENSES</b>			
Personal Services	25	280,473,938	245,097,773
Maintenance and Other Operating Expenses	26	2,341,864,337	3,650,375,208
<b>TOTAL OPERATING EXPENSES</b>		<b>2,622,338,275</b>	<b>3,895,472,981</b>
<b>INCOME FROM OPERATIONS</b>		<b>981,215,549</b>	<b>224,896,035</b>
<b>OTHER INCOME (EXPENSES), NET</b>	27	<b>(1,956,716,064)</b>	<b>(860,163,609)</b>
<b>LOSS BEFORE INCOME TAX</b>		<b>(975,500,515)</b>	<b>(635,267,574)</b>
<b>INCOME TAX BENEFIT</b>	28	<b>392,700,586</b>	<b>405,803,346</b>
<b>NET LOSS</b>		<b>(582,799,929)</b>	<b>(229,464,228)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	29		
Unrealized gain(loss) on available-for-sale assets		81,586,509	1,947,371
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>(501,213,420)</b>	<b>(227,516,857)</b>

See accompanying Notes to Financial Statements.

**BASES CONVERSION AND DEVELOPMENT AUTHORITY  
STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31, 2016 and 2015  
(in Philippine Peso)

	Note	Capital (Note 31)	Unappropriated Retained Earnings	Appropriated Retained Earnings	Other Comprehensive Income	Total Equity
<b>Balance at December 31, 2014</b>		<b>78,161,199,227</b>	<b>13,280,406,372</b>	<b>6,000,000,000</b>		<b>97,451,605,599</b>
Correction of prior years' errors		(3,289,531,165)	(2,181,570,482)		26,054,627	(5,445,047,020)
<b>Restated Balance, January 1, 2015</b>		<b>74,871,668,062</b>	<b>11,108,835,890</b>	<b>6,000,000,000</b>	<b>26,054,627</b>	<b>92,006,558,579</b>
<b>Changes in equity for 2015</b>						
Net loss for the year		0	(229,464,228)	0	0	(229,464,228)
Dividends		0	(500,000,000)	0	0	(500,000,000)
Adjustment value of land transferred/conveyed/swapped BCDA's share on asset disposition proceeds thru sale of various properties		372,593,579		0	0	372,593,579
Adjustment in Revaluation Surplus		65,618,564		0	0	65,618,564
Reclassification of unrealized gain (loss) on AFS		644,715	(341,974,666)	0	0	(341,329,951)
			0	0	1,947,371	1,947,371
<b>Balance at December 31, 2015</b>		<b>75,310,524,920</b>	<b>10,037,396,996</b>	<b>6,000,000,000</b>	<b>28,001,998</b>	<b>91,375,923,914</b>
<b>Changes in equity for 2016</b>						
BCDA's share on asset disposition proceeds thru sale of various properties		17,426,696				17,426,696
Net loss for the year			(582,799,929)			(582,799,929)
Dividends			(88,281,755)			(88,281,755)
Unrealized gain (loss) on AFS					81,586,508	81,586,508
<b>Balance at December 31, 2016</b>		<b>75,327,951,616</b>	<b>9,366,315,312</b>	<b>6,000,000,000</b>	<b>109,586,506</b>	<b>90,803,855,434</b>

See accompanying Notes to Financial Statements.



**BASES CONVERSION AND DEVELOPMENT AUTHORITY****STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2016 and 2015

(In Philippine Peso)

	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from joint venture projects		1,762,433,576	2,697,825,125
Proceeds from concession fee		862,810,645	3,503,345,082
Cash receipts from lessees		764,905,363	665,887,327
Proceeds from the disposition of transferred properties		96,062,712	353,068,745
Dividends received		30,896,792	684,034,425
Proceeds from disposition of Heritage Park Certificates		19,103,377	80,802,776
Collection of receivables		8,721,977	37,811,989
Receipts from BCDA housing projects		4,979,357	18,410,163
Output tax on deemed sale transaction		0	118,284,000
Proceeds from toll operations		0	1,210,210,391
Remittance of beneficiaries' share to the Bureau of the Treasury		(3,540,791,673)	(1,708,031,721)
Payment to suppliers/creditors/employees		(523,617,680)	(418,797,002)
Payment of estate management expenses		(302,464,822)	(331,454,769)
Payment of taxes, duties and fees		(239,737,874)	(860,971,783)
Payment of operations and maintenance expenses of SCTEx		(192,628,899)	(357,428,774)
Deposit of Escrow Account for CJH DevCo		0	(1,421,096,052)
27.50 % share of BCDA from asset disposition		(93,859,154)	(77,098,626)
Miscellaneous receipts		27,143,640	54,396,430
Net cash provided by (used in) operating activities		(1,316,042,663)	4,249,197,726
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Redemption of Preferred shares		315,000,000	1,500,000,000
Increase/(decrease) in short and long term investments		940,216,539	(408,545,050)
Interest income from cash equivalents and short/long term investments		308,948,189	172,861,556
Collection of BEPF seed money		3,000,000	3,000,000
Payment of indemnities to CGC-PAP		(52,464,905)	0
Additional investment			
Acquisition of property and equipment and payment for various infrastructure projects		(67,220,590)	(112,615,663)
Initial amount of the Trust account re: BCDA DOLF		(24,000,000)	0
Investment/advances in subsidiaries and affiliates		(4,659,380)	0
Net cash provided by investing activities		1,418,819,853 #	1,154,700,843
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
27.50 % share of BCDA from asset disposition		93,859,154	77,098,626
Receipt of subsidy income		1,162,827,463	0
Payment of subsidy expenses to CDC		(1,162,827,463)	0
Partial settlement of JICA loan		(842,147,673)	(718,151,055)
Dividends paid to the Bureau of the Treasury		(88,281,755)	(500,000,000)
Payment of guarantee fees to the Bureau of the Treasury		(370,926,572)	(1,000,000,000)
Collection/(refund) of performance, bid bonds and bid securities		4,707,645	26,326,028
Collection of guarantee deposit/development control fees		28,360,059	39,011,210
Payment of financing charges		(208,133,716)	(199,218,843)
Net cash used in financing activities		(1,382,562,858)	(2,274,934,034)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		362,725	703,711
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(1,279,422,943)	3,129,668,246
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		3,799,845,461	670,177,215
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	2,520,422,518	3,799,845,461

See accompanying Notes to Financial Statements.

## **BASES CONVERSION AND DEVELOPMENT AUTHORITY NOTES TO FINANCIAL STATEMENTS**

As at and for the years ended December 31, 2016 and 2015  
(In Philippine Peso)

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### **1. CORPORATE INFORMATION**

The Bases Conversion and Development Authority (BCDA), or the Authority, was created under Republic Act No. (RA) 7227, otherwise known as the Bases Conversion and Development Act of 1992, which was approved on March 13, 1992. Section 8 of RA 7227, which pertains to the rates of distribution of the net proceeds from sale of metro camps, was later amended by the passage of RA 7917 on February 21, 1995.

RA 7227 vested the Authority with the mandate to accelerate the sound and balanced conversion into alternative productive uses of the Clark and Subic military reservations and extensions, to raise funds by the sale of portions of Metro Manila military camps, to apply said funds for the development and conversion to productive civilian use of the lands covered under the 1947 Military Bases Agreement, and to promote the economic and social development of Central Luzon in particular, and the country in general.

The Governance Commission for GOCCs approved the restructuring of BCDA to make the organization responsive and competitive in line with its shift from asset disposition to asset management. The restructuring was implemented in 2016 upon the approval by the Office of the President of the BCDA Early Retirement Incentive Program (ERIP).

The financial statements of BCDA as at and for the years ended December 31, 2016 and 2015 were authorized for issue by the Board of Directors on June 29, 2017.

The Authority's registered office and principal place of business is 2<sup>nd</sup> Floor, Bonifacio Technology Center, 31<sup>st</sup> Street, Crescent Parkwest, Bonifacio Global City, Taguig City.

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### **2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION**

#### Statement of Compliance

The financial statements of the Authority have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes all applicable PFRS, Philippine Accounting Standard (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) of the Board of Accountancy.

#### Basis of Preparation and Presentation of Financial Statements

The financial statements have been prepared on a historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given up in exchange of assets.

### Functional and Presentation Currency

The financial statements are presented in Philippine Peso, the Authority's presentation and functional currency, and all values are rounded to the nearest peso, except when otherwise stated.

Functional currency is the currency of the primary economic environment in which the Authority operates.

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### **3. ADOPTION OF NEW AND AMENDED PFRS**

- *Amendment to PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal* – The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.
- *Amendment to PFRS 7, Financial Instruments: Disclosures - Servicing Contracts* – The amendment adds guidance to clarify whether a servicing contract results in continuing involvement in a transferred asset.
- *Amendments to PFRS 10, PFRS 12, Disclosure of Interests in Other Entities, and PAS 28 - Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- *Amendments to PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* – The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3) to apply all of the business combinations accounting principles and disclosures in PFRS 3 and other PFRS, except for those principles that conflict with the guidance in PFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).
- *Amendments to PAS 1, Presentation of Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- *Amendments to PAS 16, Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

- *Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants* – The amendments define bearer plants – i.e. living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (e.g. grape vines, rubber trees, oil palms) - and include them within PAS 16's scope while the produce growing on bearer plants remains within the scope of PAS 41.
- *Amendment to PAS 19, Employee Benefits - Discount Rate: Regional Market Issue* – The amendment clarifies that in determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. Thus, the assessment of whether there is a deep market in high quality corporate bonds is based on corporate bonds in that currency (not corporate bonds in a particular country), and in the absence of a deep market in high quality corporate bonds in that currency, government bond in the relevant currency should be used.
- *Amendments to PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

#### New and Amended PFRS Not Yet Adopted

Relevant new and amended PFRS which are not yet effective for the year ending December 31, 2016 and have not been applied in preparing the financial statements are summarized below.

#### **Effective for annual periods beginning on or after January 1, 2017:**

- *Amendments to PAS 7, Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- *Amendments to PAS 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

#### **Effective for annual periods beginning on or after January 1, 2018:**

- *PFRS 9, Financial Instruments* – This standard will replace PAS 39 (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive

income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at the inception of a contract; it is no longer necessary to have an objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

#### **Effective for annual periods beginning on or after January 1, 2019**

- *PFRS 16, Leases* – This standard requires lessees to recognize most leases on their balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

The Authority anticipates that the application of PFRS 9 and 16 might have a significant effect on amounts reported in respect of the Authority's financial assets and financial liabilities and leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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## **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Financial Instruments

#### *Initial Recognition and Measurement*

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### Financial Assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Authority manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of the Authority's financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy, and information about the Authority is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

As of the reporting date, the Authority does not have financial assets that are classified as at fair value through profit or loss.

#### *Held-to-maturity Investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Authority has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. Investment in government bonds is included in this category.

#### *Available-for-Sale Financial Assets*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period. Investment in Unit Investment Trust Fund (UITF) and Investment in Stocks account are included in this category.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Cash and cash equivalents, and receivables account are included in this category.

Carrying amount of loans and receivables is reduced through the use of an allowance account based on the following schedule:

Age of Accounts	% of Allowance
Less than 1 year	5%
1 year to 3 years	10%
Over 3 to 5 years	15%
Over 5 years	20%
Over 5 years – doubtful of collection/loss	100%

Receivables are written off when they are considered uncollectible based on the criteria set by the Commission on Audit through COA Circular No. 2016-005 dated December 29, 2016. Subsequent recoveries of amount previously written off are credited to Miscellaneous Income.

#### *Impairment of Financial Assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed individually and for which no impairment exists are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.



In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### *Derecognition of Financial Asset*

The Authority derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Authority retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Authority retains control), the Authority allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

#### Financial Liabilities

##### Classification as Debt or Equity

Debt and equity instruments issued by the Authority are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognised at the fair value of the consideration received, net of any direct issue costs.

### Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Authority manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of the Authority's financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy, and information about the Authority is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in notes.

#### *Other Financial Liabilities*

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Accounts payable, loans payable, inter-agency payable, trust liabilities and other payables are included in this category.

### Derecognition of Financial Liabilities

The Authority derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Inventories

Inventories include real estate inventories. Inventories are initially measured at cost. Costs of inventory include purchase price and all incidental cost necessary to bring the inventory to its saleable condition. Subsequently, inventories are reported in the statement of financial position at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

### Prepayments and Other Current Assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as asset and measured at the amount of cash paid. Subsequently, these are stated at undiscounted amount less any portion that has been consumed.

Prepayments are classified in the statements of financial position as current assets when the costs are expected to be incurred within one year. Otherwise, prepayments are classified as non-current assets.

Prepayments include advances to contractors, prepaid rent, prepaid insurance, input tax, withholding tax at source, inventories held for consumption, semi-expendable inventories and other prepayments.

Other current assets represents deposits which are restricted as to use and earn interest at prevailing bank deposit rates. Interest earned from these deposits inures to the benefit of the Authority.

### Investments in Affiliates

Affiliates are entities over which the Authority has control, joint control or significant influence generally accompanied by Authority's control or participation in the financial and operating decisions of the affiliates. Investments in affiliates are accounted for using the cost method. Under this method, investments are recorded at their acquisition cost which is adjusted only when the recoverable amount of investments decreases. Dividends or other direct payments received from an associate are recognized as income when the Authority's right to receive payment has been established and it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

Investment in Affiliates are as follows:

	Percentage of Ownership
Clark Development Corporation (CDC)	100%
BCDA Management and Holdings, Inc. (BMHI)	100%
John Hay Management Corporation (JHMC)	100%

	Percentage of Ownership
Bataan Technology Park, Inc. (BTPI)	100%
Philippine Centennial Expo'98 Corp. (EXPOCORP)	100%
North Luzon Railways Corporation (NORTHRAIL)	100%
Fort Bonifacio Development Corporation (FBDC)	45%
Philippine Japan Initiative Cooperation (PJIC)	45%
Filinvest BCDA Clark, Inc. (FBCI)	45%
Subic Clark Alliance for Development (SCAD)	33%
Bonifacio Estate Services Corporation (BESC)	33%
Bonifacio Communication Corporation (BCC)	25%

#### Fund releases to affiliates

The Authority provides funds for Operating Expenses (OPEX) and land related costs for its affiliates which are 100 per cent owned by the Authority. OPEX fund releases are treated as estate management expense by the Authority and income by the affiliates while land related costs are treated as zone maintenance expense and/or asset by the Authority. Land related costs are expenses related to the development of the estate such as maintenance and safeguard of property, capital expenditure (CAPEX) projects and furniture, fixtures and equipment.

CAPEX fund releases are granted to affiliates in the form of advances. The advances are non-interest bearing, unsecured and subject to liquidation upon completion of the project. The Authority records all development costs incurred by the affiliates as its assets including the related depreciation expenses.

#### Investment Property

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Investment properties, except land, are measured at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives ranging from 5 to 20 years.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefit from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the ending of owner-occupation, commencement of an operating lease to another party or ending of the construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale. Investment properties of the Authority comprise of parcels of land which were turned over and titled in the name of the Authority pursuant to RA 7227 and are recorded at assessed/fair market value.

#### Investment in Stocks

This includes investment in stocks at MERALCO, PLDT, Poro Point Industrial Corporation (PPIC) and Bonifacio Water Corporation (BWC). It also includes golf and country shares at CJHDevCo.

#### Property and Equipment

Property and equipment are tangible assets that are held for administrative purposes and are expected to be used for more than one period.

Items of property and equipment are initially measured at cost. Such cost includes purchase price and all incidental costs necessary to bring the asset to its usable condition. Subsequent to the initial recognition, items of property and equipment are measured in the statement of financial position at cost less accumulated depreciation and any accumulated impairment losses. Depreciation, which is computed on a straight-line basis, is recognized so as to allocate the cost of assets less their residual values over their estimated useful lives.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

The Authority records assets with acquisition value, net of VAT, of less than fifteen thousand pesos (P15,000), and whose estimated useful life is more than one year, as semi-expendable property in accordance with Commission on Audit (COA) Circular No. 2016-006. These items are recognized as expense when issued to the end-users.

#### Service Concession Assets

Service concession assets are recognized at the fair value of the assets at the time of acquisition. Subsequent capital expenditures made by the operator are recognized as assets and depreciated on a straight-line basis over the life of the concession asset or the term of concession agreement whichever is shorter.

### Intangible Assets

Intangible assets represent computer software including development in progress-computer software. Intangible assets are initially measured at cost and is presented in the statement of financial position at cost less accumulated amortization and any accumulated impairment losses. Computer software is amortized over its estimated useful life of five years using the straight-line method. If there is an indication that there has been a significant change in the useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

When intangible assets are sold, retired or otherwise disposed of, their cost and related accumulated amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

### Impairment of Non-Financial Assets

At each reporting date, investment property, property and equipment and intangible asset accounts are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory with its net realizable value. If an item of inventory is impaired, its carrying amount is reduced to selling price less costs to sell, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

#### *Authority as Lessee*

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

#### *Authority as Lessor*

Leases where the Authority retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental receipts are recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### Employee Benefits

##### *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Authority has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed, unless another PFRS requires the inclusion of the benefits in the cost of an asset, as the related service is provided.

Short-term employee benefits include salaries and wages, PERA, RATA, year-end bonus, de minimis benefits, employer share contributions and other allowances and bonuses.

##### *Compensated Absences*

Accumulating sick and vacation leave credits are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. An obligation arises as employees render service that increases their entitlement to future paid absences. Accumulating sick and vacation leave benefits are measured on an undiscounted basis. These are recognized as expense as the related service is provided based on the employee's monthly salary as at end of the accounting period. Compensated absences are recorded as Terminal Leave Benefits by the Authority.

##### *Post-employment Benefits*

The Authority contributes to the provident fund of its employees. Under the provident fund, the Authority's legal or constructive obligation is limited to the amount that it agrees to

contribute to the fund. The employer's share in the provident fund is recorded as expense in the period as the related service is provided. No actuarial computation was obtained since actuarial and investment risk fall, in substance, on the employee.

#### Government Equity

Government equity represents the equity of the National Government to the Authority and includes the 27.50 per cent share from the net proceeds of straight sale transactions as prescribed by Section 1 (2) of RA 7917. The proceeds from sale after deducting all expenses related to the sale are distributed as follows:

	Percentage of share
Bases Conversion and Development Authority (BCDA)	27.50%
Armed Forces of the Philippines (AFP)	35.00%
National Shelter Program (NSP)	12.00%
Other beneficiaries	25.50%
	100.00%

The Authority's 27.50 per cent share from the net proceeds is recorded as part of equity from the National Government. The shares of beneficiaries other than BCDA are initially booked as liability. Direct expenses related to the disposition are treated as expenses or assets, as the case maybe.

#### Retained Earnings

Retained earnings account includes income earned in current and prior periods net of any dividend declaration and effects of prior period adjustments.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the amount of the revenue can be measured reliably. Revenue is measured by reference to the fair value of consideration received or receivable excluding discounts, returns and output taxes.

The Authority adopts the accrual method of accounting for revenue. Under the accrual basis, income is recognized when earned regardless of when received.

#### Interest and Dividend Revenues

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Authority and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the prevailing interest rate applicable.

Dividend income from investment, accounted under cost method, is recognized when the Authority's rights to receive payment have been established and the amount of income can be measured reliably.



#### Finance Income

Finance income comprises interest income on bank deposits and fund placements. Interest income is recognized in profit or loss as it accrues, using the effective interest method.

#### Service Concession Revenue

Service concession revenue is recognized when the right to receive concession fees is established, which normally coincides with the period the operator collects toll fees.

#### Toll Fees

Toll fee is recognized in the period the services are performed.

#### Expense Recognition

Expenses represent decreases in economic benefits in the form of decreases in assets or incurrance of liabilities. Expenses are generally recognized when the services are received or when the expenses are incurred.

#### Cost of Sales

Cost of inventories sold are recognized in profit or loss in the period the goods are sold. It also includes costs that can be associated directly to the services rendered or goods sold.

#### Operating Expenses

Operating expenses includes personnel services and maintenance and other operating expenses incurred by the Authority that cannot be associated directly to the services rendered or goods sold.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### Income tax

Income tax expense includes current tax expense and deferred tax expense. The current tax expense is based on the taxable profit for the year. Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases.

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future and excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT). The net carrying amount of deferred tax asset is reviewed at each reporting date and any adjustments are recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit on the basis of tax rates that have been enacted or substantially enacted or substantively enacted by the end of the reporting period.

#### Foreign Currency Transactions

Foreign currency transactions are recorded initially at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translations at end of reporting period using the prevailing exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss for the year.

#### Events after the Reporting Period

Subsequent events that provide additional information about conditions existing at the reporting date (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after reporting date (non-adjusting events) are disclosed in the notes to the financial statements when material.

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### **5. Judgments and Estimates**

The preparation of financial statements in accordance with PFRS requires the Authority to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

#### *Estimating Allowance for Impairment Losses on Receivables*

The Authority maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include the age of the receivable, the length of the Authority's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Authority made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

#### *Estimating Allowance for Impairment Losses on Inventories*

At reporting date, the Authority assesses the inventories for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Authority considers important which could trigger an impairment review include significant decline in inventories' market value, obsolescence and physical damage of inventories. If such indications are present and where the cost of inventories exceeds its estimated selling price less costs to sell, an impairment loss is recognized in profit or loss.

No impairment loss on inventory was recognized in 2015 and 2016.

#### *Estimating Useful Lives of Property and Equipment*

The Authority estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives and residual values of property and equipment are reviewed and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results

of operations could materially be affected by changes in estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The estimated useful lives of the assets are as follows:

Land Improvements	10 to 20 years
Building and Structures	10 to 30 years
Leasehold Improvements	10 to 30 years
Furniture and Fixtures	5 to 10 years
Land Transportation Equipment	7 years
Machineries	7 years
Equipment	5 years

#### Contingencies

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognized in the financial statements but should be disclosed where an inflow of economic benefits is probable.

#### Tax Subsidy Availments

The income approach is used in the recognition of the tax subsidy availments by the contractors and consultants. Under the approach, the subsidy is recognized as deferred income and amortized over the useful life of the asset (PAS 20, par. 26). The amortization of subsidy income started in 2009, when the Subic-Clark-Tarlac Expressway (SCTEx) began its operation, computed based on the total amount of tax subsidy over 30 years which is the estimated useful life of the SCTEx.

#### Joint Venture Agreements

The Authority has entered into several joint venture agreements with various companies. Evaluating whether these arrangements involve joint venture arrangement depends on the facts and circumstances of the contractual agreements. Joint arrangements are recognized when the terms of contractual agreements give the venturers joint control over relevant activities such as, decisions regarding construction and development of the property; management and marketing of the developed property; hiring of key personnel; and selection of contractors, architects and suppliers. If the agreements do not constitute joint arrangements under PFRS 11, such arrangements are accounted for in accordance with other applicable financial reporting standards.

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## 6. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2016	2015
Petty cash fund	400	58,324
Cash with collecting officers	262,815	10,245,619
Cash in banks	73,112,877	89,338,928
Cash equivalents	2,447,046,426	3,700,202,590
	<b>2,520,422,518</b>	<b>3,799,845,461</b>

*Cash in banks* are deposits maintained with Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) which earn interest at the prevailing bank deposit rates.

*Cash equivalents* are short-term investments in Special Deposit Accounts and Peso Time Deposits with various maturities. Interest income earned from cash and cash equivalents amounts to P40.453 million in 2016 and P45.969 million in 2015.

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## 7. INVESTMENTS IN UITF

This account consists of investments in Unlad Pamahalaan GS Money Market Fund with DBP, an investment facility with no minimum holding period requirement and available only to government entities.

Reconciliation of the carrying amounts of investment in UITF is as follows:

	2016	2015
Balance at the beginning of the year	8,982,786,407	8,590,821,237
Fair value gain	81,586,509	1,947,371
Additions	1,967,412,472	5,125,876,467
Disposals	(4,163,698,273)	(4,735,898,668)
Balance at end of the year	<b>6,868,047,115</b>	<b>8,982,746,407</b>

Interest income earned from UITF investments amounts to P125.407 million in 2016 and P54.905 million in 2015.

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## 8. RECEIVABLES

This account consists of the following:

	2016	2015 As restated
Loans and receivables	8,699,478,087	9,307,926,759
Lease receivables	707,608,238	609,558,079

Inter-agency receivables	5,162,399,122	5,517,284,355
Other receivables	63,552,864	54,854,653
	<b>14,633,038,311</b>	<b>15,489,623,846</b>
Allowance for impairment	(90,444,617)	(90,444,617)
	<b>14,542,593,694</b>	<b>15,399,179,229</b>
Current portion	4,651,666,124	4,671,313,193
Non-current portion (see Note 17)	9,890,927,570	10,727,866,036

*Loans and receivables* consist of the following:

	2016	2015 As restated
Accounts receivable	8,663,400,874	9,275,361,785
Interest receivable	20,772,243	17,343,338
Dividends receivable	15,304,970	15,221,636
	<b>8,699,478,087</b>	<b>9,307,926,759</b>

Accounts receivable consists of receivables from the following:

	2016	2015 As restated
<b>Business projects</b>		
JUSMAG Project	6,288,482,899	6,520,207,972
Uptown Bonifacio Project	1,438,673,910	1,596,016,566
Newport Project	506,722,363	663,712,508
McKinley Hill Project	265,383,292	330,644,217
Serendra Project	18,527,168	16,046,613
Concession fee	89,012,306	80,962,344
Heritage Park Investment	23,364,249	33,902,882
<b>Housing projects</b>		
Rodriguez, Rizal Relocation	17,980,580	17,980,580
Pamayanang Diego Silang (PDS)	8,425,913	9,012,753
Pabahay 2000 in General Trias, Cavite	6,786,916	6,834,072
Others	41,278	41,278
	<b>8,663,400,874</b>	<b>9,275,361,785</b>

*Receivables from business projects* refer to amounts due from JV Agreements including interest charges of P103.317 million from Megaworld due to late remittance of the first and second minimum annual guaranteed revenue share of the Authority from the JUSMAG project.

*Receivables from concession fee* refer to the Authority's 50 per cent share of the gross toll revenues of SCTEx for December 2016.

*Receivables from Heritage Park Investment* arise from sale of Heritage Park Investment Certificates.

*Receivables from housing projects* refer to amortization balances of housing units at Pamayanang Diego Silang at Ususan, Taguig, and Pabahay 2000 at General Trias, Cavite. These also include receivables arising from the relocation of qualified informal settler families affected by the development of JUSMAG property based on Memorandum of Agreement (MOA) entered into by and between the Authority and National Housing Authority (NHA) on November 10, 2011. Based on the MOA, the Authority shall fund the cost of housing units, including the cost of community facilities, and individual water and power connections of the relocatees, while NHA shall provide the necessary housing units and will serve as the collecting agent of the Authority. In CY 2012, 93 families were relocated to NHA's housing units at Kasiglahan Village, located in Rodriguez, Rizal and a total of P18.600 million was paid by the Authority to NHA.

*Dividends receivable* consists mainly of the remaining balance of P15.22 million cash dividends declared by FBDC in 2013.

*Lease receivables* pertain mostly to the unbilled portion of lease on investment properties.

*Inter-agency receivables* pertain to receivables from the Authority's affiliates. These also include receivables from national government agencies, local government units and government corporations.

	2016	2015 As restated
Affiliates	3,756,035,479	3,944,304,151
National Government Agencies	1,402,505,137	1,487,436,557
Local Government Units	3,750,173	85,335,313
Government Corporations	108,333	208,334
	<b>5,162,399,122</b>	<b>5,517,284,355</b>

*Receivables from affiliates* are as follows:

	2016	2015 As restated
Clark International Airport Corporation (CIAC)	1,785,823,133	1,851,608,122
North Luzon Railways Corporation (NORTHRAIL)	1,661,883,755	1,661,886,754
Fort Bonifacio Development Corporation (FBDC)	184,686,143	5,872,258
Poro Point Management Corporation (PPMC)	72,489,089	51,886,817
Philippine Centennial Expo '98 Corp (EXPOCORP)	22,682,686	22,682,686
John Hay Management Corporation (JHMC)	21,230,961	288,486,583
Bataan Technology Park, Inc. (BTPI)	5,738,873	5,738,873
Bonifacio Estate Services Corporation (BESC)	1,500,000	1,500,000
Clark Development Corporation (CDC)	839	54,645,058
	<b>3,756,035,479</b>	<b>3,944,304,151</b>

*Receivable from CIAC* represents the (a) 15 per cent importation cost of radar spare parts for the Terminal Radar Approach Control (TRACON) Project of P37.074 million; (b) result of the inter-company settlement of CDC-CIAC loans pursuant to EO 716 dated April 3, 2008 of P735.561 million; and (c) advances of P832.248 million. The account also includes

the amortization of Deutsche Bank loan of CIAC paid by CDC in behalf of the Authority with an accumulated amount of P180.940 million and P171.725 million in 2016 and 2015, respectively.

*Receivable from NORTHRAIL* substantially represents advances of P1.412 billion and FBDC's investment in NORTHRAIL of P250 million which was assigned by the latter to the Authority, pursuant to a Settlement Agreement dated April 16, 2003 by and among the Authority, Metro Pacific Corporation (MPC), Fort Bonifacio Development Corporation (FBDC) and Bonifacio Land Corporation (BLC).

*Receivable from FBDC* represents the balance of P135 million from the redemption of Preferred G shares, unpaid lease of P43.813 million for the 23,126 square meters of land located at the Pamayanang Diego Silang and P5.782 remaining balance of property dividends.

*Receivable from PPMC* represents funds released for Capital Expenses (CAPEX) and for the acquisition of all validated land claims within the Wallace area. These advances will be liquidated upon turnover of projects and Transfer Certificate of Titles (TCTs) of land by PPMC to the Authority.

*Receivable from EXPOCORP* represents funds released from CY 1999 to CY 2008 for EXPOCORP's operating requirements amounting to P22.683 million. In CY 2011, the Authority recognized an allowance for impairment loss of P22.683 million.

*Receivable from JHMC* represents funds released for the construction of access road and other capital expenditure projects of P20.326 million which will be liquidated upon completion and turnover of the project to the Authority. It also includes advances of P.904 million, subject to reimbursement. On 29 March 2016, the Authority executed a Deed of Assignment in favour of JHMC to convert its Deposit for Future Stock Subscription into shares of stock decreasing its receivable from JHMC by P263.814 million (see Note 11).

*Receivable from BTPI* refers to the unremitted revenue for CY 2013 of P5.738 million.

*Receivable from CDC* represents CIAC's 50 per cent share from the net revenues within the Clark Civil Aviation Complex (CCAC) amounting to P54.645 million in CY 2015. In accordance with the Authority's instruction to CDC on its letter dated November 6, 2016, CDC shall remit directly to CIAC, the latter's share from the net revenues of CCAC. This reduced the receivable from CDC and other payables to CIAC by P54.645 million.

*Receivable from National Government Agencies (NGAS), LGUs, GOCCs* consists of receivables from the following:

	2016	2015
Supreme Court of the Philippines (SC)	1,159,002,000	1,159,002,000
Bureau of Treasury (BTr)	148,389,657	148,389,657
National Shelter Program (NSP)	54,071,956	79,703,777
Department of Public Work and Highways (DPWH)	39,106,591	39,084,953
Municipality of Taguig	3,750,173	3,750,173
National Anti-Poverty Commission (NAPC)	1,585,000	75,000

City of Makati	0	81,585,140
Department of Budget and Management (DBM)	0	60,831,237
Various Agencies	458,266	558,267
	<b>1,406,363,643</b>	<b>1,572,980,204</b>

*Receivable from SC* pertains to the balance due from the SC in connection with the sale of a 21,463 square meter-lot at the Philippine Army Security Group Area within Fort Bonifacio.

*Receivable from BTr* pertains to the remittance to BTr of other beneficiary agencies' share from the share of NSP from the asset disposition proceeds through sale. The NSP share represents the portion due to the Authority for the latter's conveyance/transfer of properties identified as socialized housing sites with mixed-use development under EO 465.

*Receivable from NSP* represents the cost of land, land improvements, and medium-rise condominium buildings at the Philippine Centennial Village which were turned over to the Housing and Urban Development Coordinating Council pursuant to EO 70, dated February 11, 2002 and Deed of Turnover, dated September 8, 2004. EO 70 was later amended by EO 465 designating the National Housing Authority as the lead implementing agency of NSP to acquire ownership of the said properties. The account is decreased by NSP's share in disposition proceeds.

*Receivable from DPWH* pertains to the balance due from DPWH in connection with its acquisition of a 5,067.65 square meter-lot at Camps Atienza and Melchor in Libis, Quezon City which was affected by the construction of the Marikina-Quezon City Bypass Road Project.

*Receivable from City of Makati* pertains to the amount due from the City of Makati in connection with the acquisition of two parcels of land with an aggregate area of 13,047 square meters covered by TCT Nos. 36277 and 36291. In January 2016, the City of Makati paid its remaining balance of P81.585 million.

*Receivable from DBM* pertains to the reimbursement of the Authority's advances for taxes and fees incurred in the disposition of the 150-hectare Fort Bonifacio which was charged from Authority's share from disposition proceeds. Pursuant to Inter-Agency Committee (IAC) Resolution No. 2016-04 dated January 14, 2016, the receivable was settled in CY 2016 thru offsetting of P60.831 million from the remittable amount to the BTr.

*Other receivables* are composed mainly of the following:

	2016	2015 As restated
Due from Non-Gov't Organizations (NGOs)	29,961,543	33,219,658
Due from officers and employees	5,197,868	1,421,223
Due from other individuals	2,850,416	1,777,252
Others	25,543,037	18,436,520
	<b>63,552,864</b>	<b>54,854,653</b>



*Due from NGOs* consists of receivables from (a) Lakas Ilaw Association, Inc. for bridge loan financing of P3.218 million in CY 2016 and P3.476 million in CY 2015; (b) SAMASAMA, Inc. for livelihood fund of P0.414 million in 2016 and 2015; (c) Samahang Kaisahan ng Sambayanan of P0.780 million in 2016 and 2015; and (d) BCDA Employees Provident Fund, Inc. representing the balance of seed money released by the Authority as start-up fund for the housing/car loan facilities being availed by its officers and employees amounting to P25.549 million in CY 2016 and P28.549 million in CY 2015.

*Others* represents receivables from various suppliers/contractors for the purchase of goods that have yet to be delivered. This account also includes receivables from Megaworld for the amount it retained from the annual minimum revenue share of the Authority in Newport City and McKinley Hill joint venture projects as contingency funds.

## 9. INVENTORIES

This account consists of the following:

	2016	2015 As restated
Heritage Park Investment Certificates	594,857,943	601,728,547
Condominium and parking units	130,960,152	137,633,723
Parking spaces	3,500,000	8,400,000
Pabahay 2000	600,000	600,000
	<b>729,918,095</b>	<b>748,362,270</b>

*Heritage Park Investment Certificates* pertain to various memorial products which entitle a buyer to the perpetual use of the purchased lot upon full payment of the contract price.

*Condominium and parking units* refer to the unsold allocated units at New Port City.

*Parking spaces* refer to the parking units at the Pacific Plaza Towers Condominium allocated for the Authority. As of December 31, 2016, a total of 10 parking spaces remain unsold.

*Pabahay 2000* pertains to the housing units at General Trias, Cavite which are part of the Authority's resettlement and housing program that benefitted residents affected by the conversion and disposition of the former base lands in Metro Manila.

## 10. PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of the following:

	2016	2015 As restated
Prepayments		
Withholding tax at source	531,219,341	605,436,436
Advances to contractors	5,225,925	12,217,609
Inventories held for consumption	2,273,829	2,084,592

Prepaid insurance	1,275,389	1,311,489
Semi-expendables inventories	74,657	119,571
Other prepayments	7,940,150	5,603,168
Other Current Assets		
CJHDevCO Escrow Account	1,421,096,052	1,421,096,052
DBP Trust Account	291,381,272	104,950,477
Director's and Officer's Liability Fund (DOLF)	24,000,000	0
Restricted Fund - Escrow Expropriation	1,193,083	0
Others	4,685,147	737,421
	<b>2,290,364,845</b>	<b>2,153,556,815</b>

*Withholding tax at source* pertains to creditable withholding taxes from lease, concession and joint venture transactions.

*Advances to contractors* pertain to the cost of undelivered goods purchased from the Procurement Service and mobilization fees paid to contractors for the remaining infrastructure works at the Bonifacio Global City and various repair and maintenance works at SCTEx. Mobilization fees are recouped from every progress billing/payment depending on the percentage of accomplishment.

*Prepaid insurance* pertains to insurance premium of certain property and equipment. It also includes fidelity bond premium of accountable officers and employees.

*Other prepayments* include real property tax of Market! Market!, PDS Commercial and Eastgate properties for CY 2017.

*CJHDevCo escrow account* pertains to the fund established by the Authority where the rentals required to be returned to CJHDevCo was deposited. Interest earned from the escrow account amounted to P5.158 million for 2016 and P3.790 million for 2015.

*DBP trust account* consists mainly of the proceeds from the sale of Serendra Condominium units and the lease income from the Serendra Retail area wherein the proceeds are being maintained in an escrow and trust accounts with the DBP pending sales verification and reconciliation between the Authority and Ayala Land, Inc.

*Director's and Officer's Liability Fund* pertains to the trust fund held, managed and administered by the LBP, the Trustee bank, to cover cost and expenses in relation to any demand, claim or action, suit, proceeding, whether threatened or pending against the Directors, Officers or Frontline employees of the Authority. The DOLF's initial fund is P24 million subject to additional P19 million every year until it reaches the maximum amount of P100 million. All earnings from LBP's management of the Trust account shall form part of the Fund.

*Restricted Fund – Escrow Expropriation* pertains to the fund deposited at DBP, the Escrow Agent, for the Authority's expropriation cases at Wallace Air Station within Poro Point Special Economic Zone. The release of the escrow deposit shall only be made upon receipt by the Escrow Agent of a written instruction from the duly authorized representative of the Authority and written Order/Judgment of the Court.

*Others* pertain to advances to officers/employees amounting to P.088 million in 2015 and P.042 million in 2016; advances to the Procurement Service of P3.325 in 2015 and P1.716 million in 2016; and items of property and equipment which are due for disposal amounting to P2.926 million.

## 11. INVESTMENTS IN AFFILIATES

This account consists of investments in the following:

	2016	2015 As restated
Fort Bonifacio Development Corporation (FBDC)	14,752,212,164	15,652,212,164
Clark Development Corporation (CDC)	2,813,507,300	2,813,507,300
John Hay Management Corporation (JHMC)	383,814,079	120,000,000
BCDA Management and Holdings, Inc. (BMHI)	280,000,000	280,000,000
North Luzon Railways Corporation (NORTHRAIL)	100,000,000	100,000,000
Poro Point Management Corporation (PPMC)	68,143,720	68,143,720
Bonifacio Communication Corporation (BCC)	27,500,000	27,500,000
Bonifacio Estate Services Corporation (BESC)	4,333,333	4,333,333
Philippine Japan Initiative for CGC, Inc. (PJIC)	4,309,380	0
Subic Clark Alliance for Development (SCAD)	2,083,333	2,083,333
Clark International Airport Corporation (CIAC)	1,250,000	1,250,000
Filinvenst BCDA Clark, Inc. (FBCI)	450,000	0
	<b>18,437,603,309</b>	<b>19,069,029,850</b>

In 2010, the Authority received P450 million from FBDC as advances for the redemption of Preferred F shares. The deposit was classified under Inter-Agency Payable while awaiting for the Securities and Exchange Commission's (SEC) approval on FBDC's conversion of its convertible common capital stock into Preferred Shares. On November 11, 2016, the SEC approved the Amended Articles of Incorporation of FBDC, amending the reclassification of P 6 billion Common Shares to P5 billion Preferred F Shares and P1 billion Preferred G Shares. This reduced the Authority's Investment in FBDC and Inter-Agency Payable in the amount of P450 million for the Preferred F Shares. In December 2016, the Authority redeemed the Preferred G Shares, reducing the Investment to FBDC by another P450 million. On December 6, 2016, the Authority received P315 million from FBDC for the redemption of Preferred G shares and the balance of P135 million on January 4, 2017.

Conveyance by FBDC of parcels of land consisting of portions of Reserved Area I and Settlement Area 1 with an aggregate area of 3,710 square meters and 6,147 square meters, respectively, in partial redemption of Preferred B shares owned by the Authority was also recorded in 2014. Partial redemption of Preferred B shares based on the net saleable area and usufruct proceeds was recorded in 2015 amounting to P742.399 million and P631.920 million, respectively.

On June 9, 2016, the SEC approved the increase of capital stock of JHMC from P120 million divided into 1,200,000 shares with a par value of P100 per share to P500 million divided into 5,000,000 shares with a par value of P100 per share. Prior to the approval of the SEC, the Authority assigns, transfers and conveys to JHMC all its rights, title and interest in the Deposit for Future Stock Subscription in exchange for the 2,638,140 fully paid-up shares of the common stocks of the JHMC thru Deed of Assignment dated March 29, 2016, thus, increasing the Authority's investment in JHMC by P263.814 million.

On July 1, 2015, the Governance Commission for GOCCs (GCG) issued Memorandum Order No. 2015-06 deactivating BMHI. As part of the transitional plan to deactivate the current operation of BMHI, GCG ordered the Authority to act as successor-in-interest of BMHI's obligations, assets and liabilities; assume the functions of BMHI; implement the plan of actions for the affected employees of BMHI; and resolve all audit findings by the Commission on Audit against BMHI.

BMHI was deactivated effective 01 August 2016. All projects handled by BMHI were turned over to the Authority except for the collection of housing unit amortization, monthly dues and/or common area lights and similar charges for the National Police Commission/Philippine National Police Housing Project, which was retained by BMHI. The Authority created a Management Team for BMHI to manage and supervise the disbursements, collections and other transactions pertaining to and retained by BMHI.

On December 21, 2011, EO 64 was issued making CIAC an agency attached to the Department of Transportation and Communications (DOTC), which shall exercise administrative control and supervision over CIAC, and further ordering the transfer and conveyance to the National Government of all the shares of stock of CIAC.

On February 28, 2017, EO 14 was issued restructuring CIAC from being an attached agency of Department of Transportation (DOTr) (formerly DOTC) to a subsidiary of the Authority, and further ordering DOTr to facilitate the transfer and conveyance of the shares currently owned by the National Government, as well as those shares held in the name of its nominee stockholders, in favor of the Authority and its nominees. Coordination meetings with the DOTr, CIAC and CDC are being undertaken to thresh out issues and concerns relative to the implementation of EO 14.

On May 17, 2013, the GCG issued Memorandum Order No. 2013-027 abolishing BTPI. The GCG Memorandum further instructed the Authority to act as the successor of BTPI's interest, including all assets; absorb all liabilities of BTPI; honor all valid contracts entered into by BTPI; assume the functions necessary to continue the operations of the Park; and implement separation packages for the affected BTPI employees in accordance with the provisions of the Labor Code. In 2013, the Authority implemented the separation packages of the affected employees while BMHI was tasked to operate the Atmunda Resort at Bataan Technology Park. In 2015, the Authority assumed the operation and upkeep of BTPI. Impairment loss of P100 million on the Authority's investment in BTPI was recognized in 2014.

Dividends earned from investment in affiliates amount to P30.98 million in CY 2016 and P471.52 million in CY 2015.

## 12. INVESTMENTS IN GOVERNMENT BONDS

This account consists of the following:

	2016	2015
Long-term placements in Fixed-Rate Treasury Notes	4,522,564,297	2,795,590,686
Long-term Investment on Tier 2 Fixed-Rate Unsecured Subordinated Notes	0	500,000,000
	<b>4,522,564,297</b>	<b>3,295,590,686</b>

Interest income earned from investment in government bonds amounts to P114.932 million in CY 2016 and P83.555 million in CY 2015.

## 13. INVESTMENTS IN STOCKS

This account consists of the following:

	2016	2015
Cost of 10% investment in Bonifacio Water Corporation	70,051,870	70,051,870
Cost of 15% investment in Poro Point Industrial Communication	15,000,000	15,000,000
Value of 30 golf and country shares received by BCDA from CHJDevCo as partial payment of the latter's outstanding obligations	12,000,000	12,000,000
Cost of 10% Cumulative Preferred shares of MERALCO in connection with the application for the installation of electric facilities at Serendra Project, Districts 1 and 2 properties pursuant to the Subscription Agreement entered into by and between the Authority and MERALCO	5,947,649	5,947,649
Cost of stocks/securities of PLDT in connection with the installation of various lines at the Authority and miscellaneous investments	24,800	24,800
	<b>103,024,319</b>	<b>103,024,319</b>

## 14. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land improvements	Building & Structures, Leasehold Impvts-Bldg	Office Equipment, Furniture & Fixtures and Books	Other Machinery & Equipmt	Land Transport Equipment	Constn in Progress	Total
<b>2016</b>							
<b>COST</b>							
At January 1, 2016	2,575,967,075	481,588,132	64,292,021	30,326,479	113,209,360	142,476,554	3,407,859,621
Additions	109,498,780	0	6,182,996	253,638	740,337	63,532,954	180,208,705
Transfer	0	0	0	0	(2,570,770)	0	(2,570,770)
Reclassifications	(598)	0	(57,183)	(233,746)	0	(109,957,534)	(110,249,061)
Adjustments	0	0	0	0	0	0	0
Disposals/Write-off	0	0	(2,274,299)	0	0	0	(2,274,299)
<b>Balance, 12/31/2016</b>	<b>2,685,465,257</b>	<b>481,588,132</b>	<b>68,143,535</b>	<b>30,346,371</b>	<b>111,378,927</b>	<b>96,051,974</b>	<b>3,472,974,196</b>
<b>ACCUMULATED DEPRECIATION</b>							
At January 1, 2016	1,416,798,121	331,172,747	48,091,407	25,801,379	57,575,286	0	1,879,438,940
Depreciation	99,437,774	11,306,162	4,676,053	2,063,136	10,670,215	0	128,153,340
Adjustments	(598)	0	(39,179)	(175,746)	0	0	(215,523)
Transfer	0	0	0	0	(1,877,318)	0	(1,877,318)
Disposals/Write-off	0	0	(1,980,505)	0	0	0	(1,980,505)
<b>Balance, 12/31/2016</b>	<b>1,516,235,297</b>	<b>342,478,909</b>	<b>50,747,776</b>	<b>27,688,769</b>	<b>66,368,183</b>	<b>0</b>	<b>2,003,518,934</b>
<b>Carrying Amount</b>							
<b>December 31, 2016</b>	<b>1,169,229,960</b>	<b>139,109,223</b>	<b>17,395,759</b>	<b>2,657,602</b>	<b>45,010,744</b>	<b>96,051,974</b>	<b>1,469,455,262</b>
<b>2015</b>							
<b>COST</b>							
At January 1, 2015	2,575,540,358	492,847,549	62,436,536	26,417,651	113,914,325	10,748,070	3,281,904,489
Additions	426,717	282,046	4,226,039	3,966,203	0	134,537,770	143,438,775
Transfer	0	0	(376,871)	0	(704,966)	0	(1,081,837)
Reclassifications	0	0	(1,864,595)	0	0	0	(1,864,595)
Adjustments	0	0	(118,799)	(57,375)	0	(2,809,285)	(2,985,459)
Disposals/Write-off	0	(11,541,463)	(10,289)	0	0	0	(11,551,752)
<b>Balance, 12/31/2015</b>	<b>2,575,967,075</b>	<b>481,588,132</b>	<b>64,292,021</b>	<b>30,326,479</b>	<b>113,209,359</b>	<b>142,476,555</b>	<b>3,407,859,621</b>
<b>ACCUMULATED DEPRECIATION</b>							
At January 1, 2015	1,283,093,000	329,803,865	43,392,920	18,482,371	46,661,856	0	1,721,434,012
Depreciation	133,705,121	11,268,117	5,356,784	7,332,592	11,618,396	0	169,281,010
Adjustments	0	0	(393,712)	(13,584)	0	0	(407,296)
Transfer	0	0	(255,332)	0	(704,966)	0	(960,298)
Disposals/Write-off	0	(9,899,235)	(9,252)	0	0	0	(9,908,487)
<b>Balance, 12/31/2015</b>	<b>1,416,798,121</b>	<b>331,172,747</b>	<b>48,091,408</b>	<b>25,801,379</b>	<b>57,575,286</b>	<b>0</b>	<b>1,879,438,941</b>
<b>Carrying Amount</b>							
<b>December 31, 2015</b>	<b>1,159,168,954</b>	<b>150,415,385</b>	<b>16,200,613</b>	<b>4,525,100</b>	<b>55,634,073</b>	<b>142,476,555</b>	<b>1,528,420,680</b>

## 15. SERVICE CONCESSION ASSETS

This account consists of the following:

	SCTEx by BCDA	Assets Introduced by MNTC	Total
<b>2016</b>			
<b>COST</b>			
At January 1, 2016	30,679,420,772	0	30,679,420,772
Additions	0	767,909,682	767,909,682
Adjustments	(67,000)	0	(67,000)
<b>Balance, 12/31/2016</b>	<b>30,679,353,772</b>	<b>767,909,682</b>	<b>31,447,263,454</b>
<b>ACCUMULATED DEPRECIATION</b>			
At January 1, 2016	3,674,829,190	0	3,674,829,190
Depreciation	226,914,330	691,593	227,605,623
<b>Balance, 12/31/2016</b>	<b>3,901,743,520</b>	<b>691,593</b>	<b>3,902,435,113</b>
<b>Carrying Amount</b>			
<b>December 31, 2016</b>	<b>26,777,610,252</b>	<b>767,218,089</b>	<b>27,544,828,341</b>
<b>2015</b>			
<b>COST</b>			
At January 1, 2015	30,679,420,772	0	30,679,420,772
<b>Balance, 12/31/2015</b>	<b>30,679,420,772</b>	<b>0</b>	<b>30,679,420,772</b>
<b>ACCUMULATED DEPRECIATION</b>			
At January 1, 2015	3,495,625,553	0	3,495,625,553
Depreciation	179,203,637	0	179,203,637
<b>Balance, 12/31/2015</b>	<b>3,674,829,190</b>	<b>0</b>	<b>3,674,829,190</b>
<b>Carrying Amount</b>			
<b>December 31, 2015</b>	<b>27,004,591,582</b>	<b>0</b>	<b>27,004,591,582</b>

## 16. INVESTMENT PROPERTIES

	2016	2015
<b>COST</b>		
Balance at the beginning of year	44,881,085,484	44,400,351,357
Additions	68,511,572	1,600,558,386
Disposals/Write-off	0	(1,119,824,259)
<b>Carrying amount at the end of the year</b>	<b>44,949,597,056</b>	<b>44,881,085,484</b>

This account pertains to land assets with a total area of approximately 378,703,529 square meters located at Fort Bonifacio, Villamor Airbase, Poro Point in La Union, Clark Economic Zone, Morong Bataan, and Camp John Hay in Baguio.

The account also includes the log homes, manor units and suites at Camp John Hay, including furnishings. Investment properties with a book value of P46.040 billion are recorded at cost. Based on 2012 appraisal report, fair market value of land assets amounts to P280.297 billion. The latest appraisal report has yet to be approved by the Authority's Board of Directors in 2017.

Lease income from investment properties amounted to P912.732million and P813.540 million in 2016 and 2015, respectively. Expenses incurred relating to investment properties are as follows:

	2016	2015
Estate management fees	143,868,738	144,012,118
Zone maintenance	61,041,530	68,974,128
Security services	35,115,111	34,013,271
	<b>240,025,379</b>	<b>246,999,517</b>

The Authority entered into deeds of usufruct for the use of its properties in line with the Authority's mandate to promote economic and social development with the following:

- Department of Education-CAR Division of Baguio City for the use of a 1,529-square meter property within Barangay Country Club in Baguio City for establishing a school building;
- Reserve Officers Legion of the Philippines (RLOP) for a 500-square meter area within the Community Center Area of the Housing Site II located at C-5 Road, Fort Bonifacio as the National Headquarters of the RLOP;
- BMHI for the right to use a 3,000-square meter parcel of land located at Lot 1 Pamayanang Diego Silang (PDS) Estate C-5 Road, Fort Bonifacio;
- Department of National Defense for the right to use the remaining one-hectare property at Camp Claudio as housing site for Philippine Navy personnel;
- Filipino War Veterans Foundation Inc. for the use of a 5,000-square meter property within the commercial area of PDS as headquarters and livelihood training center for the veterans;
- Department of Education-Taguig for the construction of Taguig-Pateros Science and Technology High School within the PDS Community Facilities Center;
- Military Ordinariate of the Philippines as site for the Chapel of St. Therese within Villamor Air Base;
- Department of Public Works and Highways for the Sta. 00+000 to Sta. 00+712.17 in connection with the construction of the SCTEx-TPLEx interconnection project; and
- Philippine Dental Association (PDA) for the use of a 500-square meter area in PDS for the establishment of the PDA Oral Health Research Center.

On May 29, 2014, President Benigno Aquino III approved the Master Development Plan for the Clark Green City involving 9,450 hectares of land within the Clark Special Economic Zone (CSEZ) including the first phase of its development. The Authority appropriated P6.00 billion from its retained earnings for this purpose.

The Authority has also allocated certain parcel of lands to various institutions in line with the development of the New Clark City (NCC) (formerly Clark Green City or CGC):

- University of the Philippines (UP) for the establishment of a UP campus covering an area of 70 hectares of land; and



- Technological University of the Philippines (TUP) for the establishment of TUP Center for Industrial Development and Productivity covering an area of 20 hectares of land.

## 17. OTHER NON-CURRENT ASSETS

This account comprises the following:

	2016	2015 As restated
Non-current receivables		
Installment sales receivable	7,327,888,778	7,848,230,758
Inter-agency receivables	2,548,203,971	2,864,542,342
Other receivables	14,834,821	15,092,936
	<b>9,890,927,570</b>	10,727,866,036
Deferred charges	879,640,963	896,131,041
Heritage Park Perpetual Care Fund	66,320,079	67,144,551
Deposits for expropriation	26,638,759	35,101,740
Intangible assets	12,028,328	13,750,140
Rent deposit	4,825,067	4,825,067
Other assets	5,600,948	5,603,168
	<b>10,885,981,714</b>	11,750,421,743

*Non-current receivables* refer to the amount due from the National Shelter Program; advances/receivables from affiliates; long-term portion of installment sales receivable and contingency funds for Newport City and the McKinley Hill projects.

*Deferred charges* pertain to the advances made to the AFP for the latter's share in the proceeds from redemption of FBDC Preferred B shares; upfront cash payments made by Megaworld for the JUSMAG and North Bonifacio Joint Venture projects; and advance rental of Altus San Nicolas for the 5,000-square meter lot along Lawton Avenue from CYs 2015-2027. These upfront cash payments were recognized in the books as deferred income. When earned, the receivable is recognized as an adjustment to Contributions to AFP Modernization expense account.

*Heritage Park Perpetual Care Fund (PCF)* refers to the balance of the 12 per cent PCF advanced to the Heritage Park Management Corporation. The account is decreased by the corresponding PCF of sold Heritage Park Investment Certificates.

*Deposits for expropriation* refer to cash deposited to the Clerk of Courts in relation to land expropriation cases for SCTEx and Wallace Area in San Fernando, La Union.

*Intangible assets* pertain to acquired computer software licenses which are presented based on the cost incurred to acquire and bring to use the specific software. These costs were amortized over the expected useful lives of five years. Costs associated with maintaining computer software programs are recognized as expense when incurred. The decrease is due to the recognition of amortization for CY 2016.

## 18. ACCOUNTS PAYABLE

This account consists of payables to the following:

	2016	2015 As restated
Tollways Management Corporation (TMC)	34,316,462	205,120,592
Various suppliers and contractors	1,626,073,366	1,528,755,847
	<b>1,660,389,828</b>	<b>1,733,876,439</b>

*Accounts payable to TMC* consist mainly of payables for the operations and maintenance of SCTEX.

*Accounts payable to various suppliers and contractors* of P1.626 billion in 2016 and P1.529 billion in 2015 consist mainly of the P1.421 billion rentals required to be returned to CJHDevCo.

## 19. INTER-AGENCY PAYABLES

This account consists of the following:

	2016	2015 As restated
Due to BTr	4,045,393,994	6,408,849,879
Due to Affiliates	708,192,928	1,141,493,960
Due to BIR	69,149,124	157,853,635
Due to NGAs	9,984,040	12,889,014
Due to GOCCs	3,987,214	6,305,201
Due to LGU	162,640	162,640
	<b>4,836,869,940</b>	<b>7,727,554,329</b>

*Due to BTr* refers to the 72.50 per cent share of the beneficiaries on asset disposition thru sale of portions of Villamor Air Base and Fort Bonifacio. It also includes AFP's share from the net proceeds of non-sale transactions such as the Authority's share in joint venture projects, lease income and disposition of Heritage Park Investment Certificates. It also includes the Authority's initial capital of P70 million that was authorized under Section 6 of RA 7227, which should be covered by preferred shares of the Authority retireable within two years. No such preferred shares were issued, but the P70 million was recognized as a financial liability in 2012 and was remitted to the BTr on March 22, 2016. It further includes the balance of guarantee fees incurred in relation to the JICA loan for the SCTEX Project amounting to P423.010 million.

*Due to BIR* represents taxes withheld from employees, suppliers/contractors and corporate income tax due. The net effect of output tax over input tax is presented as deferred credits.

*Due to NGAs* consists mainly of the funds transferred by the Philippine Veterans Affairs Office to the Authority for the preparation of the total master development plan for the Libingan Ng Mga Bayani.

*Due to GOCCs* consists mainly of premiums payable to GSIS, Pag-IBIG and Philhealth.

*Due to Affiliates* is composed of the following:

	2016	2015
Fort Bonifacio Development Corporation (FBDC)	475,121,395	925,121,395
Clark Development Corporation (CDC)	183,043,056	173,828,045
John Hay Management Corporation (JHMC)	31,352,198	21,287,981
Poro Point Management Corporation (PPMC)	9,968,616	13,946,953
BCDA Management and Holdings, Inc. (BMHI)	6,872,075	3,712,365
Subic Clark Allaince for Development (SCAD)	1,115,278	0
Bataan Technology Park Inc. (BTPI)	667,059	667,059
Clark International Airport Corporation (CIAC)	53,251	2,930,162
	<b>708,192,928</b>	<b>1,141,493,960</b>

*Due to FBDC* consists mainly of the remaining balance of P2.235 billion deposit for future redemption of Preferred B shares which was upstreamed to the Authority to finance its various big ticket development projects in accordance with Article 4.3 of the Supplemental Implementing Agreement between the Authority and FBDC dated November 11, 2009. On November 11, 2016, the Securities and Exchange Commission (SEC) approved FBDC's Amended Articles of Incorporation on the conversion of convertible common capital stock into Preferred "F" shares reducing the account by the amount of P450 million. It also includes P2.090 million inter-agency settlement of obligations.

*Due to the Clark Development Corporation* represents the remaining balance of inter-company settlement of CDC-CIAC loans and cash advances of P183.043 million pursuant to the implementing plan of EO No.716.

*Due to JHMC* refers to land related costs in John Hay Special Economic Zone (JHSEZ) advances by JHMC.

*Due to PPMC* refers to land related costs in Poro Point Special Economic and Freeport Zone (PPSEFZ) advanced by PPMC.

*Due to SCAD* represents the Authority's 1/3 share of CY2016 SCAD Budget which was released on 11 January 2017.

## 20. PROVISIONS

This account consists of the accrued leave benefits of employees. The movement of this account is as follows:

	2016	2015
Beginning	23,954,585	24,045,188
Expense	7,830,611	5,995,505
Payment	(11,632,450)	(6,086,108)
Balance	<b>20,152,746</b>	<b>23,954,585</b>

## 21. OTHER PAYABLES

This account consists mainly of the following:

	2016	2015
Contractor's security deposits	416,377,240	426,353,682
Other payables	257,489,678	439,955,509
	<b>673,866,918</b>	<b>866,309,191</b>

*Contractor's security deposits* correspond to the bid bonds, performance and warranty security received from contractors/suppliers. These also include the 10 per cent retention monies withheld from the gross billing of the contractors/suppliers of goods and services.

*Other payables* include funds received for the Villamor Airbase replication and relocation project; funds for the NAPOLCOM project; and the 50 per cent share of CIAC on collection from Clark Civil Aviation Complex (CCAC) locators from CY 2012 to 2016, net of 50 per cent share in expenses. The Authority released to CIAC P100 million and P45 million in 2016 and 2017, respectively, in payment of its share on CCAC collection.

## 22. LONG-TERM BORROWINGS

	2016	2015
Current portion of JICA Loan	810,314,567	747,220,208
Non-current portion of JICA Loan	19,447,549,618	18,680,505,200
	<b>20,257,864,185</b>	<b>19,427,725,408</b>

The loan payable to the Japan International Cooperation Agency (JICA), formerly Japan Bank for International Cooperation (JBIC), pertains to the loan drawdown of P31.244 billion (¥48.769 billion) for the period January 2003 to December 2010, as part of the loan extended to the Authority in the amount of ¥58.138 billion (inclusive of supplemental loan amounting to ¥17.106 billion in accordance with the amended Exchange of Notes). In 2016 and 2015, payments were made amounting to P0.842 billion (¥1.906 billion) and P0.718 billion (¥1.906 billion), respectively. As of reporting date, the unpaid balance amounted to ¥47.654 billion. This balance is carried at restated amount based on the BSP foreign exchange rate.

The loan is for the construction of a direct, efficient and nearly exclusive road connection between major development areas of Central Luzon (Subic-Clark-Tarlac) in order to enhance the synergistic integrated development of the region and to alleviate the worsening traffic situation along the North-South axes in the region. The Subic-Clark-Tarlac Expressway project will enhance the development of both the Subic and the Clark Economic Zones pursuant to the Subic-Clark Alliance Development Program.

### LOAN PROFILE:

Fund Source	: Japan International Cooperation Agency
Loan Agreement No	: PH-226
Loan Amount	: JPY 58,138,495,277
Terms	: 40 years (maturity period)

	:	10 years (grace period)
Repayment terms	:	Semestral
Closing date	:	December 17, 2010
Guarantor	:	Republic of the Philippines
Interest Rate (%)	:	0.95% (Civil Works)
	:	0.75% (Consulting Services)
Guarantee Fee	:	1% p.a. of outstanding balance

### 23. DEFERRED CREDITS

This account consists of the following:

	2016	2015 As restated
Deferred income from service concession	3,761,742,043	3,106,398,809
Deferred income on tax subsidy	2,968,920,758	3,106,476,932
Deferred income from leased properties	1,225,087,296	1,302,611,206
Deferred income from Heritage Park Project	451,730,847	458,601,451
Output tax-net of input tax	112,283,587	102,203,347
Committed contributions for the upgrading of San Fernando Airport	55,000,000	55,000,000
Deferred interest income from Heritage Park Project	6,822,648	15,011,849
Deferred income from joint venture projects	3,500,000	7,350,000
Other deferred credits	1,276,935,858	1,373,467,225
	<b>9,862,023,037</b>	<b>9,527,120,873</b>

*Deferred income from service concession* pertains to the upfront cash from Manila North Tollways Corporation (MNTC) amounting to P2.995 billion and assets constructed by MNTC for SCTEx amounting to P767 million.

*Deferred income on tax subsidy* pertains to the tax subsidy granted by the Department of Finance, as implemented by the Bureau of Internal Revenue, to pay for the taxes of the contractors, suppliers and consultants involved in the construction of SCTEx. This is pursuant to the provisions of the Exchange of Notes between the Republic of the Philippines and the Government of Japan that no part of the loan proceeds from the JICA for the construction of SCTEx project shall be used to pay for Philippine taxes. In relation to this, Revenue Regulation No. 17-2005 dated July 29, 2005 was issued prescribing the policies, guidelines and procedures in the implementation of the tax subsidy granted by the Fiscal Incentive Review Board (FIRB) to the Authority.

For CY 2005 to 2010, the amount of tax subsidy granted by the FIRB and availed by the consultants and contractors amounted to P4.138 billion, distributed as follows (in billion pesos):

Issued to	Amount of Subsidy	Amount of Utilization	Balance
Kajima Corporation, Obayashi Corporation, JFE Engineering Corporation, Mitsubishi Heavy Industries, Ltd. (KOJM)	8.414	2.452	5.962

Hazama Corporation, Taisei Corporation, Nippon Steel Corporation (HTN)	4.644	1.632	3.012
Pacific Consultant International – Katahira and Engineers International (PCI-KEI)	0.244	0.054	0.190
	<u>13.302</u>	<u>4.138</u>	<u>9.164</u>

The decrease of P137.556 million in 2016 is due to the amortization of deferred income on tax subsidy as subsidy from National Government.

*Deferred income from leased properties* represents the advance rental and earnest money received from various lessees of the Authority's properties.

*Deferred income from Heritage Park Project* pertains to the unrealized income from the remaining inventory of Heritage Park Investment Certificates.

*Deferred income from joint venture projects* pertains to the unrealized income from the remaining unsold inventory of parking units allocated to the Authority in the Pacific Plaza Towers Project.

*Other deferred credits* pertain to the receivables arising from the sale of the 5,067.65-square meter lot at Camps Atienza and Melchor to DPWH and the 21,463- square meter lot at PA-SEG area to the Supreme Court of the Philippines which shall be reclassified to Capital and Due to BTr accounts when collected.

## 24. REVENUES

Revenues consist of the following:

	2016	2015 As restated
Lease revenue	912,731,981	813,540,079
Concession fee	904,059,493	150,748,162
Revenue from JV agreements	843,865,835	903,569,143
Interest income	288,554,008	184,429,850
Dividend revenue	30,980,125	471,520,206
Sales revenue	16,800,639	71,783,221
Toll revenue	0	1,081,139,027
Miscellaneous revenue	606,561,743	443,639,328
	<u>3,603,553,824</u>	<u>4,120,369,016</u>

*Lease income* pertains to revenue arising from various lease agreements wherein parcels of land are transferred and conveyed by way of lease to private entities.

*Concession fee* pertains to the 50 per cent share of the Authority from the audited gross toll revenue of SCTEx amounting to P791.493 million in 2016 and P132.147 million from October 28, 2015 to December 31, 2015. It also includes the amortized portion of MNTC's upfront cash payment in the amount of P111.607 million in 2016 and P18.601 million in 2015. It further includes the amortization of concession asset introduced by MNTC in the amount of P.959 million in 2016.

*Interest income* consists of interest income from bank deposits and investments in UITF and government bonds.

*Dividend revenue* consists of dividends received from Fort Bonifacio Development Corp., Bonifacio Communication Corp., Bonifacio Estate Services Corp., and BCDA Management and Holdings, Inc. In 2015, dividend income of P471.520 million includes P450 million from FBDC.

*Toll revenue* represents collections from SCTEx operations in the amount of P1.081 billion prior to the effectivity of the Business Agreement with MNTC.

## 25. PERSONAL SERVICES

	2016	2015
		As restated
Salaries and wages	103,074,400	102,343,043
Other compensation	88,035,229	91,365,354
Personnel benefit contributions	45,055,173	45,378,871
Other personnel benefits	44,309,136	6,010,505
	<b>280,473,938</b>	<b>245,097,773</b>

## 26. MAINTENANCE AND OTHER OPERATING EXPENSES

	2016	2015
		As restated
Contributions to AFP Modernization	1,397,960,353	2,287,480,548
Depreciation and amortization	360,232,081	351,727,025
Estate management fees	143,868,738	144,012,118
Printing, advertising and promotion	121,321,448	146,084,200
General services	70,853,820	55,051,880
Zone maintenance	61,041,530	68,974,126
Repairs and maintenance	47,735,862	47,287,646
Professional services	44,615,793	364,367,945
Rent expense	23,137,153	22,383,178
Taxes, insurance premiums and other fees	15,660,843	109,047,226
Awards, prizes and other claims	11,242,962	100,000
Utilities	8,644,330	10,481,858
Training and scholarship expenses	5,867,083	6,603,914
Supplies and materials	5,216,688	11,589,254
Communication	4,860,498	4,792,948
Traveling expenses	4,832,296	5,260,888
Survey and research	3,417,172	4,404,740
Liquidation expenses	225,000	154,615
Demolition and dredging	0	472,195
Other maintenance and operating expenses	11,130,687	10,098,904
	<b>2,341,864,337</b>	<b>3,650,375,208</b>

*Contributions to AFP Modernization* pertain to the cost of replication of facilities and the 50 per cent share of AFP out of the net proceeds from leases, joint ventures and all transactions, other than sale entered into by the Authority involving portions of Metro Manila military camps pursuant to the provisions of EO 309, dated November 3, 2000, details are as follows:

	2016	2015 As restated
Proceeds arising from joint venture agreements	853,209,566	1,084,102,557
Proceeds from lease income	277,554,735	186,165,717
Redemption of preferred shares	157,500,000	750,000,000
Replication of facilities	94,232,533	0
Revenue from sale of Heritage Park Investment		0
Certificates (HPICs)	9,989,598	27,540,510
Interest on non-sale	5,473,921	14,671,764
Dividends	0	225,000,000
	<b>1,397,960,353</b>	<b>2,287,480,548</b>

## 27. OTHER INCOME (EXPENSES)

This consists of the following:

	2016	2015 As restated
Subsidy income	1,300,383,637	137,556,174
Unrealized gain (loss) on foreign exchange	(1,672,196,012)	(1,071,633,255)
Subsidy expense	(1,162,827,463)	0
Financial expenses	(422,076,226)	(389,842,495)
Gain on disposal of investment	0	1,887,929,168
Other legal expenses-CJHDevCo	0	(1,421,096,052)
Loss on disposal of property	0	(3,077,149)
	<b>(1,956,716,064)</b>	<b>(860,163,609)</b>

*Subsidy income* consists of the funds received from the National Government to finance the power subsidy granted to Phoenix Semiconductor Philippines Corporation (PSPC) and Texas instruments (TI) – Clark. Said funds were subsequently transferred by the Authority to PSPC and TI which were recorded as expense. It also includes the amortization of deferred income tax subsidy granted to the Authority during the construction of the Subic-Clark-Tarlac Expressway Project (SCTEP).

### *Unrealized gain (loss) on foreign exchange*

The Authority has two main foreign currency denominated transactions: the special yen loan package of the SCTEx project and bank deposits for dollar transactions.

In 2016, the exchange rate for yen-denominated loan increased to P0.4251 from P0.3920, resulting in foreign exchange loss of P1.672 billion. For dollar deposits, the exchange rate increased to P49.81 from P47.166 resulting in gain of P0.363 million.

Gain on disposal of investment pertains to the partial redemption of Preferred B shares.



## 28. INCOME TAX EXPENSE

Income tax expense for the years ended December 31 consists of the following:

	2016	2015
Current tax	795,174	(237,722,879)
Deferred tax	(393,495,760)	(168,080,466)
	<b>(392,700,586)</b>	<b>(405,803,345)</b>

The reconciliation of income tax expense computed at applicable statutory tax rates and income tax expense shown in the statement of comprehensive income follows:

	2016	2015
Statutory Income Tax	(292,650,154)	(190,580,272)
Income tax effects of:		
Non-taxable income (Subsidy income and subsidy expense)	(41,266,852)	(41,266,852)
Income already subjected to final tax (Interest income and dividend revenue)	(93,531,557)	(196,775,482)
Non-deductible interest expenses	34,747,977	22,819,261
	<b>(392,700,586)</b>	<b>(405,803,345)</b>

An analysis of deferred tax assets and deferred tax liabilities follows:

	2016	2015
Deferred tax assets		
Accrued expenses	31,908,591	2,713,089
Unearned lease revenue	367,526,189	390,783,378
Unrealized forex loss	7,783,451	0
Unearned service concession revenue	898,437,500	931,919,643
Accounts receivable from business agreements	1,427,856,441	1,485,274,820
Allowance for impairment	27,133,385	27,133,385
Service concession asset	(230,165,427)	230,372,905
Excess MCIT	295,312,624	241,735,539
Net operating loss carry over (NOLCO)	237,722,879	237,722,879
	<b>3,063,515,632</b>	<b>3,547,655,638</b>
Deferred tax liability		
Unrealized forex gain		(493,875,353)
Unbilled accounts receivable	(152,051,652)	(128,931,131)
Unearned concession revenue for concession asset	230,085,113	(230,372,905)
	<b>78,033,461</b>	<b>(853,179,389)</b>
	<b>3,141,549,093</b>	<b>2,694,476,249</b>

The details of NOLCO which can be claimed as deductions from future taxable income within three years from the year the loss was incurred are shown below:

Year Incurred	Amount Incurred	Amount Applied	Amount Expired	Remaining Balance	Year of Expiration
2016	0				
2015	237,722,879			237,722,879	2017
2014	398,314,028			398,314,028	2016
	636,036,907	0	0	636,036,907	

For the year ended December 31, 2016, the Authority is subject to MCIT equivalent to 2% of gross income, as defined in the tax regulations.

Year Incurred	Amount Incurred	Amount Applied	Amount Expired	Remaining Balance	Year of Expiration
2016	54,372,259			54,372,259	2018
2015	151,872,950			151,872,950	2017
2014	89,862,589			89,862,589	2016
	296,107,798	0	0	296,107,798	

## 29. OTHER COMPREHENSIVE INCOME

*Other comprehensive income (OCI)* pertains to the unrealized gain on investments that are classified as available for sale. OCI is a line item in the equity section of the Statement of Financial Position. Unrealized gain on AFS investments will be reclassified to profit and loss when the investment is redeemed or the profit or loss is realized.

## 30. CAPITAL STOCK

The Authority has an authorized capital stock of P100 billion as provided for in Section 6 of RA 7227. This may be fully subscribed by the Republic of the Philippines and shall either be paid up from the proceeds of the sales of land assets as provided for in Section 8 of the same Act or by transferring to the Authority properties valued at such amount.

Capital account of the Authority consists of the following:

	2016	2015
Fair market value/assessed value of the following transferred properties:		
Villamor Air Base	27,841,448,676	27,841,448,676
Various Metro Manila Camps	10,273,904,288	10,273,904,288
Camp John Hay	7,443,738,052	7,443,738,052
Bataan Technology Park	3,024,994,233	3,024,994,233
Clark Main Zone	2,510,541,015	2,510,541,015
San Fernando Seaport	366,018,191	366,018,191
Sacobia	26,164,356	26,164,356
San Fernando Airport	5,259,638	5,259,638
Heritage Park	644,716	644,716
	51,492,713,165	51,492,713,165

Value of the capitalized portion of Fort Bonifacio which is equivalent to the 45 per cent share in FBDC	<b>19,769,006,975</b>	19,769,006,975
Net proceeds from the disposition of transferred properties as provided under RA 7227, as amended	<b>3,876,702,717</b>	3,859,276,022
Proceeds of the portion of the Fort Bonifacio property sold to PNOC/DOE and the JUSMAG property sold to Victory Liner, Inc.	<b>158,347,900</b>	158,347,900
Value of investment in Poro Point Industrial Corporation	<b>15,000,000</b>	15,000,000
Initial cash equity of the National Government	<b>13,250,000</b>	13,250,000
	<b>75,325,020,757</b>	75,307,594,062
Fund from Legislative-Executive Bases Council	<b>2,930,858</b>	2,930,858
	<b>75,327,951,615</b>	75,310,524,920

The initial cash equity of the National Government includes the initial capital of P70 million that was authorized under Section 6 of RA 7227 which shall be covered by preferred shares of the Authority retirable within two years. No such preferred shares were issued but the P70 million was recognized as a financial liability in 2012 and remitted to the BTr on March 22, 2016.

Land used to securitize the Heritage Park Investment Certificates (HPICs) was transferred by the NG as Capital of the Authority. It was later on conveyed to the Philippine National Bank as the appointed trustee for the Heritage Park securitization pursuant to the Pool Formation Trust Agreement of 1994 among the Authority, Philippine Reclamation Authority and Philippine National Bank. The transfer of land from NG to the Authority was recorded at P1.00 per square meter.

### 31. RETAINED EARNINGS

Retained Earnings at January 1, 2015 was restated for the following adjustments:

AFP share from prior years	(2,212,190,924)
Adjustments as a result of adoption of PFRS/PAS	(4,371,550,227)
Adjustments on deferred tax assets	2,136,799,953
Recognition of proceeds from HPICs	961,484,647
Adjustment of impairment loss	1,311,576,632
Other adjustments	(7,690,563)
	<b>(2,181,570,482)</b>

### 32. RELATED PARTY TRANSACTIONS

The Authority's significant transactions with related parties consisted of the following:

- a. *Clark Development Corporation (CDC)* and *Clark International Airport Corporation (CIAC)* - The CDC was established under Executive Order (EO) No. 80 dated April 3, 1993 as the implementing arm of the Authority for the Clark Special Economic Zone. By virtue of EO 192, which was issued on July 27, 1994, CIAC was organized as a subsidiary of CDC to operate and manage the Clark Civil Aviation Complex.

On April 3, 2008, EO 716 was issued transforming CIAC as a subsidiary of the Authority. Pursuant to the EO, CDC's investment and advances to CIAC were transferred to the Authority. The agreed booking entries on inter-company settlement of accounts among the Authority, CDC and CIAC were taken up in the books in July 2011.

- b. *Poro Point Management Corporation (PPMC)* - The Authority and PPMC entered into a Performance Agreement on July 22, 2005. Under the Agreement, PPMC shall manage and operate the Poro Point Freeport Zone (PPFZ), while the Authority shall allocate and release the operating (OPEX) and capital expenditure (CAPEX) budget of PPMC. CAPEX funds are granted as advances to PPMC. The advances are non-interest bearing, unsecured and subject to liquidation. Income and collections generated from properties being managed by PPMC are recognized as receivables until their remittance to the Authority. OPEX released by the Authority is treated as subsidy to PPMC.

On June 23, 2013, the Authority and PPMC entered into a Performance Agreement to ensure the continuous productive operation, development and enhancement of the Poro Point Freeport Zone (PPFZ). On December 18, 2013, the Authority's Board approved the amendment to Section 13 of the Agreement. Under the Agreement as amended, PPMC shall manage and operate the PPFZ. PPMC shall receive a share of 50 per cent of revenues or P59 million for the next two years beginning 2014, whichever is higher. PPMC is likewise entitled to an additional 10 per cent on net income from the estate's operations over and above its share on gross revenues. The fixed amount will be released to PPMC before the start of each year, subject to increase, if any, on revenue share, at the end of the year. PPMC shall book its share in the gross revenues of the zone or the fixed amount that it will be receiving from the Authority as corporate income.

- c. *John Hay Management Corporation (JHMC)* - The Performance Agreement (PA) entered into by and between the Authority and JHMC on July 21, 2005 ensures the continuous operation, development and economic enhancement of Camp John Hay and all the areas within the John Hay Special Economic Zone (JHSEZ). Pursuant to the Agreement, JHMC shall manage and operate JHSEZ, while the Authority shall allocate and release the OPEX and CAPEX expenditure budget of JHMC. CAPEX funds are granted as advances to JHMC. The advances are non-interest bearing, unsecured and subject to liquidation. Income and collections generated from property being managed by JHMC are recognized as receivables until their remittance to the Authority. OPEX released by the Authority is treated as subsidy to JHMC.

The 2005 PA was reinforced and improved on October 1, 2012 and further amended on December 18, 2013. Under the amended PA, JHMC receives a share of 50 per cent of revenues or P64 million for the next two years beginning 2014, whichever is higher. JHMC is likewise entitled to an additional 10 per cent on net income from the estate's operations over and above its share on gross revenues. The fixed amount will be released to JHMC before the start of each year, subject to increase, if any, on revenue share, at the end of the year. JHMC shall book its share in the gross revenues of the zone or the fixed amount that it will be receiving from the Authority as corporate income.

On February 13, 2017, the Authority and JHMC executed a Revised Performance Agreement superseding and repealing the October 1, 2012 PA. Under the revised PA, JHMC shall receive a share of 50 per cent of revenues or equivalent to the approved budget of Personnel Services (PS) and Maintenance and Other Operating Expenses (MOOE), whichever is higher. JHMC shall book its 10 per cent share from net revenues from the zone and the estate management fee received from the Authority as corporate income. JHMC's expenditures on MOOE for land-related costs (e.g security services, insurance on building, etc) and land infrastructure and improvements shall be booked by the Authority.

- d. *BCDA Management and Holdings Inc. (BMHI)* - BMHI and the Authority entered into an amended Contract of Services on April 17, 2008 which sets the terms for the provision of BMHI managerial, technical and manpower services to activities, functions, projects, programs and properties of the Authority. BMHI acts as the Estate Manager of the Authority's Pamayanang Diego Silang.

On January 19, 2010, the Authority and BMHI entered into a Deed of Usufruct whereby the Authority grants BMHI the right to use and enjoy 3,000 square meters parcel of land located at Diego Silang Avenue under TCT No. 28659 from January 19, 2010 to January 20, 2035 and may be extended for another 25 years upon mutual agreement of the parties. Under the Agreement, BMHI shall be entitled to all natural, industrial and civil fruits of the property subject to the conditions stated on the Agreement.

On July 9, 2013, the Authority and BMHI entered into a Service Agreement for the effective and efficient marketing, management/monitoring of the disposition of the Authority-held Heritage Park Investment Certificates (HPICs). In consideration of the services rendered to the Authority, BMHI shall be entitled to a marketing fee/commission for every sale of HPIC.

Pursuant to GCG Memorandum Order No. 2015-06, BMHI was deactivated on July 31, 2016 (see Note 11).

- e. *Bonifacio Estate Services Corporation (BESC)* - BESC provides development and control services over the Authority's controlled and/or owned areas in Global City. The services include all aspects related to the submission, approval, enforcement and monitoring of plans for the development/redevelopment of lots within the Global City as defined and governed by the Declaration of Covenants, Conditions and Restrictions and the Design Standards and Guidelines. In consideration for its services, the Authority pays BESC a fixed monthly fee of P57,881, exclusive of VAT, subject to a five per cent annual escalation.
- f. *Fort Bonifacio Development Corporation (FBDC)* - In 2009, FBDC and the Authority entered into an agreement for the development and disposition of a total 8.5 hectares area in the North Central Business District (NCBD)-Annex B of the Global City, otherwise known as the NCBD-Annex B (the property). As beneficial owner of the property, the Authority is entitled to the net proceeds that will be generated from the disposition of the identified 3.44 hectares saleable area of the NCBD-Annex B which shall be upstreamed to the Authority via redemption of the Preferred B shares held by the Authority in FBDC. Initially, FBDC advanced the amount of P2.235 billion as deposit on future redemption classified under Inter-Agency Payables-Due to Affiliate account. Subsequently, partial redemption of Preferred B shares arising from both the sales and

usufruct proceeds was recorded in 2015 amounting to P742.399 million and P631.920 million, respectively. This reduced the balance of deposit for future redemption of Preferred B shares to P473.030 million in 2016.

The Authority leases its corporate office from FBDC for a period of 10 years commencing on November 1, 2003 with option to renew for a mutually agreed terms and conditions.

The Authority renewed its lease agreement with FBDC, covering the period November 01, 2013 to October 31, 2018 for a monthly rental of P1,198,837.57. The lease agreement is renewable upon mutual agreement of both parties with annual escalation clause of 5 per cent per year.

- g. Filinvest BCDA Clark, Inc. (FBCI) - On January 8, 2016, the Authority entered into a Joint Venture Agreement (JVA) with Filinvest Land, Inc. (FLI) for the privatization and development of a mixed-use and industrial component of the 288-hectare portion of the Clark Special Economic Zone(CSEZ) through the formation of a Joint Venture Corporation (JVC). The JVC was incorporated and registered with the Securities and Exchange Commission (SEC) as Filinvest BCDA Clark, Inc. (FBCI) on March 16, 2017.

The Authority's share in the JVC is equivalent to the value of the Development and Usufructuary Rights (DUR) of the Authority over the 288-hectare New Clark City (NCC) property amounting to P231 million, subject to adjustment for any changes in the land area that may arise until December 31, 2017 resulting from the finalization of the Comprehensive Master Development Plan (CDMP) for the entire CGC and actual ground survey of the CGC-Phase 1 area. Capital structure of the JVC shall be 55% for FLI and 45% for the Authority.

- h. *Philippine Japan Initiative for CGC, Inc. (PJIC)* – On March 8, 2016, the Authority entered into a JVA with the Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN) for the implementation of a "Detailed Master Plan" for the development of the CGC Projects and Clark Rail Transit System Project. The JVC was incorporated and registered with the SEC as Philippine Japan Initiative for CGC, Inc. (PJIC) on July 4, 2016.

The JVC shall primarily be involved in the preparation and completion of the Detailed Master Plan and conduct research and feasibility studies focusing on the NCC Projects.

#### **Key management personnel compensation**

Key management personnel compensation comprise the following:

	2016	2015
Short-term employee benefits	30,132,354	36,475,271
	<b>30,132,354</b>	<b>36,475,271</b>

*Short-term benefits* include salaries, allowances and other benefits which are due to be settled within 12 months after the end of the period in which the employees render the related service.

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### **33. CONTINGENCIES**

The Authority is contingently liable for lawsuits or claims filed by third parties which are either pending in the courts or are under negotiation. These cases involve, among others, civil actions for re-conveyance of title/properties, return of investment, eminent domain, collection of sum of money, and other land tenure problems. No provision for any liability that may result from these lawsuits or claims has been recognized in the financial statements since the outcome of these cases are not presently determinable.

Various cases were also filed by the Authority versus BIR and LGU Taguig for the claim of refund of Creditable Withholding Tax (CWT), protest on the assessment and payment of Real Property Taxes (RPT), Documentary Stamp Taxes (DST) and Expanded Withholding Taxes (EWT) in relation to the Authority's disposition of various properties. These cases are still pending with the Supreme Court (SC), Court of Tax Appeals (CTA), and Local Board of Assessment Appeals (LBAA) of the Local Government Unit. Contingent liability and/or asset from these claims were not recognized since these are still pending and the outcome are not presently determinable.

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### **34. SUBIC-CLARK-TARLAC EXPRESSWAY PROJECT**

The Subic-Clark-Tarlac-Expressway (SCTEx) Project is a 93.77-kilometer, 4-lane highway under a special yen loan package amounting to ¥59.037 billion (inclusive of supplemental loan amounting to ¥17.106 billion in accordance with the Amended Exchange of Notes) from JBIC, now the Japan International Cooperation Agency (JICA), to finance the Detailed Design, Construction Supervision and Civil Works of the SCTEx. The 40-year loan agreement includes a 10-year grace period starting 2001 and ending 2011 with an interest payment of 0.95 per cent per annum for Civil Works and 0.75 per cent per annum for Consulting Services. Based on the JICA Notice of Completion of Disbursement, dated January 6, 2011, final loan which closed on December 17, 2010 went down from ¥59.037 billion to ¥58.138 billion due to unutilized portion of the loan.

Payments for the principal loan amounted to P842 million (¥1,906 million) in 2016 and P718 million (¥1,906 million) in 2015, while interest payments totaled P204 million (¥462 million) in 2015.

The SCTEx consists of two (2) road sections or packages. Subic-Clark Section (Package 1) was awarded to Kajima-Obayashi-Mitsubishi Joint Venture Contractors, while Clark-Tarlac Section (Package 2) was awarded to Hazama-Taisei-Nippon Steel Joint Venture Contractors. Package 1, with a length of 50.5 kilometers, starts at Barangay Tipo in Hermosa, Bataan and ends at Clark Freeport Zone. Package 2, with a length of 43.27 kilometers, starts at Clark Freeport Zone and ends at Tarlac City. Package 1 is comprised of four interchanges and three major bridges, while Package 2 is built with eight interchanges and one major bridge. Construction of the project started in April 2005 and was completed in July 2009.

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## 34. BUSINESS AGREEMENTS

### a. *Agreement with Manila North Tollways Corporation (MNTC)*

On February 26, 2015, the Authority and MNTC entered into a Business Agreement (BA) governing the assignment by the Authority to MNTC of its rights and interest under the Toll Operating Agreement (TOA) relating to the management, operation and maintenance of the SCTEx (which shall include the exclusive right to possess and use the SCTEx toll road and facilities and the right to collect toll). Subsequently, on May 25, 2015, the Supplemental Toll Operation Agreement (STOA) was executed among the Authority, MNTC and the Toll Regulatory Board (TRB) and was approved by the Office of the President on October 16, 2015. The Toll Operation Certificate was issued by TRB to MNTC on October 22, 2015 and MNTC officially took over the SCTEx toll facilities and officially commenced the management, operation and maintenance of SCTEx on October 27, 2015.

#### Salient Features of the Business Agreement

The Authority assigned its rights, interests and obligations under the original TOA to MNTC. Hence, from Effective Date up to October 30, 2043, MNTC shall have the exclusive right, responsibility and obligation for the management, operation and maintenance of SCTEx.

In consideration for the assignment, the following shall be paid by MNTC to the Authority:

- a. An upfront cash of P3.5 billion, inclusive of VAT; and
- b. From Effective Date to October 30, 2043, Concession Fees equal to fifty per cent (50%) of the audited gross toll revenues of SCTEx for the relevant month on or before the 15<sup>th</sup> day of the succeeding month (Concession Fee Payment Date). If the Concession Fee Payment Date falls on a holiday or a day which is not a Business Day, then the same shall be adjusted to fall on the immediately succeeding Business Day. Any Concession Fee that is not paid on the relevant Concession Fee Payment Date shall earn interest/penalty equivalent to two per cent (2%) per month of delay or a fraction thereof.

MNTC shall undertake at its own cost the maintenance works/special/major emergency works, other additional works, enhancement and/or improvement works (Maintenance Works). MNTC shall comply with the agreed Service Quality Levels (SQL) of the maintenance of SCTEx. Not later than twenty (20) business days before the end of each year, MNTC shall submit to the Authority a status report on the Maintenance Works undertaken and completed for the relevant year (Status Report). The Authority's review of the Status Report shall be based on the SQL and in accordance with the maintenance plans.

The obligations of MNTC to pay the Concession Fees and to undertake the Maintenance Works shall be covered by a Performance Security posted by MNTC in favour of the Authority.



b. *NLEx-SCTEx Integration Agreement*

To address the traffic congestion in the areas where NLEx and SCTEx interconnect, the Authority and MNTC signed the NLEx-SCTEx Integration Agreement on February 5, 2015. Under the Integration Agreement, MNTC shall undertake Integration Works which consists of upgrading the SCTEx toll collection system through the adoption of NLEx's Toll Collection System (including the installation in SCTEx of the Electronic Toll Collection Dedicated Short Range Communication, or DSRC, and Radio Frequency Identification, or RFID, ready system), and all civil works necessary or essential to implement the project. The object of the integration project is to provide seamless travel to motorists using both NLEx and SCTEx. In the original separate systems, there are five stops from Balintawak to Subic and back, and four stops from Balintawak to Tarlac and back. Now, under the integrated system, the stops will be reduced to two both for motorists going from Balintawak to Subic and back, and Balintawak to Tarlac and back.

Since MNTC is the private sector partner (PSP) of the Authority in SCTEx, MNTC shall assume all the project costs pertaining to SCTEx. Maintenance of the toll collection system for both NLEx and SCTEx shall be the responsibility of MNTC.

c. *Agreement with Megaworld Corporation - JUSMAG Property*

On April 13, 2010, the Authority entered into a Joint Venture Agreement (JVA) with Megaworld Corporation (Megaworld) for the privatization and development of the 34.5-hectare portion of the JUSMAG property along Lawton Avenue in Fort Bonifacio. Pursuant to the JVA, the subject property shall be developed into a mixed-use development featuring residential, office and commercial uses. The Authority's sole contribution to the project is the land, while Megaworld committed to invest a minimum of P22 billion within the maximum development timetable of 20 years from the commencement of development.

Megaworld shall be the exclusive marketing and management agent for Authority's allocated units for sale, and leasing and management agent for allocated units for lease, for which it shall be entitled to receive marketing and management fees of 12 per cent based on the gross selling price inclusive of VAT.

The Authority shall receive yearly guaranteed revenues, starting on April 12, 2011 until April 12, 2029, amounting to P873.400 million, representing the minimum share of the Authority from the project based on the revised Project Implementation Plan dated February 15, 2014. Also, as required under the JVA, the Authority received from Megaworld on April 13, 2010 an upfront cash of P1.5 billion as the Authority's advance revenue share, recoverable without interest against the net proceeds from the sale or lease of the Authority's allocated units in excess of its minimum annual secured revenue share.

The JVA also requires Megaworld to replicate 106 Armed Forces of the Philippines housing units and facilities affected by the development of the JUSMAG property. In 2014, the Authority turned over to the Department of National Defense all replicated housing units and facilities in JUSMAG amounting to P700 million.

As of December 31, 2016, all lots allocated to the Authority were already sold.

d. *Agreement with Megaworld Corporation – North Bonifacio Lots Project*

On November 3, 2009, the Authority entered into a JVA for the privatization and development of the 8.38-hectare North Bonifacio lots at Bonifacio Global City. Pursuant to the JVA, the Authority shall contribute the North Bonifacio lots, while Megaworld shall provide financing for, and shall undertake the planning, construction and development of the project. In return for their contributions, the Authority will receive 10 per cent units in the project while Megaworld shall receive 90 per cent.

Megaworld has committed to invest a minimum of P15.600 billion within the estimated development timetable of no more than 20 years from the signing of the JVA and to remit to the Authority annual minimum revenue share of P306 million which commenced in CY 2011.

In addition to the minimum investment, Megaworld has also committed to provide the property with transportation facilities (Transportation Project) requiring an investment of no less than P500 million. The Transportation Project is expected to enhance the accessibility of the property to Bonifacio Global City and other major points in Metro Manila.

As of December 31, 2016, a total of 94 residential units, out of the 230 units allocated to the Authority, valued at P1,085.265 million remains unsold. Parking slots of 146 units valued at P116.135 million remain unsold.

e. *Agreement with Megaworld Corporation - Newport City Project*

On October 10, 2003, the Authority entered into a JVA with Megaworld for the development of the remaining lots at the Villamor Gateway Center to be known as New Port City Project. Pursuant to the JVA, the Authority shall contribute lots with an aggregate land area of 174,841 square meters, while Megaworld shall provide financing for the implementation of the project. In return for their contributions to the project, the parties shall receive their allocated units and/or net proceeds from sales. Megaworld has committed to invest a minimum of P200 million for the project within a period of 12 years from clearing, relocation and replication of the structures and in accordance with the investment schedule contained in the Megaworld proposal.

The JVA also provides that Megaworld, at its sole expense, shall assume and cause the relocation and replication of Philippine Air Force (PAF) facilities and other community structures which are affected by the development of the project. As agreed by and between the Authority and PAF, the final relocation and replication cost of existing structures amounts to P889.331 million. As of December 31, 2016, completed facilities with a total cost of P460.648 million were already turned over by Megaworld to the Authority.

f. *Agreement with Alliance Global Group, Inc. (AGGI) assigned to Megaworld Corporation – McKinley Hill Project*

On September 1, 2003, the Authority entered into a JVA, as amended on July 23, 2004, with Alliance Global Group, Inc. (AGGI) for the development of a parcel of land, referred to as the Lawton Parkway, predominantly for residential purposes. The project is known as McKinley Hill Project. Pursuant to the JVA, the Authority shall contribute

land with an aggregate land area of 24.6 hectares, while AGGI shall provide financing for the implementation of the project.

The Authority authorized AGGI to enter into a joint development agreement with third party entities under which AGGI may delegate to said third party entities the performance of all its obligations and functions in the development, marketing and management of the project.

On July 17, 2003, AGGI entered into a Memorandum of Undertaking with Megaworld Corporation designating the latter as the Project Manager and exclusive marketing agent of the project.

The AGGI has committed to invest a minimum of P2.060 billion and to remit to the Authority an annual secured revenue share of P118.164 million for the 15 selling periods, commencing on the date AGGI begins to offer the Authority's allocated units for sale or lease to the public which started in July 2004.

As of December 31, 2016, the remaining unsold residential/condominium units allocated to the Authority is 61 units and 59 parking units with a total reference value of P228.873 million.

*g. Agreement with Ayala Land, Inc. (ALI)*

On April 15, 2003, the Authority entered into a Joint Development Agreement (JDA), as amended on February 13, 2004, with Ayala Land, Inc. (ALI) for the development of Lot B at Bonifacio Global City, known as the Serendra project. Pursuant to the JDA, the Authority shall contribute the 11.6-hectare lot, and ALI shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. In return for their contributions, the parties shall receive the whole finished units or cash proceeds from the sale of allocated units in different proportions depending on the type of development.

ALI has committed to invest sufficient capital, which is estimated to be P12.419 billion, and to remit to the Authority an annual minimum revenue share of P175.758 million for the first selling period and P120.175 million for the subsequent selling periods up to CY 2012.

As of December 31, 2016, 35 units of storage spaces allocated to the Authority for District I remain unsold with a reference value of P28.400 million. For District 2, out of the total allocated units of 418, 4 remain unsold with a reference value of P47.215 million. Parking slots of 120 units valued at P78.670 million, likewise, remain unsold.

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### **35. NEW CLARK CITY (CLARK GREEN CITY PROJECT)**

The Authority is implementing the New Clark City (NCC) Project – a 9,450-hectare flagship project of the Government of the Republic of the Philippines, which is a modern metropolis with mixture of residential, commercial, agro-industrial, institutional and information technology development, as well as a community of residents, workers and business establishments within a balanced, healthy and disaster-resilient environment.

The first phase of the development of NCC comprising of 288 hectares will be developed by the Authority and its joint venture partner, Filinvest Land, Inc.

### 36. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors (BOD) approved on March 9, 2017 the remittance to the Bureau of Treasury (BTr), the amount of P4.002 billion representing the following:

- a. Share of beneficiary agencies from asset disposition proceeds amounting to P3.669 billion which includes the P1.860 million from FBDC's prior year dividends and P352.512 million from the 1<sup>st</sup> tranche offering of Heritage Park Certificates;
- b. Guarantee fees amounting to P250 million;
- c. Dividends to National Government based on 2016 unaudited FS amounting to P82.052 million; and
- d. Other obligations amounting to P1.832 million.

On June 2, 2017, a Contract to Sell (CTS) was executed by and between the Authority and DPWH for the acquisition of 23,597 square meter Right of Way (ROW) for the NAIA Expressway Project located at the Villamor Air Base amounting to P849.492 million payable in two tranches, 50 per cent payable upon execution of the CTS, and the balance upon execution of a Deed of Absolute Sale.

Various infrastructure projects were awarded by the Authority in May 2017 with an aggregate price of P751.919 million in preparation for the ASEAN Summit, which will be held on November 10-14, 2017 at the Clark Special Economic Zone in Pampanga.

### 37. RESTATEMENT OF ACCOUNTS

Certain restatements and adjustments were made in the financial statements for prior periods to effect correction of accounting for certain transactions entered into by the Authority. Accordingly, line items were amended in the financial statements as well as in the related notes.

The effect of these adjustments are summarized as follows:

Nature of Adjustments	Effect on Assets	Effect on Liabilities	Effect on Revenue	Effect on Expenses	Effect on Net Income
a. Change in accounting treatment for lease income	Receivable P430 million	Deferred credits (P90 million)	Lease income P51 million		P51 million
b. Failure to recognize short-term employee benefits		Provisions P24 million		Personnel services (P0.091 million)	P0.091 million
c. Change in accounting treatment for concession revenue		Deferred credits P3,106 million	Concession fee (P3,106 million)		(P3,106 million)
d. Change in accounting	Receivables P8,921 million	Deferred credits	Share in joint venture	Printing advertising and	P288 million

treatment for joint venture agreements	Investment joint ventures (P14,181 million)  Other non-current asset (P750 million)  Investment properties (P1,090 million)  Inventories P138 million	(P2,490 million)  Other payables P16 million	(P1,066 million)  Revenue from JV arrangements P904 million  Sales revenue P9 million  Other business income P427million	promotion (P14 million)	
e. Change in accounting treatment for PPE with value of P15,000 below	Property and equipment (P2 million)  Inventories (P0.036 million)			Depreciation and amortization (P0.033 million)  Supplies and materials P0.222 million	(P0.189 million)
f. Unrecognized AFP shares from FBDC Dividends and HPIC		Inter-agency payables P2,212 million)  Other payables (P961million)			
g. Adjustments due to rescission of contract pursuant to the arbitral award		Inter-agency payables (P849 million)		Other expenses (P2,827 million)	P2,827 million
h. Unrecognized Deferred Tax Assets	Deferred Tax Assets P2,694 million			Income tax expense/(benefit) (P558 million)	P558 million
i. Change in accounting for financial instruments	Available-for-sale financial assets (P101 million)		Other income (P84 million)		(P84million)
h. Other adjustments	Receivables P4 million  Other current assets (P4 million)	Accounts payables (P3 million) Inter-agency payables P3 million		Personal services (P0.048 million)	P0.048 million

### 38. SUPPLEMENTARY INFORMATION

In compliance with the requirements set forth by BIR Revenue Regulation 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

The Authority is a VAT-registered company with VAT output tax declaration of P248.443 million based on the amount of sales subject to VAT of P2.070 billion.

The amount of VAT Input taxes claimed are broken down as follows:

Beginning of the year	10,832,391
Add: Goods other than for resale or manufacturing	0
Services lodged under other accounts	27,268,638
Total	38,101,029
Less: Input tax claimed	29,453,932
End of the year	8,647,097

The amount of taxes, other than VAT, paid and accrued are as follows:

Transaction	Amount
Withholding taxes	
Withholding tax on compensation	37,081,251
Expanded withholding tax	8,558,720
Withholding VAT	11,654,995
	57,294,966
Other taxes	
Real property tax	8,636,374
BIR Annual Registration	500
Taxes related to transfer of properties	4,456,968
	13,093,842
	70,388,808

**PART II**

**AUDIT OBSERVATIONS AND  
RECOMMENDATIONS**

**FINANCIAL AND COMPLIANCE AUDIT**

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

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### FINANCIAL AND COMPLIANCE AUDIT

1. **Share of the AFP on the dividends received from Fort Bonifacio Development Corporation (FBDC), relating to the proceeds from sale of property dividends and from the net proceeds from Compound Sale, was not remitted to the Bureau of the Treasury (BTr).**

A recurring audit observation reported in the COA Annual Audit Reports (AARs) on BCDA for CYs 2012 to 2014 is BCDA's treatment of dividends it received from FBDC for CYs 2001 to 2013 as wholly its own corporate income, hence, it did not remit to BTr the AFP's 50% share thereon.

Section 1 of EO 309, Prescribing the Guidelines, Rules and Regulations for the Distribution of Proceeds of Leases, Joint Ventures and Transactions other than Sale Involving Portions of Metro Manila Camps under Republic Act No. 7227, as amended by RA 7917, provides that - *Proceeds of leases, joint ventures and all transactions other than sale entered into by the BCDA involving portions of Metro Manila military camps shall be distributed equally between BCDA and the Armed Forces of the Philippines (AFP).*

Initially, BCDA, disagreed with the audit observation citing as basis the Office of the Government Corporate Counsel (OGCC) Opinion No. 181, series of 2011, which concluded that - *The cash dividends derived from BCDA's FBDC shareholdings do not form part of its Asset Disposition Program and shall be retained as its corporate income in accordance with the nature of dividends under the law.*

Moreover, Management explained that having treated the FBDC dividends as corporate income, BCDA had already shared 50% of the dividends in the form of dividends to the National Government (NG) pursuant to Section 3 of RA 7656, the Dividend Law. With regard to property dividends, Management explained that to recognize AFP's share upon receipt of property dividends and, again, upon disposition of the same property will be tantamount to double recognition of the share of AFP.

Nonetheless, Management eventually concurred with the audit observation and remitted to BTr on March 28, 2016 the P1.125 billion share of AFP on the FBDC dividends received in CYs 2014 and 2015 under Check No. 2724744 dated March 22, 2016. In addition, on March 30, 2017, P1.860 billion was remitted to BTr covering FBDC dividends for CYs 2001 to 2013 under Check No. 2800175 dated March 29, 2017 and BTr OR No. 2545301 dated March 30, 2017. The remittances cover cash dividends collected from FBDC and do not include property dividends.

The previous explanation of Management that sharing the property dividend with AFP will result to double recognition of share is applicable only to properties that were invested in Joint Development Agreement (JDA) with Ayala Land, Inc. (ALI). Based on the records of the Financial Management Services Department (FMSD), the total property dividends earned by BCDA relating to its investment in FBDC amounted to P1.154 billion as of December 31, 2016.



Of the P1.154 billion property dividends, 42%, or P482.609 million comprising the Serendra blocks, were invested into JDA with ALI and the remaining 58%, or P671.417 million, were disposed, yielding P446.328 cash collections for BCDA, as summarized below:

Particulars	Area (sq. m.)	Property Dividends (In Philippine Peso)	Collections (In Philippine Peso)	Loss on Sale	Mode of Disposal/ Remarks
Bonifacio South					
Lot No. 3	3,268	300,362,795	175,364,477	124,998,318	
Lot No. 4	1,633	150,089,487			
Lot No. 5	1,633	150,089,487	200,088,888	100,090,086	Sale
Sub-total	<b>6,534</b>	<b>600,541,769</b>	<b>375,453,365</b>	<b>225,088,404</b>	
Bonifacio Triangle					
Block 33 Lot 22	1,147	30,828,972	30,828,972		
Block 32 Lot 9	977	40,045,972	40,045,972		Paid in cash by FBDC
Sub-total	<b>2,124</b>	<b>70,874,944</b>	<b>70,874,944</b>		
	<b>8,658</b>	<b>671,416,713</b>			
Serendra					
Block 52	2,540	233,452,111			
Block 53	4,047	134,699,862			
Block 54	742	68,197,428			
Block 61	12	827,193			Joint Venture with Ayala Land, Inc. (ALI)
RAL 53	910	30,288,331			
RAL 54	455	15,144,165			
	<b>8,706</b>	<b>482,609,090</b>			
<b>Total</b>	<b>17,364</b>	<b>1,154,025,803</b>	<b>446,328,309</b>	<b>225,088,404</b>	

(P175,364,477 includes P209,436 interest earned; P200,088,888 includes P46,243 interest earned)

Table 1

The financial conversion of the property dividends in the amount of P446.328 million falls under transactions entered into by the BCDA involving portions of Metro Manila military camps as contemplated under EO 309 and, thus, entitles AFP to 50% sharing.

On the other hand, on April 16, 2003, a Settlement Agreement, also known as the global settlement, was executed among Metro Pacific Corporation (MPC), FBDC, Bonifacio Land Corporation (BLC), and BCDA. In their desire to settle their obligations to each other, the parties agreed to set out the terms upon which settlement was to be achieved.

Under Article 2.2 of the Agreement, FBDC acknowledged that it has outstanding obligations to BCDA in the total amount of P341 million, consisting of P270.00 million dividends, representing BCDA's 45 % in the proceeds from Compound Sale, and P71.209 million, representing the share of BCDA in Early Builder's Rebate (EBR) in connection with the construction of Pacific Plaza Tower.

The P270 million dividends due to BCDA was settled, as follows:

Particulars	Area (sq. m.)	Amount	Value	Remarks
149 HP Certificates @ 546,000			81,354,000	No available data as to status of disposition
Carved Out Chapel Lot @ 2,546 sq. m. @ 33,283.88 per sq. m.	2,546		84,740,758	No available data as to status of disposition
North Central Business District (NCBD) Lots				
a. 2,336 sq.m. Lots @ 33,283.88 deliverable by BCDA to FBDC. BCDA settled FBDC thru offsetting against dividends collectible from FBDC, hence deemed collected by BCDA				
Manila Golf	233	7,755,144		
McKinley Business Park	230	7,655,292		
American Cemetery	1,822	60,643,229		No available data as to status of disposition
I-Village	51	1,697,478		
	2,336	77,751,144	77,751,144	
b. Kalayaan Flyover Project payable by BCDA to FBDC settled by BCDA thru offsetting of dividend collectible from FBDC, hence deemed collected	1,021		22,654,327	Off-set against BCDA's Payable to FBDC pertaining to the 50% share of the BCDA in the construction of Kalayaan Flyover Project
c. Bonifacio Triangle - Block 33 Lot 2 @ 52,253.17 per sq.m. ( out of P49.693, P3.500 million was for settlement of dividend and P46.193 million was for EBR)			3,499,771	
<b>Total</b>			<b>270,000,000</b>	

Table 2

Based on the table above, of the P270 million dividends, P3.500 million is initially determined as subject to sharing to AFP relating to the portion of dividend settlement from the disposition of Block 33 Lot 2 of Bonifacio Triangle.

There is no record of disposal of the 149 Heritage Park Certificates, 2,546 sq.m. Carved Out Chapel lot, and the 2,336 sq.m. lots per Table 2 above.

Management informed the Audit Team that, in summary, a total of P224.914 million is due to AFP, computed as follows:

Bonifacio South	
Lot No. 3	175,364,477
Lot Nos. 4 and 5	200,088,888
Bonifacio Triangle	
Block 33 Lot 22	30,828,972
Block 32 Lot 9	40,045,647
Bonifacio Triangle-Block 33 Lot 2	3,499,771
Total collections	449,827,755
Share of the AFP	50%
<b>AFP Share</b>	<b>224,913,877</b>

Table 3

We recommended that Management recognize as liability in BCDA's books of accounts the 50% share of the AFP from proceeds of sale/conversion to cash of property dividends in the total amount of P224.914 million and comply with the provisions of EO 309 by remitting the same to BTr.

**2. Grant of financial assistance to Project Affected Persons (PAPs) at Clark Green City (CGC) appears to be an irregular use of government funds.**

The grant of financial assistance to PAPs is incidental to the CGC project that is envisioned to be the country's first smart, green and disaster-resilient 9,450-hectare metropolis to rise in Clark, Central Luzon.

From CY 2016 to April 30, 2017, a total of P57.621 million financial assistance was paid to PAPs at the CGC Project. The amount was recorded in the books of accounts as:

Year	No of DVs	Amount	Recorded as	
			Land	Indemnities
2016	108	36,056,960	24,813,965	11,242,995
2017 *	42	21,564,565	2,965,335	18,599,230
<b>Total</b>	<b>150</b>	<b>57,621,525</b>	<b>27,779,300</b>	<b>29,842,225</b>

\* 23 checks still unreleased as of April 30, 2017

Table 4

The grant appears to be an irregular use of government funds as discussed hereunder:

**a. BCDA Board Resolution is not sufficient authority to support the grant of financial assistance at P30 per square meter or at the value of the fruit bearing trees, whichever is higher.**

Pursuant to BCDA Board Resolution 2015-12-177 dated December 16, 2015, BCDA granted financial assistance to alleged qualified land claimants. Quoted hereunder is the BCDA Board Resolution:

*"Resolve, as it is hereby resolved, that the authority of the BCDA Management to negotiate and offer the financial assistance to the Project-Affected People (PAPs) in Clark Green City in the amount of P30.00 per sq.m. for the farmlands for a maximum of five (5) hectares, or the value of the forest and fruit bearing trees subject to valuation of the Department of Agriculture (DA) and the Department of Environment and National Resources (DENR), whichever is higher."*

The claimants are not lot owners. The supporting documents, however, did not show the authority by which the claimants came into the possession of the subject land. In the "Kasunduan at Pagbibitiw Habol" signed by the claimants, they admitted that they do not own the land, and that they are aware that the land is owned by the government.

In COA Decision No. 1980-222, the Commission decided on the claim for payment of the improvements which was introduced on portion of public land that *having no right to occupy the land, the claimants are considered possessor in bad faith and cannot*

*claim indemnity for whatever was planted or sown thereon based on Article 449 of the New Civil Code, which reads: "He who builds, plants or sows in bad faith on the land of another, loses what is built, planted or sown without right to indemnity."*

Likewise, in G. R. No. 156641, the Supreme Court ruled that COA cannot be deprived of its jurisdiction to pass on the validity of Resolution putting to naught the broad and extensive powers granted to COA by the Constitution.

Thus, in our assessment, the quoted Board Resolution approving the authority of Management to *negotiate and offer the* financial assistance to the PAPs cannot be the sole basis for the payment of financial assistance in view of the COA Decision. The grant is tantamount to putting a premium on an illegal act.

Moreover, assuming that the financial assistance has legal basis, the lavish amount being granted will, most likely, open the floodgates toward encroachment by informal settlers on the vast and unsecured 9,450-hectare Clark Green City and later on conveniently claiming financial assistance as well.

**b. Grant of financial assistance to the alleged occupants of a lot under a lease agreement on an "as is where is" arrangement is not advantageous to the government.**

Based on representation by Management, the area occupied by the 38 claimants is within the 38.3959 hectares leased by Sindicatum C-Solar Power, Inc (SPCI). BCDA, the lessor, and SCPI, the lessee, entered into a lease agreement on September 10, 2015 for the lease of 38.3959 hectares<sup>1</sup> of land owned by the BCDA for 25 years at P50,000 per hectare per annum, or *P5 per sq.m. per annum*, with 18 months rent-free. The agreement shall be effective upon the issuance of the Joint Certification, which was issued on January 29, 2016.

Under Article 1, Section 4 of the Agreement, BCDA leases the property on an "*as is where is*" basis. In the Memorandum dated January 10, 2017 of the BCDA Project Management Department (PMD), it was stated that SCPI may begin development in the area they leased around the first quarter of CY 2017, hence the need to ensure that the subject property can be delivered to SCPI immediately.

The grant of P13.975 million financial assistance, ranging from P32,000 to P1.260 million, to 38 claimants who are the alleged occupants of the area, is not advantageous to the government. Under the "*as is where is*" rental arrangement, the property is leased at its existing condition. Clearing the property is no longer the obligation of BCDA. BCDA will earn P1.920 million per annum (P50,000 per ha. x 38.3959 has.) from leasing the property, whereas it spent P13.975 million for financial assistance, which amount should have not been incurred in the first place. It would take BCDA more than 7 years of lease rental payments to recoup the financial assistance granted of P13.975 million.

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<sup>1</sup> Based on Joint Certification on January 29, 2016

- c. **The budget of P200 million for the payment of financial assistance for CY 2016 was not submitted to DBM for review and approval.**

In the Corporate Operating Budget (COB) of BCDA for CY 2016, P200 million was allotted as budget for financial assistance to PAPs at CGC under Capital Outlays. Actual charges per record of the BCDA Budget Department amounted to P37.731 million. Upon inquiry, the CY 2016 COB of BCDA was not submitted to DBM for review and approval. Hence, the payment of financial assistance is irregular, for the funds used to pay it was from the CY 2016 COB that did not pass the review and approval of the DBM. Submission of COB to DBM is required under Section 6, Executive Order No. 518 dated January 23, 1979.

To date, the total unpaid obligations for financial assistance to PAPs affected by the construction of Clark-Bamban-Capas Access Road 1, MacArthur Access Road 2 Projects and the Sindicatum C-Solar Power, Inc. (Solar Farm) Project is not recorded in the books.

We advised Management to submit the legal bases, other than BCDA Board Resolution No. 2015-12-177, specifically authorizing the grant of financial assistance at P30 per sq.m. to occupants of land owned by the government or at the value of trees planted thereon, whichever is higher, and to discontinue the granting thereof, in case of lack of basis.

3. **Collection of rental dues from FBDC for using BCDA's land as site for the Waste Water Treatment Plant (WWTP) and its facilities was not enforced.**

On September 1, 2000, a Lease Agreement between BCDA and Fort Bonifacio Development Corporation (FBDC) was executed for the latter's lease of BCDA's 23,126-sq.m.-property, to be used as a site for the establishment by FBDC of a Waste Water Treatment System and its supporting facilities to provide waste water treatment and water-related services to the Bonifacio Global City (BGC). The agreement provides for a 50-year lease term. Lease rental for the first 25 years is at the rate of *P82.50 per square meter per year*, subject to an annual escalation, cumulative, of 5% per year, inclusive of VAT.

In the COA CY 2015 Annual Audit Report (AAR) on BCDA, we reported that no receivable from FBDC was recognized in the books of accounts and that no lease payments had been received. Accordingly, we recommended that Management bill rental dues from FBDC for the use of the 23,126 sq.m. land and enforce collection thereof

In our audit of the CY 2016 transactions of BCDA, we noted that an entry to record rent income in the amount of P39.120 million, deferred output VAT of 4.694 million, and receivable of P43.814 million for the rent from September 1, 2000 to April 30, 2016 was made on June 21, 2016.

Regarding the transaction, we noted the following:

- a. Receivable recorded is yet to be collected as of December 31, 2016;

- b. No rent income was recognized for the months of May to December 2016; and
- c. Late payment charges were billed to FBDC but were not recorded in the books.

The non-recognition of rent income from May to December 2016 understates the accounts receivable and the income for CY 2016 by P2.710 million, inclusive of VAT, and P2.420 million, respectively. Whereas, the non-collection of rent deprives BCDA and also the AFP of the cash it could have earned arising from the transaction. During an inspection conducted in October 2016, it was noted that there was an on-going construction on the property. FBDC is enjoying fully the beneficial rights on the lot; thus, the non-settlement of the rental dues is unwarranted.

We reiterated our prior year's recommendation that Management enforce the collection of rental and interest/penalties due from FBDC.

Management explained FBDC's stand that by virtue of the subsequent Memorandum of Agreement (MOA) or tripartite agreement executed on April 17, 2003 among BCDA, FBDC and Bonifacio Vivendi Water Corporation (BVWC), BCDA has indeed agreed to allow Bonifacio Water Corporation (BWC), which is a subsidiary of FBDC, to use said WWTP Lot and other BCDA assets for water and sewage services in consideration of BVWC's current obligation of maintaining and preserving these BCDA assets, as provided in Section 9 thereof, which states that:

*"9. BVWC shall maintain and preserve the following assets of BCDA and in consideration thereof, BCDA shall allow these assets to be used for water and sewerage services to reduce water and sewerage rates for the locators in the Bonifacio Global City:*

- 9.1 The water and sewage distribution assets to be transferred to BCDA from BVWC as indicated under Section 3, and*
- 9.2 The Lot on which the Sewage Treatment Plant is located (which is the same lot that serves as collateral under Section 5 and indicated under Annex "D")."*

However, in a letter by BCDA to FBDC dated March 16, 2016, it was explained precisely and in detail why the MOA does not result to BWC having right to free use of the property. It was also explained that the two agreements can stand together with each one having its independent existence. Quoted below are excerpts from the letter of March 16, 2016:

*"The existing Lease Agreement should be read and interpreted together with the MOA to examine if there is indeed an inconsistency in the terms thereof as to produce a novation of the former by the latter.*

*There is no express novation of the Lease Agreement on the WWTP Lot since the parties to the MOA have not explicitly stated and declared in unequivocal terms that their object in executing the MOA is to extinguish the Lease Agreement on the WWTP Lot. What is clearly expressed in the MOA is the agreement of the parties therein to share in the infrastructure expenses for the water system in BGC.*

*The obligation of FBDC to pay the lease rental under the Lease Agreement in the WWTP Lot is not impliedly novated by Section 9 of the MOA wherein the former is ratified, by changing only the identity of the party who shall maintain and preserve the said property (from FBDC under the Lease Agreement to BWC) under the MOA. Such is a change which does not affect the obligation of FBDC to pay rent under the Lease Agreement on the WWTP.*

*In fact, a reasonable interpretation of Section 9 of the MOA providing that "BVWC shall maintain and preserve the following assets of BCDA and in consideration thereof, BCDA shall allow these assets to be used for water and sewerage services to reduce water and sewerage rates for the locators in the Bonifacio Global City xxx xxx", is that BVWC is under obligation to maintain and preserve the aforementioned assets of BCDA, and in view of this obligation, BCDA consents that its assets shall be used for such specific purpose. Had the parties meant or intended that the use by FBDC for the WWTP lot be given rent-free, they could have easily and clearly stated that the said BCDA assets shall be used free by FBDC, especially considering that BCDA and FBDC should have been well aware that there is an existing Lease Agreement over the WWTP Lot being parties to both the MOA and the Lease Agreement. But the parties did not expressly state so."*

We agree to the above-quoted position of BCDA on the matter. In addition, BCDA complied with the MOA by allowing the use of assets for water treatment plant. No provision on free rent nor assignment of rights on the property was mentioned on the MOA. Thus, we maintain our position that Management should enforce the collection of rental and interest/penalties due from FBDC.

#### **4. Delay in payment of concession fees was not subjected to interest/penalty.**

Under 8.3 of the Business Agreement between BCDA and Manila North Tollways Corporation (MNTC) for the management, operation and maintenance of the SCTEX "(a)ny Concession Fee that is not paid on the relevant Concession Fee Payment Date shall earn interest/penalty equivalent to two percent (2%) per month of delay or a fraction thereof."

From effective date to October 30, 2043, MNTC shall pay BCDA concession fees, which shall be equivalent to fifty percent (50%) of the Audited Gross Toll Revenues of SCTEX for the relevant month on or before the fifteenth (15<sup>th</sup>) day of the succeeding month (Concession Fee Payment Date). If a Concession Fee Payment Date falls on a holiday or a day which is not a Business Day, then the same shall be adjusted to fall on the immediately succeeding Business Day (Section 8.2.1 of the BA).

Testing conducted to determine whether concession fees were paid on due dates and at correct amounts and whether penalties were imposed on delayed payments revealed that:

- a. Concession fees due to BCDA were settled by MNTC in full;
- b. Remittance of concession fees for October 2015; and January and February, April and May, August and October 2016 were delayed by one day each. Aggregate collections amounted to P437.181 million;

- c. Remittance of concession fees for December 2015 and March 2016 were delayed by three days each. Aggregate collections amounted to P151.52 million; and
- d. Settlement for December 2015 concession fees on January 18, 2016 was short by P8.500 million, which amount was settled after 34 days.

The total interest/penalty for the delay amounted to more or less P12.115 million. It appears that no billing was served to MNTC informing them of, or collecting the interest/penalty due.

We advised Management to monitor MNTC's payment to ensure that delays in payment, if any, are subjected to interest/penalty and collected on a timely basis;

Management commented that the concession fees were paid by MNTC thru Real Gross Time Settlement (RTGS) on due dates. Upon receipt of payment by BCDA's Bank Head Office (DBP) on the same day, it will advise branch office depository bank to credit the amount to BCDA's account. The one (1) day and three (3) days payment difference was due to the bank's lead-time process to transfer the said amount from DBP Head Office to DBP Head Clark Branch, where BCDA maintains its account for SCTEx transaction.

As clarified by Management, the shortage of P8.500 million refers to manual transactions that were validated by MNTC on its first month of take-over of the Operation and Management of the SCTEx, and the transition period from manual to automated issuance of receipts. With the high volume of manually issued receipts, it took about a month to validate the same.

Based on the explanation of Management, MNTC may be right in claiming that they paid the fees on time. But on the part of BCDA, the receipt of payment from MNTC after due date is tantamount to delay which is subject to penalty. It appears that the servicing bank caused the incurrence of the delay.

The 34-day delay in remitting the P8.5 million due to validation is not covered by any provision by the Business Agreement (BA), hence penalty would apply.

In our assessment, P12.115 million penalty for the delay is due to BCDA in consonance with Section 8.3 of the BA. MNTC may coordinate with the servicing bank which, apparently, caused the delayed receipt by the BCDA of the fees.

**5. Advances to BCDA Board of Directors (BOD) totaling P4.567 million remained uncollected.**

In CY 2016, Management advanced the litigation expenses of its BOD to Custodio Acorda Sicam De Castro and Panganiban (CASDP) Law Offices<sup>2</sup> amounting to 4.567 million, chargeable or to be recovered against payment by GSIS under Directors and Officers Liability Insurance (DOLI) .

The disbursement may result in losses to the government because of the risk that the amount advanced may not be recovered/collected in full from GSIS. Of the seven BODs

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<sup>2</sup> Per BCDA Ck No. 002706053 dated January 11, 2016 and CASDP OR No. 002650 dated January 13, 2016.



who were granted advances, only one Director is still connected with BCDA. Thus, it was recommended that Management recover the BOD the P4.567 million advanced by the BCDA to the CASDP Law Firm.

In reply, Management commented the following, among others:

- There is misimpression that BCDA and GSIS advanced monies to the CASDP Law Firm for litigation expenses. The amount tendered was for payment of expenses already incurred by and due to the law firm for the defense of BCDA Board of Directors in various cases way back in 2012;
- The CASDP Law Firm bills the BCDA Directors only after GSIS approves the engagement contract between the law firm and the insured BCDA Director;
- GSIS did not remain faithful to its obligation under the DOLI;
- It is the *law firm that has been bearing the cost of BCDA's arrears that are*, in turn, caused by the inaction and late approval of GSIS;
- As to the question of recovery for payments, if any, that may not be honored by GSIS, the insured Directors are well aware that they may ultimately be held liable for litigation costs and expenses incurred in their defense;
- BCDA Board strongly feels that it would be unfair to allow their lawyers to bear the cost and advance the expenses of litigation indefinitely;
- It is also unfair to require the insured Directors to advance the costs of their defense. The DOLI was secured precisely so that they would be freed from this burden. The claims of the insured Directors are just a fraction of the P20 million paid as insurance premium for the DOLI; and
- BCDA fully agrees that the amount must be recovered, but the recovery must be made against GSIS, which lawfully and contractually bound itself to pay according to the DOLI, and the subsequent claim approvals that it issued.

In addition, Management apprised the Audit Team of the action taken by it to recover the advances, as follows:

- *Result of LSD meeting with CASDP*

On January 9, 2017 meeting with CASDP, BCDA proposed the return by CASDP of the amount advanced by BCDA, which was unacceptable to CASDP since the payment was for services rendered.

CASDP conveyed, however, its willingness to execute any document to assign to BCDA the proceeds of the pending claims with GSIS for the amount advanced by BCDA for defense costs of the BODs. BCDA will also render assistance to CASDP in following-up from GSIS the pending claims for the legal fees of the BODs.

On January 25, 2017, CASDP confirmed that the payment made by BCDA on January 13, 2016 of P4.567 million will be treated as advance payment for handling of the individual Director case, to avoid any tax consequences once it receives the payment from GSIS and reimburse the same to BCDA.

- *Consultation with GSIS Claims Department*

On Dec. 12, 2016, representatives from Legal Services Department (LSD), Treasury and Investment Department (TID) and Organization Development and Management Department (ODMD) of the BCDA met with GSIS claims Department for a clarificatory meeting. In the said meeting, BCDA was furnished with Summary of

Pending Claims under DOLI showing that, to date, the balance of unprocessed CASDP claims under DOLI amounts to P4,320,084 which would be payable to the law firm of CASDP.

During the follow-up meeting on January 23, 2017, GSIS assured BCDA to expedite the processing of the claims of CASDP. GSIS also would verify whether the processed checks payable to CASDP for P510,000, which was not claimed, are still not yet stale and could be immediately released to CASDP. GSIS would also inform BCDA of any payment to be made to CASDP. As per arrangement with CASDP, it would assign to BCDA whatever amount it would recover from GSIS to repay the amount advanced by BCDA to CASDP.

- *Promissory Notes (PNs)*

BCDA would require the concerned members of the BOD to execute PNs in favor of BCDA for the amount advanced by BCDA for and in their behalf under the DOLI.

As can be gleaned from the explanations of Management, the engagement contract is between the law firm and the insured BCDA Directors, and, therefore, BCDA is not a party to the Agreement and that GSIS is lawfully and contractually bound to pay according to the DOLI and the subsequent claim approvals that it issued. As of December 31, 2016, no settlement was made to BCDA.

Accordingly, there are no BCDA arrears to speak of and the disbursement of P4,567,163, although pertaining to expenses already incurred by the law firm, is considered advances being chargeable to GSIS, not BCDA. Difficulties attendant to the filing of bills/claims with the GSIS are not valid reasons for BCDA to assume the settlement of bills by the law firm.

Thus, we reiterated our recommendation that Management recover from the BOD the P4.567 million.

**6. The balances per books and per bank of DBP Trust accounts do not tally.**

Collections from sales of Serendra units are currently held in Trust accounts with DBP. We noted a variance of P253.930 million between the balances of the DBP Trust accounts per books and per bank records as shown below:

Balance per books, December 31, 2016		
Restricted Fund-Trust Account Serendra Condo (GL Code: 18265010)	1,009,499,858	
Restricted Fund-Trust Account Serendra Condo OUT (GL Code: 18265012)	(973,389,254)	
Restricted Fund-Sequoia (GL Code: 18265060)	6,628,571	<b>42,739,175</b>
Balance as confirmed by DBP as of December 31, 2016		
BCDA FAO Serendra 012337	146,899,675	
BCDA /AYALA Trust 011336	149,769,467	<b>296,669,142</b>
Variance		<b>(253,929,967)</b>

Table 5

We were informed that the Bank Reconciliation Statements (BRSs) for the said cash in bank accounts covering CYs 2004 to 2016 are currently being updated by FMSD with a target completion of August 2017. Once completed the BRSs will be submitted to the Audit Team.

We recommended that Management expedite the reconciliation of the bank accounts and prepare adjusting entries, when necessary.

**7. Land assets valued at P2.037 billion were not titled in the name of BCDA.**

In the COA CY 2015 Annual Audit Report (AAR) on BCDA, we reported that land assets with an area of 696,648.26 square meters (sq. m.), valued at P5.657 billion, were not titled in BCDA's name. As of December 31, 2016, the land assets with a total area of 866,730.26 sq. m., valued at P2.037 billion, remained not titled in the name of BCDA.

The net increase in area of 170,082 sq. m. (866,730.26 sq. m. in CY 2016 - 696,648.26 sq. m. in CY 2015) and the decrease in value of P3.620 billion are accounted as follows:

	Area	Value
a. BTPI lot 1415 of TCT No. 145371 titled in the name BCDA	(33,431 sq.m.)	(.027 billion)
b. Navy Village in FB, Taguig titled in the name of BCDA per TCT No. 164-201700357	(258,406 sq.m.)	(3.618 billion)
c. Land not titled in BCDA's name that was recorded in later part of CY 2015		
d. SCTEx- 2016 acquired land assets, not titled in BCDA's name	451, 270 sq.m.	.025 billion
Net increase(decrease)	10,649 sq.m.	.0001 billion
	<b>170,082 sq.m.</b>	<b>(3.620 billion)</b>

Table 6

The untitled area of 866,730.26 sq. m. valued at P2.037 billion pertains to the following:

- a. *Villamor Air Base (99,878 sq. m.) valued at P1.662 billion*
  - 97,831 sq. m. Presidential Airlift Wing – the property is part of BCDA areas per 2005 MOA between DND-PAF and BCDA but not yet turned-over by PAF. The property is still being used as the Presidential Hangar; as such, transfer of title in BCDA's name was deferred.
  - 2,047 sq. m. portion of Airmen's Village – Management updated that BCDA and the National Housing Authority (NHA) are now working for the execution of the Deed of Re-Conveyance which will be used as the basis for the transfer of the titles from NHA to BCDA. The draft Deed was transmitted to the Office of the Government Corporate Counsel (OGCC) on May 4, 2017.
- b. *Camp Claudio in Tambo, Paranaque (10,000 sq.m.) valued at P91 million* – the one ha. lot was subject of a Deed of Usufruct between BCDA and the Department of National Defense (DND); however, it is still not titled in BCDA's name.
- c. *Camps Atienza and Melchor in Libis, Quezon City (21,150 sq.m.) valued at P211.494 million* – Management updated that the verification and approval of the survey plan is

still being facilitated by DENR. The DENR-approved survey plan will be the basis for the application of Special Patent.

- d. *North of Consular Area (18,246 sq.m.) valued at P18,246 located between the Maricaban Creek and Consular Area* - The property is part of the easement of Maricaban Creek. Management commented in CY 2015 audit that BCDA deferred the application for Special Patent because the property is within the easement of Maricaban Creek. In CY 2016 audit, Management updated that the survey of the property is included in the contract of Noble Surveying. The schedule of the survey is in June 2017.
- e. *BTPI (205,454.26 sq.m.) valued at P37.826 million* – Management updated that:
  - Road Lot (46,130 sq.m.) is with an on-going relocation survey. The DENR-approved survey plan will be used as basis for the application of Special Patent (SP) for the said road lot. The approved SP will be the basis for issuance of title in BCDA's name.
  - Lot 1 (137,776 sq.m.) has a land claim issue. The Legal Services Department is currently studying the land claim issue.
  - Lot 1590 (21,548.26 sq. m.) is titled to private individuals. For possible expropriation, if needed.
- f. *Clark Air Base Main Zone (451,270 sq.m.) valued at P25 million* – The property is now titled in favor of the Republic of the Philippines.
- g. *SCTEx (60,732 sq. m.) valued at P10.504 million* – Management updated that the transfer of titles in favor of BCDA for properties acquired for SCTEx projects is still ongoing and expected to be completed by end of CY 2017.

Resolution of the problems encountered during the course of transferring the titles is being undertaken by the SCTEx RROW Team of BCDA. After completion of the inventory, Land and Assets Development Department (LADD) will coordinate with Financial Management Services Department (FMSD) for reconciliation.

We reiterated our previous years' recommendation that Management expedite the titling of land in BCDA's name to dispel doubts as to their legal ownership.

**8. Land assets valued at P6.639 billion were not accounted for by specific Transfer Certificate of Titles (TCTs).**

The following land assets are still unaccounted by specific TCTs as of December 31, 2016:

- a. *John Hay, Baguio City (5,144,377 sq. m., or 514.437 has.) valued at P5.752 billion* – In CY 2015 audit, FMSD disclosed the area of John Hay at 5,144,377 sq.m., without TCTs, while LADD recorded the total area of 6,254,105 sq. m. comprising of 1,489,372 sq. m. titled and accounted with specific TCTs and 4,764,733 sq. m. either

untitled (currently subject of Special Patent application) or titled in favor of the Indigenous People.

Based on the data gathered from Management, there is a difference of 379,644 sq. m. of untitled land per FSMD records of 5,144,377 sq. m. and LADD records of 4,764,733 sq. m.; thus, the land area and the related valuation per books of accounts appear to be overstated.

In CY 2016 audit, Management updated that, out of the untitled areas, the Special Patent of 261 hectares is already with DENR. Reconciliation between FSMD and LADD on the areas of BCDA properties will be completed by end of 2017.

- b. *Sacobia, Clark EZ (5,612 has.) valued at P.011 billion* – In CY 2014 audit, Management said that there is a pending case before the National Commission on Indigenous Peoples (NCIP) involving Sacobia property. The disputants in the said case are the Aetas themselves. A Certificate of Ancestral Domain Title (CADT) No. R03-BAM-1204-025-A was issued on April 17, 2009 covering an area of 10,323.31 hectares in favor of the Indigenous Cultural Community of Aeta within certain Municipalities of Tarlac and Pampanga.

Said CADT covers the approximately 5,612 hectares Sacobia property and the approximately 4,711 hectares portion of BCDA property in Clark Sub-Zone.

BCDA is currently studying the possibility of filing a case for the nullification of the said CADT. In CY 2016 audit, we noted that the outcome of study on the possibility of filing a case for nullification of CADT No. R03-BAM-1204-025-A issued by LRA to Indigenous Cultural Community of Aeta covering an area of 10,323 has. is not yet available.

- c. *FB Merrit Road, Fort Bonifacio valued at P.001 billion* – Management updated that the lot is already part of the BGC consolidation/subdivision survey. Map will be submitted after reconciliation with Finance Services Group. Reconciliation with Finance of the actual areas of BCDA properties will be completed by end of 2017.
- d. *Fort Bonifacio (318 sq. m.) valued at P.001 billion* – The application for Special Patent (SP) is ongoing. These are described as institutional/multimodal/mixed consisting of: 1) Lot 13-B, with an area of 212 sq. m. valued at P191,992, and 2) Lot 13-C, with an area of 106 sq. m. valued at P95,996 per FSMD records. In CY 2016 audit, Management updated that there is a discussion with DENR on the validity of land claims by private individuals which hindered BCDA applications for Special Patent.
- e. *Area swapped by PA to BCDA (6,725 sq. m.) valued at P6,725* – In CY 2016 audit, Management updated that an SP application is already with the Office of the President for review and approval. However, it was endorsed back to DENR for further review.
- f. *Poro Point (201,043.40 sq. m.) valued at P.127 billion* – Under JV No. 1146428 dated December 29, 1999, acquisition of 212,090.40 sq. m. land, with asset no.

10000001, was recorded. However, only 11,047 sq. m. had specific TCT, leaving 201,043.40 sq. m. not accounted by specific TCTs.

Per Proclamation No. 216<sup>3</sup>, 800 hectares, more or less, of land in Poro Point were transferred to BCDA. As of December 31, 2016, only 238,705.40 sq. m. were recorded in the books of accounts. Of the 238,705.40 sq. m., only 35,642 sq. m. were accounted by specific TCTs, while 2,020 sq. m. were not supported by TCTs. (See discussion on No. 3,d)

- g. *SCTEx affected lots valued at P.748 billion* – To date, the amount presented has no subsidiary ledger of lots acquired with corresponding TCTs. In last year’s audit, Management commented that the inventory of lands acquired for SCTEx project is still on going.

The value of land assets that are not accounted for by specific TCTs is at P6.512 billion as of December 31, 2015 and P6.639 billion as of December 31, 2016, the increase of P.127 billion is due to the 201,043.40 sq. m. lot in Poro Point that are not accounted for by specific TCTs.

We reiterated our previous years’ recommendation that Management identify the land assets valued at P6.639 billion by indicating the specific TCT number, area and value.

**9. TCTs of land assets with an area of 68,997,132 square meters valued at P183.782 million were not available upon inspection.**

TCTs that were not available for inspection are accounted as follows:

	In area per sq.m.	Amount
CY 2015 data	4,425,514.67	1,314,261,169
Acquired in CY 2016	68,488,401.00	69,226,655
Less: Available TCTs	3,916,783.67	1,199,706,173
<b>TCTs not available</b>	<b>68,997,132.00</b>	<b>183,781,651</b>

Table 7

The details of P183.782 million of land assets, with TCTs still not available upon inspection are as follows:

- a. *Area along Kalayaan Avenue (6,611 sq. m.) valued at P11.095 million* – No TCT was left in custody of the Treasury and Investments Department (TID) covering the properties in Villa Kalayaan. In the previous year’s audit, Management clarified that the TCTs were pulled out from TID and conveyed to the Villa Kalayaan Housing beneficiaries based on lot awards.

Since the particular asset is still carried in the books of BCDA, the documents to confirm the award of lots are for presentation, validation and evaluation so that

<sup>3</sup> Proclamation No. 216 is entitled Creating and Designating the Area covered by the Former Wallace Air Station and Contiguous Areas in Poro Point as Poro Point Special Economic and Freeport Zone and Transferring Lands to the Bases Conversion Development Authority pursuant to Republic Act No. 7227

derecognition in the books of the land asset may be effected, when necessary. In last year's audit, Management commented that copies of lot awards are being collated. As of December 31, 2016, no derecognition was effected.

- b. *Lupang Katuparan (11,967 sq. m. of the 17,981 sq. m. consisting of 8 TCTs) valued at P7.182 million* – In CY 2014 audit, Management explained that the TCTs with a total area of 17,981 sq. m. were pulled out for subdivision. Most of the resulting TCTs were already conveyed to the Lupang Katuparan Housing Beneficiaries with some TCTs to be conveyed to the beneficiaries still with TID for safekeeping.

The CY 2015 audit showed that the 8 TCTs in Lupang Katuparan were subdivided to 197 TCTs. Of the 197 TCTs, 136 TCTs with an area of 11,967 sq. m. were not in the custody of the TID, as shown below:

Old TCT Nos.	Land Areas (m <sup>2</sup> )	Resulting TCTs			
		Not in Custody		In TID	
		Land Areas (m <sup>2</sup> )	No. of TCTs	Land Areas (m <sup>2</sup> )	No. of TCTs
34465	5,918	2,909	55	3,009	26
33557	2,329	1,128	20	1,201	21
33561	1,421	1,235	33	186	4
33568	771	771	1	0	0
33569	3,906	3,906	1	0	0
33572	599	599	1	0	0
33574	1,774	360	6	1,414	5
33559	1,263	1,059	19	204	5
<b>Total</b>	<b>17,981</b>	<b>11,967</b>	<b>136</b>	<b>6,014</b>	<b>61</b>

Table 8

Upon inquiry, the properties were awarded to the beneficiaries, but no documents were presented attesting the award to support possible derecognition of the land assets in the books of accounts. Management commented that the lot awards are being collated. As of December 31, 2016, no derecognition was made.

- c. *Diego Silang Village (27,153 sq. m.) valued at P6.259 million* – TCT No. 28669 (lot 11 for 19,180 sq. m.) and TCT No. 28672 (lot 14 for 7,973 sq. m.) were pulled out from TID to undertake annotations of the award/sale transactions of condominium units for NAPOLCOM beneficiaries. In CY 2015 audit, Management commented that Lot 11 (TCT No. 28669) and Lot 14 (TCT No. 28672) were still with the Taguig Registry of Deeds for annotation of award/sale transaction for NAPOLCOM condo units. Management updated that they have already coordinated with RD Taguig for the release of titles to BCDA.
- d. *PPMC TCT No. 13488 (2,020 sq. m.) valued at P4.771 million* – According to LADD, the 2,010-square meter property was acquired by BCDA, thru Poro Point Management Corporation (PPMC), from the heirs of Ana Mayo Flores in 2014. A letter of BCDA dated September 21, 2015 requesting the release of title in the name of BCDA was sent to the President and Chief Executive Officer of PPMC. A difference of 10 sq. m. between the record of FMSD and LADD was also noted. In

CYs 2015 and 2016 audit, Management commented that the transfer of title in BCDA's name is being facilitated by PPMC.

e. *East of C5 (317 sq. m.) valued at P.143 million* – In CY 2015 AAR, we reported that portions of TCT Nos. 36274 and 1729-P were sold BMI Realty Corporation (BMIRC) and a total of 317 sq. m. (134 sq. m. plus 183 sq. m.) was the portion left to BCDA. The new TCTs for the remaining 317 sq.m. was not in the custody of the TID nor reflected in the Schedule of Land prepared by the FMSD. In CY 2016 audit, Management updated that they requested BMIRC to return the title retained by BCDA.

f. *SCTEx (460,663 sq. m.) valued at P85.104 million* – In CYs 2011 to 2015, BCDA acquired various lots in SCTEx. The TCTs were pulled out from TID for segregation of titles and the new TCTs as a result of segregation were not yet available upon inspection.

In CYs 2015 and 2016 audit, Management commented that newly issued TCTs were transmitted to TID for safekeeping. However, inventory of the said TCTs was not provided to us, hence, were not validated.

g. *SCTEx – (8,269 sq. m.) valued at P746 million* – Four (4) TCTs of acquired lots in CY 2016 were TCT Nos. CLOA 16840, CLOA 7147, CLOA 9239 and CLOA 9260. Said TCTs were also not available upon inspection.

h. *Clark Sub-Zones (68,480,132 sq. m.) valued at P68.480 million* – In CY 2016, TCT Nos. 043-2016000067-70 covering lots 1-A, 1-E to G at Clark Green City were issued in the name of BCDA; however, these TCTs were not in the custody of the TID.

We reiterated our previous years' recommendation that Management account for the TCTs of land assets with an area of 68,997,132 sq. m. valued at P183.782 million as of December 31, 2016 which were not available upon inspection.

**10. SCTEx land titles valued at P854.225 million per FMSD records are still not updated and reconciled with LADD records.**

Based on FMSD records, the Summary of SCTEx Land Assets as of December 31, 2016, showed a total of P854 million, summarized as follows:

Asset No.	Date	Land Area (sq. m.)	Amount
10000026	12/31/2010	For verification	747,768,046
10000027-181	2011-2015	510,746.00	104,339,607
10000182,184,185	2016	15,740.00	1,207,565
10000231 & 232	2016	10,649.00	798,675
10000235,236	2016	DST, CGT & Transfer taxes (various)	110,879
			<b>854,224,772</b>

Table 9



Our audit disclosed that no inventory of lots in SCTEx was prepared by LADD, while FMSD record of new titles issued is not yet updated.

In addition, Asset No. 10000184, with TCT No. 038-2013000916 covering 7,471 sq. m., which was acquired in April 2016, was not reported in the inventory of TID.

Management is advised to update and reconcile the FMSD and LADD records of SCTEx lots and clarify why TCT No. 038-2013000916 covering 7,471 sq. m. was not in the inventory of TID.

Management commented that the SCTEx RROW Team is currently facilitating the titling of the transfer of titles in favor of BCDA, which is expected to be completed by end of CY 2017. After completion of the inventory, LADD will coordinate with FMSD for reconciliation.

**11. Land assets stated at either P1.00 per square meter or P1 per parcel of land understated the National Government's equity in the BCDA, a deviation from Section 2 of EO 40.**

Section 2 of EO 40, dated December 8, 1992, provides that the properties transferred to the BCDA shall be appraised to determine the appropriate valuation to be entered in the books of accounts of the BCDA as part of its capitalization in accordance with Section 6 of RA 7227.

In our prior years' audit, we noted that there are land assets that remained unappraised and are recorded in the books at either P1.00 value per sq. m. or P1.00 per parcel of land, as follows:

Location	Area (sq.m.)	Book Value/sq.m.	Book Value
North Consular	18,246.00	1	18,246
64 has. SRA area	506.00	1	506
Jusmag (SHAI)	16,649.00	1	16,649
BCDA Areas in Clark Sub-Zones	308,702,218.00	1	308,702,218
Bataan Technology Park Inc. (2 lots)			
TCT – 103935	137,776.00		1
Lot – 1590	21,548.26		1
<b>Total</b>	<b>308,896,943.26</b>		<b>308,737,621</b>

Table 10

The non-appraisal of the land assets turned over by the NG to the Authority resulted in the understatement of the value of the NG's equity in the BCDA and the Land account.

In last year's audit, Management commented that they have scheduled the appraisal of all land assets within the year for the purpose of determining the current market value of all its land.

We reiterated our previous year's recommendation that Management record all land assets transferred by the NG to the BCDA based on appraised value as required under Section 2 of EO 40.

**12. Thirteen (13) TCTs are in the possession of TID but are not listed in the Schedule of Land Assets, thus, may not be recorded in the books of accounts.**

In our prior year's inspection of TCTs, thirteen (13) TCTs with a total land area of 60,989 sq. m. were held by the custodian for safekeeping but are not listed in the Schedule of land Assets, as follows:

Qty.	Area (in sq. m.)	Remarks
2	27,843	Titled in the name of BCDA
11	33,146	Titled in the name of FBDC
<b>13</b>	<b>60,989</b>	

Table 11

Ownership by BCDA of the land per TCT No. 23885, with an area of 13,900 sq. m. (part of 27,843 sq. m. per above table) is not yet resolved based on the feedback given by the Management. However, the said lot is already titled in the name of BCDA but unrecorded in the books of accounts.

Management explained, in CY 2014 audit, that the lot covered by TCT No. 36272 with an area of 13,943 sq.m. (part of 27,843 sq.m. per above table) was already sold to Makati, but the TCT is still in the custody of BCDA because no Deed of Absolute Sale (DOAS) was issued yet. Ongoing coordination is being made with the City of Makati for the submission to BCDA of the notarized DOAS. After receipt by BCDA of the DOAS, TCT can already be transmitted to the City of Makati.

As to the 11 TCTs titled in the name of FBDC, it appears that the land assets covered by these TCTs are BCDA properties based on the feedback given by Management.

The non-inclusion of these lots in the Schedule of Land Assets may indicate that the same were not recorded in the books of accounts and, thus, understated the Land assets and Capital accounts presented in the financial statements.

In CY 2015 AAR, Management clarified that the 11 TCTs consists of:

Qty.	Area (in sq. m.)	Property	Comment by Management
2	27,842	SRDP Lots	Lots included in the land inventory per LADD records
9	5,304	Lots within BGC	For inclusion in the final land inventory
<b>11</b>	<b>33,146</b>		

Table 12

We reiterated our previous year's recommendation that Management record in BCDA's books of accounts the land assets covered by 13 TCTs that are in the custody of TID after determining ownership thereof.

**13. Incomplete accounting of land may have understated the value of Land account reported in the financial statements.**

**a. Incomplete accounting of Road Lot 9**

Road Lot 9 of TCT No. 134811, containing an area of 3,513 sq. m., was accounted as 789 sq. m. only per FMSD and LADD records. The derecognition of 2,724 sq. m. was recorded under JV No. 2014-230002007 dated December 29, 2014. We were informed that Road Lot 9 is 789 sq. m. only based on actual survey. However, no new TCT for 789 sq. m. land was provided and the cancellation or the change in area of Road Lot 9 of TCT No. 134811 was not annotated in the title; thus, the accuracy of derecognizing 2,724 sq. m. was not fully substantiated. Management updated that they are still working for the completion of documents required by the Register of Deeds for the correction and/or annotation in TCT No. 134811 of the discrepancy in the actual area of Road Lot 9.

**b. Incomplete accounting of lot covered by TCT No. 134813**

TCT No. 134813, not titled in the name of BCDA but in the name of RP, contain a total area of 66,951 sq. m., as follows:

Lot 8 - (SWO-007607-001236-D)	
Sales Road	6,646
Lot 11 - (SWO-007607-001236-D)	60,305
<b>Total</b>	<b>66,951</b>

Table 13

In 2007, Lot 11 was subdivided as follows:

Lot 11 - (SWO-007607-001236-D)	
TCT No. 148644 - Lot 11-A - Andrews Avenue	39,708
TCT No. 148646 - Lot 11-C - Part of Manlunas Road	325
TCT No. 148649 - Lot 11-F - Sales Road	12,517
Sub-total	52,550
TCT No. 148645 - Lot 11-B	1,841
TCT No. 148647 - Lot 11-D	4,101
TCT No. 148648 - Lot No. E	1,813
Sub-total	7,755
<b>Total</b>	<b>60,305</b>

Table 14

However, the subdivided lots with total area of 52,550 sq. m. remained in the name of RP, while a total of 7,755 sq. m. were registered under BCDA.

The 7,755 sq. m. were conveyed to BCDA through the joint venture agreement with Megaworld Corporation. The TCTs of Lot 8 of 6,646 sq. m., and the remaining

portion of Lot 11 of 52,550 sq. m., or a total area of 59,196 sq. m. valued at P991.731 million, more or less, are in the possession of TID, but the same are not recorded in the books of BCDA, thereby maybe understating land by P991.731 million.

Management updated that BCDA is currently studying the possibility of conveying the area covered by Sales Road and Andrews Avenue to DPWH or Pasay City since the 59,196 - sq. m. area is currently being used as roads (Sales Road and Andrews Avenue).

We recommended that Management:

- a. Expedite the correction of TCT No. 134811 so that the derecognition in the books of the 2,724 sq. m. lot that was recorded in CY 2014 may be substantiated; and
- b. Resolve the documentation of land areas, with the related TCTs, that are retained by BCDA from the subdivision of TCT No. 134813 so adjustment in and reconciliation of the records of FMSD and LADD may be effected, when necessary.

**14. The GAD Project Budget (GPB) for FY 2016 was not endorsed by the Philippine Commission on Women (PCW).**

The submission of the PCW-endorsed GPB to the Department of Budget and Management (DBM) is required in the guidelines set under Joint Circular 2012-01 issued by the PCW, the National Economic and Development Authority (NEDA) and the DBM.

The FY 2016 GPB of BCDA was submitted to PCW on February 17, 2016 for endorsement. However, BCDA was not able to comply with the requested corrections by PCW within the prescribed deadline of June 30, 2016, thus the GPB of BCDA was not endorsed or was automatically tagged as unendorsed by PCW.

Without the endorsement of PCW, there is no proper benchmark upon which to gauge whether the GAD activities conducted in CY 2016 conform to the agenda of the government in addressing gender issues towards the realization of the objective of the country's commitment, plans and policies on women empowerment, gender equality and GAD. However, despite the lack of endorsement by PCW, BCDA still pushed through with its 2016 GPB. In CY 2013 Annual Audit Report (AAR), we reported a similar observation.

In view of the foregoing, we recommended that Management comply with the guidelines set under Joint Circular 2012-01 particularly on the submission of GPB to PCW and revision thereof, if necessary, within the prescribed deadlines.

Management clarified that they complied within the required deadline for the submission of 2016 GPB. The GPB was revised accordingly within the set date. Then, the revised 2016 GPB was further revised by PCW, BCDA requested an extension for the submission of the revised 2016 GPB. The extension was pursuant to GPB's advice. Thereafter, BCDA did not receive any response on the requested extension. The submission of GPBs is through on line.

We took note of Management's explanation. We, however, remind Management to exert effort to meet the conditions for the PCW endorsement of GPB particularly, that *the requested revisions or additional information in answer to questions about the GPB are accepted by PCW within the prescribed deadlines pursuant to 8.6 of PCW-NEDA-DBM Joint Circular No. 2012-01.*

**15. The grant of financial assistance to Project-Affected Persons (PAPs) within the Clark Green City (CGC) Project area is not a valid GAD accomplishment.**

Despite not having been endorsed by PCW, we evaluated the GAD projects on their responsiveness to gender issues raised and adherence to applicable laws and regulations.

For CY 2016, the BCDA GAD Budget was P12 million. Under the client-focused activities, the identified gender issue is *that Women in BCDA relocation sites have limited access to sources of income and livelihood due to relocation.* Presented below are the GAD Activities, Performance Indicator/Target and GAD Budget under the said Gender Issue:

<b>GAD Activity</b>	<b>Performance Indicator/Targets</b>	<b>GAD Budget</b>
a. Validation of census results in Phase 1 of Clark Green City by the end of the year;	Identified clients/target of projects in Phase 1 whose family income needs to be augmented by the end of the year	50,000.00
b. Conduct of census survey of affected household/occupants in Phase 2 and 3 of Clark Green City by the end of the year;	Established sex-disaggregated database as a basis for implementation of projects in Phases 2 and 3 by the end of the year	200,000.00
c. Conduct of project identification workshop by the 1 <sup>st</sup> half of the year;	Identified project for implementation in Phase 1 by the second half of the year	250,000.00
d. Conduct of social preparation within the target affected community in coordination with an established social entrepreneurial concerns of women in the community	100 women engaged in livelihood skills training/certification/entrepreneurship programs and whose family income have been augmented and with greater economic independence by the end of the year	2,000,000.00
		<b>2,500,000.00</b>

Table 15

The above data, which were selected for evaluation, appear to be responsive to the gender issue raised.

BCDA reported a GAD expenditure of P35.375 million. The accomplishment is mainly on the Client-Focused Activities aimed at addressing the gender issue presented above. BCDA paid financial assistance to 75 people within the Clark Green City (CGC) project area totaling P35 million. However, the total per lists, showing the names and amount per claimant, is P35,783,552<sup>4</sup>.

The PAPs were paid at P30.00 per sq.m. of the farmland they tilled or the estimated value of fruit bearing trees within the affected land. This is supported with BCDA Board under Resolution No. 2015-12-177, authorizing *BCDA Management to negotiate and offer the financial assistance to the Project-Affected People (PAPs) in Clark Green City in the amount of P30.00 per sq.m. for the farmlands for a maximum of five (5) hectares, or the value of the forest and fruit bearing trees subject to valuation of the Department of Agriculture (DA) and the Department of Environment and National Resources (DENR), whichever is higher.*

In our evaluation, the grant of financial assistance, being computed at P30.00 per sq.m. for the farmlands for a maximum of five (5) hectares or the value of the forest and fruit bearing trees, has the semblance of a financial compensation rather than a provision for livelihood as designed in the gender issue.

Take the case of the financial assistance paid under Check No. 0049098290 dated July 11, 2016. The PAP was paid P1.183 million for the crops she had planted, the amount of which is far beyond the financial capital she needs to begin a sari-sari store (the livelihood she wishes as indicated in the census form). Thus, we find the related GAD expenditure of P35.375 million not responsive to the gender issue raised beforehand by BCDA.

Details of the observation and recommendations on the irregularity of the grant of financial assistance to those affected by the Clark Green City Project is in Observation No. 2 of this report.

We recommended that Management, henceforth, utilize GAD funds for GAD related activities that are within the PCW-endorsed GPB.

Management explained that in the preparation of GAD Accomplishment Report (AR), under PCW MC No. 2016-05 dated September 2016, BCDA is allowed to attribute a portion of the whole budget/expenditure of the agency's major programs or projects to the GAD using the Harmonized Gender and Development Guidelines (HGDG) tool. Thus, the subject grant of financial assistance totaling P35 million is a GAD Budget Attribution. It will be deleted from the GAD AR once proven to be irregular.

We noted that should the P35 million grant of financial assistance be excluded from the GAD AR, only P374,552 was utilized for GAD based on the AR, material portion of which amounting to P262,500 or 70% was spent for honoraria of 15 Inter-agency Committee members for 6 months.

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<sup>4</sup> The disbursement of P35,793,152 was recognized in the books as land for P24,550,157 and Indemnities and other claims P11,242,995.

## 16. Status of Notice of Suspensions, Disallowances and Charges

As of year-end, the status of audit suspensions, disallowances and charges issued is as follows:

<b>Audit Action</b>	<b>Beginning Balance January 1, 2016</b>	<b>Issued</b>	<b>Settled</b>	<b>Ending Balance December 31, 2016</b>
Suspensions	0	0	0	0
Disallowances	3,108,000	10,000,000	10,000,000	3,108,000
Charges	0	0	0	0
<b>Total</b>	<b>3,108,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>3,108,000</b>

Table 16

The disallowance of P3.108 million as of December 31, 2016 pertains to the following:

- a. Payment of legal fees to private lawyers/consultants amounting to P2.845 million under Notice of Disallowance (ND) No. 09-0014-01111(2006-2008) dated October 22, 2009 which was affirmed under COA Decision No. 2013-201 dated November 20, 2013. This is covered by COA Order of Execution (COE) dated January 5, 2015. BCDA sent Statements of Account to the persons liable.

The Manager of Budget Department of the BCDA was excluded from persons liable per COA Decision No. 2014-235 dated September 11, 2014. One of the persons liable in the said ND passed away last September 19, 2016.

- b. The amount of P0.263 million represents the unsettled balance of the disallowed payment of Christmas Package/annual gift check to the members of the Board of Directors and consultant in CYs 2003-2007 totaling P1.318 million. This is due from two payees who are no longer connected with BCDA. An Appeal dated January 13, 2010 was filed at the Office of the then Cluster B Director, CGS which was received on February 23, 2010 under Order Docket No. (CGS-B) 2010-005 dated February 26, 2010.

In CY 2016, ND No. 16-01-(2016) dated September 19, 2016 was issued disallowing the donation of P10 million to Commission on Human Rights (CHR) to fund the production of martial law related information, education and communication materials under Deed of Donation dated June 17, 2016 for being irregular and unnecessary, and for lack of legal basis.

The said ND was settled upon payment of P10 Million by the CHR under BCDA OR No.863230 dated November 24, 2016 and covered by NSSDC No. 2016-001 dated December 12, 2016.

The P3.108 million disallowance does not include the Notices of Disallowance, Notices of Charge and Notices of Suspension issued prior to the effectivity of the Rules and Regulations on the Settlement of Accounts issued by the COA.

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**PART III**

**STATUS OF IMPLEMENTATION OF PRIOR  
YEAR'S AUDIT RECOMMENDATIONS**

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**STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the twenty two (22) audit recommendations contained in the CY 2015 Annual Audit Report (AAR), eight (8) were implemented, eight (8) were partially implemented and six (6) were not implemented, as shown below:

Reference	Audit Observations	Recommendations	Status/Actions Taken
<p>CY 2015 AAR, Observation No.1, page 54</p>	<p>The share of the Armed Forces of the Philippines (AFP) on the dividends received from Fort Bonifacio Development Corporation (FBDC) was not remitted to the Bureau of the Treasury (BTr).</p>	<p>1. Expedite the settlement of the share of the AFP on the dividends <i>prior to</i> CY 2014 received by the BCDA that are for sharing with the AFP after a reconciliation with the BTr is made.</p>	<p>Partially implemented</p> <p>On March 30, 2017, P1.860 billion was remitted to the BTr representing the AFP's share from the FBDC dividends received by the BCDA covering CYs 2001 to 2013 under Check No. 2800175 dated March 29, 2017 and BTr OR No. 2545301 dated March 30, 2017.</p> <p>However, the 50 per cent share of the AFP from proceeds of sale/conversion to cash of property dividends and from the dividend arising from Compound Sale in the total amount of P236.241 million was not included in the amount remitted.</p>

Reference	Audit Observations	Recommendations	Status/Actions Taken
			Reiterated in Observation No. 1 of this report.
CY2015 AAR, Observation No. 2, page 55	The accounting treatment by BCDA of its transactions in joint venture (JV) projects may need to be revisited to conform to the applicable Philippine Financial Reporting Standards (PFRS).	<ol style="list-style-type: none"> <li>2. Determine the type of joint arrangement in which BCDA is involved by assessing its rights and obligations under the arrangement, as required in paragraph 2 of PFRS 11;</li> <li>3. Study the requirements of PFRS 11 relative to the particular joint arrangement and come up with an accounting policy/instruction on financial reporting for the JV arrangement, together with the documentary requirements needed to support the same, so that the concerned officials and employees will be properly guided in the performance of their duties;</li> <li>4. Account for/identify its assets, liabilities, revenue and expenses in relation to its interests in its various joint arrangements to comply with the requirements of paragraph 20 of PFRS 11; and</li> <li>5. Make the necessary adjustments in the books of accounts.</li> </ol>	<p>Implemented</p> <p>Assessment of transactions with joint venture partners was completed.</p> <p>Implemented</p> <p>Based on the assessment, the transactions with JV partners is not covered by PFRS 11 but to be accounted as installment sales. Accounting policy on this is appropriately disclosed in the Notes to FS.</p> <p>Implemented</p> <p>The agreements with BCDA's JV partner are accounted as installment sales.</p> <p>Implemented</p> <p>All account balances affected as a result of the assessment were adjusted/restated.</p>
CY2016 AAR, Observation	The P961.485 million proceeds from the first	6. Recognize P961.485 million proceeds as part	Partially implemented

Reference	Audit Observations	Recommendations	Status/Actions Taken
No. 3, page 57	tranche offering of the Heritage Park Investment Certificates (HPICs) was not treated as Corporate Income subject to sharing with the Armed Forces of the Philippines (AFP), a deviation from the main objective of the Heritage Park (HP) Project and Section 1 of Executive Order (EO) 309.	of corporate income and remit AFP's share to the BTr.	The P961.485 million Other Payables was not yet derecognized. The share of the AFP from the P961.485 million of P352.512 (net of P256.460 estimated expenses) million was included in the remittance to BTr under BCDA Ck no. 280075 dated March 29, 2017 and BTr OR No. 2545301 dated March 30, 3017.
CY2015 AAR, Observation No. 4, page 58	The proceeds from the development of lots carried out by Heritage Park Management Corporation (HPMC) did not accrue to the BCDA and AFP, contrary to the intent of the HP Project.	<p>7. Account for and recover the proceeds from the sale of the certificates generated from lots 1 to 4, and the other revenues accruing to the BCDA; and</p> <p>8. Revisit the existing arrangement with HPMC to ensure that any and all proceeds generated</p>	<p>Not implemented.</p> <p>Management contends that funds generated from the proceeds of the development of lots 1-4 in Heritage Park go to the General Fund, which inures to BCDA after completion of the Heritage Park project.</p> <p>Not implemented.</p> <p>According to Management,</p>

Reference	Audit Observations	Recommendations	Status/Actions Taken
		<p>from the HP Project accrue to the benefit of the BCDA/AFP consistent with the objective of the bases conversion program of the government.</p>	<p>they will revisit existing arrangements, once HPMC Board is reconstituted.</p>
<p>CY2015 AAR, Observation No.5, page 61</p>	<p>No recognition in the books of accounts was made for FBDC's lease of BCDA's property for the Waste Water Treatment Plant and no lease payments had been received thereon.</p>	<p>9. Bill rental dues from FBDC and enforce collection thereof.</p> <p>10. Install controls to ensure that all potential rental income is recovered, like the use of asset register and/or rental register.</p>	<p>Partially implemented. BCDA is enforcing collection of the rental dues from FDBC, however, FBDC is claiming that the use of lot is for free. FBDC's claim, however, is not substantiated and BCDA is waiting for FDBC to present the agreement that the use of the lot is for free.</p> <p>Reiterated in Observation No. 3 of this report.</p> <p>Implemented. The registry of contracts is maintained by the BCDA.</p>

Reference	Audit Observations	Recommendations	Status/Actions Taken
CY2015 AAR, Observation No. 6, page 62	Twenty-four (24) out of the 68 BCDA-allocated parking spaces at Pacific Plaza Towers Condominium (PPTC) remain unsold, with five parking spaces still unaccounted.	<p>11. Expedite disposition of all parking spaces.</p> <p>12. Establish proof of ownership over the five unaccounted parking slots.</p>	<p>Implemented. Only ten parking spaces remained unsold as of December 31, 2016.</p> <p>Implemented. The five unaccounted parking slots were determined as follows:  B3-A71 (swapped with B2-A21): vacant/for disposition  B3-A72 (swapped with B2-A22): vacant/for disposition  B3-A79: vacant/for disposition  B3-A205: for settlement with PPTCC  B3-A206: for settlement with PPTCC.</p>
CY2015 AAR, Observation No.7, page 62	Land assets valued at P5.657 billion are not titled in the name of BCDA.	13. Expedite the titling of properties under BCDA's name.	<p>Partially implemented.</p> <p>In CY 2016, 291,837 sq.m. of land valued at P3.645 billion was titled in the name of BCDA.</p> <p>Reiterated in Observation No. 7 of this report on.</p>
CY2015 AAR, Observation No.8, page 64	Land assets valued at P6.512 billion are not accounted for by specific Transfer Certificates of	14. Identify the land assets valued at P6.512 billion by indicating the specific TCT number, area and	<p>Not implemented.</p> <p>The value of</p>

Reference	Audit Observations	Recommendations	Status/Actions Taken
	Titles (TCTs).	value.	<p>land assets that are not accounted for by specific TCTs is at P6.512 billion as of December 31, 2015 and P6.639 billion as of December 31, 2016. The increase of P.127 billion is due to the 201,043.40 sq. m lot areas in Poro Point that are not accounted by specific TCTs.</p> <p>Reiterated in Observation No. 8 of this report.</p>
CY2015 AAR, Observation No.9, page 66	TCTs of land assets with an area of 4,425,514.67 sq.m. valued at P1.315 billion were not available upon inspection.	15. Account for the TCTs of land assets with an area of 4,425,514.67 sq.m. valued at P1.315 which were not available upon inspection.	<p>Partially implemented.</p> <p>In CY 2016, TCTs covering an area of 68,488,401 sq.m. were available already.</p> <p>Reiterated in Observation No. 9 of this report.</p>
CY2015 AAR, Observation No.10, page 68	Land assets valued at either P1.00 per sqm. Or P1.00 per parcel of land understated the National Government's equity in the BCDA, a deviation from Section 2 of EO 40.	16. Record the land assets transferred by NG based on appraised value as required under Section 2, EO 40.	<p>Not implemented.</p> <p>Reiterated in Observation No. 11 of this report.</p>

Reference	Audit Observations	Recommendations	Status/Actions Taken
CY2015 AAR, Observation No.11, page 69	Thirteen (13) TCTs in the possession of TID were not among those listed in the Schedule of Assets	17. Record in the books of accounts the land assets covered by these 13 TCTs after determining ownership of the said assets.	Not implemented.  Reiterated in Observation No. 12 of this report.
CY2015 AAR, Observation No.12, page 70	Incomplete accounting of lots may have understated the value of Land account reported in the financial statements: 1. Incomplete accounting of Road Lot 9; and 2. Incomplete accounting of lot covered by TCT No. 134813.	18. Clarify the incomplete accounting of lots covered by specific TCTs and effect adjustments.	Partially implemented.  Management has already clarified the incomplete accounting of the specific lots, however, the documentation necessary to support the adjustments in the books has to be submitted.  Reiterated in Observation No. 13 of this report.
CY2015 AAR, Observation No.13, page 71	The account balance of P4.094 billion (Due to Bureau of Treasury (BTr) account) includes dormant account of P50.795 million	19. Settle the payables so that the beneficiaries of the amounts remittable to BTr may benefit from these accounts or make adjustments to clear the books of accounts of these dormant accounts.	Partially implemented. <ul style="list-style-type: none"> <li>• P42.773 million due to BTr-Scout Barrio Housing Project – remains unadjusted, despite the position of the Management to recognize it as income;</li> <li>• P1.834 million and P.808 million, dormant due to BTr accounts were remitted</li> </ul>

Reference	Audit Observations	Recommendations	Status/Actions Taken
			<p>to BTr under BCDA Ck no. 280075 dated March 29, 2017 and BTr OR No. 2545301 dated March 30, 2017; and</p> <ul style="list-style-type: none"> <li>• P3.58 million remains outstanding and not yet remitted to the BTr.</li> </ul>
<p>CY2015 AAR, Observation No.14, page 72</p>	<p>Deposits for Expropriation account amounting to P35.102 million is not fully accounted for.</p>	<p>20. Verify and reconcile the outstanding deposits for expropriation with the RTC Clerk of Courts to arrive at the correct balance of the account and thereby mitigate the risk of financial losses to the government.</p>	<p>Partially implemented.</p> <p>The LSD and FMSD have reconciled their records and the total amount deposited before the Clerks of Court for various Expropriation cases amount to P26,638,759. Adjustments has yet to be effected in the books of accounts.</p>
<p>CY2015 AAR, Observation No.15, page 73</p>	<p>Of the P5 million GAD budget, only P2.351 million was spent for GAD activities.</p>	<p>21. Carry-out PCW-endorsed GAD plan and budget efficiently and effectively.</p> <p>22. Utilize the result of the census activity at affected communities within Clark Green city project area in pursuing its GAD activities to avoid waste of GAD funds.</p>	<p>Not implemented</p> <p>Reiterated in Observation No. 14 of this report.</p> <p>Implemented. The result of census conducted last year was, apparently, used in granting assistance to</p>



Reference	Audit Observations	Recommendations	Status/Actions Taken
			Project-Affected-Persons (PAPs) in Clark Green City (CGC).

**PART IV**

**AUDIT OBSERVATIONS AND  
RECOMMENDATIONS**

**PERFORMANCE AUDIT**

## CY 2016 PERFORMANCE AUDIT

### **Audit scope**

For CY 2016, the audit focused on the performance of BCDA in achieving its mandate of raising funds thru disposition of portions of MM military camps, specifically as it relates to the development of Lot B, known as the Serendra Project located in Bonifacio Global City, Taguig.

### **Audit objective**

The purpose of the audit is to assess the efficiency and effectiveness of BCDA's Asset Disposition Program (ADP) thru the privatization and development of the Lot B. Specifically, the audit aims to determine whether BCDA was able to raise funds of not less than the value of the property it invested in the Project.

### **Serendra Project**

In year 2000, BCDA disposed various properties through public bidding, including Lot B, with an aggregate actual gross area of 116,662.41 square meters and a net area of 85,742.87 sq.m.<sup>1</sup> The conditions for the disposition of the properties are contained in the Terms of Reference (TOR) for the Asset Disposition Phase I.

Due to failure of bidding, BCDA opted to enter into negotiations for the disposition of Lot B with parties who had earlier submitted bids therefor and with others who expressed interest in pursuing the privatization of Lot B. In BCDA's letter to Ayala Land Inc. (ALI) dated July 17, 2002, ALI was requested to submit firm written proposal for joint development of the property in accordance with the Guidelines and Parameters for Proposals.

The *Proposed Guidelines and Parameters for Proposals Involving Lot B or Portion Thereof* provides the following, among others:

1. The minimum value/price of lot is P50,000 per sq.m. The present value (computed at 16% discount rate) of the revenue streams to and improvements transferred to BCDA shall at least be equal to P50,000 per sq.m.;
2. Yearly revenue streams to BCDA shall at least be 3% of the value of land per year plus variable revenue;
3. An upfront cash of at least 10% of the value of the land subject of the proposal is required;
4. For joint ventures, a Management Committee and an Audit Committee shall be formed with representation from BCDA. BCDA requires that fixed revenue share shall be remitted annually and that it be at least 3% of the minimum value of the lot. The revenue share shall have to be in cash; and
5. In rating proposals, both Financial and Development Proposals shall be given an equal weight of 50%. Under the Financial Proposals criteria, secured committed revenues shall be given a 100% weight while unsecured committed revenue shall be given a 50% weight in computing for present value of such revenues.

ALI submitted its proposal on July 24, 2002. The financial proposal for Lot B entailed a commitment to remit to BCDA a total amount of P1.810 billion during the first eight years, consisting of Up-front Cash of P700 million and a secured revenue stream totaling P1.110 billion spread over such 8-year period. The features of ALI's Financial Proposal is summarized below:

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<sup>1</sup> Based on actual survey and as defined in Amendment to the JDA dated February 13, 2004.

Mode/Cash Flow Item	Total	PV @ 16%
Up-front Cash Advance @ year 0	700,000,000	700,000,000
Additional Cash Advance @ year 1	148,360,000	127,890,000
Recovery of Cash Advance (Year 2-3)	(848,360,000)	(581,560,000)
Cash Flows (Secured) Years 1-8	961,640,000	497,120,000
Cash Flows (Unsecured) Years 2 -16	10,487,630,000	3,594,260,000
<b>Total Cash Flows</b>	<b>11,449,280,000</b>	<b>4,337,700,000</b>

Based on the Analysis, ALI's proposal meets or exceeds BCDA minimum requirements in all respects. In addition, ALI's proposal is also subject to the following terms and condition, among others:

1. Residential units resulting from the development of Lot B will be allocated between BCDA and ALI in accordance with pre-determined ratios. The allocation ratios will depend on the actual development density of individual parcels within Lot B based on ALI's Development Proposal, as provided below:

Parcel Development, where...	Sharing
FAR <sup>2</sup> <= 5.0	20% for BCDA and 80% for ALI
FAR > 5.0	12% for BCDA and 88% for ALI <sup>3</sup>

2. Within five business days from the end of each calendar month from the time ALI commences to sell the units to be allocated to BCDA until the end of the Revenue Period, ALI shall remit to BCDA the aggregate net proceeds actually received by ALI from the sale of such units during such calendar months.<sup>4</sup>

The Proposal defines the Revenue Period as the period commencing on the execution of the Joint Development Agreement (JDA) and terminating on the earliest of:

- a. The 27<sup>th</sup> anniversary date of the execution of the JDA; or
- b. The date on which the cumulative payments received by BCDA under Section III of the proposal equal the aggregate minimum price of Lot B;
- c. The date of sale of the last BCDA-Allocated Unit<sup>5</sup>

The Proposal was considered the most favorable among the other offers; thus, ALI was issued the Notice of Award dated October 16, 2002. A JDA was entered into by BCDA and ALI on April 15, 2003.

Based on the JDA, BCDA shall contribute all its rights, title and interest in and to Lot B as its contribution to the Project in consideration of its receipt of BCDA's Allocated Units as a return on its contribution and the Net Proceeds to be derived from the sale thereof (Section 2.2). In the event that any of the Allocated Units to be received by BCDA is a Leasable Allocated Unit, BCDA agrees to appoint ALI as its leasing manager. BCDA shall be entitled to the rental proceeds to be derived from the lease of such Leasable Allocated Unit net of the fees payable to ALI as leasing manager.

<sup>2</sup> FAR shall mean the floor area ratio determined by dividing the Gross Floor Area by the Area of a Unit Parcel.

<sup>3</sup> Section III (b) of ALI's Proposal

<sup>4</sup> Section III (c) of ALI's Proposal

<sup>5</sup> Section III (c) of ALI's Proposal

The Summary of Inventory of Units as of December 31, 2016 prepared by Management shows total contract prices from units sold of P2,875,116,633 and P3,081,494,326 from District One and District Two, respectively. Unsold units from District One and District Two have total reference values of P28,400,000 and P125,885,000, respectively.

### Audit Observations and Recommendations

The objective to raise funds through the disposition of Lot B may not be fully achieved as envisioned because:

1. The proposal submitted by Ayala Land, Inc. (ALI) did not meet the guidelines and parameters set by BCDA.

In our assessment of ALI's proposal, we noted that cash flows that are unsecured were given by BCDA a 100% probability of occurrence instead of the 50% stated per parameters. Applying the parameters, total cash flow should only be P6.205 billion and not P11.449 billion, with a present value of P2.541 billion and not P4.338 billion. Details are shown below:

Model/Cash flow Items	Proposed inflows as of the date of proposal with 100% weight given by BCDA for unsecured revenue	Proposed inflows as of the date of proposal with 50% weight per parameters for unsecured revenue	PV of Proposed inflows @ 16% discount with 50% weight for unsecured revenue
Up-front Cash Advance (100%)	700,000,000	700,000,000	700,000,000
Additional Cash Advance (100%)	148,360,000	148,360,000	127,890,000
Recovery of Cash Advance (100%)	(848,360,000)	(848,360,000)	(581,560,000)
Cash Flows (Secured) (100%)	961,640,000	961,640,000	497,120,000
Cash Flows (Unsecured) (50%)	10,487,630,000	5,243,815,000	1,797,130,000
<b>Total Cash Flows</b>	<b>11,449,280,000</b>	<b>6,205,465,000</b>	<b>2,540,570,000</b>

Based on the above table, the cash inflows to BCDA of P2.541 billion would equate to only P29,753 per sq.m. (P2,540,570,000/85,389 sq.m.<sup>6</sup>) value of Lot B. The P29,753 per sq. m. value is significantly lower than the P50,000 per sq. m. value per parameters by P20,247, or by 40.50%.

As a result of allowing a 100% probability of occurrence for unsecured cash flows, BCDA may not be able to meet its target of raising funds of not less than the P4.269 billion value of the property it invested in the Project. The proposal of ALI at 16% present value of P2.541 billion will result to a short fall of P1.728 billion more or less when compared to the targeted inflows of P4.269 billion<sup>7</sup> (85,389 sq.m. x P50,000 per sq. m.)

We wish to emphasize that of the P6.205 billion cash flows, only P1.810 billion is secured while the balance of P5.243 billion, or 84.50% of cash inflows, is unsecured.

Management's explanation is as follows:

<sup>6</sup> Lot area which became the basis of proposal

<sup>7</sup> Refer to the definition of "Minimum Lot Price" under Section 1 of JDA.

The Serendra Joint Development Agreement (JDA) is not a product of an open, competitive public bidding but a negotiated contract after the bidding for the disposition and development of Lot B failed in 2000.

On July 17, 2002, BCDA wrote to certain proponents who expressed interest in the property to submit proposals for joint development with BCDA, namely: Alliance Investment Corporation, Ltd. (AICL), Ayala Land, Inc. (ALI), Burgundy Asset Development Corporation (BADC) and SM Prime Holdings, Inc. (SMPH). Attached to the letter were Proposed Guidelines and Parameters for Proposals Involving Lot B or Portions Thereof. Under the Proposed Guidelines, the Minimum Value/Price of the lot was P50,000 per square meter.

In short, the JDA was a result of a series of negotiations after the failure of bidding and the ensuing negotiations under ADP-Phase 1 were declared closed. The minimum bid price under the bidding that failed was only P40,000/sq.m. Before that, the fair market value appraisals conducted on the lot yielded a value of less than P30,000/sq.m. Clearly, the market at the time that Lot B was disposed was very soft and developers were not willing to guarantee even a P40,000/sq.m. price and certainly not a higher price of P50,000 per sq.m. stipulated under the July 2002 solicitation of proposals.

For the July 2002 solicitation of proposals, only ALI submitted a complete and comprehensive proposal with a financial proposal closest to the parameters.

In view of the proposals received, BCDA relaxed certain rules like the rating criteria of crediting only 50% weight to unsecured revenues, changes in the Design Standards and Guidelines, and even the "as is, where is" requirement.

This is evident in the Notice of Award to ALI signed by then BCDA President Rufo Colayco declaring that the proposal submitted by ALI dated July 24, 2002 "appear to be the most favorable amongst the other offers." The Notice of Award did not specifically state that the ALI proposal is compliant with the Proposed Guidelines and Parameters.

We understand that Serendra was a result of a negotiated contract. It cannot be denied that by relaxing the criteria for disposition that was aimed to recover the minimum value of the property will result to failure to meet the target.

On Management's explanation that the value of the property based on the appraisal before the failed bidding was less than P30,000.00 per sq.m., we noted that such appraisal was made *prior* to the failed bidding held in year 2000. The JDA was signed on year 2002. Additionally, the adjusted zonal value of the property (a requirement in the JDA before the turnover of the property) is P42,000 per sq.m. Thus, we do not agree that the value of the property was less than P30,000 per sq. m. Lastly, the minimum lot price was set based on the net area of 85,389 sq.m. and not on the gross area of the property disposed of 110,903.41 sq.m.

## **2. The projected cash inflows in ALI's proposal may not be fully realized.**

As of December 31, 2016, BCDA reported a total contract price of P5.957 billion for all BCDA-allocated units sold P5.367 billion of which had already been received by BCDA as gross inflows.

Our computation of BCDA's expected total net cash inflow from the project, which is short of ALI's proposed amount by P5.926 billion, is presented below:

Gross collections from sale of units as of Dec. 31, 2016		5,367,372,800
Less: Settlement of: (per records)		
Management fees	(161,419,751)	
Marketing fees	(526,233,193)	(687,652,944)
Net actual collections from sale of units		4,679,719,856
Remittances to Complete BCDA's share <sup>8</sup>		34,983,570
<b>Actual Total Net Cash Inflows from Condominium and Parking Slots</b>		<b>4,714,703,426</b>
<b>Actual Net Inflows from Rental of Serendra Retail Units</b>		<b>110,425,479</b>
Balance from Sold Units (P5,956,610,959 - 5,367,372,800)		589,238,159
Less: Estimated fees		
Management fees (P5,956,610,959 x 3% - P161,419,751)	(17,278,577)	
Marketing fees (P5,956,610,959 x 9% - 526,233,193)	(9,861,793)	(27,140,370)
<b>Estimated Net Receivable from Sold Units</b>		<b>562,097,788</b>
Reference Value of unsold units		154,285,000
Management Fees	(4,628,550)	
Marketing Fees	(13,885,650)	(18,514,200)
<b>Estimated Net Cash Inflows from Unsold Units</b>		<b>135,770,800</b>
<b>Total Net Cash Inflows (Actual collections, and estimated inflows from receivables from sold units and net inflows from unsold units)</b>		<b>5,522,997,493</b>
Cash Inflows per ALI's proposal		11,449,280,000
<b>Variance (Shortfall)</b>		<b>(5,926,282,507)</b>

From the proceeds of the Project, BCDA has remitted as of December 31, 2016 P3.149 million to the Armed Forces of the Philippines (AFP) and P1.723 billion to the Bureau of the Treasury (BTr), for a total of P1,726 billion, representing AFP's share in the proceeds from the Serendra Project.

We advised Management to perform its own assessment of operations/revenue generations from the Lot B Project and develop strategies to mitigate the risk of not realizing the targeted cash inflows from the Project.

Management explained that the main factor for the shortfall is the under-utilized Gross Floor Area (GFA) in the Serendra Project. ALI's proposal commits a development in the range of 423,179 to 770,532 sq.m. of GFA. As a result, there are about 250,000 to 300,000 sq.m. of unutilized GFA in the lot. BCDA is currently determining the exact figures. At the conservative market price of P40,000 Accommodation Value, the un-utilized GFA amounts to P10 billion.

To the COA recommendation to develop management strategies to mitigate the risk of not realizing the targeted cash inflows for the project, the response of Management is to recover the un-utilized GFA and use the same to create more value and generate more revenues to BCDA.

We noted that it would be great if the 250,000 to 300,000 sq.m. of GFA can be recovered by the BCDA because that may surpass the targeted revenue on the disposition of Lot B.

<sup>8</sup> Pertains to the cash settlement of short in BCDA's share in allocation.

**CYs 2014-2015 PERFORMANCE AUDIT**  
**Reiteration of Audit Observations and Recommendations**

**A. Newport City Project**

BCDA entered into five (5) Joint Venture Agreements (JVAs) for the joint development and conversion to civilian use of portions of Metro Manila (MM) military camps. Generally, the JVAs provide that BCDA shall contribute all its rights, title and interest in and to the subject land (portion of MM military camps), while the JV partner shall provide financing for the implementation of the Project. In return for their contributions, BCDA and the JV partner shall receive their shares of allocated units and/or net proceeds. Allocated units are in the form of developed lots and residential, condominium, parking and commercial units.

The performance audit for CY 2015 focused on the efficiency and effectiveness of BCDA in achieving its mandate of raising funds thru disposition of portions of MM military camps, specifically the development of the Villamor Gateway Center, known as the Newport City Project. The resultant Performance Audit Report was transmitted to BCDA on December 12, 2016 and we hereby reiterate the following observations and recommendations.

**1. Relocation and replication of structures by Megaworld which are considered completed by BCDA were not substantiated with relevant documents.**

*Section 2.4 (xiv) of the Joint Venture Agreement (JVA) with Megaworld dated October 10, 2003<sup>9</sup> provides that Megaworld, at its sole expense, shall assume and cause the relocation and replication of the property occupied by the military facilities of the Philippine Air Force (PAF), the Villamor Air Base Elementary School, the Pasay City South High School, the Philippine State College of Aeronautics, and the barangay facilities of Pasay. Notwithstanding any provision in the bid documents, any variance from the Final Replication Budgets shall be for the account of Megaworld. Thus, in the event that the actual replication costs of the Structures for Replication should exceed the Final Replication Budgets, the excess shall be shouldered by Megaworld. In the event, however, that the actual replication costs of the Structures for Replication should be less than the Final Replication Budgets, any savings therefrom shall pertain to Megaworld and shall no longer be returned to BCDA. For the purpose of facilitating the relocation and replication of structures, BCDA authorizes Megaworld to negotiate and agree with the respective owners of the Structures for Replication on the final terms of the relocation and replication, such as the list of structures for replication, plans, specifications and cost thereof.*

The total costs of relocation and replication of existing structures affected by the development of the property is estimated at P889.331 million per Annex C to the JVA. The P889.331 million was accounted as portion of the return/benefits from the disposition of the property, thus must be delivered by Megaworld in full. There is no proof, however, that the estimated relocation and replication cost totalling P889.331 million was completely provided by Megaworld.

Of the P889.331 million, P624.700 million was allocated for relocation and replication of military/PAF facilities. On March 2005, BCDA and the Department of National Defense (DND) – Philippine Air Force (PAF) entered into a Memorandum of Agreement (MOA) which

<sup>9</sup> JVA for the planning, construction and development of the Villamor Gateway Center



provides, among others, that BCDA shall be responsible for funding and functional replication of all facilities/utilities to be affected by the final delineation of BCDA and PAF areas in Villamor Air Base (VAB). Based on the aforesaid agreement, BCDA and PAF agreed on the replication of the PAF structures/facilities. The estimated cost of structures/facilities listed in Annex C of the JVA of P624.700 million was used as basis in the determination of the total relocation and replication budget. As such, the PAF Structures for Replication listed in Annex C of the aforesaid JVA are not the actual structures/facilities replicated by BCDA/ Megaworld.

Based on the Schedule of PAF Military Facilities on the VAB Replication Project provided by the Management, the actual replication cost for the Military Facilities amounted to P627.770 million, which amount exceeded the budgeted amount per JVA of P624.700 million by P3.070 million. It appears that the recording thereof in the books was not yet completed as of December 31, 2015, considering that only P366.4 million was disclosed as completed in BCDA's Notes to Financial Statements for CY 2015.

On December 29, 2016, BCDA recorded in its books the transfer of replicated facilities to Pasay City South High School (PCSHS) in the amount of P94.233 million. This corresponds to P81.593 million of P889.331 million replication cost per JVA. Thus, of the P889.331 million replication cost per JVA, only P448.008 million (P366.415 million and P81.593 million), or 50.04% of the structures will appear as completed, accepted and turned over to the end-users/beneficiaries and with complete documentation.

We reiterated our previous year's recommendation, discussed in a separate Performance Audit Report on the Newport City, that Management ensure that the relocation and replication of structures affected by the development of the property are completed according to the terms of the JVA and the MOA between BCDA and DND-PAF and recorded in the books of accounts once the documentation is completed.

Management commented that certain activities and documentations have yet to be completed such as the validation of actual works done and costs incurred necessary for the issuance of BCDA confirmation and certification of the completed works, which in turn is a pre-requisite for the issuance of the Certificate of Completion and Acceptance from the concerned benefactor. As of this date, coordination with Megaworld is ongoing to facilitate the eventual issuance of the Certificate of Acceptance for the relocated and replicated structures. Once the documentation is completed, proper recording will follow.

- 2. The 17.16% deduction made by Megaworld from the net proceeds it received from the sale of BCDA-allocated units, relative to the 3-hectare land it stands to lose to service the relocation needs of the schools and facilities within the property, was unwarranted and remained uncollected.**

Section 2.8 of JVA provides that *pursuant to the Bid Documents, Megaworld shall allocate portions of the Subject property, not to exceed three (3) hectares, to service the relocation needs of the Schools and Community Facilities. In consideration thereof, Megaworld shall be compensated by deducting the Land Compensation Amount from the Net Proceeds actually received for the sale or lease of BCDA Allocated Units for each Selling Period.*

As defined in Section 1 of the JVA, "*Land Compensation Amount*" shall mean an amount representing 17.16% of the Net Proceeds actually received from the sale or lease of BCDA Allocated Units for each Selling Period and retained by Megaworld by way of compensation

*for the land which it has lost in servicing the relocation needs of the Schools and Community Facilities within the Subject Property, subject to adjustment.*

As of October 2012, a total P82.170 million has been deducted by Megaworld from BCDA's net proceeds from the sale of the latter's allocated units in the Project as land compensation. However, no such deduction should have been made because BCDA provided a separate lot for the relocation of the institutional facilities.

In a briefing conducted on November 6, 2015 by BCDA's Subsidiaries, Affiliates and Project Monitoring Department (SAPMD) regarding BCDA's joint venture projects, it was discussed that a major portion of the area formerly intended for institutional facilities is currently being developed by Megaworld with some portions already operational since 2012. We gathered that the 3-hectare land that was initially intended to service the relocation needs of the schools and community facilities was not withheld from the JV lots but was actually made available for development. Therefore, Megaworld did not incur a loss equivalent to its claimed land compensation. Thus, we find the deduction of 17.16%, or P82.170 million, from the actual net proceeds due to BCDA, as unwarranted.

In a separate Performance Audit Report on the Newport City Project, we recommended that Management take appropriate action to recover the amount of P82.170 million erroneously withheld/deducted by Megaworld from the sales proceeds it remitted to BCDA.

In CY 2015 audit, Management explained that the matter will be discussed with Megaworld and that the recovery of the erroneously deducted land compensation will be included in the Supplemental Implementing Agreement (SIA) to be executed between BCDA and Megaworld, which will generally improve BCDA's share and strengthen BCDA's monitoring control on the JVA, to wit:

- a. It will increase the percentage share of BCDA from the net proceeds actually derived from the sale or lease of the developments in the freed-up area;
- b. It will require Megaworld to reimburse the Land Compensation Amount deducted from the Net Proceeds;
- c. It will clarify that the freed-up area includes the road, roundabout and landscape since Megaworld benefited from the project;
- d. It will require Megaworld to submit a Development Plan; and
- e. It will require Megaworld to submit relevant documents necessary for BCDA to monitor its share from the proceeds of the development.

As of December 31, 2016, no payment was received from Megaworld for the refund of the erroneous deductions for Land Compensation.

We reiterated our previous year's recommendation that Management take appropriate action to recover the land compensation amounting to P82.170 million withheld/deducted by Megaworld from proceeds remitted to BCDA.

Management commented that, on account of its road widening project in the vicinity of the Ninoy Aquino International Airport (NAIA) Terminal 3, the Metro Manila Development Authority (MMDA) requested BCDA to relocate the schools and community facilities from its planned location along Andrews Avenue and Manlunas Street. The BCDA Board approved the transfer to an area not covered by the JVA. The original relocation area was transferred

to Megaworld for development only in July 2010. The land use for the property consisted of the following:

Buildable Area	17,108 sq. m.
MMDA road widening project	8,280 sq. m.
Newport Road Network	4,612 sq. m.

Based on the Supplemental Implementing Agreement (SIA) which already passed the review of Office of the Government Corporate Counsel (OGCC) and transmitted to Megaworld for signature, Megaworld agreed to dispense deduction of the 17.16% Land Compensation Amount from the net proceeds actually received from the sale or lease of BCDA-allocated units beginning July 2010. Any Land Compensation Amount that may have been deducted since July 2010 shall be refunded by Megaworld to BCDA within 30 days from the signing of the SIA.

We advised that Management study and assert the best options to protect the interest of the government. Looking at the situation, the continuous delay by Megaworld in reviewing and signing the SIA is disadvantageous to BCDA and AFP. As explained by Management, the freed-up three-hectare area was already turned over in 2010, was developed, and now generating income for Megaworld but BCDA is still waiting for the effectivity of SIA to assert its right to the share in cash proceeds. Aggravating the case is the deduction of the Land Compensation Amount that appears to be more than the amount that should have been actually withheld but the excess is not yet due for refund to BCDA until 30 days after the signing of the SIA.

**3. Unbilled and uncollected interest arising from the late remittance of the P125.83 million proceeds from the sale of BCDA-allocated units in Sarasota and Pinecrest units are yet to be determined and to be collected.**

The JVA provides that *Megaworld shall be the exclusive marketing agent of the Project and shall be responsible for the preparation and execution of all contracts to be used in connection with the sale or lease of BCDA allocated units, including all contract negotiations with prospective customers without prejudice to BCDA's right to require approval [Section 2.4 (c)]*. It also provides that *for the purpose of paying the Net Proceeds from the sale or lease by Megaworld of BCDA Allocated Units, Megaworld shall at the end of each Selling Period, determine the Net Proceeds corresponding to the Gross Proceeds actually received by Megaworld from the sale or lease of BCDA Allocated Units during such Selling Period. Within eight (8) Business Days after each selling period, Megaworld shall issue a check payable to BCDA in the amount corresponding to the net proceeds determined to be due to BCDA from the sale or lease of BCDA allocated units for the applicable Selling Period [Section 2.5 (ii)]. Further, it provides that all payments due to a party shall be effected, without necessity of any demand, but subject to a grace period of sixty (60) days from due date. In the event that a party is not able to receive the payment of any amount required, due to a cause which is not recognized as an excuse for non-performance or non-payment, then the party from whom such payment is required shall be liable for the payment of interest equivalent to twelve (12%) per annum accruing on the unpaid amount commencing on the due date thereof [Section 3.4].*

On July 25, 2011, BCDA and Megaworld signed the Deed of Allocation for Sarasota and for Pinecrest units. BCDA was allocated 36 Sarasota units with total reference value of P89.392

million and 43 Pinecrest units with total reference value of P116.637 million, or an aggregate total of P212.029 million. The Project's selling period starts every November and ends on October of the following year.

Proceeds from the sale of BCDA allocated Sarasota and Pinecrest units totaling P125.830 million were received in May 2015. Per inquiry, it was disclosed that part of the May 2015 collection is from prior years' sale of BCDA allocated units. The dates of actual sale and collection were not established from the records presented. Because of the delayed remittance, BCDA is entitled to interest; however, no interest was collected on this particular transaction.

Management informed that, upon the discovery of the late remittance of the proceeds from sale of BCDA allocated units in Sarasota and Pinecrest, demand was immediately made for Megaworld to remit the same, including the interest due thereon and that the BCDA and Megaworld are reconciling the interest due based on the actual dates of sale of the BCDA allocated units.

We noted that no remittance for the interest due from Megaworld was received to date and the interest due to BCDA is not yet determined.

We recommended that Management determine the interest due from Megaworld arising from late remittance of the P125.83 million proceeds from sale of Sarasota and Pinecrest units and enforce the collection of interest arising from the delayed remittance.

Management updated that Megaworld alleged good faith stating that the inadvertence was purely by mistake. They provided copies of their remittances to the BIR of the value added tax corresponding to these sold units to underscore their error. While Megaworld does not negate the slip ups from their end, it sought consideration on the interest being charged which is in the nature of penalty for the late remittance of the net proceeds, considering the absence of bad faith or any intention to cause any delays in payments.

We deem it proper to collect the penalty due arising from the late remittances in accordance with the provision of JVA.

**4. Megaworld did not provide BCDA allocation for Plaza 66 and 150 Newport Boulevard of the Newport City Project.**

We discussed in the Performance Audit Report that BCDA should have already benefited from the development of Plaza 66 and 150 Newport Boulevard of the Newport City Project from the date it has started operation if allocation of the units was executed, considering that:

- a. Plaza 66 started operations on August 2012
- b. 150 Newport Boulevard, per 2015 Summary Report, is partially occupied and operational.

As of the 9<sup>th</sup> selling period of Newport City (ending October 2016), remittances do not include share from Plaza 66 and 150 Newport Boulevard operations. The 2016 Inventory of lots and units does not include any allocation from the two developments.

We recommended that Management demand the allocations for Plaza 66 and 150 Newport Boulevard and ensure that share in income from prior year's operation of these developments is collected by BCDA.

Management commented that all developments located in the three-hectare area such as the Plaza 66 and 150 Newport Boulevard are covered by SIA, which is now in the execution stage. The allocation and percentage share of BCDA for these developments were actually increased from original 5% under the JVA to 20% of the net proceeds actually derived from the sale or lease of the developments in the property.

We reiterated our position that the delayed signing of the SIA is prejudicial to the interest of the BCDA and AFP.

## **B. Heritage Park Project**

BCDA is the principal proponent of memorial park project known as the Heritage Park (HP) Project. The HP Project was aimed at converting portion of demilitarized Fort Bonifacio in Metro Manila into a world class memorial park for the purpose of generating funds for BCDA in pursuance of its mandate of comprehensive Conversion Program. To generate funds, BCDA issued Heritage Park Investment Certificates (HPICs) evidencing the holder's right to the perpetual use and care of interment plots.

The performance audit for CY 2014 focused on the efficiency and effectiveness of BCDA in achieving its objective of raising funds thru the HP Project. The resultant Performance Audit Report was transmitted to BCDA on July 10, 2015 and we hereby reiterate the following observations and recommendations.

### **Portion of the proceeds from the development of the Heritage Park (HP) Project was not accounted as government funds.**

The Legal Services Department (LSD) of BCDA in its Opinion No. 2014-032 opined that *the proceeds from the securitization of the lot covered by the Heritage Park Project resulting in the HPICs are government funds. PNB, as trustee, merely manages the funds for and in behalf of the trustor, BCDA. Accordingly, the funds under the "Heritage Park accounts", are subject of government accounting and auditing rules and regulation, as well as COA and government rules on disbursement.*

The quoted opinion is based on the following:

- Section 2(2) Chapter 1, Subtitle B, Title I, Book V of EO 292, which provides: "(2) *Government funds*" includes public moneys of every sort and other resources pertaining to any agency of the Government";
- *Kilosbayan, Inc, et al. vs. Teofisto Guingona, Jr., et al*, where the Supreme Court held that "*proceeds from privatization of government-owned or controlled corporations and other government assets are considered public funds.*"

The Heritage Park and Management Corporation (HPMC) is a non-stock, non-profit organization organized by BCDA to manage and maintain the Heritage Park. We noted that funds from the HP project was managed by the HPMC as gathered from the following:

a. In a briefing about the HP Project conducted on April 23, 2013 for the COA Team, the following were discussed, which show the funds were raised from the Project:

- RMMI's projections for JV lots 1, 2, 3 and 4 under the Construction and Development Agreement (CDA), dated May 14, 2003, between the HPMC and Rosehills Memorial Management Inc. (RMMI)

<b>Lot Area</b>	<b>Projected Revenues</b>
Lot 1 (5,506 sq. m.)	300,000,000
Lot 2 (1,380 sq. m.)	70,000,000
Lot 3 (2,321 sq. m.)	21,225,000
Lot 4 (23,635 sq. m.)	813,275,949
Total Estimated Value	1,204,500,949
Less:	
Doc. Stamps	3,011,252
PCF	144,540,114
Sub-total	147,551,366
Net Proceeds	1,056,949,583
Proposed distribution of the projected net proceeds:	
63% to the General Fund	665,878,237
37% RMMI	391,071,346
	<b>1,056,949,583</b>

- As of March 2010, JV lots generated total proceeds of P180,947,463, as follows:

Actual Sales as of March 2010	
Number of Certificates Sold (2,976)	
Proceeds from Sale of HPICs (in Pesos)	157,213,712
Proceeds from Cremation Packages (in Pesos)	23,733,751
	<b>180,947,463</b>

*Note: Number of Certificates generated can only be determined based on CAD file/plans and drawings for JV Area generated by RMMI*

- b. Pursuant to Part III, Section 1 of the Agency and Custodianship Agreement between the Philippine National Bank-Trust Banking Group (PNB-TBG) and HPMC, HPMC would deliver to PNB-TBG the balances of Heritage accounts as of March 31, 2000. The PNB-TBG confirmed the turnover of the funds by HPMC and clarified that the manner of delivery/transfer of the project fund balances as of March 2000 was implemented by closing the old Trust Accounts and transferring the Funds to newly opened Trust Accounts under the name of HPMC, with the following balances:

General Fund Account	78,937,432
Construction/Development Fund Account	378,218,130
Marketing and Promotional Support Fund	163,339
Relocation Fund Account	81,950,101
Total	<b>539,269,002</b>

Part III, Section 3 of the Agreement on the Disbursement from Heritage Funds provides, among others, that PNB-TBG shall disburse or release funds from the Heritage Accounts for the following purposes:

- To cover the Project costs and expenses in accordance with the schedule submitted by HPMC to PNB-TBG; and
- To pay the compensation and reasonable out-of-pocket expenses of PNB-TBG as provided for under Part VI, Section 6 of the Agreement.

Moreover, we have noted the following from the BCDA presentation last April 23, 2013, which partly show the accounting for one of the five HP accounts, e.g. Construction/Development Fund Account, as follows:

**Status of Development/Completion of Heritage Park**

	Amount	Status	Remarks
<i>Development Fund as of Oct. 31, 2004</i>	76,359,874		
Ongoing Projects for Funding	(66,551,039)	Completed	
Projects for Implementation	(184,843,451)	Completed only P24,843,451 of Projects	Did not undertake electrification of P60 million and Church at North Terraces of P100 million
Area 2 Columbarium Niches (BCDA lots)	(2,500,000)	Completed	
<b>Development Fund Shortfall</b>	<b>(177,534,616)</b>		<b>To be taken out of the General Fund</b>

As of October 31, 2004, the balance of Development Fund under the HP accounts was P76.360 million, indicating a decrease of P301.858 million from its balance of P378.218 million on March 31, 2000, which was not accounted for.

Shown below are the balances of HP Accounts as of March 31, 2000 and as of December 31, 2013, and the amounts that were utilized.

HP Accounts	As of March 31, 2000	As of December 31, 2013	Utilized
Construction/Development Fund Account (refers to the amount allotted for total development which included consultancy and management fees, horizontal, vertical and landscape developments)	378,218,130	691	378,217,439
Relocation Fund Account (refers to all expenses related to relocation including the budget for Task Force, for housing units compensation, if necessary, but excludes the cost of land if presently owned by BCDA)	81,950,101	0	81,950,101
General Fund Account (refers to the cash proceeds/amount not subject of identified appropriation like Construction/Development Fund, Perpetual Care Fund, Recollection Fund and underwriting discount)	78,937,432	746	78,936,686
Marketing and Promotional Support Fund Account (refers to the amount not to exceed two percent (2%) of total issue less Perpetual Care Fund allocated for marketing and promotional support of the HPP)	163,339	27,330	136,009
<b>Total</b>	<b>539,269,002</b>	<b>28,767</b>	<b>539,240,235</b>

Consistent with the quoted LSD opinion, EO 292 provision and the SC decision, all funds generated from the Heritage Park Project of BCDA should be accounted as government funds. We noted, however, that no accounting of the cash proceeds from the HP Project and the related disbursements therefrom was rendered by BCDA as required by regulations and in the spirit of transparency.

In view of the foregoing, we recommended that Management:

- Revisit the existing arrangement with HPMC to ensure that any and all proceeds generated from the HP Project are accounted by BCDA as government funds; and
- Render an accounting of all the proceeds generated from the HP Project that remain unaccounted in BCDA's books of accounts.