Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

For the Years Ended December 31, 2020 and 2019

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
Corporate Controllership
Received by: Manuel R. Forbes
Date: JUL 2 8 2021 Time: 5:00

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine National Construction Corporation (PNCC or the Corporation), previously known as the Construction Development Corporation of the Philippines (CDCP), was granted the franchise to construct, operate and maintain the North Luzon Expressway (NLEX), South Luzon Expressway (SLEX) and Metro Manila Expressway by virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. The debt-to-equity conversion pursuant to and under the directives of Letter of Instruction 1295 promulgated on February 23, 1983 gave the Government majority ownership of the Corporation.

From 1987 to 2001, PNCC still engaged in some construction business but this resulted in losses. It veered away from active involvement in construction operations, and focused more on the operation and maintenance of its tollways. However, further financial difficulties prevented PNCC from operating and maintaining its tollways in a manner required of a public utility. Therefore, PNCC entered into Joint Venture Agreements (JVAs) that resulted in the division of the Tollways into three portions, the NLEX, the SLEX and the South Metro Manila Skyway (SMMS).

On February 10, 2005, PNCC turned over the Operation and Maintenance (O&M) of the North Luzon Tollways to the Manila North Tollways Corporation (MNTC), while the O&M for the South Metro Manila Skyway was turned over to the Skyway Operation and Maintenance Corporation on December 31, 2007.

Prior to the expiration of the franchise of PNCC on April 30, 2007, the Corporation submitted to Congress all the requirements needed for the renewal of the same, but it was not able to get the required Senate approval. The Toll Regulatory Board (TRB) issued a Toll Operation Certificate to PNCC on April 30, 2007 for the O&M of the SLEX and to collect toll fees, in the interim, after its franchise expiration. The PNCC handed over the O&M of the SLEX to Manila Toll Expressway System Inc. on May 2, 2010.

On June 22, 2016 and October 17, 2016, the Corporation's Board of Directors and its Shareholders, respectively, approved the amendment to the 4th Article of the Articles of Incorporation to extend the corporate term for fifty (50) years from November 22, 2016, which amendment was approved by Securities and Exchange Commission on November 21, 2016.

FINANCIAL HIGHLIGHTS

Comparative Financial Position
(In thousand pesos)

	2020	2019 (As restated)	Increase (Decrease)
Assets	38,958,033	38,867,402	90,631
Liabilities	20,914,443	20,651,780	262,663
Equity	18,043,590	18,215,622	(172,032)

Comparative Results of Operations
(In thousand pesos)

	2020	2019 (As restated)	Increase (Decrease)
Income	217,609	20,016,518	(19,798,909)
Personnel services	(44,013)	(43,490)	523
Operating expenses	(339,857)	(358,218)	(18,361)
Income (loss) before tax	(166,261)	19,614,810	(19,781,071)
Income tax expense	0	(5,732,017)	(5,732,017)
Net income (loss)	(166,261)	13,882,793	(14,049,054)

SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of PNCC for the period January 1 to December 31, 2020 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2020 and 2019. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an adverse opinion on PNCC's financial statements due to the recognition of the unconverted debts as equity and the non-recognition of interests and other charges thereon resulting in the understatement of total liabilities and overstatement of total equity both by P68.807 billion as of December 31, 2020 and by P68.667 billion as of December 31, 2019. There should have been a deficit of P54.067 billion and P53.758 billion instead of retained earnings of P9.188 billion and P9.357 billion as of December 31, 2020 and 2019, respectively.

For the above observation, which caused the issuance of an adverse opinion, we reiterated our previous years' recommendation that Management recognize as liability in the books of accounts of PNCC the P5.552 billion unconverted debts, instead of equity, together with the interests and other charges thereof amounting to P63.255 billion as of December 31, 2020. Further, follow-up the status of the pending appeal with the Office of the President.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

The other significant observations and recommendations are as follows:

1. The accuracy of PNCC's 10 per cent revenue share amounting to P112.322 million and P160.216 million for Calendar Years 2019 and 2020, respectively, remitted by the Joint Venture (JV) Companies operating the SLEX, NLEX and Skyway, cannot be ascertained due to the absence of verifiable data/information as basis in the computation of such share.

   We reiterated our previous year's recommendation that Management make persistent efforts by coordinating with the Toll Regulatory Board to obtain pertinent documents that could be used as basis for the computation of 10 per cent revenue share of PNCC, validate the same and furnish the Audit Team with the said documents including the results of validation.

2. Variances between the balance per books and confirmed balances of P113.270 million; non-provision of allowance for impairment losses of P14.310 million; and negative balances of P0.822 million, render the validity and reliability of the Receivable account aggregating P128.402 million doubtful.

   We reiterated with modification our recommendations that Management:

   a) Analyze and reconcile the variances and negative balances and provide allowance for impairment loss for long outstanding receivables;

   b) Send demand letters to debtors which are still existing and operational; and

   c) Effect the necessary adjusting journal entries in the books, if warranted, so that reliable information is presented in the financial statements.

3. The accuracy, existence and reliability of Property and Equipment (PE) accounts with carrying amount of P46.005 million as of December 31, 2020 is doubtful due to:

   a. Non-submission of complete and reliable Report on Physical Count of Property, Plant and Equipment (RPCPPE) and absence of reconciliation report on the balance per physical count and balance per books; and

   b. Semi-expendable properties costing P13.863 million with carrying amount of P0.586 million form part of the PE account.

   We recommended that Management:

   a) Instruct the General Services Department to submit a complete RPCPPE with acquisition cost per unit of PE and reconcile PE balances per count and per books; and

   b) Instruct the Controllership Department to reclassify the semi-expendable properties to its appropriate account and observe the minimum capitalization threshold of P15,000 in recognizing/recording tangible assets pursuant to COA Circular No. 2016-006 dated December 29, 2016.

4. The 9.9-hectare portion of PNCC's Financial Center Area property located in Pasay City was idle and/or unutilized to its maximum potential for three years, depriving PNCC of opportunity income of about P1.543 billion annually contrary to Section 2 of Presidential Decree (PD) No. 1445.

   We recommended that Management:

   a) Make representation with the Department of Finance (DOF) regarding the letter of the Deputy Executive Secretary for General Administration of the Office of the President dated March 6, 2020, referring PNCC's request for comment and approval on its plan to bid out the lease and development of the subject property and the corresponding Terms of Reference, for DOF's comment and recommendation; and

b) Immediately proceed with the bidding activities once approval thereof is obtained.

5. PNCC continuously incurred expenses for salaries and benefits of three project employees, rental and other incidental costs totaling P1.391 million despite the cessation of operations and service contracts with Philippine Phosphate Fertilizer Corporation (Philphos) in Isabel, Leyte, contrary to Section 2 of PD No. 1445 and considered unnecessary expenditures pursuant to Section 4.1 of COA Circular No. 2012-03 dated October 29, 2012.

   We recommended that Management:

   a) Instruct the Head- Administration Department to immediately facilitate the transfer of the two serviceable vehicles and the remaining undisposed equipment and inventory items to PNCC Main Office. If immediate transfer is still not feasible due to restrictions brought by the COVID-19 pandemic, allow only one personnel to serve as caretaker of the remaining equipment and inventory items for the mean time; and

   b) Immediately terminate the remaining project employees in Isabel, Leyte.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As of December 31, 2020, the unsettled Notices of Disallowance (ND) amounted to P468.551 million, as follows:

Particulars	Quantity	Amount (in millions)
With Cluster's decision but under automatic review by the Commission Proper	4	172.468
NDs affirmed in the decision rendered by the COA CGS Cluster Director. Petition for Review filed with the COA Commission Proper	24	199.965
With Petition for Certiorari filed with the Supreme Court	2	91.697
NDs with Notice of Finality of Decision (NFD) and COA Order of Execution (COE)	6	4.369
ND waiting appeal from persons liable	1	0.052
	37	468.551

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 69 prior years' recommendations, 12 were implemented/reconsidered, 39 were partially implemented and 18 were not implemented. Details are presented in Part III of this Report.

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PART I

AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine National Construction Corporation
Km. 15, East Service Road
Bicutan, Parañaque City

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of Philippine National Construction Corporation (PNCC), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* paragraph of our report, the accompanying financial statements do not present fairly the financial position of PNCC as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Adverse Opinion

Letter of Instruction (LOI) No. 1295 issued in 1983 directed all concerned Government Financial Institutions (GFIs) to convert into shares of common stock all direct obligations of PNCC with them. However, P5.552 billion debts were not converted into equity due to insufficient authorized capital. These debts were eventually transferred to the National Government (NG) thru the Asset Privatization Trust, now Privatization Management Office (PMO), pursuant to Proclamation No. 50 issued in 1986 and serviced by the Bureau of the Treasury (BTr). It is PNCC's position that these unconverted debts have effectively been converted to equity and, therefore, should no longer bear interest and other charges. Accordingly, it recognized in equity the unconverted debts in the total amount of P5.552 billion and no longer recognized the interest and other charges thereon. The NG, however, has a contrary position.

Due to their conflicting positions, the parties submitted the issue to the Department of Justice (DOJ) in 2012 for arbitration. In 2014, the DOJ dismissed PNCC's petition against the PMO and ordered the former to pay the latter its due and demandable obligation inclusive of interests and penalties until actually paid. PNCC's Motion for Reconsideration (MR) and Supplement to the MR were, likewise, denied by the DOJ in 2015. Accordingly, PNCC filed an Appeal Memorandum with the Office of the President (OP) of the Philippines on July 27, 2015, which, to date, is still pending with the OP.

Earlier, the Office of the Government Corporate Counsel (OGCC), in its Opinion No. 245 dated November 15, 2007, opined that PNCC may enter into an agreement with PMO for the conversion of PNCC's remaining liabilities into PNCC's shares of common stock and that after the completion of the equity conversion, PNCC shall no longer have any remaining obligations with the NG and PMO under LOI No. 1295, subject to the approval by higher authorities as may be required by law or regulation.

On April 15, 2015, the Department of Finance (DOF) served PNCC a Statement of Account informing that its outstanding obligations were due and demandable, and that there is no longer any basis to consider the conversion into equity of the subject obligations under LOI No. 1295.

Taking into consideration the time that had elapsed, together with the DOJ opinion, the OGCC opinion and the DOF demand, we believe that the planned conversion of debts to equity is a remote possibility.

The unconverted debt of P5.552 billion increased to P68.807 billion and P68.667 billion as of December 31, 2020 and 2019, respectively, as shown in the Statement of Accounts issued by PMO and the Status of BTr Advances issued by the BTr both as of December 31, 2020 and 2019. The increase consists mainly of interest and other charges. The said amounts were not recognized by PNCC as liability in its books resulting in the understatement of total liabilities and overstatement of total equity both by P68.807 billion as of December 31, 2020 and by P68.667 billion as of December 31, 2019. Further, there should have been a deficit of P54.067 billion and P53.758 billion instead of retained earnings of P9.188 billion and P9.357 billion as of December 31, 2020 and 2019, respectively.

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

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there is no other key audit matter to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in the PNCC's Securities and Exchange Commission (SEC) Form No. 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2020 but does not include the financial statements and our auditor's report thereon. The SEC Form No. 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the PNCC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the PNCC or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 PNCC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PNCC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PNCC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 37 to the financial statements is presented for the purpose 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 and has been subjected to auditing procedures applied in our audits of the basic financial statements. Because of the significance of the matter described in the *Basis for Adverse Opinion* section, it is inappropriate to and we do not express an opinion on the information referred to above.

COMMISSION ON AUDIT

mtpetalio

MYRNA T. PETALIO
OIC- Supervising Auditor

July 16, 2021

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of the Philippine National Construction Corporation is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached *Board Approved-Audited Financial Statements* as of and for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of Philippine National Construction Corporation, complete and correct in all material respects. Management likewise affirms that:

(a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and

(c) the Philippine National Construction Corporation has filed all applicable tax returns, reports, and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

MIGUEL E. UMALI
President and CEO

CRISTY M. MEDIAVILLO
Head, Treasury

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Philippine National Construction Corporation (PNCC) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the PNCC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate PNCC or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing PNCC's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders and other users.

The Commission on Audit has audited the financial statements of PNCC in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such audit.

HERCULANO C. CO, JR.	**MIGUEL E. UMALI**	**CRISTY M. MEDIAVILLO**
Chairman of the Board	President and CEO	Head, Treasury

SUBSCRIBED AND SWORN to before me this JUL 1 6 2021 day of ______________ affiants exhibiting to me their Tax Identifications, as follows:

Names	Tax Identification No.
Herculano C. Co, Jr.	167-383-105
Miguel E. Umali	106-974-003
Cristy M. Mediavillo	118-060-474

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ATTY. IRISH S. PRECION
Roll of Attorneys No. 69281/ 05.31.17
PTR No. A-5061759/ 01.14.2021 (Taguig City)
IBP No. 111043/ 01.08.2020
MCLE Exemption No. VI-002453 valid until 14, April 2022
Unit 1124 Tower 2 Grace Residences Condominium
Levi Mariano Ave., Taguig City

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(In Philippine Peso)

	Notes	December 31, 2020	December 31, 2019 (As restated)	January 1, 2019 (As restated)
ASSETS				
Current Assets				
Cash	4.3, 7	**124,993,787**	134,697,373	205,158,385
Short-term investments	8	**1,333,066,028**	1,186,189,230	730,179,490
Receivables, net	4.3, 9	**356,507,577**	390,730,310	469,090,549
Inventories	4.8, 10	**3,775,735**	3,892,520	3,709,987
Other current assets	11	**26,704,061**	26,828,483	23,119,740
Total Current Assets		**1,845,047,188**	1,742,337,916	1,431,258,151
Non-Current Assets				
Investment	4.10, 12	**1,550,621,952**	1,551,766,952	926,990,952
Investment property	4.11, 13	**33,847,159,091**	33,847,159,091	14,740,596,334
Property and equipment, net	4.12, 14	**1,506,988,845**	1,512,999,825	658,570,260
Deferred tax assets	4.21, 30	**33,888,888**	38,810,560	40,978,113
Other non-current assets, net	15	**174,327,787**	174,327,787	174,478,572
Total Non-Current Assets		**37,112,986,563**	37,125,064,215	16,541,614,231
TOTAL ASSETS		**38,958,033,751**	38,867,402,131	17,972,872,382
LIABILITIES				
Current Liabilities				
Financial liabilitiles	16	**19,233,392**	14,865,488	13,890,666
Other financial liabilities (Due to NG and GOCCs)	17	**10,064,011,016**	9,806,008,816	9,548,006,516
Inter-agency payables	18	**1,151,861**	1,885,302	19,115,429
Trust liabilities	19	**33,515,523**	25,296,846	39,363,786
Deferred credits/unearned income	20	**120,647,452**	118,290,484	25,501,119
Total Current Liabilities		**10,238,559,244**	9,966,346,936	9,645,877,516
Non-Current Liabilities				
Deferred tax liabilities	4.21, 30	**10,581,082,258**	10,582,407,683	4,593,644,240
Trust liabilities	19	**94,801,914**	103,025,071	3,789,629
Total Non-Current Liabilities		**10,675,884,172**	10,685,432,754	4,597,433,869
TOTAL LIABILITIES		**20,914,443,416**	20,651,779,690	14,243,311,385
EQUITY		**18,043,590,335**	18,215,622,441	3,729,560,997
TOTAL LIABILITIES AND EQUITY		**38,958,033,751**	38,867,402,131	17,972,872,382

The notes on pages 10 to 86 form part of these financial statements.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020, 2019 and 2018
(In Philippine Peso)

	Notes	**December 31, 2020**	December 31, 2019 (As restated)	December 31, 2018
Income				
Service and business income	4.17, 24	**216,300,256**	282,686,071	291,996,301
Gains	25	**0**	19,107,253,869	222,907
Other non-operating income	4.17, 26	**1,309,348**	626,578,929	1,664,942
Total Income		**217,609,604**	20,016,518,869	293,884,150
Expenses				
Personnel services	4.18, 27	**(44,013,443)**	(43,490,432)	(46,359,548)
Maintenance and other operating expenses	4.18, 28	**(41,080,934)**	(44,345,367)	(42,042,026)
Financial expenses				
Penalty charges on unpaid concession fee	4.19, 17	**(258,002,200)**	(258,002,300)	(258,002,300)
Bank charges	4.18	**(8,030)**	(7,530)	0
Direct costs	4.18, 29	**(40,766,280)**	(55,863,243)	(30,688,384)
Total Expenses		**(383,870,887)**	(401,708,872)	(377,092,258)
Income (Loss) Before Tax		**(166,261,283)**	19,614,809,997	(83,208,108)
Income tax expense	4.21, 30	**0**	(5,732,017,200)	0
Net Income (Loss)		**(166,261,283)**	13,882,792,797	(83,208,108)
Other Comprehensive income (loss)		**55,000**	(224,000)	40,000
Total Comprehensive Income (Loss)		**(166,206,283)**	13,882,568,797	(83,168,108)

The notes on pages 10 to 86 form part of these financial statements.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	Share Capital (Notes 4.16, 21)	Share Premium (Note 4.16)	Equity Adjustment - Loans Transferred to National Gov't (Note 23)	Subscriptions Receivable (Notes 4.16, 22)	Treasury Stock (Notes 4.16, 21)	Revaluation Surplus (Note 4.12)	Retained Earnings/(Deficit) (Note 4.16)	Accumulated Other Comprehensive Income (loss)	TOTAL
Balance at December 31, 2018, as restated		2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	451,215,986	(4,532,850,687)	40,000	3,727,168,420
Add (Deduct):										0
Correction of prior year's income	35							2,392,577	0	2,392,577
As at January 1, 2019, as restated		2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	451,215,986	(4,530,458,110)	40,000	3,729,560,997
Changes in equity for 2019										
Add (Deduct):										
Comprehensive income for the year, as restated		0	0	0	0	0	0	13,882,792,797	0	13,882,792,797
Other comprehensive income										
Unrealized loss on financial asset at FVOCI		0	0	0	0	0	0	0	(224,000)	(224,000)
Movement in revaluation increment, net of tax		0	0	0	0	0	602,167,223	0	0	602,167,223
Other adjustments										
Piecemeal realization of revaluation increment		0	0	0	0	0	(4,418,082)	4,418,082	0	0
Reduction in deferred tax liability		0	0	0	0	0	1,325,424	0	0	1,325,424
Balance at December 31, 2019		2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	1,050,290,551	9,356,752,769	(184,000)	18,215,622,441
Changes in equity for 2020										
Add (Deduct):										
Comprehensive loss for the year		0	0	0	0	0	0	(166,261,283)	0	(166,261,283)
Other comprehensive income for the year										
Unrealized gain on financial asset at FVOCI		0	0	0	0	0	0	0	55,000	55,000
Other adjustments										
Expiration of 2017 minimum corporate income tax		0	0	0	0	0	0	(7,151,247)	0	(7,151,247)
Piecemeal realization of revaluation increment		0	0	0	0	0	(4,418,082)	4,418,082	0	0
Reduction in deferred tax liability		0	0	0	0	0	1,325,424	0	0	1,325,424
Balance at December 31, 2020		2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	1,047,197,894	9,187,758,321	(129,000)	18,043,590,335

The notes on pages 10 to 86 form part of these financial statements.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020, 2019 and 2018
(In Philippine Peso)

	Notes	**December 31, 2020**	December 31, 2019	December 31, 2018 (As restated)
CASH INFLOWS FROM OPERATING ACTIVITIES				
Cash Inflows				
Collection of income/revenue		**180,502,158**	235,514,737	196,369,967
Collection of receivable		**35,525,280**	100,519,510	0
Other receipts		**2,169,788**	165,360,514	37,289,364
Total Cash Inflows		**218,197,226**	501,394,761	233,659,331
Cash Outflows				
Payment of expenses		**(127,246,364)**	(169,082,006)	(145,204,453)
Release of inter-agency fund transfers		**(3,830,592)**	(3,848,778)	(4,503,212)
Total Cash Outflows		**(131,076,956)**	(172,930,784)	(149,707,665)
Net Cash Provided by Operating Activities		**87,120,270**	328,463,977	83,951,666
CASH INFLOWS FROM INVESTING ACTIVITIES				
Cash Inflows				
Receipt of cash dividends	24.4	**22,462,219**	40,616,102	55,570,010
Receipt of interest earned		**28,054,661**	16,181,404	6,738,925
Proceeds from sale of property and equipment		**0**	751,550	776,130
Total Cash Inflows		**50,516,880**	57,549,056	63,085,065
Cash Outflows				
Placement in money market		**(146,876,799)**	(456,009,740)	(86,619,562)
Purchase of property and equipment		**(463,937)**	(464,305)	(726,719)
Total Cash Outflows		**(147,340,736)**	(456,474,045)	(87,346,281)
Net Cash Used in Investing Activities		**(96,823,856)**	(398,924,989)	(24,261,216)
NET INCREASE (DECREASE) IN CASH		**(9,703,586)**	(70,461,012)	59,690,450
CASH AT BEGINNING OF THE YEAR		**134,697,373**	205,158,385	145,467,935
CASH AT END OF YEAR	7	**124,993,787**	134,697,373	205,158,385

The notes on pages 10 to 86 form part of these financial statements.

1. CORPORATE INFORMATION

The Corporation was originally incorporated under the name of Construction Development Corporation of the Philippines (CDCP) in 1966 for a term of 50 years. Its Articles of Incorporation and By Laws were approved by the Securities and Exchange Commission (SEC) on November 22, 1966 under SEC Registration No. 30939 and its actual operation started on April 16, 1967. The primary purpose of the Corporation is to undertake general contracting business with private parties, government agencies, and instrumentalities relative to the construction of infrastructure projects and to engage in other related services in a manner that will contribute to the economic development of the country. CDCP eventually rose to be one of the country's foremost construction companies with extensive operations in the Philippines, the Middle East, and other ASEAN countries.

On March 31, 1977, Presidential Decree (PD) 1113 granted CDCP the franchise to operate, construct, and maintain toll facilities in the North and South Luzon Tollways for a period of 30 years. (That franchise expired on May 1, 2007.) PD 1113 was amended by PD 1894 in 1983 to include, among others, the Metro Manila Expressway (MME) to serve as an additional artery in the transportation of trade and commerce in the Metro Manila Area and gave the Corporation another period of 30 years "from the completion of the project."

On May 7, 1981, Letter of Instruction (LOI) 1136 was issued mandating the National Development Company (NDC) to invest in the Corporation by way of capital infusion in the amount of P250 million.

On February 23, 1983, then President Ferdinand E. Marcos issued LOI 1295, directing the creditor Government Financial Institutions (GFIs) to convert into CDCP shares of stock the following: (1) all of the direct obligations of CDCP and those of its wholly-owned subsidiaries, including, but not limited to loans, credits, accrued interests, fees and advances in any currency outstanding as of December 31, 1982; (2) the direct obligations of CDCP maturing in 1983; and (3) obligations maturing in 1983 which were guaranteed by the GFIs. With the implementation of LOI 1295, the GFIs became the majority stockholder of CDCP.

The amount of the debt to be converted into equity was around P7 billion. However, only P1.4 billion of the debt was issued shares of stocks while the remaining P5.6 billion was left unconverted.

On December 7, 1983, SEC approved the increase of the Corporation's authorized capital stock from P1.6 billion to P2.7 billion in accordance with LOI 1295.

CDCP was later renamed as Philippine National Construction Corporation (the Corporation) to reflect the Philippine Government's stockholding, and became a government-acquired asset corporation. Consequently, the various GFIs were given seats in the Board of Directors of the Corporation and participated in its management.

In 1986, under Proclamation No. 50, the Corporation was placed under the Committee on Privatization (COP) and the Asset Privatization Trust (APT). Also in 1986, under Administrative Order No. 64, certain assets of the Philippine Export and Foreign Loan Guarantee Corporation (Philguarantee) and the NDC were transferred to the National Government (NG) which also assumed certain liabilities of both Philguarantee and NDC. A total of P1.918 billion was transferred to the NG.

By virtue of LOI 1136 and 1295, 55.72 per cent of the Corporation's equity was held by the APT (now the Privatization Management Office or PMO), which was created on December 8, 1986 by virtue of Proclamation No. 50. The other 21.25 per cent was held by the Government Service Insurance System (GSIS) and the Land Bank of the Philippines (LBP) with 20.96 per cent and 0.29 per cent, respectively. The remaining 23.03 per cent of the Corporation's equity is under private ownership.

In 1988, pursuant to Administrative Order Nos. 14 and 64, Development Bank of the Philippines (DBP), Philippine National Bank (PNB), Philguarantee, and NDC transferred their interests in the Corporation to the Republic of the Philippines which in turn conveyed them to the APT (now PMO) for disposition to the private sector pursuant to the government's privatization program.

From 1987 to 2001, the Corporation still engaged in construction business but this resulted in losses. It veered away from active involvement in construction operations, and focused more on the operation and maintenance of its tollways. It entered into Joint Venture Agreements (JVAs) that resulted in the division of the Tollways into the South Luzon Expressway (SLEX), the North Luzon Expressway (NLEX) and the Skyway.

In August 1995, the Corporation entered into a Business and Joint Venture Agreement (BJVA) with Indonesia's P.T. Citra Lamtoro Gung Persada (CITRA) and formed the joint venture company, Citra Metro Manila Tollways Corporation (CMMTC), which was granted the Supplemental Toll Operation Agreement (STOA) to finance, design and construct the South Metro Manila Skyway (SMMS) Project. The project covered the construction of the 9.5-kilometer elevated road from Bicutan, Parañaque City to the Makati Central Business District, as well as the rehabilitation of the 13.5-kilometer section of the SLEX from Alabang to Magallanes. The PNCC's wholly-owned subsidiary, PNCC Skyway Corporation (PSC), originally managed the operation and maintenance of the SMMS Project. October 1999 marked the start of the full operation of the entire Skyway Stage 1.

In 1997, the Corporation entered into a JVA with the First Philippine Infrastructure Development Corporation (FPIDC) for the rehabilitation of the NLEX. The Manila North Tollways Corporation (MNTC) was incorporated as its joint venture company. MNTC was granted the STOA in June 1998 to finance, design, construct, operate and maintain the toll roads, toll facilities and other facilities generating toll-related income in respect of the NLEX. The FPIDC was acquired by the Metro Pacific Investments Corporation (MPIC) in 2008. The operation and maintenance (O&M) of the NLEX is with the Tollways Management Corporation (TMC). Following the issuance of the Toll Operation Permit (TOP), commercial operations started on February 1, 2005.

In 2002, by virtue of Executive Order No. 148, the Corporation was attached, "for policy and program coordination and for general supervision", to the Department of Public Works and Highways (DPWH), "with which it has allied functions, especially in the development of road networks within the country".

In 2004, as per Executive Order No. 331, the Corporation was placed under and attached to the Department of Trade and Industry (DTI) "pending privatization".

In February 2006, the Corporation entered into a JVA with Malaysian Corporation MTD Manila Expressways, Inc. (MTDME) and formed its joint venture company South Luzon Tollway Corporation (SLTC). By virtue of the STOA entered into with the Toll Regulatory Board (TRB) and the Corporation, SLTC committed to undertake all works required for the SLEX Project including its total financing without sovereign guarantees and with the recovery of its investment being in the form of the collection of toll by the Manila Toll Expressway Systems, Inc. (MATES), its O&M company. The SLEX Rehabilitation and Upgrading Project consisted of the rehabilitation and expansion of the existing toll road from Alabang to Calamba (28.53 km) and the construction of the extension of the SLEX to Sto. Tomas, Batangas (5.81 km) with the associated spur to the Southern Tagalog Arterial Road (1.79 km). SLTC was granted a 30-year concession period from February 2006 to February 2036. It includes the period of construction which began in June 2006.

On April 27, 2007, TRB issued a Toll Operation Certificate (TOC) to the Corporation for the O&M of the SLEX. The said authority from TRB, pursuant to its powers under its charter (PD 1112), allowed the Corporation to operate and maintain the SLEX and to collect toll fees, in the interim, after its franchise expiration on April 30, 2007. The effective date of the TOC commenced on May 1, 2007, but in no case to exceed the date of substantial completion of the SLEX Project Toll Roads under the STOA dated February 1, 2006, or unless sooner revoked by TRB. In 2010, the operation was officially turned over to SLTC and MATES.

In December 2007, the Corporation entered into a Memorandum of Agreement (MOA) with CMMTC and PSC where the Corporation was to have been provided P2 million by CMMTC in order for the Corporation to subscribe to the par value up to 20 per cent of the total outstanding capital stock of the Skyway Operation and Maintenance Corporation (SOMCO), the O&M company. PSC turned over the operation and maintenance of the SMMS Project to SOMCO which operates the 16.2-kilometer elevated tollway from Buendia to Alabang and the 13.5-kilometer at-grade toll road from Magallanes to Alabang.

On November 14, 2008, a Subscription Agreement was executed by and among the Alabang-Sto. Tomas Development, Inc. (ASDI), NDC and the Corporation, wherein the Corporation subscribed to 12,500 shares from the unissued portion of the 150,000 shares authorized capital stock (with par value of P1,000 per share) of ASDI, a then wholly-owned subsidiary of NDC which was incorporated to undertake the Daang Hari-SLEX connector road. On December 3, 2010, the SEC approved the application for increase in capital of ASDI, and on the same year, the Corporation subscribed 51 per cent shares of ASDI, making ASDI its subsidiary.

In 2009, a MOA for the Advance Works on the Daang Hari-SLEX Link Road Project (DHSLRP) was entered by and between ASDI and the Corporation. The Corporation was designated as the Main Turnkey Contractor responsible for undertaking the Advance Works and for the implementation of the design and the construction of the Road Project, which consists of a toll road facility connecting Daang Hari Road in Cavite to the SLEX near Susana Heights Interchange. The project was 25 per cent complete when DPWH, pursuant to its Public Private Partnership (PPP) mandate, took over the project for the purpose of bidding it out. ASDI was to be reimbursed with its cost plus a premium. Bidding of the road project was undertaken by DPWH in December 2011 and was subsequently awarded to Ayala Corporation (AC) in the same month. On April 2, 2012, a Deed of Absolute Sale was executed between ASDI and AC for the turnover of the project.

On April 27, 2009, CMMTC received the Notice to Proceed (NTP) from TRB and it officially started the SMMS Project Stage 2, the 6.8-kilometer elevated expressway from Bicutan to Alabang. In May 2011, Skyway Stage 2 was completed with toll facilities and other ancillary requirements already in place.

In 2009 and 2010, in the case of Ernesto B. Francisco vs. TRB, PNCC et al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010 or the *Francisco Case*) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et al. (G.R. No. 178158, December 4, 2009 or the *Radstock Case*), the Supreme Court (SC) ruled and declared that with the expiration of the Corporation's franchise, the toll assets and facilities of the Corporation were automatically turned over, by operation of law, to the NG at no cost and consequently, this inevitably resulted in the NG owning too the toll fees and the net income derived, after May 1, 2007 from the toll assets and facilities, including the Corporation's percentage share in the toll fees collected by the Joint Venture Companies (JVCs) currently operating the tollways, including NLEX and Skyway.

The SC, in its Resolution dated April 12, 2011 and in connection with the *Francisco Case*, directed TRB, with the assistance of the Commission on Audit (COA), to prepare and finalize the Implementing Rules and Guidelines (IRG) relative to the determination of net income remittable by the Corporation to the NG. An interim rules and guidelines was issued on March 9, 2012, for the remittance by the JVCs to the National Treasury of the net income that are supposed to be remitted by the JVCs from the revenues of the SLEX, NLEX and Skyway in accordance with the *Francisco Case*. The Corporation has been receiving 10 per cent of the revenue and dividend shares from the JVCs, while 90 per cent is remitted by the JVCs to the National Treasury.

In February 2012, the Corporation's shares in JVCs, i.e. CMMTC, MNTC, TMC, SLTC and MATES, were turned over to the government through a Deed of Compliance to Transfer Shares of Stocks to the NG in compliance with the SC decision in the *Francisco Case* (Note 3, New Projects and Other Significant Information).

The impact of the aforesaid SC Decision on the *Radstock and Francisco Cases* has been appropriately reflected in the financial statements.

In 2013, the Corporation was attached and placed under the Office of the President of the Republic of the Philippines (OP) from DTI per Executive Order No. 141. The Corporation entered into Joint Venture Projects with P.T. Citra Lamtoro Gung Persada (CITRA) for the implementation of the Metro Manila Skyway (MMS) Stage 3 Project and the Metro Manila Expressway (MME), or C-6 Project (Note 3, New Projects and Other Significant Information).

The Governance Commission for GOCCs (GCG), in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five subsidiaries of the Corporation, namely: Alabang-Sto. Tomas Development, Inc. (ASDI), DISC Contractors, Builders and General Services, Inc. (DCBGSI), Traffic Control Products Corporation (TCPC), CDCP Farms Corporation (CDCP FC) and Tierra Factors Corporation (TFC), which was approved by the President through a memorandum from the Executive Secretary dated August 7, 2014. The Corporation is in the process of abolishing the five subsidiaries.

In August 2013, CDCP founder, Rodolfo M. Cuenca, filed a case against the TRB, COA, the Corporation, MNTC and MATES, seeking the remittance of revenues and dividends on the toll road projects to the Corporation alleging that TRB has not finalized the IRG. The Makati Regional Trial Court (RTC) "enjoined petitioner TRB and PNCC from implementing the TRB's Interim Rules and Guidelines dated 22 March 2012." In a Resolution dated August 4, 2014, the SC issued a Temporary Restraining Order (TRO) against the Makati RTC's TRO, thus sustaining the status quo that revenues and dividends be remitted directly to the NG.

On March 3, 2015, the Corporation submitted its Performance Agreement to GCG. On December 1, 2015, the Makati RTC issued a Writ of Preliminary Injunction for Civil Case No. 15-384 in favor of Forum Holdings Corporation (Forum) restraining the GCG, its representatives and officers, and the Corporation's Board of Directors from implementing the said Performance Agreement. The Corporation is not impleaded as a party to the case filed by Forum.

In January 2016, three Government Service Insurance System (GSIS) members filed a case against the Corporation's Board of Directors, Members of the Board of Trustees of the GSIS and GCG seeking to enjoin the implementation of the Performance Agreement. On February 12, 2016, the Parañaque RTC ordered the re-raffle of the case to a commercial court. On July 12, 2016, the Parañaque RTC Branch 258 ordered the dismissal of the case for being a nuisance or harassment suit. The three GSIS members filed a Petition for Review on Certiorari dated September 12, 2016 with SC. On February 22, 2017, the SC issued a Resolution denying the petition and upholding the dismissal of the suit by the Parañaque RTC.

Pursuant to Republic Act 10149, the Corporation is listed as a non-chartered Government-Owned or Controlled Corporation (GOCC) under the supervision of the GCG, which is the central advisory, monitoring, and oversight body of the NG under the OP.

On June 22, 2016 and October 17, 2016, the Corporation's Board of Directors and its Shareholders, respectively, approved the amendment to the 4th Article of the Articles of Incorporation to extend the corporate term for 50 years from November 22, 2016, which amendment was approved by the Securities and Exchange Commission on November 21, 2016.

The registered office address of the Corporation is Km. 15, East Service Road, Bicutan, Parañaque City.

2. GOING CONCERN

On March 11, 2020, the World Health Organization has declared the novel corona virus (COVID-19) outbreak a global pandemic. Likewise, government authorities adopted measures, including lockdowns, to control the spread of the virus and mitigate the impact of the outbreak.

In 2020, in compliance to the Philippine government's directives to businesses for the Enhanced Community Quarantine as the country's response to the coronavirus pandemic, the Corporation, as a provider of essential services, was also allowed to continue with its operations. As such, the Corporation implemented social distancing protocols and provided temporary shelter for some employees and shuttle services for other employees.

The scale and duration of these developments remain uncertain as of the report date. It is not possible to estimate the overall impact of the outbreak's near-term and longer effects, however, the Corporation has already incurred and will continue to incur costs as it continue to mitigate the adverse impact of the outbreak on its operations. The outbreak could have a material impact on the Corporation's financial results for the rest of 2021 and even periods thereafter. Considering the evolving nature of the pandemic, the Corporation will continue to monitor the situation.

3. NEW PROJECTS AND OTHER SIGNIFICANT INFORMATION

The Corporation holds updated partnerships for new Toll Road projects. The projects will enable the Corporation to generate sufficient cash flow from dividends and revenue shares from the JVCs for the next 30 years.

Metro Manila Skyway (MMS) Stage 3 Project

The MMS Stage 3 Project is an elevated expressway which starts from Buendia, Makati City to Balintawak, Quezon City and will be extended and eventually connected to the North Luzon Expressway (NLEX).

The project will connect the South Luzon Expressway (SLEX) and the North Luzon Expressway (NLEX) with a length of about 18.68 kilometers. The MMS Stage 3 elevated expressway intends to ease and decongest traffic through its designed access ramps and interchanges strategically located as follows: Buendia Avenue (South Super Highway, Makati City), Pres. Quirino Avenue (Malate, Manila), Plaza Dilao (Paco Manila), Nagtahan/Aurora Boulevard (Manila), E. Rodriguez Avenue (Quezon City), Quezon Avenue (Quezon City), Sgt. Rivera St. (Quezon City) and in the NLEX.

The construction implementation of the MMS Stage 3 was designed and divided into five (5) sections as described below:

	Project Sections	Approximate Length (kms)
1	Buendia/Makati to Quirino Ave./Plaza Dilao	3.76
2a	Plaza Dilao to Tomas Claudio	0.96
2a1	Tomas Claudio to Old Sta Mesa	1.20
2b	Tomas Claudio to Aurora Blvd	3.93
3	Aurora Blvd to Quezon Avenue	2.71
4	Quezon Avenue to EDSA Balintawak	4.46
5	EDSA Balintawak to NLEX/Balintawak Rampway	2.11
		19.13

On May 3, 2011, P.T. Citra Lamtoro Gung Persada (CITRA) and the Corporation submitted to Toll Regulatory Board (TRB) an Updated Joint Venture Investment Proposal for the said project pursuant to one of the "Whereas Clauses" of the South Metro Manila Skyway (SMMS) Supplemental Tollway Operation Agreement (STOA) dated November 27, 1995, as amended on July 18, 2007. Pursuant to its mandate and authority granted under Presidential Decree No. 1112, TRB reviewed, evaluated and approved the Updated Joint Venture Investment Proposal for MMS Stage 3 Project.

On January 9, 2012, CITRA and the Corporation executed a Supplement to the Business and Joint Venture Agreement (Supplement to BJVA) which governs the implementation of the MMS Stage 3 Project and Stage 4 Project also known as the Metro Manila Expressway (MME). The parties also executed the Second Supplement to the Business and Joint Venture Agreement (Second Supplement to BJVA) which contains the terms and conditions for the implementation of both MMS and MME.

On September 6, 2012, the Restated Second Supplement to the Business and Joint Venture Agreement (Restated Second Supplement to BJVA), which contains the entire agreement of the parties and embodies the final terms and conditions for MMS, was executed.

On November 16, 2012, following Section 1 of the Restated Second Supplement to BJVA, Citra Central Expressway Corporation (CCEC), the joint venture company, was incorporated as the vehicle to implement the financing, design, and construction of the MMS.

Under this agreement, the Corporation is provided with the following:

- 20 per cent equity in CCEC, 10 per cent of which is "Free Carry" i.e. not paid for by the Corporation and can never be diluted; while the other 10 per cent is to be paid for. In case of the Corporation's inability to fund the 10 per cent, CITRA needs to get the Corporation's approval to nominate another shareholder. The 10 per cent initial investment in CCEC amounted to P12.5 million.

- Projected share in gross revenues amounting to about P35.06 billion for the duration of the operation period (30 years);

- Projected share in net profits amounting to about P21.42 billion for the duration of the operation period (30 years);

- One permanent seat with one non-voting director to the Board of CCEC, regardless of its shareholdings; and

- Membership in all Board Committees and Chairmanship of the Board's Audit Committee.

The Corporation agreed to forego any equity share in the operation and maintenance (O&M) provided the CCEC remains a cost center and not a profit center.

On September 26, 2013, the STOA governing the design, construction, operation and maintenance of the SMMS Stage 3 Project was approved by the Office of the President of the Republic of the Philippines.

The construction of the project is almost near to completion. The main alignment of the expressway was already completed and the construction works for the remaining items (such as toll plazas, ramps, etc.) are on-going. The main alignment (Buendia to NLEX/Balintawak Rampway) was opened to public on December 29, 2020. The overall accomplishment of the project as of December 2020 is 96.37 per cent (excluding section 2a). The project was inaugurated last January 14, 2021.

Metro Manila Expressway (MME) Stage 4 or C-6 Project

The Southeast Metro Manila Expressway Project is the Phase 1 of the C-6 Expressway, also known as Metro Manila Skyway Stage 4. It is a 32.67 km combination of mostly at-grade and elevated expressway stretching from Skyway FTI, Paranaque City all the way to Batasan Complex.

Project Phase / Section		**Approximate Length (km)**
Phase 1		
Section 1	Skyway FTI to C5/Diego Silang	2.39
Section 2	C5/Diego Silang to C6/Taguig	3.20
Section 3	C6/Taguig to Ortigas Ave. Extension	11.78
Section 4	Ortigas Ave. Ext. to Marcos Highway	5.34
Section 5	Marcos Highway to Tumana Bridge	6.90
Section 6	Tumana Bridge to Batasan Complex	3.06
Total Length		**32.67**

Phase 1 Project Description:

The Metro Manila Skyway Stage 4 or C-6 Phase 1 is a 2 x 3 lanes toll road project approximately 32.67 km in length that is intended to run from Skyway/FTI in Taguig City to Batasan Complex in Quezon City. The Project is divided into 6 Sections as follows:

1. Section 1: Skyway/FTI to C-5/Diego Silang

   Section 1 connects to the existing Skyway at FTI and ends in C-5 with a total length of 2.39 km and all are elevated.

2. Section 2: C-5/Diego Silang to C-6/Taguig

   The Section 2 of the project (C-5/Diego Silang to C-6/Taguig) designed alignment was changed and realigned due to Right of Way (ROW) issue. A conceptual design of the proposed realignment, transferring Section 2 of the SEMME project to pass along the Circumferential Road 5 (C-5/C.P. Garcia Ave.) and Pasig River from the original alignment that traverses residential areas in Brgy. Pinagsama in Taguig Ciy. The realignment will start from the end of Section 1 marked by the C-5 Interchange in the area of Pamayanang Diego Silang, and shall continue along C.P. Garcia Ave. towards the area of Kalayaan Ave., where it turns right coursing along Pasig River and continues until Circumferential Road 6 (C-6) in the area of Napindan in Taguig.

3. Section 3: C-6/Taguig to Ortigas Ave. Extension

   Section 3 is mixed elevated and at-grade, which connects C-6/Taguig to Ortigas Avenue Extension in Taytay, passing through the Manggahan Floodway with a total length of 11.783 km including a 3.076 km viaduct.

4. Section 4: Ortigas Ave. Extension to Marcos Highway

   Section 4 is at-grade and connects Ortigas Avenue Extension in Taytay to Marcos Highway in Antipolo, with a total length of 5.337 km.

5. Section 5: Marcos Highway to Tumana Bridge

   Section 5 is at-grade and connects Marcos Highway in Antipolo to Tumana Bridge, with a total length of 6.90 km.

6. Section 6: Tumana Bridge to Batasan Complex

   Section 6 is mixed elevated and at-grade which connects Tumana Bridge to the Batasan Complex with a total length of 3.055 km including 1.511 km viaduct.

On February 14, 2014, the Restated Supplement to the Business and Joint Venture Agreement (Restated Supplement to BJVA) for the MME Project was executed.

On February 17, 2014, following Section 1 of the Restated Supplement to BJVA, Citra Intercity Tollways Inc. (CITI), the joint venture company, was incorporated as the vehicle to implement the financing, design, and construction of the MME.

Patterned from the MMS Project, the MME Project will provide the Corporation with the following:

- 20 per cent equity in CITI, 10 per cent of which is "Free Carry" i.e. not paid for by the Corporation and can never be diluted. In case of the Corporation's inability to fund the 10 per cent, CITRA needs to get the Corporation's approval to nominate another shareholder;

- Projected share in gross revenues amounting to about P43.86 billion for the duration of the operation period (30 years);

- Projected share in net profits amounting to about P27.21 billion for the duration of the operation period (30 years);

- One permanent seat and one non-voting director to the Board of CITI, regardless of its shareholdings; and

- Membership in all Board Committees and Chairmanship of the Board's Audit Committee.

On August 11, 2014, the STOA was approved by the Office of the President of the Republic of the Philippines. A groundbreaking ceremony was held on January 8, 2018 with government agencies led by the Department of Transportation (DOTr) and Department of Public Works and Highways (DPWH).

Project Status:

- Construction on workable areas in Section 1: C-5 area on-going. Completed about 75.69 per cent for Piers 61 to 66.
- On-going activities on the acquisition of right-of-way (ROW). Various ROW concerns hindering construction activities in Section 1.
- Ongoing Detailed Engineering Design (DED) for Section 1A realignment (2 x 2 lane configuration for main viaduct) upon receipt of TRB approval for implementation per letter dated September 14, 2020
- On-going DED for Section 2 realignment.

<u>Revenue Shares from MMS Stage 3 and MME Stage 4 Projects</u>

The Corporation will earn revenue shares on net toll revenue from these two new projects at the following rates: 2.5 per cent for the 1st 4 years; 3 per cent from the 5th to the 7th year; 3.5 per cent from the 8th to the 10th year; and 4 per cent from the 11th year onwards.

Pasig River Expressway (PAREx) Project

The proposed Pasig River Expressway Project alignment runs from the west of Metro Manila, beginning at the areas of San Nicolas and Intramuros in Manila, where it connects R-10. It traverses the Pasig River until Nagtahan Bridge, where it turns right along Quirino Avenue, and connects with Metro Manila Skyway Stage 3 (MMSS3) through the Plaza Azul. From MMSS3, the alignment continues along the Pasig River through a connection with MMSS3 alignment along San Juan River. The alignment then continues along the Pasig River and intersects with: (i) Epifanio Delos Santos Avenue (EDSA) in the area of Guadalupe in Makati and Boni in Mandaluyong and (ii) Circumferential Road 5 (C-5) in the areas of West Rembo in Makati and Bagong Ilog in Pasig. The alignment terminates at Circumferential Road 6 (C-6), where it connects with the South East Metro Manila Expressway in the area of Taytay in the province of Rizal.

The proposed PAREx Project is a two-directional elevated viaduct with 3 lanes in each direction. The estimated total length of the project is 19.365 kilometers and the entire alignment is divided into three segments.

On November 11, 2019, the assignment of PNCC's usufructuary rights has been approved by the President of the Republic of the Philippines pursuant to the PNCC's franchise under Presidential Decree (PD) No. 1894.

On November 26, 2019, San Miguel Holdings Corporation (SMHC) and PNCC entered into a Business Joint Venture Agreement to undertake the proposed PAREx Project.

The negotiation on the terms and conditions of the Supplemental Toll Operation Agreement (STOA) among PNCC, SMHC and the Government through the Toll Regulatory Board (TRB) is still ongoing.

Quezon - Bicol Expressway (Qubex)/South Luzon Toll Road 5 (TR5) Project

The Qubex or TR5 Project starts at the end point of the South Luzon Expressway Toll Road 4 at Brgy. Mayao, Lucena City, Quezon and ends at Matnog, Sorsogon near the Matnog Ferry Terminal. The total length of TR5 is approximately 417 kilometers, and the general route of the alignment is parallel to the existing Philippine National Railway, Maharlika Highway and Padre Burgos National Road or Quirino Highway.

PNCC has chosen SMHC as its Joint Venture Partner in the said project pursuant to the Opinion No. 6, series of 2018 dated March 26, 2018 of the Department of Justice confirming the right of PNCC not to bid out (1) the construction, operation and maintenance of tollways under its legislative franchise, and (2) its choice of Joint Venture Partners. On October 9, 2018, PNCC and SMHC executed a Business and Joint Venture Agreement for the TR5 Project. The Office of the President, in its letter dated October 31, 2018, has approved the assignment of PNCC's usufructuary rights over the project to the Joint Venture Corporation of PNCC and SMHC.

The STOA for the TR5 project is currently being negotiated with TRB.

<u>10 per cent Revenue Share from Toll Fee Collections and 10 per cent Share in Declared Dividends from Joint Venture Companies (JVCs)</u>

On March 22, 2012, the TRB issued interim rules and guidelines covering the amount of money the Corporation will receive in order to cover operating expenses in relation to the *Francisco and Radstock Cases*. Both the TRB and the Corporation agreed to a 10 per cent revenue share from toll collection fees and declared dividends from JVCs.

The Corporation receives the following revenue shares:

- 10 per cent of 6 per cent share on the Manila North Tollways Corporation (MNTC) Gross Revenue;

- 10 per cent of 3.5 per cent share on the Citra Metro Manila Tollways Corporation (CMMTC) Gross Revenue; and

- 10 per cent of 3 per cent share on the South Luzon Tollway Corporation (SLTC) Gross Revenue.

The Corporation earned total revenue shares from the abovementioned JVCs in the amounts of P84.851 million, P123.052 million and P115.871 million in 2020, 2019 and 2018, respectively (Note 24.3), while it earned dividends from CMMTC amounting to P22.075 million P40.287 million and P55.187 million in 2020, 2019 and 2018, respectively (Note 24.4).

Lease Income

Lease income is derived from renting out investment property which includes the Financial Center Area (FCA) in Pasay City and a property in Porac, Pampanga.

In 2017, the Board approved the minimum rental rates of P240 and P200 per square meter for the covered portion and open space, respectively, of the FCA Property. Total rent income amounted to P33.353 million, P29.097 million and P72.798 million in 2020, 2019 and 2018, respectively (Note 24.2).

Equity Participation in CMMTC

It is the position of the Corporation that it has equity participation in CMMTC on the basis of PD 1894 and pursuant to the provisions of the SMMS Supplemental Tollway Operation Agreement (STOA) dated November 27, 1995, which was approved by then President Fidel V. Ramos. While the Corporation's franchise expired on May 1, 2007, Section 2 of PD 1894 provides that the "franchise granted for the Metro Manila Expressway and all extensions, linkages, stretches and diversion that may be constructed after the date of approval of this decree shall likewise have a term of thirty (30) years commencing from date of completion of the project" which the Supreme Court affirmed in the *Francisco Case*.

The Office of the Government Corporate Counsel (OGCC) rendered its opinion that the PD 1894 projects (namely the SMMS – Skyway Stage 1 and 2 and MMS Stage 3 and MME Stage 4) are "clearly covered by a still existing congressional franchise. For the same reason, too, the PD 1894 assets, facilities and shares are still held by PNCC." It is also the opinion of the Department of Justice (DOJ) that the Corporation still has a subsisting non-exclusive legislative franchise under PD 1894 and that only assets "that are related to its franchise under PD 1113 have accrued to the National Government (NG) and thus, ought to be turned over to the NG."

The shares in CMMTC were turned over to the NG by way of a Deed of Compliance of Shares of Stock to the NG in February 2012. However, in 2013, after having secured the opinions of both the OGCC and the DOJ regarding the validity of PD 1894, the Corporation requested CMMTC to refrain from transferring the shares of the Corporation to the NG and refrain from remitting the dividends and share in gross revenues of CMMTC to the NG. The matter is still awaiting actions from CMMTC, who has referred the matter to their legal counsel. On the other hand, the Department of Finance (DOF) has requested for clarification on the matter from the DOJ. Meanwhile, the shares still remain in the name of the Corporation.

The Corporation shares in CMMTC are worth P551.87 million which is equivalent to 8.11 per cent of total outstanding shares of CMMTC. The dividends and revenue shares from 2008 to 2020 amount to P5.553 billion of which the Corporation received 10 per cent or

P555.271 million pursuant to the interim rules and guidelines issued by the TRB. However, it is the position of the Corporation that all revenue and dividends arising from its investment in CMMTC belong to the Corporation.

Issuance of Final Implementing Rules and Guidelines by the Toll Regulatory Board (TRB)

A Supreme Court Resolution clarifying the automatic remittance to the NG of the toll fees and net income derived from the Corporation's toll assets and facilities was issued in relation to the *Francisco Case*. The Resolution directed the TRB, with the assistance of Commission on Audit (COA), to "prepare and finalize the implementing rules and guidelines relative to the determination of the net income remittable by PNCC to the National Government and to proceed with the same with dispatch."

On March 22, 2012, TRB issued a Director's Certificate approving the Interim Rules and Guidelines (IRG) for the remittance by the JVCs of the revenues of the SLEX, NLEX and Skyway in accordance with the *Francisco Case*. As subsequently agreed upon, the Corporation and TRB, as an interim arrangement, set aside 10 per cent of all amounts that are supposed to be remitted by the JVCs for remittance to the Corporation while 90 per cent goes to the National Treasury. The IRG also stated that if the 10 per cent is in excess of what is allowed by the guidelines, the Corporation shall remit to TRB for the National Treasury the excess amount. On the other hand, in case the 10 per cent is less than what is allowed under the guidelines, the shortfall shall be deducted in the next remittance to be made by the JVCs.

It is the position of the Corporation that the "determination of the net income remittable by it to the National Government" should deduct penalty charges on unpaid concession fee amounting to P258 million per year as part of its administrative expenses.

In March 2013, the Corporation proposed to TRB that overhead and administrative expenses plus the penalty charges be deducted from gross revenue from the Joint Venture Agreements Income in order to arrive at the Net Income to be remitted to the NG. A follow-up letter dated December 2, 2015 was sent. Another letter dated February 6, 2017 reiterating the Corporation's position on the computation of the net income to be remitted to the NG was sent. The Corporation has booked penalty charges on unpaid concession fees from 2010 to 2020 amounting to P5.500 billion.

The Corporation is still awaiting the issuance of the Final Implementing Rules and Guidelines from TRB.

Debt of P5.552 Billion Remained Unconverted to Equity

The Corporation's debt of P5.552 billion which remained unconverted to equity is treated as part of equity in the Corporation's books, instead of a liability. The interest and penalties unilaterally charged thereon by the Privatization Management Office (PMO)/ Bureau of the Treasury (BTr) amounting to P63.255 billion and P63.115 billion as of December 31,2020 and 2019 were not taken up in the Corporation's books.

The assertion that the P5.552 billion should be part of equity is supported by a Supreme Court ruling that recognizes the validity of Letter of Instruction (LOI) 1295 confirming that the P5.552 billion is no longer a debt but equity. The Office of the Solicitor General (OSG) and the Office of the Government Corporate Counsel (OGCC) have concurred with this ruling.

Pursuant to the mutual agreement between the Corporation and the PMO, the issue whether to convert the mentioned debt into equity was submitted to DOJ on June 21, 2012 for arbitration.

On February 18, 2014, the DOJ dismissed the Corporation's petition against the PMO. The Corporation filed a Motion for Reconsideration (MR) with the DOJ on March 14, 2014 which was denied by the DOJ on January 22, 2015. Thereafter, the Corporation filed a Supplement to the MR on May 28, 2015 which was likewise denied by the DOJ in its order dated July 13, 2015.

On June 26, 2015, the Corporation filed a Notice of Appeal with the Office of the President of the Republic of the Philippines (OP) and filed the corresponding Appeal Memorandum on July 27, 2015.

The Corporation is awaiting the resolution of the OP on its appeal.

Payment of Corporation's Obligation to the National Government

The Corporation sent a letter dated July 21, 2015 to the OP recognizing its liability to the NG in the amount of P7.9 billion and proposing to "pay off the recognized obligations, particularly given that the obligation to the TRB for unpaid concession fees carries with it a penalty of two per cent per month." The Corporation is awaiting the decision of the OP.

In December 2016, the Corporation remitted to the NG, through the BTr, the amount of P566.3 million as partial payment for NG's outstanding share in the toll revenue for the operation of the South Luzon Expressway (SLEX) under the Toll Operation Certificate (TOC) from May 2007 to April 2010 (Note 17.3).

4. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Presentation of Financial Statements

The financial statements of the Corporation were prepared using the historical cost basis. The financial statements are presented in Philippine Peso, which is the Corporation's functional currency. All amounts are rounded off to the nearest peso except otherwise indicated.

4.2 Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Corporation were prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019 were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on July 15, 2021.

4.3 Recognition, Measurement and Classification of Financial Assets and Financial Liabilities

The Corporation recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

All financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial assets and financial liabilities designated as at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Corporation recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Corporation determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Corporation classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at FVPL. The classification depends on the business model of the Corporation for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to initial recognition unless the Corporation changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

The Corporation's cash, short-term investments and receivables are included under this category (Notes 7, 8 and 9).

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Cash

Cash includes cash on hand and in banks which are stated at face value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Allowance for credit loss accounts is provided based on an evaluation of expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

Financial Liabilities

The Corporation classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Corporation determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value, and, in case of loans and borrowings, net of directly attributable transaction costs.

Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments that are not designated or classified as at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and any directly attributable transaction costs that are an integral part of the effective interest rate.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through amortization process.

This accounting policy applies primarily to financial liabilities (other than statutory liabilities), long-term debt and other noncurrent liabilities (Notes 16, 17, 18 and 19).

4.4 Impairment of Financial Assets at Amortized Cost and FVOCI

The Corporation records an allowance for "expected credit loss" (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Corporation has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The Corporation has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Corporation compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

4.5 Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;

- the Corporation retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Corporation has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Corporation's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Corporation could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10 per cent from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Corporation could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10 per cent threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

4.6 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

4.7 Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Corporation; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Corporation does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

4.8 Inventories

Inventories consist principally of construction materials, spare parts, and supplies which are stated at cost, generally determined by the average cost method for a significant portion of domestic inventories and by the first-in, first-out method for other inventories. Allowance for inventory write-down is provided for all non-moving/obsolete items.

4.9 Prepayments

Prepayments are expenses paid in advance and recorded as assets before these are utilized. These are comprised of insurance premiums, other prepaid items, and creditable withholding taxes. Prepayments that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other non-current assets.

4.10 Investments

The Corporation accounts for its investments in wholly-owned/controlled subsidiaries at cost while other investments classified as financial assets are measured at fair value. Allowance for impairment loss is provided for investment in subsidiaries while market adjustment is accounted for financial assets measured at fair value and recognized as other comprehensive income or loss.

The Corporation believes that the effects of not consolidating the subsidiaries are not material to the financial statements because these subsidiaries are no longer operating, resulting in accumulated deficit. In 2015, the Corporation has initiated the process of closing its subsidiaries that are no longer operating and those that are losing. On October 1, 2015, as part of the reorganization and streamlining of Corporation operations, PNCC assumed the operations of DCBGSI which now operates as a separate division of the Corporation.

In a regular board meeting held on November 14, 2011, the PNCC Board resolved to comply with the ruling of the Supreme Court to transfer and turn over to the National Government the shares of stock in tollway Joint Venture Companies which PNCC is holding in trust for the NG.

4.11 Investment Property

Investment property is comprised of land or building or both held to earn rentals or for capital appreciation or both. Investment property is recognized as an asset when and only when it is probable that future economic benefits associated with the property flows to the entity and the cost of the property can be measured reliably.

Investment property is initially measured at cost. Subsequent to initial recognition, the account is stated at fair value, which has been determined based on the average valuations performed by two independent firms of appraisers every two years. The changes in fair value are recognized in profit or loss.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement and/or disposal of investment property is recognized in profit or loss in the period of retirement and/or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Corporation as an owner-occupied property becomes an investment property, the Corporation accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

4.12 Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Property and equipment are subsequently carried at revalued amounts.

The increase in the property and equipment's carrying amount as a result of revaluation is credited to equity under the heading of "Revaluation Increment in Property". The revalued asset is being depreciated and, as such, part of the revaluation increment is being realized as the asset is used. Piecemeal realization of the revaluation increment is effected on a yearly basis. Realization of the revaluation increment is credited to "Retained Earnings" account.

No revaluation increment was realized in 2020 while P4.418 million was realized in 2019.

Depreciation commences once the property and equipment are available for their intended use and is computed using the straight-line method over the following estimated useful lives:

Asset Type	Estimated Useful Lives (in years)
Land improvements	10
Buildings and improvements	10 to 33
Construction equipment	2 to 10
Transportation equipment	3 to 5
Office equipment, furniture and fixtures	5
Others	2 to 7

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged against operations.

When the assets are retired or otherwise disposed of, the cost and related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss.

4.13 Impairment of Non-financial Assets

The carrying amounts of investment property, property and equipment, and other non-financial assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

4.14 Fair Value Measurement

The Corporation measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Corporation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Corporation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

4.15 Provisions

Provisions are recognized only when: (a) the Corporation has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

4.16 Equity

Share Capital and Share Premium

The Corporation records share capital at par value and share premium in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are recognized as a deduction from equity, net of any tax effects.

Deficit

Deficit pertains to accumulated losses of the Corporation.

Treasury Shares

Treasury shares are own equity instruments which are reacquired, are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Corporation's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

4.17 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Corporation and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Service Income

Service income is recognized on the basis of percentage of completion method.

Lease Income

Lease income from operating leases, wherein substantially all the risks and rewards of ownership are retained by the Corporation as a lessor, is recognized on a straight-line basis over the term of the relevant lease. The lease income is derived from the Corporation's properties not used in business and being leased out to third parties for a certain period, renewable under such terms and conditions as may be agreed upon by both parties.

Revenue and Dividend Share from Joint Venture Companies (JVCs)

Pursuant to the Supreme Court En Banc Decision, as discussed in Note 1, the Corporation no longer records the tollways income from the North and South Luzon Tollways (NLT and SLT).

In accordance with the interim rules and guidelines issued by the Toll Regulatory Board (TRB) for the determination of the amounts due to the Corporation for its administrative expenses, the Corporation recognized 10 per cent of its share from the gross toll revenues of the JVCs, pending issuance of the Implementing Rules and Guidelines.

Dividend income is recognized when the Corporation's right to receive the payment is established.

Interest Income

Interest income is recognized as it accrued, taking into account the principal amount outstanding and the effective interest rates.

Other Income

Other income is recognized when earned.

4.18 Costs and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

4.19 Borrowing Costs

Borrowing costs are expensed as incurred. These costs represent the two per cent penalty charges imposed by TRB on unpaid concession fees.

4.20 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the 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 an extension is 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 fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

Operating Lease

The Corporation as a Lessee. Leases which do not transfer to the Corporation substantially all the risks and rewards of ownership of the asset 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. Associated costs such as maintenance and insurance are expensed as incurred.

The Corporation as a Lessor. Leases where the Corporation does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is 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 as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

4.21 Income Taxes

Current Tax. Current income tax assets or liabilities comprise of those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period that are uncollected or unpaid at reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries and associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries and associate, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Corporation takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Corporation believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Corporation to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.22 Value-Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepayments" or "Accounts Payable and Accrued Expenses" accounts in the statements of financial position.

4.23 Creditable Withholding Taxes

Creditable withholding taxes (CWT), included under "Other Assets" account in the statements of financial position, represent the amounts withheld by customers from income payments to the Corporation less allowance for probable losses. CWT are deductible from income tax payable.

4.24 Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

4.25 Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Corporation, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Corporation and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effect of all potential dilutive debt or equity instruments.

As at December 31, 2020 and 2019, the Corporation has no dilutive equity instruments.

4.26 Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

4.27 Events After the Financial Reporting Date

Post year-end events up to the date when the financial statements were authorized for issue by the Board of Directors that provide additional information about the Corporation's position at the financial reporting date (adjusting events) are reflected in the financial statements. Any post year-end events that are non-adjusting events are disclosed in the notes to financial statements when material.

5. CHANGES IN ACCOUNTING POLICIES

Adoption of New and Revised PFRS

a. *Effective in 2020 that are relevant to the Corporation*

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments that are relevant to the Corporation effective beginning January 1, 2020:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material – The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

b. *Effective in 2020 that are not relevant to the Corporation*

- Amendments to PFRS 3, *Business Combinations*, Definition of a Business – The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

- Amendments to PFRS 16, *Leases*, COVID-19-related Rent Concessions – The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

c. *New and amended PFRS issued but not yet effective*

The new and amended PFRS, which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Effective for annual periods beginning on or after January 1, 2022:

- *Amendments* to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework – Reference to the 1989 Framework in paragraph 11 of PFRS 3 Business Combinations was updated to 2018 Framework. Potential conflicts occur as the definition of assets and liabilities in the 2018 Framework differ from those in the 1989 Framework potentially leading to day 2 gains or losses post-acquisition for some balances recognized.

- Amendments to PAS 16, *Property, Plant and Equipment*, Proceeds before Intended Use – This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location *and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.*

- *Amendments* to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, Onerous Contracts - Cost of Fulfilling a Contract – The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial* Reporting *Standards*, Subsidiary as a first-time adopter – The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

- Amendments to PFRS 9, *Financial Instruments,* Fees in the '10 per cent' test for derecognition of financial liabilities – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- Amendments to PFRS 16, *Leases*, Lease Incentives – The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- Amendments to PAS 41, *Agriculture,* Taxation in fair value measurements – The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements*, Classification of Liabilities as Current or Non-Current – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

- Amendments to PFRS 17, *Insurance Contracts* – The main changes resulting from Amendments to PFRS 17 are:

  - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

  - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.

  - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.

  - Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

  - Clarification of the application of contractual service margin attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.

  - Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.

- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

- Several small amendments regarding minor application issues.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures,* Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Corporation.

6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the accompanying financial statements in conformity with PFRS requires Management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The estimates and assumptions used in the accompanying financial statements are based upon Management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the Corporation's accounting policies, Management has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the financial statements:

Operating Lease Commitments - The Corporation as a Lessor/Lessee. The Corporation has entered into various lease agreements either as a lessor or a lessee. The Corporation has determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Lease income recognized in profit or loss amounted to P33.354 million and P29.097 million in 2020 and 2019, respectively (Note 24.2).

Rent expense recognized in profit or loss amounted to P78,261 for both 2020 and 2019.

Contingencies. The Corporation is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Corporation. The Corporation's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as the Office of the Government Corporate Counsel (OGCC) handling the prosecution and defense of these matters and is based on an analysis of potential results. The Corporation currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 33).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting dates that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

Estimating allowance for impairment losses on loans and receivables

The Corporation maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by Management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the customer's and lessee's payment behavior and known market factors. The Corporation reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Corporation provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Corporation made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

The Corporation had recognized reversal of allowance for impairment losses on loans and receivables amounting to P1.303 million in 2020 (Note 26).

7. CASH

This account consists of:

	2020	2019
Cash in bank – local currency	**124,767,187**	134,647,373
Cash with collecting/disbursing officer	**226,600**	50,000
	124,993,787	134,697,373

Cash in bank – local currency earns interest at the prevailing bank deposit rates.

Restricted cash

The Corporation has P100.327 million restricted cash held in custody by the Corporation's banks, used as collateral for the issuance of the appeal bond re: Ernesto N. Valentin, et al. vs. PNCC case. On November 14, 2016, the Supreme Court rendered in PNCC's favor, denying with finality the North Luzon Tollways (NLT) Employees' Motion for Reconsideration. With such denial, the dismissal of NLT Employees' complaint for various money claims against PNCC is now final and executory, hence, the restricted cash was reverted from other assets to the cash account in 2017. On February 7, 2018, the Corporation filed a Motion to Release Bond and declared the case closed and terminated with the Labor Arbiter. On August 22, 2019, the Labor Arbiter issued an Order granting the release of the remaining collateral.

In a letter dated February 10, 2021, PNCC requested the Insurance Commission (IC), as conservator of Investors Assurance Corporation, to issue clearance as required by both Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) for the release of the P100.327 million collateral.

On April 8, 2021, the IC has issued a clearance to release the P90 million collateral held by LBP. Out of the P90 million, only P86.156 million was cleared for release in favor of PNCC and the remaining P3.844 million is withheld pending resolution between all concerned parties.

On April 28, 2021, PNCC requested LBP for the immediate release of the P86.156 million.

8. SHORT-TERM INVESTMENTS

This account consists of money placements in LBP and DBP in the amount of P1.333 billion and P1.186 billion in 2020 and 2019, respectively, with varying periods of 106 days or more depending on the immediate cash requirements of the Corporation and earn interest at the prevailing short-term investment rates ranging from 1.10 per cent to 1.80 per cent.

Interest earned on these investments amounted to P25.479 million and P22.552 million in 2020 and 2019, respectively (Note 24.5).

9. RECEIVABLES

This account consists of the following:

	2020	2019 (As restated)
Accounts receivable	**320,496,809**	303,733,938
Inter-agency receivables	**150,901,796**	152,263,174
Interest receivable	**6,125,920**	9,957,539
Contributions and premiums receivable	**69,410**	24,637
Other receivables	**51,214,249**	102,372,636
	528,808,184	568,351,924
Allowance for impairment losses	**(172,300,607)**	(177,621,614)
	356,507,577	390,730,310

An allowance for impairment losses is provided for Accounts receivable and Interest receivable amounting to P172.137 million and P163,499, respectively.

Accounts receivable mainly consists of the following:

- Accomplishment and retention receivable from the Philippine Merchant Marine Academy (PMMA) totaling P78.178 million, wherein a resolution in favor of the Corporation was rendered by the Department of Justice on August 2, 2006, ordering PMMA to pay the principal amount plus six per cent interest per annum from the date of first demand on June 24, 2004. The Office of the Government Corporate Counsel (OGCC) was requested to file a Petition for money claim with the Commission on Audit (COA) in behalf of the Corporation. On November 7, 2018, the Petition was filed with COA. The COA has already directed the PMMA to file its Answer to PNCC's Petition. PMMA filed its Answer dated February 4, 2019. Considering that said Answer was filed late, OGCC filed a Motion to Strike Out Answer and prayed that the case be considered submitted for decision.

  Last March 16, 2021, PNCC received a Decision dated February 11, 2021 from COA denying the Petition for Money Claim against PMMA. PNCC filed a Motion for Reconsideration of the said Decision last April 15, 2021. Awaiting the action of COA on PNCC's Motion for Reconsideration.

- Billed and unbilled receivables from the Skyway Operations and Maintenance Corporation with an aggregate amount of P42.987 million for manpower services provided in the toll operations.

- Accomplishment and retention receivable from the Philippine Phosphate Fertilizer Corporation amounting to P12.790 million for the repairs and maintenance services provided in the rehabilitation of its plant located in Isabel, Leyte.

9.1 Breakdown of the Inter-agency receivables account:

	2020	2019
Due from National Government Agencies	**150,000,000**	150,000,000
Due from subsidiaries/associates/affiliates	**901,796**	2,263,174
	150,901,796	152,263,174

Due from National Government Agencies consist of remittances to the Bureau of the Treasury (BTr) of P150 million (P50 million in 2008 and P100 million in 2010) originally intended for application against the unpaid concession fee, but was confirmed by BTr to have been applied against outstanding NG advances to the Corporation. The account is initially recorded as Advances to BTr pending clarification on the application of payment considering that no liability to BTr is recorded in the books of the Corporation (Notes 17 and 23).

Due from subsidiaries/associates/affiliates totaling P0.902 million and P2.263 million as of December 31, 2020 and 2019, respectively, represent various accommodations to the Corporation's subsidiaries.

9.2 Breakdown of the Other receivables account:

	2020	2019 (As restated)
Due from officers and employees	**914,726**	883,964
Other receivables	**70,304,967**	121,494,116
	71,219,693	122,378,080
Allowance for impairment losses- Other receivables	**(20,005,444)**	(20,005,444)
	51,214,249	102,372,636

Due from officers and employees mainly consist of cash advances of P0.592 million and receivables from Executive Assistants of the Directors due to excess professional fees paid by PNCC amounting to P238,858.

The Governance Commission for GOCCs, in its letter dated January 16, 2017, informed the Corporation that pending the approval of the Total Compensation Framework (TCF) and Index of Occupational Services (IOS) of PNCC, the Corporation shall maintain its current compensation framework. The Corporation cannot yet grant the Healthcare Plan benefit provided for under the Compensation and Position Classification System (CPCS). In order for the Corporation to continue granting the said benefit, it should fully comply first with the requirements for the adoption of the CPCS.

However, on July 28, 2017, President Rodrigo Roa Duterte issued Executive Order (EO) No. 36 s. 2017 suspending the implementation of the CPCS and the IOS

Framework for the GOCC Sector under EO No. 203 due to compelling reasons to revisit and/or reevaluate the said CPCS.

As a result, starting March 2018, the Corporation shall deduct the health care insurance premium in 24 equal monthly installments, through a letter from the employees and officers of the Corporation dated January 23, 2018 requesting for such payment terms.

Other receivables mainly consist of the following:

- Uncollected revenue shares from Joint Venture Companies in the amount of P27.739 million and P88.210 million as of December 31, 2020 and 2019, respectively.

- Receivables from various tenants at Financial Center Area amounting to P22.279 million and P7.292 million as of December 31, 2020 and 2019, respectively.

- Supersedeas/cash bonds re: various National Labor Relations Commission cases filed by present and former employees of the Corporation totaling P8.538 million which consist mostly of claims for non-payment of benefits, such as mid-year bonus, exit bonus, and other benefits.

The receivables are not used as collaterals to secure obligations.

10. INVENTORIES

This account consists of the following:

	2020	2019
Construction materials	**543,957**	543,957
Medical, dental, and laboratory	**508,910**	507,873
Fuel, oil, and lubricants	**445,928**	534,592
Office supplies	**409,779**	417,632
Other materials and supplies	**4,860,117**	4,881,422
	6,768,691	6,885,476
Allowance for impairment losses – Other materials and supplies	**(2,992,956)**	(2,992,956)
	3,775,735	3,892,520

In 2015, the Corporation failed in its attempt to bid out the remaining inventories due to lack of bidders. However, in 2016, the Corporation partially sold inventories amounting to P212,266. An allowance of 60 to 100 per cent was provided for inventories that are due for disposal.

Other materials and supplies account consist mostly of common supplies and hardware materials.

11. OTHER CURRENT ASSETS

This account consists of the following:

	2020	2019
Withholding tax at source	**24,592,034**	22,943,360
Prepaid registration	**1,482,924**	1,482,924
Prepaid insurance	**518,626**	2,291,722
Creditable input tax	**74,571**	74,571
Other prepayments	**35,906**	35,906
	26,704,061	26,828,483

12. INVESTMENTS

This account consists of the following:

	2020	2019 (As restated)
Investments in Stock		
Dasmariñas Industrial & Steelworks Corp.	**96,413,530**	96,413,530
Alabang-Sto Tomas Development, Inc.	**61,200,000**	61,200,000
Tierra Factors Corporation	**51,635,109**	51,635,109
CDCP Farms Corporation	**15,120,200**	15,120,200
Manila Land Corporation	**10,000,000**	10,000,000
Managerial Resources Corporation	**1,525,922**	1,525,922
San Ramon Ranch	**1,100,000**	1,100,000
Traffic Control Products Corporation	**700,000**	700,000
San Roque Ranch	**550,000**	550,000
Laguna Lake Development Authority (net of subscriptions payable of P258,642)	**181,158**	181,158
PNCC Skyway Corporation	**125,050**	125,050
Land Management Corporation	**11,000**	11,000
	238,561,969	238,561,969
Allowance for impairment losses	**(177,180,811)**	(177,180,811)
	61,381,158	61,381,158
Financial assets at fair value through other comprehensive income		
Manila Electric Company	**476,970**	476,970
Philippine Long Distance Telephone Company	**350,799**	350,799
Puerto Azul Beach and Country Club	**100,000**	100,000
Architectural Centre, Inc.	**3,500**	3,500
Mimosa Golf and Country Club	**0**	3,180,000
	931,269	4,111,269
Market adjustment	**111,500**	(1,923,500)
	1,042,769	2,187,769

	2020	2019 (As restated)
Other Investments		
Citra Central Expressway Corporation	**1,240,000,000**	1,240,000,000
Citra Intercity Tollways, Inc.	**240,816,700**	240,816,700
South Luzon Toll Road – 5 Expressway, Inc.	**5,000,000**	5,000,000
CDCP Employees Savings & Loan Association	**2,094,725**	2,094,725
Others	**286,600**	286,600
	1,488,198,025	1,488,198,025
	1,550,621,952	1,551,766,952

The GCG, in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five subsidiaries of the Corporation, namely: Alabang-Sto. Tomas Development, Inc. (ASDI); DISC Contractors, Builders and General Services Inc. (DCBGSI); Traffic Control Products Corporation (TCPC); CDCP-Farms Corporation (CDCP-FC); and Tierra Factors Corporation (TFC).

Through a Memorandum from the Executive Secretary dated August 7, 2014, the GCG was informed that its recommendation to abolish the PNCC subsidiaries had been approved by His Excellency, the President of the Republic of the Philippines, subject to pertinent laws, rules, and regulations.

- On October 16, 2012, ASDI's corporate life was shortened up to December 31, 2012 pursuant to Board Resolution No. BD-04-2014. On August 7, 2014, this Board resolution was revoked. Investment in ASDI was originally 255,000 common shares with a par value of P1,000 per share representing equity ownership of the Corporation at 51 per cent, with the remaining 49 per cent owned by the National Development Company (NDC). On December 9, 2015, ASDI liquidated 127,500 common shares of PNCC as part of its dissolution process paying PNCC P127.500 million. On December 15, 2016, the Corporation received P66.3 million as additional partial liquidation of its investment in shares of ASDI. ASDI has a pending collection balance of P4.200 million from the Department of Public Works and Highways (DPWH).

- On September 26, 2013, the abolition/dissolution of TCPC was approved per Board Resolution BD-006-2013. The conveyance of TCPC assets to PNCC has already been completed. Part of these assets has already been disposed through public bidding. The remaining undisposed assets are now being classified according to commodity classification for appraisal and for purposes of higher return upon sale.

- On September 30, 2015, DCBGSI was closed pursuant to DCBGSI Shareholders' Resolution dated August 7, 2015. On October 1, 2015, PNCC absorbed DCBGSI functions. On January 18, 2016, the Board of Directors (BOD) of DCBGSI approved the shortening of its corporate life to January 31, 2016. On September 27, 2019, the Executive Secretary issued a Memorandum temporarily designating the five members of the BOD of PNCC as members of DCBGSI Board to perform activities necessary to carry out the winding down of operations, disposition of assets and settlement of liabilities and closing of books of accounts of DCBGSI.

- On September 30, 2015, Special Stockholders' Meetings of TFC and CDCP-FC were held to dissolve these subsidiaries. Management is still awaiting the appointment of Directors for both companies in order to call for a Board Meeting to put into effect the closure of the two companies. A letter dated March 10, 2016 has been sent to the GCG regarding this matter. On September 17, 2019, Management sent another letter to GCG, explaining the necessity to designate members of the BOD of its three subsidiaries, namely: ASDI, DCBGSI and CDCP-FC.

- Except for the Corporation's investment in ASDI, a 100 per cent impairment loss is provided for investments in inactive and non-operating subsidiaries and affiliates, as well as investments in the remaining active wholly-owned subsidiary, due to their incurrence of losses resulting in accumulated deficit.

- On the following dates, Citra Central Expressway Corporation (CCEC) issued ten (10) per cent "free-carry" equity shares (P100 par value) as the Corporation's share in the Joint Venture Company as follows: June 30, 2014 - 125,000 shares; September 15, 2014 - 275,000 shares; December 1, 2016 - 5,800,000 shares; and October 10, 2019 – 6,200,000 shares.

- On the following dates, Citra Intercity Tollways, Inc. (CITI) issued ten (10) per cent "free-carry" equity shares (P100 par value) as the Corporation's share in the Joint Venture Company as follows: March 9, 2016 - 400,000 shares and December 1, 2016 - 2,008,167 shares.

- On May 23, 2019, South Luzon Toll Road – 5 Expressway, Inc. (SLTR-5EI) issued ten (10) per cent "free-carry" equity shares or 50,000 shares (P100 par value) as the Corporation's share in the Joint Venture Company.

13. INVESTMENT PROPERTY

Investment property includes land and building which are held to earn rentals under operating leases and are held for capital appreciation. The carrying amounts recognized in the Statements of Financial Position reflect the average fair values based on an appraisal conducted by two independent appraisers every other year, the most recent is 2019. Details are as follows:

	Land	Buildings and Improvements	Total
At December 31, 2019			
Cost	70,772,301	5,321,007	76,093,308
Accumulated Depreciation	0	(3,211,416)	(3,211,416)
	70,772,301	2,109,591	72,881,892
Appraisal	33,443,746,199	330,531,000	33,774,277,199
Accumulated Depreciation	0	0	0
	33,443,746,199	**330,531,000**	**33,774,277,199**
	33,514,518,500	**332,640,591**	**33,847,159,091**

	Land	Buildings and Improvements	Total
At December 31, 2020			
Cost			
Opening Net Book Value	70,772,301	2,109,591	72,881,892
Additions	0	0	0
Depreciation this year	0	0	0
Closing Net Book Value	70,772,301	2,109,591	72,881,892
Fair Value Adjustment			
Balance at beginning of year	33,443,746,199	330,531,000	33,774,277,199
Additions	0	0	0
Appraisal Adjustment	0	0	0
Balance at end of year	**33,443,746,199**	**330,531,000**	**33,774,277,199**
At December 31, 2020			
Cost	70,772,301	5,321,007	76,093,308
Accumulated Depreciation	0	(3,211,416)	(3,211,416)
	70,772,301	**2,109,591**	**72,881,892**
Appraisal	33,443,746,199	330,531,000	33,774,277,199
Accumulated Depreciation	0	0	0
	33,443,746,199	**330,531,000**	**33,774,277,199**
	33,514,518,500	**332,640,591**	**33,847,159,091**

13.1 Financial Center Area (FCA) in Pasay City

In 1973, a contract was entered into by and between the Corporation and the Republic of the Philippines (RP), represented by the then Department of Public Highways (now DPWH), for the construction of the Manila-Cavite Coastal Road and the reclamation of some portions of the foreshore and offshore lands along Manila Bay, otherwise known as the Manila-Cavite Coastal Road Project, at the Corporation's expense.

As compensation for the work accomplishments, the Corporation obtained the 129,548 sq.m.-land, known as Lot 6, from the National Government for P64.600 million, covered by Certificate of Pledge No. 2 (P38.5 million) and Certificate of Pledge No. 3 (P26.100 million).

Administrative Order (AO) No. 397, which was signed and approved by then President Fidel V. Ramos on May 31, 1998, mandated that Lot 6 be titled in the name of PNCC.

Although the title to the property is still in the name of RP as of report date, the Office of the Government Corporate Counsel (OGCC) issued an opinion on April 21, 2001 that the Corporation can sell, dispose, or assign its real rights, interests, and participation over the property, which real right or interest over Lot 6 is evidenced by the aforesaid Certificates of Pledge.

On August 2, 2013, the OGCC issued another opinion that the Corporation may not sell or transfer its ownership of the FCA to a private corporation but may only lease it for a period not exceeding 25 years, renewable for not more than 25 years, and not to exceed 1,000 hectares in area. The Corporation may only sell it to Filipino citizens subject to the 12-hectare Constitutional limitation. Under these circumstances, the Corporation can either: (1) secure a presidential proclamation officially declaring that the FCA is no longer needed for public use; or (2) dispose it, consistent with the constitutional restriction, to a qualified Filipino citizen, but only to the extent of 12 hectares.

Independent firms of appraisers engaged by the Corporation to determine the fair value of the property reported a P6.630 billion appraised value in 2009, P7.462 billion in 2010, P7.434 billion in 2011, P9.720 billion in 2013, P9.987 billion in 2015, P13.927 billion in 2017 and P32.452 billion in 2019.

The subject property has been leased out and has been generating lease revenue since 2005. Lease income earned, net of VAT, amounted to P26.092 million and P26.676 million in 2020 and 2019, respectively (Note 24.2).

However, in a Regular Board meeting on April 17, 2018, the PNCC Board of Directors approved Board Resolution No. BD 069-2018 which resolved not to extend the lease contracts of various leases effective May 31, 2018 in view of the planned development of the subject property.

On October 10, 2019, the Corporation entered into a long-term Lease Contract with the Pacific Concrete Products Inc. for the lease and development of the three-hectare portion of the property. As to the remaining 9.9 hectares, the Terms of Reference for the public bidding of its lease and development has already been finalized by the Management and approved by the Corporation's Board of Directors. The same was submitted to the Office of the President of the Philippines for its final review and approval.

13.2 The following real estate properties (held for currently undetermined future use or held for capital appreciation) also comprise the Investment Property account:

Location	Area (in sq.m.)	Cost	Appraisal Increase/ Decrease	Fair Value
Dasmariñas, Cavite	75,000	625,800	417,124,200	417,750,000
Casinglot, Misamis Oriental	60,620	1,077,484	202,232,516	203,310,000
Rizal, Tagaytay	98,207	1,367,339	93,906,161	95,273,500
Sta. Rita, Bulacan	20,000	1,579,950	138,145,050	139,725,000
Antipolo, Rizal	14,770	1,185,531	66,064,469	67,250,000
Porac, Pampanga	116,591	145,737	49,407,263	49,553,000
Bocaue, Bulacan	9,926	162,678	62,372,322	62,535,000
Mabalacat, Pampanga	27,905	32,027	27,315,973	27,348,000
	423,019	**6,176,546**	**1,056,567,954**	**1,062,744,500**

In 2011, the Land Bank of the Philippines, engaged by the Corporation to conduct an inspection and appraisal of its properties situated in different areas in the Philippines, disclosed that the property located in Dasmariñas, Cavite with a total area of 75,000 sq.m. is not titled and registered under the name of the Corporation.

The Dasmariñas property is located within the First Cavite Industrial Estate (FCIE), a joint venture project of the National Development Corporation (NDC), Marubeni Corporation, and Japan International Development Organization (JAIDO). The 75,000-sq.m. lot was excluded from the Contract of Sale executed between the Corporation and NDC on April 7, 1983, which covers the sale of the Corporation's several parcels of property to NDC. On April 10, 1992, the Committee on Privatization (COP) approved the sale of the property to NDC at a price not lower than P150/sq.m. The Asset Privatization Trust (APT), however, suggested that the price should instead be P180/sq.m. The sale was not consummated due to the disagreement in the price to be used. Thereafter, the property was developed by NDC, absent any contract of sale yet.

The Dasmariñas property is supported by Transfer Certificate of Title (TCT) No. T-98739 which was cancelled after the sale in April 1983. The Corporation was not able to acquire a new TCT under its name for the remaining lots but is conducting further negotiations with NDC for compensation on the property.

As discussed in Note 17, the Corporation, in its Motion for Reconsideration dated March 13, 2014, prayed that the Department of Justice (DOJ) order NDC to pay the Corporation the value of the 75,000 sq.m. of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by NDC to locators of the FCIE, plus legal interest thereon from the time of demand up to the actual date of payment.

The DOJ issued an Order dated January 22, 2015 denying the Motion for Reconsideration filed by the Corporation. On June 26, 2015, the Corporation appealed the decision of the DOJ with the Office of the President of the Republic of the Philippines (OP).

The Corporation is awaiting the decision of the OP on the matter.

13.3 The direct operating expenses incurred by the Corporation for 2019 from rental income generating and non-rental income generating investment property amounted to P4.465 million and P1.170 million, respectively. These direct operating expenses consist of realty property taxes, security services, salary of caretakers and business permits.

14. PROPERTY AND EQUIPMENT

This account includes the following:

	Land & Land Improvements	Buildings & Improvements	Construction Equipment	Transportation Equipment	Others	Total
At December 31, 2019						
Cost	10,115,936	36,800,884	20,246,851	29,549,937	38,395,434	135,109,042
Accumulated Depreciation	(2,344,315)	(33,661,027)	(19,446,128)	(29,495,757)	(37,577,067)	(122,524,294)
Net Book Value	7,771,621	3,139,857	800,723	54,180	818,367	12,584,748
Appraisal	1,485,855,999	101,177,483	7,827,127	0	1,701,463	1,596,562,072
Accumulated Depreciation	(21,271,590)	(65,347,001)	(7,826,972)	0	(1,701,432)	(96,146,995)
Net Book Value	**1,464,584,409**	**35,830,482**	**155**	**0**	**31**	**1,500,415,077**
	1,472,356,030	**38,970,339**	**800,878**	**54,180**	**818,398**	**1,512,999,825**
At December 31, 2020						
Cost						
Opening Net Book Value	7,771,621	3,139,857	800,723	54,180	818,367	12,584,748
Additions	0	0	44,196	0	452,772	496,968
Disposals/Write off	0	0	0	0	0	0
Depreciation for the Year	(6,560)	(1,572,980)	(4,537)	0	(505,789)	(2,089,866)
Closing Net Book Value	**7,765,061**	**1,566,877**	**840,382**	**54,180**	**765,350**	**10,991,850**
Revaluation Increment						
Opening Net Book Value	1,464,584,409	35,830,482	155	0	31	1,500,415,077
Appraisal Adjustment	0	0	0	0	0	0
Disposals/Write off	0	0	0	0	0	0
Depreciation for the Year	0	(4,418,082)	0	0	0	(4,418,082)
Closing Net Book Value	**1,464,584,409**	**31,412,400**	**155**	**0**	**31**	**1,495,996,995**
At December 31, 2020						
Cost	10,115,936	36,800,884	20,291,047	29,549,937	38,848,206	135,606,010
Accumulated Depreciation	(2,350,875)	(35,234,007)	(19,450,665)	(29,495,757)	(38,082,856)	(124,614,160)
Net Book Value	**7,765,061**	**1,566,877**	**840,382**	**54,180**	**765,350**	**10,991,850**
Revaluation Increment	1,485,855,999	101,177,483	7,827,127	0	1,701,463	1,596,562,072
Accumulated Depreciation	(21,271,590)	(69,765,083)	(7,826,972)	0	(1,701,432)	(100,565,077)
Net Book Value	**1,464,584,409**	**31,412,400**	**155**	**0**	**31**	**1,495,996,995**
	1,472,349,470	**32,979,277**	**840,537**	**54,180**	**765,381**	**1,506,988,845**

14.1 Revaluation

The Corporation engaged the services of the following independent and recognized appraisal companies for the appraisal of some of its designated properties, structures, buildings, fence, and street lightings:

YEAR	REVALUATION INCREASE (DECREASE) (in thousand pesos)	APPRAISAL CORPORATION
1997	69.71	General Appraisal Co., Inc.
2003	1,620.00	Various
2004	0.05	Various
2006	(235.56)	Various

YEAR	REVALUATION INCREASE (DECREASE) (in thousand pesos)	APPRAISAL CORPORATION
2010	146.208	Various
2011	(16.523)	Land Bank of the Philippines
2013	17.591	Cuervo Appraisers, Inc. and CAL-FIL Appraisal & Management, Inc.
2015	456.941	CAL-FIL Appraisal &Management, Inc., Asset Consult, Top Consult &Royal Asia
2017	109.370	CAL-FIL Appraisal & Management, Inc. and Top Consult
2019	602.167	CAL-FIL Appraisal & Management, Inc. and Asian Appraisal Co., Inc.

14.2 Others

The Corporation also owns some 278,477 sq.m. of property, with a total value of P174.127 million, located in different areas of the country which are not yet recorded in the books, as the same are still registered in the name of previous owners. The Corporation is working on the transfer of title to its name.

15. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2020	2019
Guaranty deposits	**71,072,000**	71,072,000
Receivables from former employees and consultants, net of allowance for impairment losses	**50,924,889**	50,924,889
Accounts receivables-trade	**50,879,182**	50,879,182
Other deposits	**1,203,989**	1,203,989
Other assets	**247,727**	247,727
	174,327,787	174,327,787
Assets for write off	**9,615,422,219**	9,615,422,219
Allowance for losses	**(9,615,422,219)**	(9,615,422,219)
	0	0
Other assets	**652,571,692**	653,874,239
Allowance for impairment losses	**(652,571,692)**	(653,874,239)
	0	0
Deferred charges	**6,802,733**	6,802,733
Allowance for impairment losses	**(6,802,733)**	(6,802,733)
	0	0
	174,327,787	174,327,787

15.1 Guaranty deposits

This account pertains to the guarantee/collateral for the Investors Assurance Corporation (IAC) Bond No. G (16) 0015764 in favor of IAC amounting to P71.072 million. This is also in connection with the Ernesto N. Valentin, et al. vs. PNCC case. On November 14, 2016, the Supreme Court rendered in PNCC's favor, denying with finality the North Luzon Tollways (NLT) Employees' Motion for Reconsideration. With such denial, the dismissal of NLT Employees' complaint for various money claims against PNCC is now final and executory. On February 7, 2018, the Corporation filed a Motion to Release Bond and declared the case closed and terminated with the Labor Arbiter. On August 22, 2019, the Labor Arbiter partially granted the release of cash collateral excluding the amount allegedly released by IAC in the total amount of P37.107 million. OGCC appealed the Order with the National Labor Relations Commission (NLRC) on the ground that there is no sufficient proof that IAC released the said amount to the complainants. The appeal however was dismissed. OGCC filed a Motion for Reconsideration on the said dismissal. PNCC likewise filed an Administrative Complaint against the Labor Arbiter with NLRC. Awaiting the decision of NLRC on the Motion for Reconsideration and the administrative case filed against the Labor Arbiter.

Considering that IAC is under conservatorship, PNCC likewise filed an administrative complaint against IAC with the Insurance Commission (IC) for its failure to release the bond despite the finality of the dismissal of the case, with a request for IC to segregate from the funds of IAC the cash collateral of PNCC in the amount of P71.072 million. PNCC likewise requested from IC to investigate, with the help of the National Bureau of Investigation (NBI), the alleged release of P37.107 million by IAC to the complainants.

The IC has not yet acted on PNCC's request to seek the help of the NBI to investigate the alleged release of P37.107 million. In a letter dated December 1, 2020, PNCC and OGCC jointly requested NBI to conduct a thorough investigation of the alleged release by IAC of the amount of P37.107 million to the complainants. The NBI is already conducting investigation on the matter.

15.2 Receivables from former employees and consultants

The amount of P50.925 million mainly consists of the following:

- P39.520 million represents cash advances for franchise extension granted to a former officer of PNCC which remained unliquidated and was referred by PNCC to the Office of the Government Corporate Counsel (OGCC) for legal action. Due to failure to liquidate despite written demands, on March 12, 2014, a joint-complaint was filed by former Commission on Audit - PNCC Audit Team Leader and Supervising Auditor against the said former officer before the Office of the Ombudsman in compliance with COA Circular No. 2012-004 dated November 28, 2012. The trial of the case was conducted in 2019 before the 3rd Division of the Sandiganbayan.

The Sandiganbayan has already rendered a Decision finding the former officer of PNCC guilty of the offense charged. The former officer filed a Motion for Reconsideration which has not yet been resolved by the Sandiganbayan.

- Cash advances granted to the former officers and employees of the Corporation in the amount of P10.849 million and former directors' car plan equity balance of P0.532 million.

15.3 Accounts receivables - trade

This account pertains to operating access fees due from oil companies totaling P50.879 million, of which P46.728 million was referred to PNCC's Legal Department for appropriate action, P2.646 million is subject of an on-going reconciliation, and P1.505 million is being paid on installment basis. One of the oil companies informed the Corporation that the funds for payment of the royalty fees are in escrow because of the Writ of Garnishment issued in 2005 prohibiting it from making any payments to the Corporation. Payments will accordingly be made once the garnishment is lifted.

15.4 Assets for write off

This account consists of assets, the existence of which is doubtful and collectibility/realizability is uncertain:

	(in thousand pesos)
Receivables and advances	**4,139,136**
Property and equipment	**2,872,888**
Deferred charges	**1,755,663**
Inventories	**511,342**
Investment in stocks	**179,798**
Pre-operating expenses	**137,323**
Accounts receivable-long term	**12,000**
Investment in joint ventures	**4,563**
Guarantee deposits	**812**
Other deposits	**1,897**
	9,615,422

These accounts have been provided a 100 per cent allowance for impairment losses.
The Corporation, in its letter of June 3, 2014, requested authority from the Commission on Audit to adjust/write off the aforesaid long-outstanding accounts in consonance with COA Circular No. 97-001 dated February 5, 1997.

On June 6, 2017, COA informed the Corporation that the aforementioned request has been returned pending the submission of additional documents to facilitate the processing thereof. The Corporation will resubmit the request for authority from COA to write off the accounts as soon as additional documentation is completed.

15.5 Other assets

These accounts, which have also been provided with 100 per cent allowance for impairment losses, are as follows:

	2020	2019
Accounts receivable-subsidiaries and affiliates	**203,672,096**	204,974,643
Other accounts receivable	**174,900,317**	174,900,317
Billed contract receivables	**90,522,501**	90,522,501
Advances to joint venture, net	**74,021,620**	74,021,620
Accounts receivable-trade	**54,828,519**	54,828,519
Claims receivable	**24,406,064**	24,406,064
Advances to subcontractors	**17,169,107**	17,169,107
Deferred charges	**6,802,733**	6,802,733
Contract retention receivable	**2,380,025**	2,380,025
Advances to suppliers	**2,190,126**	2,190,126
Advances to contract owners	**636,431**	636,431
Other assets-dormant account	**636,088**	636,088
Unbilled contract receivable	**234,456**	234,456
Accounts receivable-officers & employees	**171,609**	171,609
	652,571,692	653,874,239

The Corporation will request authority from COA to write off the accounts as soon as documentation is completed.

16. FINANCIAL LIABILITIES

This account consists of the following:

	2020	2019
Accounts payable	**4,069,829**	1,786,180
Accrued expenses	**14,658,878**	13,064,321
Other accounts payable	**504,685**	14,987
	19,233,392	14,865,488

16.1 Accounts payable

Accounts payable are liabilities to suppliers of goods and services and to government agencies as regards the mandatory deductions from the employees' compensation and taxes withheld on income payments to suppliers of goods and services.

16.2 Accrued expenses

Accrued expenses account includes accrual of the mandatory benefits and leave credits of the Corporation's employees, unpaid professional fees and unpaid accounts to suppliers of goods and services that are normally settled within 12 months from the reporting period.

17. OTHER FINANCIAL LIABILITIES

This account consists of payables for the following:

	2020	2019
Due to National Government		
Concession fees (TRB)	**6,560,442,400**	6,302,440,200
Joint venture companies' revenue/dividends	**1,329,017,649**	1,329,017,649
Toll revenue (SLEX operation under TOC)	**971,550,967**	971,550,967
	8,861,011,016	8,603,008,816
Due to GOCC		
Various advances (NDC)	**1,203,000,000**	1,203,000,000
	10,064,011,016	9,806,008,816

17.1 Concession fees

The concession fees of P6.560 billion (principal amount of P1.06 billion plus penalty charges of P1.290 billion from 2016 to 2020, which is P258 million annually, and P4.21 billion in 2015 and prior years) pertain to the Corporation's payable to TRB pursuant to the Toll Operation Agreement (TOA) dated October 1977. The Corporation is being charged of two per cent penalty charges per month on unpaid concession fees which amount to over P250 million annually.

From May 2008 to March 2009, the Corporation made initial payments to the Bureau of the Treasury (BTr) totaling P220 million, of which the latter confirmed application of the P170 million against outstanding concession fees while the P50 million was unilaterally applied by BTr against an outstanding advance from the National Government (NG).

On July 16, 2010, the Corporation remitted to the NG, through BTr, the amount of P200 million to be applied to outstanding concession fees. However, BTr applied only P100 million and the other P100 million against advances from NG.

These payments bring the Corporation's total remittances to P495 million from 2006 to report date.

17.2 Joint Venture Companies' revenue/dividends

As discussed in Note 1, the expiration of the Corporation's franchise in 2007 resulted in the NG's owning the toll fees and the net income derived from the toll assets and facilities and also the Corporation's percentage share in the toll fees collected by the Joint Venture Companies (JVCs) currently operating the tollways.

In line with the above and pending finalization of the Implementing Rules and Guidelines (IRG) relative to the determination of the net income remittable by the Corporation to the NG, the Corporation initially recognized its obligation to the Government in the amount of P1.329 billion (net of the direct remittance of the consigned monies of P337.94 million to the BTr on December 23, 2011).

The aforesaid amounts were computed at 90 per cent of the gross revenue share and dividends received from May 2007 to December 31, 2010. This is in accordance with the interim rules and guidelines issued by TRB in compliance with the decision of the Supreme Court (SC) in the *Francisco Case* (Note 1).

The SC directed TRB, with the assistance of the Commission on Audit, to prepare and finalize the IRG for the determination of the amounts that the Corporation is entitled for its administrative expenses.

17.3 Toll revenue (SLEX operation under TOC)

Pursuant to the SC En Banc Decision discussed in Note 1, the Corporation recognized in the books the unremitted share in the toll revenue for the operation of the South Luzon Expressway (SLEX) under the Toll Operation Certificate from May 2007 to April 2010 in the amount of P1.537 billion, based on TRB's computation, which accordingly was arrived at by deducting from gross toll revenue the allowable 40 per cent operations and maintenance (O&M) expenses or actual O&M expenses, whichever is lower.

In December 2016, the Corporation remitted to the NG, through BTr, the amount of P566.3 million as partial payment for outstanding share in the toll revenue.

17.4 Various advances from NDC

This account covers various advances from the National Development Company (NDC) totaling P214 million between 1990 to1999 for foreign and peso accounts for which PNCC issued promissory notes, and interest and penalties thereon of P989 million as of December 31, 2009. The issue covering the various advances from NDC is under arbitration before the OGCC Arbitral Tribunal:

- NDC, Petitioner vs. PNCC, Respondent (OGCC ARB Case No. 001-2000) Based on the submitted pleadings and supporting documents, the following issues appear to be clear:

  - Whether respondent is liable to pay petitioner the principal amount of the Promissory Notes plus accrued interest and penalties as provided in the said Notes, and the Documentary Stamp Tax necessary for the execution thereof;

  - Whether respondent is liable to pay/reimburse petitioner the amount of respondent's mortgage loan (including interest thereon) that petitioner paid in order to release the titles of the properties that petitioner bought from the respondent; and

  - Whether petitioner must pay the value of the lot consisting of 7.5 hectares which petitioner developed with its Joint Venture partner despite the fact that said lot was specifically excluded in the Contract of Sale.

The Department of Justice (DOJ), in its February 18, 2014 Consolidated Decision, granted NDC's Petition against the Corporation, the dispositive portion of which follows:

> *"However, the Petition filed by NDC against PNCC is GRANTED. As prayed for, respondent PNCC is ordered: (1) to pay petitioner NDC the principal amount of the Promissory Notes, plus accrued interests and penalties as provided for in the said Notes; and (2) to reimburse petitioner the amount of mortgage loan including interest thereon."*

On March 12, 2014, NDC wrote the Corporation claiming payment of the various advances/loans extended to the latter pursuant to the aforesaid Consolidated Decision of the DOJ.

The Corporation, in its letter of March 19, 2014, informed NDC that it cannot yet settle the account as the decision of the DOJ is not final and executory and that it had filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014.

In the said MR, the Corporation prayed that the DOJ consider the consolidation as not proper and decide on OGCC ARB Case No. 001-2000 separately:

- Order the dismissal of the instant Petition for lack of merit;
- Order the Petitioner to pay PNCC the amount of P3.85 million representing the unpaid balance on the Dasmariñas property, plus legal interest thereon from the time of demand up to the time of payment; and
- Order the Petitioner to pay the Corporation the value of the 7.5 hectares of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by Petitioner to locators of the First Cavite Industrial Estate, plus legal interest thereon from the time of demand up to the actual date of payment.

On January 22, 2015, the DOJ denied the Corporation's Motion for Reconsideration (MR). Thereafter, the Corporation filed a Supplement to the MR on May 28, 2015 which was also denied by DOJ in its order dated July 13, 2015. On June 26, 2015, the Corporation filed a Notice of Appeal with the Office of the President of the Republic of the Philippines (OP) and filed the corresponding Appeal Memorandum on July 27, 2015.

The Corporation is awaiting the resolution of the OP on the appeal.

18. INTER-AGENCY PAYABLES

This account consists of the following:

	2020	2019
Due to BIR	**770,588**	159,326
Income tax payable	**359,346**	812,027
Due to SSS	**20,325**	608,209
Due to PhilHealth	**1,602**	115,864
Due to Pag-IBIG	**0**	189,876
	1,151,861	1,885,302

This account includes income tax payable, taxes withheld from officers and employees, premium payments and other payables for remittance to SSS, PhilHealth and Pag-IBIG.

19. TRUST LIABILITIES

This account consists of the following:

	2020	2019
Current	**33,515,523**	25,296,846
Non-Current	**94,801,914**	103,025,071
	128,317,437	128,321,917

Current account refers to customers' deposits pertaining to three months security deposit paid by tenants from the leased Financial Center Area (FCA) property and 10 per cent bid deposit posted by winning bidders with regard to the Corporation's disposal of assets and scrap materials.

Non-current account mainly consists of security deposits on long-term leases of FCA and Porac, Pampanga properties.

20. DEFERRED CREDITS/UNEARNED INCOME

Deferred credit pertains to the recognized value added tax on the sale of services of the Corporation. It consists of the remaining balance after offsetting of input tax/creditable input tax from purchases against VAT payable from sales of services. The Corporation's deferred credits amounted to P120.647 million and P118.290 million for 2020 and 2019, respectively.

21. SHARE CAPITAL

This account consists of various classes of shares of stock with authorized par value of P10 per share, details of which are presented below:

Preferred "A"
(8-16 per cent cumulative, non-participating, non-voting)

Authorized- 1,400,000 shares

1,400,000	Shares	Treasury Stocks	**14,000,000**

Preferred "B"
(8-17 per cent cumulative, non-participating, non-voting)

Authorized- 42,114,879 shares

Issued and outstanding			
15,000,000	Shares	Republic of the Philippines Through the APT (now PMO) – previously under PNB	150,000,000
3,689,500	Shares	Marubeni	36,895,000
18,689,500			**186,895,000**

Preferred "C"
(14 per cent cumulative, non- participating, non-voting)
Authorized- 6,485,121 shares

Issued and outstanding			
6,485,121	Shares	Republic of the Philippines Through the APT (now PMO) – previously under NDC	**64,851,210**

Preferred "D"
(8 per cent cumulative, participating, voting)
Authorized-27,800,000 shares

Issued and outstanding			
25,500,000	Shares	PMO (previously under PNB)	**255,000,000**

Special common
(non-voting, no pre-emptive right, participating)
Authorized-10,000,000 shares

Issued and outstanding			
3,815	Shares	Carlito C. Paulino	38,150
457	Shares	Editha U. Cruz	4,570
376	Shares	Adolfo S. Suzara	3,760
129	Shares	Vicente Longkino	1,290

Treasury Stocks			
295,227	Shares	Formerly held by PNCC Employees Savings & Loan Association	2,952,270
72,168	Shares	Formerly held by Alfredo V. Asuncion	721,680
372,172			**3,721,720**
Subscribed-			
1,484,260	Shares	FEBTC Trustee-PNCC Stock Trust Fund	**14,842,600**
Common			
Authorized-182,200,000 shares			
Issued and outstanding-			
		Republic of the Philippines Through the APT (Now PMO) – previously under:	
		Phil. Export Foreign Loan Guarantee	375,845,770
		Development Bank of the Phils.	269,874,470
79,271,024	Shares	NDC	146,990,000
47,490,383	Shares	Government Service Insurance System	474,903,830
15,360,831	Shares	Universal Holding Corporation	153,608,310
6,811,543	Shares	Various Brokers	68,115,430
4,562,384	Shares	Various Corporations	45,623,840
1,178,856	Shares	Cuenca Investment Corporation	11,788,560
964,800	Shares	Pioneer Insurance and Surety Corporation	9,648,000
657,836	Shares	Land Bank of the Philippines	6,578,360
335,391	Shares	PNCC Employees	3,353,910
7,037,935	Shares	Individuals (Non-employees)	70,379,350
163,670,983			**1,636,709,830**
Common Subscribed-			
9,419,915	Shares	Universal Holding Corporation	94,199,150
909,276	Shares	Cuenca Investment Corporation	9,092,760
149,328	Shares	Various Corporations	1,493,280
33,391	Shares	PNCC Employees	333,910
27,693	Shares	Various Brokers	276,930
234,173	Shares	Individuals (Non-employees)	2,341,730
10,773,776			**107,737,760**
228,375,812	Shares		**2,283,758,120**
		Subscriptions receivable (Note 22)	**(56,158,831)**
			2,227,599,289

The cumulative preferred shares are those that are entitled to any dividends not declared in the prior period (dividends in arrears) such that when dividends are declared in the current period, the dividends in arrears are to be satisfied first.

Dividends (in arrears) on cumulative preferred shares are not recognized in the books due to the Board of Directors' non-declaration of dividends. Such action of the PNCC Board is supported by Article XI, Section 11.01 of the Amended Corporate By-Laws which provides that "Dividends maybe declared annually or oftener as the Board of Directors may determine. The Board of Directors may declare dividends only from the surplus profits of the Corporation."

For purposes of the required disclosure in the financial statements, the dividends in arrears (computed from 2007 to 2020) are as follows:

Name of Stockholders (a)	Class of Stock (b)	Shareholdings (c)	Undeclared Dividend (b x c x 14 yrs)
Republic of the Phil. Through the PMO (previously under PNB)	Preferred "B" (8 per cent-17 per cent, cumulative, non- participating, non-voting)	150,000,000	168,000,000
Marubeni	Preferred "B" (8 per cent-17 per cent, cumulative, non- participating, non-voting)	36,895,000	41,322,400
Republic of the Phil. Through the PMO (previously under NDC)	Preferred "C" (14 per cent, cumulative, non-participating, non-voting)	64,851,210	127,108,372
Republic of the Phil. Through the PMO (previously under PNB)	Preferred "D" (8 per cent, cumulative, non-participating, non-voting)	255,000,000	285,600,000
		506,746,210	**622,030,772**

The above dividends in arrears are not recognized as liabilities because there is no obligating event yet.

22. SUBSCRIPTIONS RECEIVABLE

This account represents the unpaid amount due from the following subscribers on subscription of the Corporation's shares of stock, the due dates of which are, by agreement, of valid call by the Board of Directors:

Universal Holding Corporation	**48,302,274**
Cuenca Investment Corporation	**5,145,287**
Other Corporations	**966,630**
Individuals	**1,744,640**
	56,158,831

As of the end of 2020, there was no call made by the Board of Directors for the unpaid subscriptions.

23. EQUITY ADJUSTMENTS

Under Rehabilitation Plan-Loans Transferred to National Government (NG)

This account represents substantial portion of the Corporation's liabilities to Government Financial Institutions (GFIs) which should have been converted into equity pursuant to Presidential Letter of Instruction (LOI) 1295 dated February 23, 1983, and liabilities to the government agencies transferred to the Government pursuant to Proclamation No. 50 issued by the President of the Philippines on December 8, 1986.

	(In thousand pesos)
Philippine National Bank	**2,865,445**
National Development Company	**1,356,693**
Philguarantee	**1,204,311**
Central Bank of the Philippines	**75,654**
Bureau of the Treasury	**39,991**
Development Bank of the Philippines	**9,633**
	5,551,727

The above-mentioned Corporation indebtedness remain unconverted as it is the Corporation's position, as supported by the Office of the Solicitor General (OSG) opinion dated August 23, 2007, that based on LOI 1295, which was a special law promulgated to rehabilitate the Corporation, the debts have effectively been converted to equity and, therefore, should no longer incur interest charges.

The Privatization Management Office (PMO), however, still considers these unconverted debts as liabilities, claiming the total amount of P66.173 billion as of December 31, 2020 and P65.915 billion as of December 31, 2019, inclusive of accumulated interest charges and penalties amounting to P59.923 billion and P59.665 billion, respectively. These amounts have not been recognized in the books of the Corporation. The Corporation did not recognize the disputed interest charges and penalties based on the following:

- The Supreme Court (SC) itself had recognized the validity of LOI 1295 and that it still legally exists today;

- The failure to convert all debts to equity is considered an administrative matter; and

- The P5.552 billion is not a debt but simply represents unissued shares of stocks awaiting actual conversion to equity pursuant to LOI 1295 and, as such, continued imposition of interests and penalties is not warranted.

The above position of the Corporation is supported by the Office of the Solicitor General (OSG) and the Office of the Government Corporate Counsel (OGCC).

In like manner, the Bureau of the Treasury (BTr) is claiming as of December 31, 2017 the amount of P2.735 billion (inclusive of P1.327 billion interest) representing advances made by BTr to settle the Corporation's foreign obligations with creditors. It is the Corporation's position that said loans are included in the Equity Adjustments under Rehabilitation Plan which are among the accounts transferred by the Corporation to the Government through the Asset Privatization Trust (APT) pursuant to PNCC's Rehabilitation Plan of 1987 and are no longer recorded as liabilities in the Corporation books. As such, the Corporation is precluded from servicing the accounts.

As discussed in Note 17, the application of the P50 million and P100 million payments in 2008 and 2010, respectively, against outstanding NG advances were already effected in the aforesaid confirmed amount of P2.735 billion.

In view of the differences on the treatment of the P5.552 billion unconverted debt to equity, the Corporation and the PMO resolved to submit the matter to the Department of Justice (DOJ) for arbitration:

- PNCC, Petitioner vs. PMO, Respondent (OSJ Case No. 02-2012)

  The parties entered into a Joint Stipulation of Facts and Issues identifying the issues, as follows:

  - Whether or not PNCC is indebted to the National Government in the amount of P5.4 billion which, inclusive of interests as of October 31,2011, amounted to P51.060 billion;

  - Whether or not the unconverted debt to equity, which is a leftover of LOI 1295, should be considered as simple loan;

  - Whether or not the unconverted portion of CDCP's debts are liable for interest and penalty charges; and

  - Whether LOI 1295 repealed the general provisions of RA 337 General Banking Act, as amended, the charters of DBP (RA 85, as amended), PNB (PD 694), and LBP (RA 3844), which all restricted the GFI's exposure to non-allied industries."

The DOJ, in its February 18, 2014 Consolidated Decision, dismissed the Corporation's Petition against PMO, the dispositive portion of which reads:

"WHEREFORE, premises considered, the Petition filed by the PNCC against the PMO, is hereby DISMISSED. As prayed for by the respondent PMO, petitioner PNCC is hereby ordered to pay respondent PMO, in behalf of the National Government, the amount of P51,060,330,392.40 as of 31 October 2011, representing its due and demandable obligation to the latter, inclusive of the interests, plus interests and penalties until actually paid."

The Corporation filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014. The Corporation prayed that the DOJ consider the consolidation as not proper and decide on OSJ Case No. 02-2012 separately:

- Render judgment declaring that the interest and penalty charges being imposed by PMO on the actual outstanding debt of PNCC to the National Government is without basis and violative of LOI 1295;

- Declare that PNCC's outstanding debt to the National Government is only in the amount of P5.4 billion, representing the value of the unconverted debt-to-equity obligation to the Government Financial Institutions; and

- Require or direct the debt-to-equity conversion of the P5.4 billion debt of PNCC pursuant to the clear and explicit instructions under LOI 1295.

On January 22, 2015, DOJ denied PNCC's MR. PNCC filed a supplement to the MR on May 28, 2015 which was also denied by the DOJ in its order dated July 13, 2015.

On June 26, 2015, PNCC filed a Notice of Appeal with the Office of the President of the Republic of the Philippines (OP) and filed the corresponding appeal memorandum on July 27, 2015.

The Corporation is awaiting the resolution of the OP on the appeal.

24. SERVICE AND BUSINESS INCOME

This account consists of the following:

24.1 Service Income

	2020	2019	2018
Supply of manpower to Skyway O&M Corporation	**50,154,542**	47,397,559	37,570,690
Services for structural repairs- MIAA	**0**	19,971,611	0
	50,154,542	67,369,170	37,570,690

Starting October 1, 2015, the Corporation assumed the operations of DISC Contractors, Builders and General Services Inc. (DCBGSI), a wholly-owned subsidiary of the Corporation.

24.2 Rental/Lease Income

This account represents the revenue derived out of the Corporation's real estate properties located in the following areas:

	2020	2019	2018
Pasay City	**26,091,776**	26,676,454	72,361,945
Porac, Pampanga	**7,261,896**	2,420,632	435,600
	33,353,672	29,097,086	72,797,545

PNCC is the lessor under an operating lease agreements with Pacific Concrete Products, Inc. (PCPI) in the FCA, Pasay City and Tokagawa Global Corporation (TGC) in Porac, Pampanga. The lease with PCPI has a term of 25 years, with renewal option and option of pre-termination upon reasonable notice by the lessor, while the lease with TGC has a fixed period of five years, commencing on September 1, 2019 until August 31, 2024, unless otherwise terminated at an earlier time by the lessor for reasonable cause.

The future minimum lease payments under these operating leases are as follows as of December 31:

	2020	2019
Within one year	**1,815,474**	1,815,474
After one year but less than five years	**382,708,294**	382,708,294
	384,523,768	384,523,768

The decrease in rental income in 2019 and 2020 is due to the non-renewal of leases of the FCA, Pasay City property effective May 31, 2018 pursuant to Board Resolution No. BD 069-2018 dated April 17, 2018. The PNCC Board of Directors resolved not to extend the lease contracts of various leases upon expiration of the one-year term contracts on May 31, 2018 in view of the planned development of the subject property.

Due to non-renewal of Contracts of Lease, the PNCC demanded the lessees to vacate the property. However, seven lessees did not heed the said demand and refused to vacate the leased premises. Of the seven lessees, two paid rentals which payments were treated by PNCC as compensation for the damages it has incurred due to their continued occupation of the property. Four lessees filed a Petition for Injunction against PNCC seeking to enjoin PNCC from terminating the lease contract.

The PNCC subsequently filed ejectment cases against these lessees who refused to vacate the property. After the cases have been filed, two lessees offered rental payments to PNCC. In May 2018, PNCC received nine checks totaling P28.286 million dated December 1, 2017 to May 23, 2018 from one lessee. However, the PNCC Board of Directors decided not to enter into any amicable settlement with the lessee and instructed the Management to proceed with the ejectment case and return the checks to the lessee. The other lessee likewise offered rental payments to PNCC amounting to P33.050 million. PNCC however, did not accept said rental payments in view of the above position of the Board of Directors and also for the reason that the same might affect PNCC's position in the pending ejectment case. The said lessee filed a Motion for Consignation of Rental Payments on July 11, 2018 and consigned the check payments in Court. The cases of Injunction filed by the lessees and the ejectment cases filed by PNCC, being handled by the Office of the Government Corporate Counsel as PNCC's statutory counsel, are still on-going as of December 31, 2020.

24.3 Share in Profit/Revenue of Joint Venture

This account consists of the following:

	2020	2019 (As restated)	2018
Revenue Share			
MNTC	**50,081,593**	71,169,073	64,688,415
CMMTC	**21,103,260**	33,190,798	32,649,273
SLTC	**13,665,982**	18,691,700	18,533,244
	84,850,835	123,051,571	115,870,932

As discussed in Note 17, pending issuance by the Toll Regulatory Board (TRB) and the Commission on Audit (COA) of the Implementing Rules and Guidelines (IRG) for the determination of the amounts due to the Corporation for its administrative expenses, the Corporation recognized 10 per cent of its share from the JVCs' gross toll revenues in accordance with the interim rules and guidelines issued by TRB.

The franchise of PNCC under PD 1113 to operate, construct, and maintain toll facilities in the North and South Luzon Tollways for a period of 30 years expired on May 1, 2007. With its expiration, the toll assets and facilities of PNCC were automatically turned over to the government at no cost. The Supreme Court (SC), in Ernesto B. Francisco vs. TRB, PNCC et al. (G.R. Nos. 166910,169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et al. (G.R. No. 178158, December 4, 2009), ruled and declared that with the expiration of the Corporation's franchise, the toll assets and facilities of the Corporation were automatically turned over, by operation of law, to the National Government (NG) at no cost and consequently, this inevitably resulted in the latter's owning too the toll fees and the net income derived after May 1, 2007 from the toll assets and facilities, including the Corporation's percentage share in the toll fees collected by the JVCs currently operating the tollways, including NLEX and Skyway.

On March 22, 2012, TRB issued an interim rules and guidelines for the remittance by the JVCs to the National Treasury of the net income that is supposed to be remitted by the JVCs from the revenues of the NLEX, SLEX and Skyway in accordance with the *Francisco Case.*

Paragraph 2 of the said guidelines provide that *"(a)s subsequently agreed upon by PNCC and TRB as an interim arrangement, 10 per cent of all amounts that are supposed to be remitted by the JV companies shall be set-aside by the JV company for remittance to PNCC. The ninety (90) per cent shall be remitted to the TRB for the National Treasury immediately."*

Relative to the aforesaid interim rules and guidelines, a complaint (entitled: Rodolfo M. Cuenca vs. Toll Regulatory Board, et al., Civil Case No. 13-919) was filed before the Regional Trial Court (RTC) of Makati Branch 132 by petitioner Rodolfo M. Cuenca, in his capacity as stockholder of the Corporation, against TRB, COA, Manila North Tollways

Corporation (MNTC), CITRA Metro Manila Tollways Corporation (CMMTC), South Luzon Tollways Corporation (SLTC) and Manila Toll Expressways Systems, Inc. (MATES) and the Corporation as respondents.

In his petition, Cuenca said that "*there is the very real possibility that what the respondent corporations MNTC, CMMTC, SLTC and MATES have remitted, and will be remitting, to the NG is above or much more than what should be remitted given the actual and true financial situation of the respondent corporations. This gives rise to the unfortunate complication that such overpayments may only be reimbursed by the NG through cumbersome, to say the least, budgetary process.*"

Thus, petitioner is praying for the Honorable Court that:

- The respondents TRB and COA come up with and release the final implementing rules and guidelines embodying the final formula relative to the determination of the net income remittable by respondent PNCC to the NG;

- That the respondent corporations be enjoined from remitting any and all amounts directly to the NG until respondents TRB and COA have issued the final implementing rules and guidelines; and

- The respondents be ordered to consign with the Honorable Court any and all amounts they are ready to remit to the NG until the final implementing rules and guidelines has been issued by TRB and COA.

On May 9, 2014, a Writ of Preliminary Injunction was issued by the RTC of Makati Branch 132, enjoining and restraining the TRB and PNCC from implementing the interim rules and guidelines dated March 22, 2012. The respondent corporations, namely: MNTC, CMMTC, SLTC and MATES, were directed to forward the entire amounts to be remitted by them under their respective Supplemental Toll Operations Agreement (STOA) to the Corporation.

It appearing that the government stands to suffer gravely and irreparably from the aforesaid ruling of the RTC as it deprives the government of income based on the government's direct ownership of the assets and facilities of the Corporation, the SC resolved, on August 4, 2014, to require respondents to file Comment on the petition, not a motion to dismiss, within ten (10) days from notice and to issue, effective immediately and continuing until further orders from the SC, a Temporary Restraining Order (TRO), enjoining the RTC of Makati Branch 132, the private respondent, their representatives, agents or other persons acting on their behalf from implementing the RTC Resolution dated April 30, 2014 in Civil Case No. 13-919.

The Petition is still pending resolution before the SC.

24.4 Dividend Income

This account consists of the following:

	2020	2019	2018
CMMTC	**22,074,800**	40,286,510	55,187,000
ASDI and CESLA	**387,419**	329,592	383,010
	22,462,219	40,616,102	55,570,010

24.5 Interest Income

This account consists of interest income earned on bank deposits amounting to P25.479 million, P22.552 million and P10.187 million in 2020, 2019 and 2018, respectively.

25. GAINS

This account consists of the following:

	2020	2019	2018
Gain from changes in fair value of investment property	**0**	19,106,724,000	0
Gain on reversal of allowance for inventory writedown	**0**	0	227,907
Gain on sale of property and equipment	**0**	529,869	0
	0	19,107,253,869	222,907

26. OTHER NON-OPERATING INCOME

This account consists of the following:

	2020	2019 (As restated)	2018
Reversal of impairment loss on receivables	**1,302,547**	0	300,000
Other income – net	**6,801**	626,578,929	1,364,942
	1,309,348	626,578,929	1,664,942

The reversal of impairment loss on receivables in 2020 was due to collection of receivable from inactive subsidiaries. While, in 2018 was due to settlement of a disallowed cash advance granted to a former PNCC consultant which was applied against the salary payments of a former PNCC officer (the only person liable connected to the Corporation at the time the COA Order of Execution was issued).

The other income - net account in 2020 mainly consists of sale of bid documents, new ID and employment certification fee. While in 2019 it mainly consists of income derived from forfeited security deposits of lessees, sale of scrap materials, sale of bid documents, unclaimed separation pay of various separated SOMCO employees, closed check payments made to various payees and recognition of income amounting to P625.000 million due to issuance of free-carry shares in CCEC and SLTR5 EI.

27. PERSONNEL SERVICES

This account consists of the following:

	2020	2019	2018
Salaries and wages	**30,580,916**	31,302,865	32,601,346
Other compensation	**6,043,172**	5,503,700	5,396,163
Personnel benefit contribution	**1,842,267**	2,819,674	2,325,787
Other personnel benefits	**5,547,088**	3,864,193	6,036,252
	44,013,443	43,490,432	46,359,548

28. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2020	2019	2018
General services	**7,833,721**	7,494,508	5,346,508
Taxes, insurance, and other fees	**6,568,287**	4,831,884	4,934,609
Depreciation	**6,507,950**	6,654,858	7,374,048
Professional services	**5,277,386**	6,114,525	5,653,370
Directors and committee members fees	**3,791,100**	4,106,400	3,987,601
Transportation and traveling	**1,970,180**	4,258,875	4,266,336
Utility	**1,738,905**	2,286,378	2,203,731
Litigation expense	**1,725,972**	1,742,766	1,923,470
Communication	**1,721,228**	1,482,138	1,356,505
Loss on derecognition of worthless investment	**1,200,000**	0	0
Repairs and maintenance	**894,536**	1,652,947	1,700,932
Representation expenses	**515,238**	1,491,093	1,038,878
Supplies and materials	**287,530**	500,253	481,750
Training and scholarship	**16,293**	117,948	1,001,153
Loss on sale of property and	**0**	0	207,728
Other maintenance and operating expenses	**1,032,608**	1,610,794	565,407
	41,080,934	44,345,367	42,042,026

29. DIRECT COSTS

This account consists of the following:

	2020	2019	2018
Labor	**40,621,222**	55,669,069	30,485,584
Equipment operations costs	**145,058**	183,995	190,887
Materials	**0**	10,179	6,670
Others	**0**	0	5,243
	40,766,280	55,863,243	30,688,384

As stated in Note 24.1, starting October 1, 2015, the Corporation assumed the operations of DCBGSI, a wholly-owned subsidiary of the Corporation.

30. INCOME TAXES

The Corporation's provision for income tax for the year 2020 is P2.997 million computed under the Minimum Corporate Income Tax (MCIT).

As of December 31, 2020, the balance of the MCIT is as follows:

Date Incurred	Amount	Application	Expired	Balance	Expiry Date
2020	2,997,265	0	0	2,997,265	2023
2019	4,109,590	0	0	4,109,590	2022
2018	5,028,865	0	0	5,028,865	2021
2017	7,151,247	0	7,151,247	0	2020
	19,286,967	**0**	**7,151,247**	**12,135,720**	

As of December 31, 2020, and 2019, the following are the temporary differences for which no deferred tax asset was set up because Management believes that it is more likely that no future taxable income is available against which the benefit from deferred tax assets can be offset:

	2020	2019
Allowance for losses on assets for write off	**9,615,422,219**	9,615,422,219
Allowance for impairment losses	**653,874,239**	653,874,239
Allowance for impairment – other materials and supplies	**2,992,956**	2,992,956
Allowance for losses on investments	**177,180,811**	177,180,811
	10,449,470,225	10,449,470,225

As of December 31, 2020, and 2019, the recognized deferred tax assets pertain to the following:

	2020	2019
Carry forward benefit of unapplied tax credits	**21,753,168**	22,680,017
Excess of MCIT over the regular corporate income tax	**12,135,720**	16,130,543
	33,888,888	38,810,560

As of December 31, 2020, and 2019, deferred tax liabilities pertain to the following:

	2020	2019
Fair value adjustment of investment property	**10,132,283,160**	10,132,283,160
Revaluation increment in property	**448,799,098**	450,124,523
	10,581,082,258	10,582,407,683

Deferred tax liabilities pertain to the deemed tax on the increase in value of investment property and property and equipment as required by PAS 12, *Income Taxes*.

31. OTHER COMPREHENSIVE INCOME

This account pertains to unrealized gains and losses arising from changes in fair value every reporting period of investments classified as financial assets at fair value through other comprehensive income. The Corporation recognized unrealized gain of P55,000 and unrealized loss of P224,000 in 2020 and 2019, respectively, from these investments.

32. TAX MATTERS

The Corporation was assessed by the Bureau of Internal Revenue (BIR) for deficiencies in various taxes. However, no provision for any liability has been made yet in the Corporation's financial statements.

- Deficiency internal revenue taxes for taxable year 1980 (income tax, contractor's tax, and documentary stamp tax) totaling P212.52 million.

  The Corporation sought a reinvestigation of the case on November 8, 1995, and as a consequence, the BIR issued a final decision promulgated on September 9, 2004 ordering PNCC to pay the amount of P101.46 million, the reduction of P111.87 million represent deficiency contractor's tax which the BIR resolved to cancel and withdraw from the assessment it being bereft of merit for lack of legal basis, thus finding the Corporation's contention meritorious.

  The Corporation, in its letter dated February 15, 2005, informed the BIR that it had filed a Petition with the Department of Justice (DOJ) seeking the reversal of the BIR's resolution holding the Corporation still liable for the aforesaid tax deficiencies and has applied for an interim order or measure from the DOJ to suspend or stop the collection of subject amount pending resolution of the Petition.

- Deficiency business tax of P64 million due from the Belgian Consortium, the Corporation's partner in its LRT Project.

- Deficiency internal revenue taxes for taxable year 1992 (income tax, value-added tax, and expanded withholding tax) of P1.04 billion which was reduced to P709 million after the Corporation's written protest.

  PNCC Management, however, requested for a meeting/conference for the clarification of the issue, the reduced amount still being the result of a jeopardy assessment. The BIR has not responded as of date.

- Deficiency internal revenue taxes for taxable year 2002 totaling P72.92 million.

  Management, in close coordination with the concerned BIR officers, presented a more detailed analysis of the accounts. Said presentation and the Corporation's availment of the tax amnesty had substantially reduced the aforesaid deficiency taxes.

- Deficiency taxes for taxable year 2006 amounting to P116.141 million (inclusive of interest of P48.76 million).

  Management, in its letter of October 29, 2010 to the BIR, protested the aforesaid proposed deficiency taxes pursuant to Section 203 of the NIRC of 1997 (Prescription of limitation upon assessment and collection) and Revenue Regulations (RR) No.12-99 (which requires discussion between the Corporation and BIR Examiner/s before submission of the report to the BIR Chief concerned).

  No discussion happened as the Corporation came to know of the findings on the alleged deficiency taxes only on October 22, 2010, way beyond the three (3)-year prescription period of April 15, 2010.

  To date, the Corporation has not received any formal communication from the BIR after its letter on October 29, 2010.

- Deficiency internal revenue taxes for the taxable year 2009 in the amount of P87.414 million (basic tax of P51.957 million and interest/penalty charges of P35.457 million).

  After series of written protests/communications with and presentation of documentary evidences to the BIR, the proposed deficiency taxes of P87.414 million was reduced to P21.147 million (basic tax of P11.384 million and interest/penalty charges of P9.763 million).

  The basic taxes of P6.565 million (expanded withholding tax, withholding tax on compensation, and fringe benefit tax) and P4.819 million (final withholding tax) were paid on November 28, 2013 and on January 10, 2014, respectively.

  On January 10, 2014, the Corporation requested reconsideration for the attendant charges of P9.763 million, in the amount equitable to both the BIR and the Corporation pursuant to Section 204 of the National Internal Revenue Code (NIRC) and the related revenue regulations.

On November 2, 2016, the Corporation received a Final Decision on Disputed Assessment for expanded withholding tax, withholding tax on compensation, final withholding of VAT and fringe benefit tax for a total assessed amount of P15.425 million (basic tax of P8.934 million and interest/penalty charges of P6.491 million).

The Corporation, in its letter dated April 10, 2017 to the BIR, requested that the Corporation be allowed to avail of reliefs by way of reduction or abatement of the charges and a favorable consideration/reconsideration from the BIR.

On July 30, 2018, the Corporation paid P0.893 million representing 10 per cent of the basic tax relative to its application for compromise settlement of its deficiency taxes. A Board Resolution (BD 160-2018) was passed during a meeting of the PNCC Board of Directors on August 15, 2018, wherein, President and CEO Mario K. Espinosa was authorized to enter into a compromise of up to 40 per cent minimum amount of basic tax.

On September 4, 2018, the Corporation signified its intention to increase the offer of compromise from 10 per cent (P0.893 million) to 40 per cent (P3.574 million) of the basic tax.

The BIR, in its letter dated September 11, 2018 informed PNCC that pursuant to Revenue Regulation (RR) 9-2013, amending certain provisions of RR 30-2002 particularly Section 6, it is expressly stated that:

> *"The compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding tax liabilities."*

On August 26, 2020, the Corporation received a Certificate of Availment with Certificate No. CAC201700010867, stating that the Compromise Settlement for the 2009 tax deficiencies have been approved by the National Evaluation Board on March 9, 2020.

- On March 26, 2021, the President signed into law Republic Act (RA) 11534 also known as "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE" Act which reduced the corporate income tax rates and rationalized the current fiscal incentives by making it time-bound, targeted and performance-based. The law contains amendments to several provisions of the National Internal Revenue Code of 1997 ("Tax Code"), primarily on the reduction of the corporate income tax rate and the introduction of a new title on tax incentives.

  CREATE Act introduces reforms in the areas of corporate income tax, value-added tax, and tax incentives, aside from providing COVID-19 related reliefs to taxpayers.

  The salient provisions of the CREATE Act applicable to the Corporation are as follows:

1. Existing registered enterprises under the five per cent Gross Income Tax (GIT) may avail of the five per cent GIT for 10 years from the effectivity of the CREATE Act.

2. Effective July 1, 2020, domestic corporations with total assets not exceeding P100 million and net taxable income of P5 million and below shall be subject to 20 per cent income tax rate while the other domestic corporations and resident foreign corporations will be subject to 25 per cent income tax rate;

3. Minimum corporate income tax (MCIT) rate is reduced from two per cent to one per cent from July 1, 2020 to June 30, 2023;

4. Repeal of the improperly accumulated earnings tax.

As at the end of reporting date December 31, 2020, the CREATE Bill is not considered substantively enacted. As such, current taxes are measured using the applicable gross income tax rate of five per cent for PEZA activities. Nonetheless, the implementation of CREATE Act does not have any impact to the Corporation's income tax provision for December 31, 2020.

33. CONTINGENT LIABILITIES/CONTINGENT ASSETS

PENDING LAWSUITS/LITIGATIONS

Contingent Liabilities

The Corporation has contingent liabilities with respect to claims and lawsuits. Management believes that the final resolution of these issues will materially affect the Corporation's financial position.

- *Asiavest Merchant Bankers (M) Berhad vs. PNCC (Civil Case No.64367)*

  This case arose after Asiavest-CDCP Sdn. Bhd. (Asiavest-CDCP), a corporation organized by both CDCP (now PNCC) and Asiavest Holdings (M) Sdn. Bhd. (Asiavest Holdings), which acted as PNCC's subcontractor in Malaysia, failed to complete the project in Malaysia. Asiavest Merchant Bankers (M) Berhad (AMB), which provided various guarantees and bonds to PNCC in connection with the construction contracts in Malaysia, thus sought reimbursement of the surety bond the former paid to the State of Pahang (Malaysia). The amount involved is Malaysian Ringgit (MYR) 3,915,053.54.

  On April 12, 1994, AMB instituted the case before the Pasig City Regional Trial Court (RTC). PNCC through its legal counsel, Office of the Government Corporate Counsel (OGCC), had filed four (4) motions for extension of time to file answer and/or any responsive pleading. However, PNCC was not able to file its Answer to the Complaint because the transactions were executed in Malaysia and the documents were not then immediately available. Thus, a judgment by default was rendered by the trial court. Efforts were made towards lifting of the default order and reconsideration of the decision, but the same were denied.

PNCC appealed the case to the Court of Appeals (CA) but was dismissed in its Decision dated June 10, 2005. A Motion for Reconsideration (MR) was filed but the same was denied.

A Petition for Review on Certiorari was filed before the Supreme Court (SC) which eventually decided against PNCC last April 4, 2016. On April 6, 2016, OGCC received a Motion for issuance of Alias Writ of Execution filed by AMB with RTC. On April 16, 2016, PNCC filed its opposition thereto arguing that the subject claim should be filed first with COA before a Writ of Execution can be issued by RTC.

The RTC Branch 153 denied Asiavest's Motion for Execution and its subsequent Motion for Reconsideration. Subsequently, Asiavest filed with CA a Petition for Certiorari and Mandamus, to which PNCC filed a Comment and Opposition on May 29, 2018.

On August 14, 2018, PNCC received the CA Second Division's Notice of Judgment denying and dismissing the above Petition for Certiorari and Mandamus. Asiavest filed a Motion for Reconsideration (MR), a copy of which was received by PNCC on August 30, 2018. On October 8, 2018, PNCC filed its Comments on the subject MR. In a Resolution dated November 29, 2018, the CA Former Second Division denied Asiavest's MR for lack of merit.

- *Asiavest Merchant Bankers (M) Berhad vs. PNCC (Civil Case No. 56368)*

This case involves the enforcement of a foreign judgment rendered against PNCC in Malaysia for guarantees it issued on various construction projects involving Malaysian Ringgit (MYR) 5,108,290.23. The Pasig City RTC and the Court of Appeals (CA) rendered decisions in favor of PNCC, dated October 14, 1991 and May 19, 1993, respectively.

In 2001, the SC rendered a decision reversing the decision of the CA and ordered the payment of the foreign award. In 2002, the Pasig City RTC issued a Writ of Execution which was partially satisfied but PNCC later asked for its temporary suspension by moving to quash the writ because of: (a) change of the party's status making the execution inequitable; and, (b) the claim has already prescribed under Malaysian laws. In 2015, the RTC finally denied PNCC's Motion to Quash, including the subsequent MR. PNCC has since filed a Petition for Certiorari which is pending in the CA. In April 2016, AMB's counsel filed for Ex- Parte Motion for Issuance of Alias Writ of Execution to enforce the 2002 Writ of Execution. PNCC has since opposed it, prompting AMB to file its Urgent Motion to Resolve.

The RTC denied PNCC's Motion to Quash. Because of the denial of the said Motion to Quash, PNCC filed a Petition for Certiorari with the CA on the RTC's Orders. On December 18, 2017, the CA denied the Petition for Certiorari and subsequently, the Motion for Reconsideration was also denied on June 17, 2018. On August 23, 2018, the PNCC filed a Petition for Review on Certiorari with the Supreme Court.

Asiavest, through counsel, filed a Motion for Execution in both cases with the RTC. OGCC opposed the motion on the ground that the claim of Asiavest should be filed first with the Commission on Audit (COA) before a Writ of Execution can be issued.

The RTC denied Asiavest's motion and directed the latter to file its claim against PNCC with COA.

On May 3, 2021, the Corporation received a copy of the Petition for Money Claim (involving the decision of the RTC in Civil Case No. 64367), filed with COA by Asiavest Equity SDN BHD (in Members' Voluntary Liquidation) allegedly, formerly known as Asiavest Merchant Bankers (M) Berhad. On June 30, 2021, PNCC, through the OGCC, filed its Answer to the said Petition.

- *Superlines Transportation Co. Inc. vs PNCC*

This case seeks the recovery of personal property (replevin) with damages, the merits of which the SC had already resolved in "Superlines Transportation Company, Inc. (Superlines) vs. Philippine National Construction Company (PNCC)," which ordered that the case be remanded to the lower court for further proceedings. After the matter was remanded to the RTC, trial ensued and the latter issued its assailed Decision, where it recapped the series of events following the Supreme Court 2007 Decision.

The RTC's Decision dated May 12, 2010 held PNCC and co-defendant Balubal liable. PNCC elevated the case to the Court of Appeals, which affirmed the trial court's finding in its Decision dated May 31, 2014. The Motion for Reconsideration of PNCC was likewise denied by the CA. Hence, PNCC elevated the matter to the SC arguing that the CA: (a) violated the SC ruling in G.R. 169596; (b) gravely erred in failing to consider that SCTI never went to Lopera to seek his permission to have the vehicle released; (c) failed to consider STCI's bad faith in excluding Lopera as party defendant; and (d) erred in holding that PNCC should be held liable for damages.

On June 3, 2019, the SC rendered a Decision denying the petition. The Decision dated May 30, 2014 and the Resolution dated January 13, 2015 of the CA in CA-G.R. CV No. 95429 are Affirmed with Modifications as follows:

> *"WHEREFORE, premises considered, the instant petition DENIED. The Decision dated May 30, 2014 and the Resolution dated January 13, 2015 of the Court of Appeals in CA-GR CV No. 95429 are AFFIRMED with MODIFICATIONS in that* ***the award of lost/unearned income is hereby DELETED****. The amount of* ***exemplary damages and attorney's fees are REDUCED to P100,000 and P30,000.00, respectively****.*
>
> ***The amount of exemplary damages shall earn interest of six percent (6%) per annum from the date of the finality of this judgment until full satisfaction thereof.***
>
> ***All others STAND.***
>
> *SO ORDERED."*

Both parties filed their respective motions for partial reconsideration. The SC however, denied both motions for partial reconsideration.

On April 13, 2021, Superlines filed a Petition for Money Claim with the COA, praying that PNCC be ordered to pay the following:

"a.	*Php2,036,500 -*	*as actual damages pertaining to the cost of acquisition of the Bus No. 719 *subject to 6% per annum interest rate from May 11, 2007*
b.	*Php100,000 -*	*as exemplary damages *subject to 6% per annum interest rate from finality of the Decision dated June 03, 2019 rendered by the Supreme Court in G.R. No. 216569*
c.	*Php30,000 -*	*as attorney's fees"*

On May 17, 2021, PNCC received an Order dated April 22, 2021 from COA, requiring PNCC to submit its Answer within 15 days from receipt thereof. The matter was referred to the OGCC for handling and appropriate action on May 19, 2021.

In view of the foregoing, the Corporation, through its legal counsel, OGCC, shall continue to exhaust all legal options provided by law.

Pending Lawsuits/Litigations

In addition, the Corporation is involved in continuing litigations relating to labor and civil cases. The ultimate outcome of these litigations cannot be determined yet and no provision for any liability that may result can be made in the financial statements.

The labor cases which consist of those filed against the Corporation comprised mostly of claims for illegal dismissal, backwages, separation pay, and unpaid benefits. Most of these cases have been ruled by the Labor Arbiter in favor of the complainant. However, these cases are on appeal by the Corporation before the National Labor Relations Commission, CA and SC.

The civil cases filed against the Corporation consist of cases involving damages, collection of money, and attorney's fees, which are still under litigation before various RTCs. On the other hand, those filed by the Corporation against other individuals or companies consist of suits involving sums of money, damages, and breaches of contract which involve undeterminable amount of money.

34. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key Management includes the board of directors, all members of management and other company officers. Key management compensation totaled P14.102 million and P14.112 million in 2020 and 2019, respectively. A breakdown of these amounts as follows:

	2020	2019
Salaries and wages	**8,642,472**	8,285,681
Other benefits	**2,025,162**	1,938,589
Per diem	**3,434,000**	3,887,600
	14,101,634	14,111,870

35. RESTATEMENT OF ACCOUNTS

The 2019 and 2018 financial statements were restated to reflect the following transactions/adjustments:

CY 2018 errors discovered in 2020

	December 31, 2018 (as previously reported)	Restatements/ Adjustments	January 1, 2019 (as restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net	**466,697,972**	**2,392,577**	**469,090,549**
Recognition of 2017 unbilled services for Philphos		2,392,577	
Restatement on Statement of Financial Position – net increase		**2,392,577**	
STATEMENT OF CHANGES IN EQUITY			
Retained Earnings	**3,727,168,420**	**2,392,577**	**3,729,560,997**
Correction of prior year's income		2,392,577	
Restatement on Equity- net increase		**2,392,577**	

CY 2019 errors discovered in 2020

	December 31, 2019 (as previously reported)	Restatements/ Adjustments	December 31, 2019 (as restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net	**383,200,749**	**7,529,561**	**390,730,310**
Recognition of revenue shares from MNTC in 2019		5,136,984	
Recognition of prior period unbilled services for Philphos		2,392,577	
Investment	**926,766,952**	**625,000,000**	**1,551,766,952**
Recognition of free-carry shares in CCEC and SLTR5 EI		625,000,000	
Restatement on total assets - net increase		**632,529,561**	

STATEMENT OF COMPREHENSIVE INCOME

Service and business Income	**277,549,087**	**5,136,984**	**282,686,071**
Recognition of revenue shares from MNTC in 2019		5,136,984	
Other Non-Operating Income	**1,578,929**	**625,000,000**	**626,578,929**
Recognition of free-carry shares in CCEC and SLTR5 EI		625,000,000	
Restatement on net income - net increase		**630,136,984**	

The Corporation presented three Statements of Financial Position in compliance with the requirements of Philippine Accounting Standard 1, *Presentation of Financial Statements,* to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk

The Corporation's principal financial instruments comprise of cash and cash equivalents, restructured debt and advances to and from related parties. The main purpose of these financial instruments is to finance the Corporation's operations. The Corporation has various other financial assets and liabilities such as receivables and vouchers payable and accrued expenses (excluding statutory payables), which arise directly from its operations. The main risks arising from the Corporation's financial instruments are credit risk and liquidity risk. The Corporation's Board of Directors (BOD) and Management review and approve the policies for managing each of this risk.

The Corporation monitors market price risk arising from all financial instruments and regularly report financial management activities and the results of these activities to the BOD.

The Corporation's risk management policies are summarized below. The exposure to risk and how they arise, as well as the Corporation's objectives, policies and processes for managing the risk and the methods used to measure the risk did not change from prior years.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Corporation maintains a level of cash deemed sufficient to finance its cash requirements. Operating expenses and working capital requirements are sufficiently funded through cash collections.

The extent and nature of exposures to liquidity risk and how they arise as well as the Corporation's objectives, policies and processes for managing the risk and the methods used to measure the risk are the same for 2020 and 2019.

The following table summarizes the maturity profile of the Corporation's financial assets and financial liabilities as of December 31, 2020 and 2019, based on contractual undiscounted cash flows:

	2020			
	<1 year	**>1 to <5 years**	**>5 years**	**Total**
Financial Assets				
Cash	124,993,787	0	0	124,993,787
Short term Investment	1,333,066,028	0	0	1,333,066,028
Receivables	93,248,652	21,863,711	241,395,214	356,507,577
	1,551,308,467	**21,863,711**	**241,395,214**	**1,814,567,392**
Financial Liabilities				
Accounts payable	4,069,829			4,069,829
Accrued Expense	14,658,878			14,658,878
Other accounts payable	504,685			504,685
Inter-agency payables	1,151,861			1,151,861
Customer deposit		125,548,854		125,548,854
Unearned Income		120,647,452		120,647,452
Other financial liabilities	258,002,200	1,032,008,800	8,774,000,016	10,064,011,016
Other payables	0	0	2,768,583	2,768,583
	278,387,453	**1,278,205,106**	**8,776,768,599**	**10,333,361,158**
Liquidity gap	**1,272,921,014**	**(1,256,341,395)**	**(8,535,373,385)**	**(8,518,793,766)**

	2019			
	<1 year	**>1 to <5 years**	**>5 years**	**Total**
Financial Assets				
Cash	134,697,373			134,697,373
Short term Investment	1,186,189,230			1,186,189,230
Receivables	133,291,580	40,160,313	217,278,417	390,730,310
	1,454,178,183	**40,160,313**	**217,278,417**	**1,711,616,913**
Financial Liabilities				
Accounts payable	1,786,180			1,786,180
Accrued expenses	13,064,321			13,064,321
Other accounts payable	14,987			14,987
Inter-agency payables	1,885,302			1,885,302
Customer deposit	125,553,334			125,553,334
Unearned Income	118,290,484			118,290,484
Other financial liabilities	258,002,200	1,032,008,800	8,515,997,816	9,806,008,816
Other payables	0	0	2,768,583	2,768,583
	518,596,808	**1,032,008,800**	**8,518,766,399**	**10,069,372,007**
Liquidity gap	**935,581,375**	**(991,848,487)**	**(8,301,487,982)**	**(8,357,755,094)**

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers and suppliers.

Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with suppliers whose paying and performance capabilities are rigorously screened.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position as of December 31, 2020 and 2019:

	2020	2019 (As restated)
Cash	**124,993,787**	134,697,373
Receivables	**356,507,577**	390,730,310
	481,501,364	525,427,683

As of December 31, 2020, and 2019, the aging analysis per class of receivables is as follows:

2020

	Neither Past Due Nor Impaired	**Past Due But Not Impaired**				**Impaired Financial Assets**	**Total**
		<30 days	**30-60 days**	**60-90 days**	**>90 days**		
Accounts Receivable:							
Contract related receivables	42,987,436	0	0	0	12,790,451	78,178,474	133,956,361
Advances to the Bureau of the Treasury (BTr)	150,000,000	0	0	0	0	0	150,000,000
Accounts receivable - trade	28,416,976	677,777	0	0	20,922,986	0	50,017,739
Accounts receivable - subsidiaries and affiliates	0	2,042	0	0	0	899,754	901,796
Advances to suppliers	62,438	17,740	0	0	58,214	3,690	142,082
Advances to CESLA	10,250	1,081	2,770	5,754	129,627	0	149,482
Advances for SSS/EC benefits	0	61,250	0	0	8,160	0	69,410
Other accounts receivable	5,962,131			500,000	1,592,500	12,310,840	20,365,471
	227,439,231	**759,890**	**2,770**	**505,754**	**35,501,938**	**91,392,758**	**355,602,341**
Receivables from officers and employees:							
Officers and employees	112,465	136,000	3,564	7,300	643,451	2,456	905,236
	112,465	**136,000**	**3,564**	**7,300**	**643,451**	**2,456**	**905,236**
	227,551,696	**895,890**	**6,334**	**513,054**	**36,145,389**	**91,395,214**	**356,507,577**

2019

	Neither Past Due Nor Impaired	Past Due But Not Impaired <30 days	30-60 days	60-90 days	>90 days	Impaired Financial Assets	Total
Accounts Receivable:							
Contract related receivables	8,507,185	7,033,717	3,824,821	1,589,350	90,894,977	0	111,850,050
Advances to the Bureau of the Treasury (BTr)	150,000,000	0	0	0	0	0	150,000,000
Accounts receivable - subsidiaries and affiliates	1,356,624	4,764	2,032	0	899,754	0	2,263,174
Advances to suppliers	6,000	588,002	0	0	128,888	0	722,890
Advances to CESLA	1,445	9,046	1,401	851	121,181	0	133,924
Advances for SSS/EC benefits	13,725	2,753	0	0	8,160	0	24,638
Other accounts receivable	102,030,075	0	0	834,143	21,987,452	0	124,851,670
	261,915,054	**7,638,282**	**3,828,254**	**2,424,344**	**114,040,412**	**0**	**389,846,346**
Receivables from officers and employees:							
Officers and employees	121,962	8,898	(60)	332,656	408,199	0	871,655
Directors	0	0	0	0	12,309	0	12,309
	121,962	**8,898**	**(60)**	**332,656**	**420,508**	**0**	**883,964**
	262,037,016	**7,647,180**	**3,828,194**	**2,757,000**	**114,460,920**	**0**	**390,730,310**

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the statements of financial position as of December 31, 2020 and 2019.

	Carrying Amount 2020	2019	Fair Value 2020	2019
Financial assets				
Cash	**124,993,787**	134,697,373	**124,993,787**	134,697,373
Short-term investments	**1,333,066,028**	1,186,189,230	**1,333,066,028**	1,186,189,230
Receivables	**356,507,577**	390,730,310	**356,507,577**	390,730,310
	1,814,567,392	1,711,616,913	**1,814,567,392**	1,711,616,913
Financial liabilities				
Accounts payable	**4,069,829**	1,786,180	**4,069,829**	1,786,180
Accrued expense	**14,658,878**	13,064,321	**14,658,878**	13,064,321
Other accounts payable	**504,685**	14,987	**504,685**	14,987
Inter-agency payable	**1,151,861**	1,885,302	**1,151,861**	1,885,302
Customer deposit	**125,548,854**	125,553,334	**125,548,854**	125,553,334
Unearned income	**120,647,452**	118,290,484	**120,647,452**	118,290,484
Other financial liabilities	**10,064,011,016**	9,806,008,816	**10,064,011,016**	9,806,008,816
Other payables	**2,768,583**	2,768,583	**2,768,583**	2,768,583
	10,333,361,158	10,069,372,007	**10,333,361,158**	10,069,372,007

Cash and Accounts and Other Payables – carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Receivables – carrying amounts approximate fair values due to the short-term nature of the receivables.

37. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, the following are the information on taxes, duties, and licenses paid or accrued during the taxable year 2020:

37.1 The Corporation is a VAT-registered corporation with VAT output tax declaration of P23.179 million for the year based on the amount reflected in the Sales Account of P193.157 million.

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

Balance at the beginning of the year	0
Current year's purchases:	
Goods for resale/manufacture or further processing	0
Goods other than for resale or manufacture	321,775
Capital goods subject to amortization	0
Capital goods not subject to amortization	19,039
Services lodged under cost of goods sold	0
Services lodged under other accounts	402,766
Claims for tax credit/refund and other adjustments	0
Balance at the end of the year	743,580

37.3 Other taxes and licenses:

Local:	
Real Estate Tax	1,647,358
Mayor's Permit	2,146,375
Philippine Stock Exchange	261,000
Community tax	10,500
	4,065,233

National:	
BIR Annual Registration	500
VAT/Percentage Taxes	4,115
Others (Capital Gains Tax/Doc. Stamp Tax)	0
	4,615

37.4 The amount of withholding taxes paid/accrued for the year amounted to P5.23 million, broken down as follows:

Tax on compensation and benefits	4,325,492
Creditable withholding taxes	905,382
	5,230,874

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. **The financial statements of PNCC remained materially misstated due to the continued recording of the unconverted debts as equity, instead of liability, in the total amount of P5.552 billion.**

1.1 Presidential Letter of Instruction (LOI) No. 1295 dated February 23, 1983 directed all concerned Government Financial Institutions (GFIs) to convert into equity or common shares of stock in CDCP (now PNCC) certain obligations of PNCC with them. The full conversion of said debts to equity will result in the payment/prepayment of PNCC's various obligations. LOI No. 1295 specifically provides that "*after CDCP has made the prepayments/payments required herein, CDCP shall not be required to make further payments for interest on such obligations up to, and inclusive of, December 31, 1983.*" Stated otherwise, if CDCP has not made the prepayments/payments required in the LOI, then PNCC shall be required to make further payments for interest on such obligations up to, and inclusive of December 31, 1983 or until the same are paid.

1.2 Substantial portion of PNCC obligations to the GFIs and PNCC liabilities to certain government agencies transferred to the National Government (NG) pursuant to LOI No. 1295 were not actually converted into equity. These obligations were recognized in the books of PNCC as part of equity and described as "Equity Adjustments-Under Rehabilitation Plan-Loans Transferred to NG" instead of liabilities, as follows:

Philippine National Bank (PNB)	P 2,865,445,000
National Development Company (NDC)	1,356,693,000
TIDCORP/PEFLGC	1,204,311,000
Central Bank of the Philippines (CBP)	75,654,000
Bureau of the Treasury (BTr)	39,991,000
Development Bank of the Philippines (DBP)	9,633,000
	P 5,551,727,000

1.3 As disclosed in the Notes to Financial Statements, the above-mentioned unconverted indebtedness of the Corporation remains to be recorded as equity as it is the Corporation's position, as supported by the Office of the Solicitor General (OSG) opinion dated August 23, 2007, that based on LOI No. 1295, which is a special law promulgated to rehabilitate the Corporation, the debts have effectively been converted into equity and, therefore, should no longer incur interest charges. This assertion, however, is not in accordance with the provisions in LOI No. 1295 as discussed above.

1.4 Results of confirmation of the balances of the liabilities with the Privatization Management Office (PMO) and the Bureau of the Treasury (BTr) as of December 31, 2020 disclosed discrepancies when compared with the balances per PNCC books. Details are shown in the next page:

Account/GFI	Per PNCC (recorded as equity)	As confirmed by PM/BTrO	Difference
PNB	P 2,865,445,000	P 58,996,734,510	P (56,131,289,510)
NDC	1,356,693,000	1,741,163,149	(384,470,149)
TIDCORP/PEFGC	1,204,311,000	2,664,314,465	(1,460,003,465)
CBP	75,654,000	0	75,654,000
DBP	9,633,000	3,540,044,919	(3,530,411,919)
Marina	0	595,516,497	(595,516,497)
Conveyance of Lot 3 (Memorandum of Agreement dated August 15, 1995)	0	(1,515,680,000)	1,515,680,000
Accounts with PMO	P 5,511,736,000	P 66,022,093,540	P (60,510,357,540)
BTr Advances	39,991,000	2,784,477,198	(2,744,486,198)
	P 5,551,727,000	**P 68,806,570,738**	**P (63,254,843,738)**

1.5 The Audit Team noted that the variance in the aggregate amount of P60.510 billion between PNCC and PMO records pertains substantially to the interests and other charges imposed by the latter on the unconverted debts of the former to various GFIs assumed by the NG.

1.6 The Corporation did not recognize the disputed interest charges and penalties based on the following:

- The Supreme Court (SC) itself had recognized the validity of LOI No. 1295 and that it still legally exists today;

- The failure to convert all debts to equity is considered an administrative matter; and

- The P5.552 billion is not a debt but simply represents unissued shares of stock awaiting actual conversion to equity pursuant to LOI No. 1295 and, as such, continued imposition of interests and penalties is not warranted.

1.7 PNCC claimed that the above position of the Corporation is supported by the OSG and the Office of the Government Corporate Counsel (OGCC).

1.8 On the other hand, the P2.744 billion difference between the records of PNCC and BTr is due to the unreconciled principal amount of liabilities to BTr plus the interest thereon. Per PNCC books, only the principal amount of P39.991 million BTr advances are recorded but included under the Equity Adjustments under Rehabilitation Plan which pertains to the accounts transferred by PNCC to the NG and are no longer recorded as liabilities. However, in reply to the Audit Team's confirmation letter, BTr claimed that the NG advances to PNCC as of December 31, 2020 amounted to P2.784 billion, inclusive of P1.376 billion interest. It was also noted that while PNCC recorded the BTr advances under the Equity Adjustments under Rehabilitation Plan account, the said advances were not included in the PMO's confirmation reply as part of the liabilities transferred to the NG.

1.9 The NG did not consider the PNCC unconverted debts as having been effectively converted into equity. Rather, both the PMO and the BTr, treated the unconverted debts as liabilities of PNCC to the NG subject to applicable interests and charges.

1.10 Due to their conflicting positions, PNCC and PMO submitted the issue to the Department of Justice (DOJ) on June 21, 2012 for arbitration. On February 18, 2014, the DOJ dismissed PNCC's petition against PMO and ordered the former to pay the latter its due and demandable obligation inclusive of interests and penalties until actually paid.

1.11 On March 14, 2014, PNCC filed a Motion for Reconsideration (MR) with the DOJ which was denied by the latter in its Order dated January 22, 2015. Notice of Appeal and Appeal Memorandum were filed by PNCC with the Office of the President of the Philippines on June 26, 2015 and July 27, 2015, respectively.

1.12 Earlier, the OGCC, in its Opinion No. 245 dated November 15, 2007, opined that PNCC may enter into an agreement with PMO for the conversion of PNCC's remaining liabilities into equity or common stock of PNCC at par value and that after the completion of the equity conversion, PNCC shall no longer have any remaining obligations with the NG and PMO under LOI No. 1295, subject to the approval by higher authorities as may be required by law or regulation.

1.13 On April 15, 2015, the Department of Finance (DOF) served to PNCC a Statement of Account informing that the outstanding obligations of PNCC were due and demandable, and that there is no longer any basis to consider the conversion into equity of the subject obligation under LOI No. 1295.

1.14 Considering the time that had elapsed and the DOJ's decision, the OGCC opinion and the DOF's demand, we believe that PNCC's planned conversion of liabilities to equity is a remote possibility.

1.15 The recognition of the P5.552 billion unconverted debts as part of equity and the non-recognition of interests and other charges thereon of P63.255 billion resulted in the understatement of total liabilities and overstatement of total equity by P68.807 billion. Further, there should have been a deficit of P54.067 billion instead of retained earnings of P9.188 billion as of December 31, 2020.

1.16 **We reiterated our previous years' recommendation that the P5.552 billion unconverted debts be recognized as liability in the books of accounts of PNCC, instead of equity, together with the interests and other charges thereof amounting to P63.255 billion as of December 31, 2020. Further, follow-up the status of the pending appeal with the OP.**

1.17 Management commented that it has not changed its position on the matter. Thus, it reiterated that it cannot assent to the recommendation of COA to recognize the P5.552 billion unconverted debts as liability, instead of equity. It stands by the mandate of LOI No. 1295 that the amount of P5.552 billion should be converted into equity of PNCC.

1.18 Moreover, Management commented that the issue is still subject of a pending appeal with the Office of the President. Hence, recognition of the said amount as

PNCC's liability at this point would run counter to the Corporation's position on said appeal and render moot the resolution thereof.

1.19 Management informed that it is still adopting *in toto* the five arguments previously presented to COA in its letter dated January 20, 2016 as justification on its present stand on the matter.

1.20 By way of rejoinder, we maintain our position that the unconverted debts be treated as liability, instead of equity.

2. **The accuracy of PNCC's 10 per cent revenue share amounting to P112.322 million and P160.216 million for Calendar Years (CYs) 2019 and 2020, respectively, remitted by the Joint Venture (JV) Companies operating the SLEX, NLEX and Skyway, cannot be ascertained due to the absence of verifiable data/information as basis in the computation of such share.**

2.1 The SC, in *Ernesto B. Francisco vs. Toll Regulatory Board (TRB), PNCC et. al.* (G.R. Nos. 166910, 169917, 173630 and 183599, October 19, 2010) and in the case of *Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al.* (G.R. No. 178158, December 4, 2009), ruled and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the NG at no cost and consequently, this resulted in the latter's owning the toll fees and the net income derived, after May 1, 2007, from the toll assets and facilities, including PNCC's percentage share in the toll fees collected by the joint venture companies currently operating the tollways, including NLEX and Skyway. Moreover, in GR No. 178158, the SC held that PNCC's toll fees are public funds.

2.2 In its Resolution dated April 12, 2011 in the case of Francisco vs. TRB, the SC directed the TRB, with the assistance of the Commission on Audit, to prepare and finalize the implementing rules and regulations (IRR) relative to the determination of net income remittable by PNCC to the NG and to proceed with the same with dispatch.

2.3 On March 22, 2012, the TRB issued an interim guideline for the remittance by the JV Companies to the National Treasury of the net income that is supposed to be remitted by the JVCs from the revenues of the NLEX, SLEX and Skyway in accordance with the Francisco case.

2.4 Paragraph 2 of the said guideline provides that, *"As subsequently agreed upon by the PNCC and TRB as an interim arrangement, ten per cent (10%) of all amounts that are supposed to be remitted by the JV companies shall be set-aside by the JV company for remittance to PNCC. The ninety per cent (90%) shall be remitted to the TRB for the National Treasury immediately."*

2.5 The Audit Team found the above-mentioned provision non-compliant with the SC's Resolution. The SC directed the TRB to prepare the IRR for the determination of the net income remittable to the NG. Instead, the TRB, in agreement with the PNCC, issued an interim guideline which served as the "authority" or basis of the JV Companies to retain 10 per cent of the monies that should be remitted to the NG and remit the same to PNCC. It was also noted that to date, the final Implementing Rules and Regulations on the determination of the net income remittable to the NG is not yet issued by the TRB.

2.6 In compliance with the interim guideline, the JV Companies have been remitting to PNCC its 10 per cent revenue share. Remittances by the JV Companies to PNCC pertaining to revenue share for CYs 2019 and 2020 are as follows:

Name of JV Companies	2019	2020
Citra Metro Manila Tollways Corporation (CMMTC)	P 26,984,139	P 20,467,970
Manila North Tollways Corporation (MNTC)	64,772,026	114,771,696
South Luzon Tollways Corporation (SLTC)	20,565,550	24,975,998
Total	**P 112,321,715**	**P 160,215,664**

2.7 Review of the collections of PNCC's revenue share from the JV Companies showed that the correctness of the subject amount cannot be ascertained. Although, the remittances of MNTC and SLTC were supported with their own schedule showing the computation on how the 10 per cent revenue share was arrived at, the same cannot be verified whether the gross revenue which is the basis of the computation is accurate, based on the correct revenue earned by the two companies in the operation of the tollways. On the other hand, remittances of CMMTC were not supported with any schedule/computation on how it arrived at the 10 per cent revenue share of PNCC.

2.8 The accuracy and correctness of PNCC's revenue share cannot be validated by the Audit Team due to lack of documents/reports as basis for the computation of said 10 per cent revenue share.

2.9 Notwithstanding our stand on the validity of the interim guideline issued by the TRB, we still believe that the 10 per cent revenue share of PNCC based on such guideline should be correctly recorded in the books as this affect the fair presentation of the financial statements of PNCC. We were not able to satisfy ourselves if the amounts recorded as Revenue share from JV Companies are true and accurate.

2.10 In CY 2019 audit, the Audit Team raised the same observation and called the attention of Management thru Audit Observation Memorandum No. 20-011 (2019) dated July 27, 2020. It was recommended and Management agreed to continue its efforts to make representation with the JV Companies to obtain pertinent documents used as the basis for the computation of 10 per cent revenue share and validate the same and furnish the Audit Team with the said documents including the results of validation.

2.11 Validation of the status of implementation of recommendations of the CY 2019 audit observations disclosed that MNTC and SLTC have not yet furnished PNCC with pertinent documents supporting the computation of the 10 per cent revenue share, while CMMTC provided only a schedule of toll revenues for CY 2019 broken down monthly with corresponding computation of PNCC's share. Accordingly, Management will send another follow-up letter to the JV Companies to obtain pertinent documents.

2.12 **We reiterated our previous year's recommendation that Management make persistent efforts by coordinating with TRB to obtain pertinent documents that could be used as basis for the computation of 10 per cent revenue share of PNCC, validate the same and furnish the Audit Team with the said documents including the results of validation.**

2.13 Management informed that it has already sent letters all dated June 21, 2021 to the JV Companies operating the SLEX, NLEX and Skyway, following up its request for the breakdown and/or components of PNCC's 10 per cent revenue share for years 2019 and 2020. Management committed to provide the needed information as soon as its request is granted by the JV Companies.

2.14 By way of rejoinder, we would like to emphasize that once the pertinent documents pertaining to the revenue share are furnished by the JV Companies, PNCC will also make its own validation on the accuracy of the same and furnish the Audit Team on the results of validation.

3. **Variances between the balance per books and confirmed balances of P113.270 million; non-provision of allowance for impairment losses of P14.310 million; and negative balances of P0.822 million, render the validity and reliability of the Receivable account aggregating P128.402 million doubtful.**

3.1 Paragraphs 4 and 12 of the Conceptual Framework for Financial Reporting states that:

> *If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.*
>
> *xxx. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.*

Confirmation of various accounts receivable disclosed an unreconciled difference of P113.270 million.

3.2 On January 7, 2021, the Audit Team sent confirmation letters to 10 debtors of PNCC and three of its subsidiaries, with receivables aggregating P151.966 million or 42.63 per cent of the P356.508 million total receivables, net of allowance, as of December 31, 2020. Confirmation was made to ascertain the accuracy, existence, completeness and reliability of the recorded receivables. Out of the 10 confirmation letters sent, only seven debtors replied with total confirmed amounts of P156.465 million, including those of the three subsidiaries.

3.3 Results of confirmation disclosed a discrepancy of P 113.270 million, details as follows:

Debtors	PNCC Books	Confirmed Amount	Difference
Skyway Operations and Maintenance Corporation (SOMCO)	42,987,436	42,342,172	645,264
Tokogawa Global Corporation	3,049,997	(338,888)	3,388,885
Pacific Concrete Products, Inc.	12,130,262	11,588,732	541,530
Golden Pyramid Skill Development & Manpower Services, Inc.	2,204,129		
El Construction & Development Corporation	(277,200)		
Citra Metro Manila Tollway Corp. (CMMTC)	3,604,000	9,510,636	5,906,636
Manila North Tollways Corp. (MNTC)	22,019,322	5,472,646	16,546,676
South Luzon Tollway Corporation (SLTC)	2,115,877	1,583,956	531,921
National Labor Relations Commission (NLRC)	9,654,650	5,777,748	3,876,902
Philippine Phosphate Fertilizer Corporation (Philphos)	55,777,887		
CDCP-Farms Corporation	(328,574)	33,166,854	33,495,428
DISC Contractors, Builders and General Services, Inc. (DCBGSI)	(973,973)	47,360,929	48,334,902
Alabang - Sto. Tomas Development, Inc. (ASDI)	2,042	0	2,042
Total	**151,965,855**	**156,464,785**	**113,270,186**

3.4 In CY 2019, we also confirmed the balances of the accounts with the four debtors stated above namely: SOMCO, MNTC, SLTC and NLRC. Compared with CY 2019, the variances in 2020 significantly decreased except for MNTC account. The presence of these variances between PNCC and the debtor companies' balances indicates that reconciliation was still not made.

3.5 Validation of the status of implementation of 2019 audit recommendations for the same observation disclosed that Management committed to send another follow-up email to the JV Companies (CMMTC, MNTC, SLTC) to request for more detailed information of the account transactions. Further, Management commented in the Action Plan and Status of Implementation for CY 2019 audit recommendations that the reason for the variances was due to the timing difference, since PNCC recorded the receivable based on accrual and the same will be adjusted after collection.

3.6 However, verification by the Audit Team of the accounts of the JV Companies in subsequent year disclosed that the amount of collections by PNCC on the early part of 2021 was not equal to the accrued receivable as of December 31, 2020. Hence, the variance cannot be attributed to timing difference.

3.7 Further, review of pertinent documents relative to the account of NLRC disclosed that the variance amounting to P3.877 million pertains to bonds not recorded either in the books of PNCC or NLRC.

3.8 The noted discrepancy casts doubts on the accuracy, existence, completeness, and reliability of the recorded receivables.

Non-provision of allowance for impairment losses for various overdue accounts for over five years amounting to P14.282 million and accounts of separated employees amounting to P28,169.

3.9 Paragraph 5.5.3 of Philippine Financial Reporting Standard (PFRS) 9 states that:

> *xxx, at each reporting date, the entity shall measure the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.*

3.10 Review of the Aging/Schedule of the various receivable accounts of PNCC as of December 31, 2020 showed that long overdue accounts from various debtors recorded under Other Receivables amounting to P14.282 million were not provided with allowance for impairment or expected credit loss despite being outstanding for more than five years, to wit:

Debtor/Customer	Particulars	Amount
Philphos	Billed contract receivable and retention	12,790,451
Banco De Oro	Advance payment billing	58,499
Carag de Mesa & Zaballero Law	Deposit for out of pocket expenses	4,040
EMC Towing Services	Royalty fees	189,893
Globe	Advance payment of globe billing	30,000
Montesa, Airene	Blaberry 8820 cellphone	408,077
SOMCO	Registration of SV-481	2,829
Tollways Management Corp.	Travel insurance/French Visa fee	42,199
Bureau of Internal Revenue	Expanded withholding tax on excess per diem of directors disallowed in audit	291,889
Bureau of Fire Protection	Electric bill	6,941
DAR-Region IV	Space rental/accommodation	303,917
Gov't Services Ins. System	Personal accident	23,730
TRB	Globe billing	129,234
Total		**14,281,699**

3.11 Although, most of the debtor-companies stated above are still existing and operational, their accounts were dormant for more than five years already. Hence, the probability of collection is remote.

3.12 Moreover, as of December 31, 2020, three employees who were separated from service have an outstanding payables to PNCC in the aggregate amount of P28,169 representing unpaid Medicard billing, telephone bills and tax collectibles. PNCC failed to collect or deduct these accounts from the payment of last salary of the separated employees, thereby, rendering the collectability thereof improbable.

3.13 Presenting the above-stated receivables at gross amount without the provision for impairment loss or expected credit loss is not in accordance with PFRS 9. Furthermore, this will result in overstatement of receivable account and understatement of impairment loss account.

The Aging/Schedule of Other Receivables – Trade Receivables from lessees and Officers and Employees showed negative balances amounting to P0.810 million and P12,098, respectively.

3.14 Review of Aging/Schedule of Other Receivables – Trade Receivables from lessees showed that accounts of three former lessees reflect negative balances amounting to P0.810 million as of December 31, 2020, as follows:

Debtor/Lessees	Particulars	Amount
128 EL Enterprises Limited Co.	Lot rental at FCA/ electric bill	(277,200)
Ley Construction & Development Corp.	Lot rental at FCA	(491,879)
Ply Aggregates	Lot rental / Interest charges	(40,656)
Total		**(809,735)**

3.15 Moreover, accounts of 13 active employees have negative balances aggregating P12,098 recorded under Other Receivables- Officers and Employees account as of December 31, 2020.

3.16 The presence of negative balances casts doubts on the accuracy of the recorded receivables.

3.17 **We reiterated with modification our recommendations that Management:**

a) **Analyze and reconcile the variances and negative balances and provide allowance for impairment loss for long outstanding receivables;**

b) **Send demand letters to debtors which are still existing and operational; and**

c) **Effect the necessary adjusting journal entries in the books, if warranted, so that reliable information is presented in the financial statements.**

3.18 Management commented that the reconciliation is still on-going and that the provision for allowance for impairment loss and adjusting entries are targeted to be effected in the 4th quarter of 2021. Moreover, the Realty Management Department and Legal Department will check which obligors are due to be sent demand letters.

4. **The accuracy, existence and reliability of Property and Equipment (PE) accounts with carrying amount of P46.005 million as of December 31, 2020 is doubtful due to:**

Non-submission of complete and reliable Report on Physical Count of Property, Plant and Equipment (RPCPPE) and absence of reconciliation report on the balance per physical count and balance per books.

4.1 Paragraphs 2.12 and 2.13 of the Conceptual Framework for Financial Reporting states that:

Faithful Representation

xxx. To be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent. xxx.

A faithful representation seeks to maximize the underlying characteristics of completeness, neutrality and ***freedom from error.*** (Emphasis supplied)

4.2 Further, Sections IV and V (4) of COA Circular No. 80-124 dated January 18, 1980 states that:

Physical inventory of fixed assets shall be made at least once a year as of December 31 *in accordance with the guidelines enumerated herein.*

Inventory reports of regional/branch offices, shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory ***shall be submitted to the Auditor not later than January 31 of each year****, xxx.*

All inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) and certified correct by the committee in charge thereof, noted by the Auditor and approved by the head of the agency. ***The reports shall be properly reconciled with accounting and inventory records.*** *(Emphasis supplied)*

4.3 Audit of property and equipment accounts disclosed that the RPCPPE submitted by the General Services Department (GSD) as of December 31, 2020 is incomplete and unreliable due to the following:

- The RPCPPE submitted pertains mainly to office furniture and fixtures, communication equipment, aircon system, and tools and other instrument. Other PE were not subjected to physical inventory count. Thus, no RPCPPE submitted on the following PE accounts:

Accounts	Cost	Accumulated Depreciation	Carrying amount
Land improvements	34,987,907	(23,622,465)	11,365,442
Leasehold improvements	4,373,670		
Buildings	110,045,205		
Building improvements	23,559,492		
	137,978,367	(104,999,090)	32,979,277
Staffhouse equipment	20,588		
Temporary structures	4,109,045		
Concrete fabrication equip.	100,144		
Fabrication equipment	644,329		
Laboratory equipment	1,346,088		
Misc. support equipment	4,338,214		
Compaction equipment	354,054		

Accounts	Cost	Accumulated Depreciation	Carrying amount
Hauling equipment	138,001		
Construction plant equipment	264,198		
Electrical equipment	700,131		
Engineering equipment	3,911,593		
	15,926,385	(15,414,681)	511,704
Utility vehicles	29,549,937	(29,495,757)	54,180
Recreational facilities	181,802		
Canteen furniture and fixtures	305,036		
Books and library materials	1,965,757		
Computer instrument	15,789,582		
Other fixed assets	1,666,329		
Medical & dental equipment	33,848		
	19,942,354	(19,508,986)	433,368
Total	**238,384,950**	**(193,040,979)**	**45,343,971**

- Items of PE as shown in the RPCPPE were only listed chronologically altogether according to their property number and were not categorized based on their respective accounts and nature (e.g., furniture and fixtures, communication equipment, aircon system, and tools and equipment).

- Items of PE that are reported in the RCPPE have no acquisition cost except for the PE items acquired in CY 2020. Inquiry with the concerned GSD personnel disclosed that PE items which are acquired long time ago can no longer be assigned with acquisition cost.

- No reconciliation was made between the balance reported per physical count of GSD against the balance per books, hence, it cannot be ascertained if there were missing PE items uncovered during the count.

4.4 In accordance with COA Circular No. 80-124 dated January 18, 1980, physical inventory count must be conducted in all fixed assets of the Corporation and reconcile the same with the recorded balance in the books. However, no reconciliation report was submitted by the Management and the submitted RPCPPE covered not all PE items, but only office furniture and fixtures, communication equipment, aircon system, and tools and other instrument. Other PE items with an aggregate cost of P238.385 million and carrying amount of P 45.344 million, as shown above, are not included in the RPCPPE.

4.5 Moreover, we observed that the RPCPPE was submitted only on June 2, 2021, contrary to the prescribed date of submission which is January 31 of each year, as provided under Section IV of COA Circular No. 80-124. Inquiry with the concerned members of the Inventory Committee disclosed that it was not able to submit the RPCPPE on time due to the COVID-19 pandemic which limits their working schedules in the office hence, the delay in submission.

4.6 The RPCPPE is the document which summarizes the result of the annual physical count of the Corporation's PE during the year. The said report will help in ascertaining existence and valuation of PE and will facilitate the reconciliation of the inventoried PE on hand vis-à-vis its balance per books.

4.7 The Audit Team was not able to validate the existence, completeness and condition of the recorded PE with carrying amount of P46.005 million due to the absence of complete and reliable RPCPPE and reconciliation of the results of the physical count with the accounting records.

Semi-expendable properties costing P13.863 million with carrying amount of P0.586 million form part of the PE account.

4.8 Paragraph 5.4 of COA Circular No. 2016-006 dated December 29, 2016 provides that:

> ***Tangible items below the capitalization threshold of P15,000 shall be accounted as semi-expendable property.*** *The following policies shall be applied as follows:*
>
> *5.4.1 Semi-expendable property which were recognized as PPE shall be reclassified to the affected appropriate semi-expendable inventory accounts (if not yet issued to end-user), expense accounts (if issued within the year), or accumulated surplus/(deficit)/retained earnings accounts (if issued in prior years).*
>
> *5.4.2 These tangible items shall be recognized as expenses upon issue to the end-user.*

4.9 Inquiry with the concerned personnel from the Controllership Department disclosed that the capitalization policy provided in the PNCC's Controllership Manual dated April 6, 1988 was being adopted/followed in the recognition of PE in the books. The PNCC's Controllership Manual provided a list of capitalizable assets together with their corresponding economic life and salvage value. However, there is no clear-cut policy on the minimum amount for capitalization threshold except for small tools and equipment and repairs of capital assets which explicitly stated, as follows:

> *7. Tools and small equipment chargeable to expense or project costs as follows:*
>
> *7.1 Those costing less than P500.00 regardless of its durability.*
> *7.2 Those tools costing P500.00 and above but durability lasts less than a year.*
>
> *8. Tools and small equipment costing P500.00 and above which normally lasts a year shall be capitalized.*
>
> *xxx*
>
> *<u>Repairs of Capital Assets</u>*
>
> *Repairs of capital assets shall be classified as either minor or major defined as follows:*
>
> *Minor repairs - are those which cost less than P50,000.*

Major repairs - are those cost at least P50,000 or 15 per cent of the acquisition cost of the equipment whichever is higher.

All major repairs shall be capitalized while all minor repairs shall be expensed xxx.

4.10 According to the concerned personnel from the Controllership Department, PNCC capitalized the acquired PE if it falls within the list of accounting classification of capital assets in the Controllership Manual and if its service life is more than one year. Accordingly, the Controllership Department is capitalizing PE based on its useful life and acquisition cost on the basis of sound judgement.

4.11 Examination of the lapsing schedules of PE disclosed that several items were capitalized with individual values of below P15,000. In CY 2020, out of the P496,968 newly-capitalized PE, a total of P113,233 have individual values below the P15,000 capitalization threshold which is contrary to COA Circular No. 2016-006 dated December 29, 2016 as follows:

Qty	Description	Reference (JV No.)	Date Acquired	Acquisition Cost	Accum. Dep.	Carrying amount
Office Equipment Furniture & Fixture						
25 units	Stand fan	12-21-01-20	07/30/20	55,045	4,587	50,458
1 unit	Air Purifier	10-21-00-20	10/08/20	13,393	670	12,723
1 unit	Air Purifier	10-21-00-20	10/08/20	13,393	670	12,723
Computer Instruments						
1 unit	Printer Epson	07-21-00-20	06/25/20	11,875	1,979	9,896
1 unit	Printer Epson	10-21-00-20	10/07/20	6,509	542	5,967
1 unit	Printer Epson	10-21-00-20	10/07/20	6,509	542	5,967
1 unit	Printer Epson	12-21-01-20	10/21/20	6,509	362	6,147
Total				**113,233**	**9,352**	**103,881**

4.12 Pursuant to COA Circular No. 2016-006 dated December 29, 2016, PE items costing below the P15,000 capitalization threshold shall be recorded as semi-expandable property under the inventory account upon acquisition and charged to expense upon issuance to the end-user.

4.13 Moreover, verification of lapsing schedules on PE acquired in prior years showed that numerous items were capitalized despite individual costs of below the P15,000 threshold, totalling P13.750 million with carrying amount of P482,669, as follows:

Accounts	Acquisition Cost	Accumulated depreciation	Carrying amount
Tools and other instrument	2,898,348	2,701,108	197,240
Computer instrument	2,745,629	2,642,401	103,228
Office equip furniture & fixtures	2,166,524	2,069,889	96,635
Books and library materials	1,852,154	1,781,507	70,647
Communication equipment	1,760,063	1,759,953	110
Aircon system	1,146,192	1,146,022	170
Other fixed assets	968,588	968,281	307
Canteen furniture and fixtures	75,831	75,694	137
Laboratory equipment	61,073	61,069	4
Medical & dental equipment	33,848	33,835	13

Accounts	Acquisition Cost	Accumulated depreciation	Carrying amount
Temporary structures	18,205	4,031	14,174
Land improvements	16,007	16,005	2
Engineering equipment	6,350	6,349	1
Building improvement	1,297	1,296	1
Total	**13,750,109**	**13,267,440**	**482,669**

4.14 Although the carrying amount of capitalized semi-expendable assets amounted to P482,669 or 3.5 per cent of its acquisition cost since significant portion was already fully depreciated, maintaining numerous items in the lapsing schedule costing below P15,000 still requires time and effort in monitoring, thus the need to properly classify and adjust the accounting records.

4.15 The recognition of semi-expendable items as PE in the books resulted in overstatement of PE account by P0.586 million, understatement of expenses by P103,881 and overstatement of Retained Earnings account by P482,669.

4.16 To illustrate, the P15,000 threshold shall be applied on an individual asset or per item basis. Each item within the bulk acquisition such as library books, computer peripherals and small items of equipment, shall meet the capitalization threshold to be recognized as Property, Plant and Equipment. However, if the items with individual values of below the P15,000 threshold which work together in the form of a group of network asset whose total value exceeds the threshold, it shall be recognized as part of the property and equipment such as computer network, PABX system, sewerage system, etc.

4.17 **We recommended that Management:**

a) **Instruct the GSD to submit a complete RPCPPE with acquisition cost per unit of PE and reconcile PE balances per count and per books; and**

b) **Instruct the Controllership Department to reclassify the semi-expendable properties to its appropriate account and observe the minimum capitalization threshold of P15,000 in recognizing/recording tangible assets pursuant to COA Circular No. 2016-006 dated December 29, 2016.**

4.18 Management informed that it has instructed the GSD to commence the evaluation/preparation of the RPCPPE of the land improvements, utility vehicles with acquisition cost per unit of PE item and to reconcile PE balances per count and per books. Likewise, it instructed GSD to submit the RPCPPE on January 31 of each year pursuant to Section IV of COA Circular No. 80-124.

4.19 Moreover, Management commented that it already instructed the Controllership Department to start immediately the process of reclassifying the semi-expendable properties to its appropriate account and observe the capitalization threshold of P15,000 in recognizing/recording tangible assets pursuant to COA Circular No. 2016-006.

4.20 The Audit Team will monitor Management's full compliance with the recommendations.

5. **Fourteen (14) service vehicles costing P10.082 million, with aggregate carrying amount of P54,158 are still recorded in the books despite the Corporation's lack of control and inability to provide proof of ownership casting doubt on the legal ownership and existence of the vehicles and accuracy of the balance of Utility Vehicles account.**

5.1 The International Accounting Standard (IAS) defines asset as follows:

> *A resource **controlled by the entity** as a result of past events and from which future economic benefits are expected to flow to the entity.*

Also, IAS 16 defines Property, plant and equipment as:

> *Tangible items that are **held for use** in the production or supply of goods or services, for rental to others, or **for administrative purposes,** and are expected to be used during more than one period.*

Further, Section 58 of Presidential Decree No. 1445 states that:

> *The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts.*

5.2 Examination of Utility Vehicles account disclosed that out of 33 recorded service vehicles of the Corporation, 11 of which costing P7.346 million and having a total carrying amount of P48,523, were neither controlled nor held by the Corporation within its premises for operational or administrative use casting doubt on the accuracy of the balance of the account, as follows:

	Eqpt. No.	Model	Acquisition date	Acquisition cost	Carrying amount	Remarks
1	SV-417	Isuzu Gemini	11-03-83	169,221	20,008	Used in DISC-Iligan
2	SV-484	Mitsubishi L300	04-16-96	450,000	22,875	TRB use
3	SV-501	Mazda 323	04-16-97	152,517	1	TRB use
4	SV-502	Mazda 323	04-16-97	152,517	1	Assigned to TRB
5	SV-504	Mazda 323	04-16-07	338,000	5,633	Assigned to TRB
6	SV-578	Toyota Fortuner	10-31-05	1,233,909	-	Held by former Chairman of the BOD
7	SV-582	Toyota Fortuner	03-16-06	1,613,000	1	Assigned to TRB
8	SV-584	Toyota Innova	04-17-06	778,000	1	Assigned to TRB
9	SV-585	Toyota Hi-lux	04-27-06	778,000	1	Assigned to TRB
10	SV-586	Toyota Hi-lux	04-27-06	778,000	1	Assigned to TRB
11	SV-594	Toyota Innova	08-31-06	903,035	1	Assigned to TRB
Total				**7,346,199**	**48,523**	

5.3 The above-enumerated service vehicles were included in the lapsing schedule of the Controllership Department but its existence cannot be verified upon inspection by the Audit Team as said vehicles cannot be found in the Corporation's premises. Moreover, the General Services Department (GSD) cannot provide the Certificates of Registration as proof of ownership of the said vehicles.

5.4 Inquiry with the concerned personnel of GSD and Controllership Department and verification of pertinent documents on the said service vehicles disclosed that:

- The SV-417 Isuzu Gemini cannot be located as said vehicle was used in DISC operation in Iligan City. Consequently, the DISC operation in Iligan City was stopped in 2011 and the said vehicle was not returned to PNCC.

- The SV-484 Mitsubishi L300 and SV-594 Toyota Innova are still recorded in the books despite having been sold thru public bidding and were already paid by the winning bidders per PNCC Official Receipt Nos. 711854 and 711892 dated July 12, 2016 and July 25, 2016, respectively, in the aggregate amount of P365,645. Accordingly, the vehicles remained in the books since necessary documents to be used as basis for dropping from the books were not furnished to the Controllership Department.

- The SV-578 Toyota Fortuner, is in the custody of former Chairman of the Board of Directors of PNCC, and cannot be recovered by Management.

- Nine service vehicles which were assigned to Toll Regulatory Board (TRB) lacked necessary transfer documents, such as Invoice-Receipt for Property (IRP), as basis for derecognition from the books by the Controllership Department.

5.5 Moreover, there are three unserviceable vehicles that are carried in the books and in PNCC's custody but Certificates of Registration are likewise not in the custody of GSD, as follows:

	Eqpt. No.	Model	Acquisition date	Acquisition cost	Carrying amount	Remarks
1	SV-503	Mazda 323	04-16-07	338,000	5,633	Assigned to TRB
2	SV-572	Hyundai Starex	07-31-05	1,055,455	1	For disposal
3	SV-577	Ford Escape	08-31-05	1,342,882	1	For disposal
Total				**2,736,337**	**5,635**	

5.6 According to PAS 1, an asset can be recognized if it is controlled and/or held by the entity for operational or administrative purposes. In the case of PNCC, the aforementioned service vehicles are neither controlled nor held by the Corporation for its operation or administrative use, thus, could not qualify as assets.

5.7 On the other hand, we noted that four of the mentioned service vehicles have remaining carrying amount aggregating P54,150 despite the lapse of their useful lives. As a result, the utility vehicles account is overstated by the same amount and therefore not presented at its true value.

5.8 Further, we observed significant weaknesses of internal control system in the operation, maintenance and disposal of service vehicles of the Corporation. There was no regular reconciliation of records of the Controllership Department and the physical inventory of service vehicles by the GSD. Lastly, it appears that there was no coordination between the Controllership Department and GSD every time disposal of service vehicles is conducted. There were no persistent and consistent efforts to secure pertinent transfer documents to eventually drop the disposed vehicles from the books despite lapse of almost five years.

5.9 Had regular reconciliation been conducted between the records of the Controllership Department and physical inventory of GSD, the discrepancies could have been discovered earlier and resolved immediately. Likewise, had there been coordinated efforts between these two Departments in obtaining/securing transfer documents, said vehicles could have been long dropped from the books.

5.10 **We recommended that Management:**

a) **Conduct verification from the Toll Regulatory Board on the existence of the assigned vehicles and discuss with the Management of that Office to jointly resolve the issue on the lack of documents for the transfer of vehicles by executing Invoice-Receipt for Property (IRP) and eventually drop the subject vehicles from PNCC's books;**

b) **Locate the Certificates of Registration of the recorded service vehicles;**

c) **Obtain documents pertinent to the disposed service vehicles as basis for dropping from the books and make the necessary adjusting journal entries;**

d) **Initiate action to recover the service vehicle under the custody of the former Chairman of the Board of Directors. If necessary, institute legal action against him.**

e) **Reduce the carrying amounts of the remaining four service vehicles to P1 for accountability purposes and to present fairly the value of utility vehicles account while not yet dropped from the books; and**

f) **Reconcile regularly the balance of service vehicles in the books with the physical inventory report and its supporting documents.**

5.11 During the Exit Conference, Management informed that the Materials Management Division has already gathered the supporting documents on most of the vehicles mentioned in the Audit Observation Memorandum and only four are unaccounted. Moreover, they acknowledged the inadequate coordination between the departments but assured that there are transfer documents such as deed of transfer, however, it was not furnished to the concerned department.

6. **The accuracy and reliability of the Inventories account with an aggregate cost of P6.769 million as of December 31, 2020 is doubtful due to:**

Unreconciled variance amounting to P286,217 between the recorded balance per books and balance per Report on Physical Count of Inventories (RPCI).

6.1 Paragraphs 2.12 and 2.13 of the Conceptual Framework for Financial Reporting state that:

Faithful Representation

xxx. To be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent. xxx.

A faithful representation seeks to maximize the underlying characteristics of completeness, neutrality and ***freedom from error.*** (Emphasis supplied)

6.2 Audit of government assets shall be performed with a view of ascertaining its valuation and ensuring its agreement with existing records. Audit of inventory account disclosed that the balance per books and the balance per physical count as shown in the RPCI submitted on January 14, 2021 has a variance of P286,217, as follows:

Accounts	Per books	Per inventory report	Variance
Office Supplies Inventory	409,779	342,271	67,508
Medical, Dental, and Laboratory Supplies	508,910	499,434	9,476
Fuel, Oil and Lubricants Inventory	445,928	264,062	181,866
Construction Materials Inventory	543,957	543,957	0
Other Materials and Supplies Inventory	4,860,117	4,832,750	27,367
Total	**6,768,691**	**6,482,474**	**286,217**

6.3 Inquiry with the concerned personnel of the Controllership Department and Supply Officer of the General Services Department (GSD) revealed that due to workloads and lack of personnel, there was no maintenance of supply ledger cards in the Controllership Department and stock cards in the GSD. Hence, it would be very difficult to reconcile the noted variance between the balance per count vis-à-vis the balance per books in the absence of stock cards and supply ledger cards.

6.4 Had these two cards been maintained and regular reconciliation had been made between the accounting records and inventory records, the causes of the noted variance of P286,217 would have been easily determined.

Inventories were insufficiently provided with allowance for impairment loss due to obsolescence, resulting in the overstatement of Inventory account by P1.007 million.

6.5 Paragraph 9 of International Accounting Standard (IAS) 2 on accounting for Inventories states that:

Inventories shall be measured at the ***lower*** *of* ***cost*** *and* ***net realizable value.***

Further, Paragraph 33 of the same Standard provides that:

A new assessment is made of net realizable value in each subsequent period.

6.6 As of December 31, 2020, the Inventory account has a balance of P6.769 million, with corresponding allowance for impairment loss of P2.993 million, thus leaving a net realizable value of P3.776 million. We noted that the balance of allowance for impairment loss amounting to P2.993 million has been non-moving since CY 2018 or for two years already contrary to Paragraph 33 of IAS 2 which requires that assessment of net realizable value be made in each subsequent period based on the most reliable available evidence.

6.7 Review of pertinent documents pertaining to the inventories of the Corporation showed that out of the P6.769 million recorded inventories, P5.359 million or 79 per cent was already categorized as "for disposal", however only P2.993 million or 44 per cent allowance for impairment loss was provided. The inadequate provision of allowance for impairment loss is carried in the books in spite of the new/adjusted net realizable value that maybe obtained based on the fair value of the inventories from the latest available appraisal reports from two independent appraisers.

6.8 Out of the P5.359 million inventories classified as for disposal, P4.353 million was taken as sample to verify its net realizable value using the latest available appraisal report dated November 11, 2019, as follows:

Inventories for disposal	Per books	Fair Value per Appraisal Report
Repair parts and supply-MMD	2,122,709	513,000
Common Supplies and hardware-MMD	1,508,069	346,500
Common Supplies and hardware-DISC	177,838	96,600
Construction materials inventory-DISC	543,957	211,000
	4,352,573	**1,167,100**
Allowance for impairment	(2,178,467)	
Net realizable value	2,174,106	
Should be net realizable value	1,167,100	
Overstatement	**1,007,006**	

6.9 As shown in the table above, the recorded inventories with a net realizable value of P2.174 million (costing P4.353 million) should have been written down further to its new realizable value of P1.167 million based on the latest appraisal report. The non-adjustment and non-assessment of additional impairment of the inventories resulted to the overstatement of the inventories account and corresponding understatement of the impairment loss account by P1.007 million.

6.10 The practice of non-assessment of net realizable value in every reporting period is not in accordance with IAS 2 in measuring inventories.

6.11 **We recommended that Management:**

a) **Instruct the GSD, MMD and Controllership to reconcile the variance of the Inventories account;**

b) **Require the Controllership and GSD to maintain supply ledger cards and stock cards, respectively, to monitor closely the purchases and issuances of inventories and to facilitate reconciliation of variances.**

c) **Prepare adjusting entry to record the additional allowance for impairment on inventories; and**

d) **Conduct assessment of net realizable value of inventories every reporting period to accurately measure the value of inventories.**

6.12 Management commented that the Controllership Department will closely coordinate with the GSD and MMD to reconcile the variance of inventories by 4th quarter of 2021. Further, PNCC will maintain supply ledger balances in excel format.

6.13 Moreover, Management informed that assessment of net realizable value of inventories will be considered based on the recent appraisal report from MMD and adjusting entry will be effected in the books in 2021.

6.14 The Audit Team will monitor Management's compliance with the recommendations.

7. **The faithful representation of the balance of Customer Deposit account amounting to P125.549 million could not be established due to continuous recognition of expired security deposits from lessees with no legal cases totaling P2.357 million and bid deposits already due for recognition as income amounting to P240,019, contrary to the Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities.**

7.1 The Conceptual Framework for GPFR by Public Sector Entities issued by the International Accounting Standards Board in January 2013 includes, among others, the following qualitative characteristics of useful information included in the general-purpose financial statements in order to support the achievement of the objectives of financial reporting:

> *"3.1-12 The objectives of financial reporting are to provide information useful for accountability and decision-making purposes. The qualitative characteristics of information included in the GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.*
>
> *Faithful Representation*
>
> *3.10 To be used in financial reporting, information must be faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomena is complete, neutral, and **free from material error** xxx."*

7.2 As of December 31, 2020, the Customer Deposit account showed a balance of P125.549 million which pertains to refundable/returnable security deposits from various lessees of PNCC and bid deposits from winning bidders in the public bidding of PNCC's assets for disposal.

7.3 Our audit disclosed that security deposits amounting to P126.067 million were collected from various lessees of PNCC's real properties as part of their contractual obligations for Calendar Years 2017 - 2019. Their respective lease contracts provided that:

"The security deposit shall answer for any unpaid utilities of the LESSEE and any property damage that may be discovered by the LESSOR on the premises and, if no such liability or damage shall exists, the security deposit shall be refunded to the LESSEE without interest after sixty (60) days from the termination/expiration of the Lease Agreement."

7.4 As stipulated in the lease contracts, the security deposit should be refunded by the lessor (PNCC) to the lessees without interest after sixty (60) days from the termination/expiration of the lease, provided that the lessees do not incur any unpaid utilities and property damage on the leased premises where such security deposit can be applied by PNCC.

7.5 Review of the lease contracts entered into by and between PNCC and various lessees revealed that to date, only two lease agreements are existing and in effect. These lease contracts pertain to the portion of Financial Center Area property in Pasay City and Porac quarry site in Pampanga with Pacific Concrete Products Inc. and Tokogawa Global Corporation, respectively. Security deposits for the said lease contracts amounted to P100.256 million. On the other hand, the rest of the lease contracts were already expired since May 31, 2018.

7.6 Analysis of the account and data provided by the Realty Management Department regarding security deposits of the lessees is shown below:

Particulars	**Security Deposit**
Expired lease contracts with no legal proceedings	2,357,394
Expired lease contracts under legal proceedings	22,122,042
Existing lease contracts	100,256,488
Total	**124,735,924**

7.7 As shown in the table above, out of the total security deposits, P24.479 million or 19.63 per cent came from lessees with expired lease contracts. However, of the said amount, P22.122 million was derived from lessees whose lease contracts expired but with on-going case in court. Inquiry with the Manager of the Realty Management Department disclosed that security deposits from lessees with legal proceedings were not refunded pending the outcome of the case. It was further disclosed that security deposits from lessees with no legal case amounting to P2.357 million was not returned since there was no demand from the concerned lessees.

7.8 Moreover, bid deposits from bidders/prospective buyers of unserviceable/disposable assets amounting to P240,019 were still recognized as liabilities instead of income despite the fact that the purpose of these deposits had already been accomplished and the bidders (buyers) had already settled/fully paid the bid amount of the disposed assets.

7.9 Further, we noted that bid deposit of Golden Construction amounting to P452,700 forms part of the bid deposits from the sale of unserviceable/disposable assets but the same cannot be accounted due to lack of supporting documents. There was no transaction reference provided in the ledger of said account and the bidding documents of Golden Construction was not found in PNCC's files.

7.10 Our audit revealed that the main reason for the non-adjustment in the recording of security deposits and bid deposits under the Customer Deposit account was the lack of periodic monitoring on the part of the Controllership Department when winning bidders settled their account with PNCC or when the lease contracts expired. The Realty Management Department also failed to monitor the conditions on the refund of security deposits when lease contracts expired which include determination of any existing liability of the lessee to PNCC and informing the concerned lessee to file a claim within a given deadline should there be no liability to apply such security deposits.

7.11 The continuous recognition of these security deposits from lessees with expired lease contracts with no legal case and bid deposits already due for recognition as income cast doubts on the reliability, validity and faithful representation of the balance of the Customer Deposit account. These deposits should have been refunded to the lessees/bidders long time ago; and/or recognized as miscellaneous income of PNCC. This resulted to overstatement of liabilities and understatement of income accounts.

7.12 **We reiterated our recommendations that Management:**

a) **Determine the propriety of the recorded security deposits and if found in order, inform the former lessees to claim their security deposits within a reasonable period of time, after which if no reply is received, the same shall be forfeited in favor of PNCC;**

b) **Reclassify to miscellaneous income or any appropriate account the unapplied and unclaimed long outstanding bid deposits;**

c) **Document and account for the bid deposit of Golden Construction and effect the necessary adjustments in the books, if warranted; and**

d) **Henceforth, conduct periodic monitoring of the conditions/status of expired lease contracts relative to the refund of security deposits and settlement of winning bidders of their accounts related to the disposed assets applying the bid deposits against their payments.**

7.13 Management commented that it is presently in the process of reconciling the schedule of outstanding bid deposits and that the Controllership Department shall be closely coordinating with the MMD for the early resolution and adjustment in PNCC's books regarding the matter by 4th quarter of 2021.

7.14 Management informed that with regard to the security deposit of lessees with expired lease contracts, the adjustment in the books amounting to P1.641 million pertaining to five former lessees whose documentations have already been completed, will be effected in 2021.

7.15 Management commented further that evaluation and documentation of security deposits of other lessees are still being undertaken and once completed, it will be forwarded to the Controllership Department for adjustment in the books. Henceforth, the Controllership Department shall conduct periodic monitoring of the conditions/ status of expired lease contracts in coordination with the Realty Department.

7.16 The Audit Team will monitor Management's full compliance with the recommendations.

B. OTHER OBSERVATIONS

8. **The 9.9-hectare portion of PNCC's Financial Center Area (FCA) property located in Pasay City was idle and/or unutilized to its maximum potential for three years, depriving PNCC of opportunity income of about P1.543 billion annually contrary to Section 2 of Presidential Decree (PD) No. 1445.**

8.1 Section 2 of PD No. 1445 provides that:

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

8.2 Records showed that PNCC owned a property known as FCA located along Macapagal Boulevard, Pasay City, with an area of 129,548 square meters or 12.954 hectares. Previously, portions of the said property were leased to various lessees thru short-term lease agreements.

8.3 On May 31, 2018, those lease agreements expired and the PNCC's Board of Directors (BOD) decided not to extend the said lease agreements in view of the planned development of the property.

8.4 On October 8, 2019, PNCC entered into a contract for the long-term lease and development of the 3-hectare portion of the property with Pacific Concrete Products, Inc., thru a competitive or Swiss challenge proceeding, leaving the 9.9-hectare portion of the FCA property vacant, which the BOD eventually approved for lease and development. Portions of the 9.9 hectares are under litigation with ejectment cases filed by PNCC against some former lessees who continuously occupied the premises despite expiration of their lease contracts.

8.5 In view of the planned lease and development of the 9.9-hectare portion of the FCA property, the BOD passed Board Resolution BD 66-2019 dated July 10, 2019, approving the Terms of Reference (TOR) for the bidding of the portion of the subject property and authorizing the President and CEO of PNCC to secure clearance/approval from the Office of the President (OP) of the Philippines.

8.6 In compliance with the aforementioned Board Resolution, the President and CEO wrote a letter to the OP on July 18, 2019, informing the plan of PNCC to bid out the lease and development of the 9.9-hectare portion of the FCA property and submit the TOR for the said public bidding, for information, comment and appropriate action.

8.7 On February 26, 2020, the President and CEO of PNCC wrote another letter to the OP, inquiring on the status of their request for comment on the subject TOR so that PNCC can move forward in developing and improving the FCA property. Subsequently, PNCC was furnished with a letter of the Deputy Executive Secretary for General Administration of the OP dated March 6, 2020, addressed to the Secretary of the Department of Finance (DOF), relative to the lease and development of the subject FCA property. Since then, PNCC did not receive any update on the status of their request for the approval of the TOR. On the other hand, Management did not make another follow-up on the status of their request.

8.8 We recognized the initial plan and efforts of the BOD and Management to bid out for long-term lease and development of the 9.9-hectare portion of the FCA property. However, persistent and collective efforts to obtain necessary approvals from the OP should have been exerted, considering that it is already three years since the expiration of the previous leases on May 31, 2018, leaving the subject prime property vacant/idle and partly used by illegal occupants. Thus, depriving PNCC of potential income/revenue that could have been generated out of this property.

8.9 Considering the time that the property has been idle/vacant, PNCC has already been deprived of opportunity income of about P1.543 billion annually on the 9.9-hectare portion based on the fair value of the rental of the property as disclosed in the appraisal report dated September 25, 2019.

8.10 The continuous idleness and non-utilization for productive and economic use of the subject property of PNCC is not in consonance with the policy of the government provided under Section 2 of PD No. 1445, which states that all resources of the government should be managed and utilized in accordance with law and safeguarded against loss through improper disposition, with a view of ensuring efficiency, economy and effectiveness of government operations.

8.11 **We recommended that Management:**

a) Make representation with the Department of Finance (DOF) regarding the letter of the Deputy Executive Secretary for General Administration of the OP dated March 6, 2020, referring PNCC's request for comment and approval on its plan to bid out the lease and development of the subject property and the corresponding TOR, for DOF's comment and recommendation; and

b) Immediately proceed with the bidding activities once approval thereof is obtained.

8.12 Management commented that they will continue to coordinate with PMO, an office under the DOF and its representative in the meetings of the PNCC Board of Directors. PNCC has been in communication with PMO, through its representative, concerning the lease and development of the said property. Through its representative, PMO has been made aware of the follow-up made by OP (through OP letter dated March 6, 2020) regarding the request for DOF's comment and recommendation.

8.13 The Audit Team will monitor Management's compliance with the recommendations.

9. **The permit applied for and obtained by Tokagawa Global Corporation (TGC) in the sand quarrying operations was not in accordance with Section 8 of the Lease Contract executed by and between PNCC and TGC and Item b, Section 8 of the DENR Department Order 210-21 dated June 28, 2010.**

9.1 Section 8 of the subject Lease Contract provides that:

PERMITS & LICENSES- Government licenses and permits to include among others, Department of Environment & Natural Resources (DENR) clearance as well as permits & licenses required by the Local Government Units (LGU) in the operation of TGC business shall be the sole responsibility of the latter and compliance with all the Philippine laws, ordinances and regulation.

The following permits and licenses shall be secured prior to the start of any quarrying operations:

i. ***Industrial Sand and Gravel Permit (ISAG Permit) authorizing the conduct of the quarrying operations in the Permit Area from the Mines and Geosciences Bureau (MGB) of the Department of Environment and Natural Resources (DENR).***
ii. Environmental Compliance Certificate (ECC) to extract and dispose of sand, gravel and other unconsolidated materials from the Permit Area from the DENR Environmental Management Bureau (EMB).
iii. Governor's permit, mayor's permit and other clearances after payment of taxes and fees, from the Local Government Unit concerned. (Emphasis supplied)

9.2 Further, under Item b, Section 8 of the DENR Department Order 210-21 dated June 28, 2010, it is the local government unit that *"approve applications for small scale mining, sand and gravel, quarry, guano, gemstone gathering and gratuitous permits and for industrial sand and gravel permits not exceeding five (5) hectares."*

9.3 Records showed that PNCC entered into a Contract of Lease with TGC on January 30, 2019 covering the lease of its real property with an area of 116,591 square meters, located at Barangay Manibaug, Pasig, Porac, Pampanga. The term of the lease was effective for a period of five years, commencing on September 1, 2019 until August 31, 2024, unless otherwise terminated at an earlier time by PNCC for reasonable cause. The purpose of the lease was for TGC to utilize the subject property for its sand quarry operations. As stipulated in the contract, TGC shall be obliged to pay PNCC the rental amounting to P0.678 per month, inclusive of VAT.

9.4 The Audit Team conducted the auditorial and legal review of the subject Contract of Lease and the same was forwarded to the COA- Technical Services Office (TSO) for technical review on October 21, 2019. On February 26, 2020, the Audit Team received the Technical Evaluation Report dated February 10, 2020 from COA-TSO concerning the results of the initial technical review of the subject Contract of Lease.

9.5 The COA-TSO personnel noted that TGC applied for permit for quarry operations for the area of 29,648 square meters or 2.965 hectares only based on the Industrial Sand and Gravel Permit issued by the local government unit of Porac, Pampanga, when in fact, the leased premises has an area of 116,591 square meters or 11.659 hectares. If the area applied for quarry operations exceeds five hectares or 50,000 square meters, the DENR is the government entity that shall issue the permit.

9.6 The permits applied by TGC prior to its quarrying operations should have been secured from DENR and not from the LGU considering that the leased premises subject for sand quarry is more than five hectares.

9.7 Moreover, TGC did not comply with Section 8 of the subject Lease Contract which requires that permit prior to quarry operations should be secured from MGB of the DENR.

9.8 In CY 2019 Annual Audit Report (AAR), an audit observation on the Lease Contract with TGC was included. Management clarified that not all areas of the leased property maybe subject to quarry operations and the matter on quarry permit application is a business decision that is within the prerogative of TGC.

9.9 TGC is bound to comply with government laws, rules and regulations setting aside business prerogative as justified by Management. Relative thereto, the Audit Team noted during the ocular inspection of the subject property conducted on July 16, 2019, that there was just a small area, which is less than a hectare, reserved as staging area of heavy equipment and temporary office of the lessee. The rest of the leased area are available for sand quarrying operations.

9.10 Thus, from our standpoint, the permit applied for and obtained by TGC is not in accordance with Section 8 of the Lease Contract and Item b, Section 8 of the DENR Department Order 210-21 dated June 28, 2010. TGC should have secured the required permits from DENR-MGB and not from LGU of Porac, Pampanga.

9.11 **We reiterated with modification our recommendation that Management inform TGC of its non-compliance with the provision of the Lease Contract and DENR Department Order No. 210-21 on permit application and request for immediate corrective actions.**

9.12 Management commented that not all areas of the leased property may be subject of a quarry operation. It opined that whether the whole property or portion of a property may be subject of a quarry permit is a business decision that is within the prerogative of TGC. TGC is within its prerogative to determine the best action to take to make its operation successful.

9.13 We maintain our stand that the permit applied for by TGC is not in accordance with Section 8 of the Lease Contract and Item b, Section 8 of the DENR Department Order 210-21 dated June 28, 2010. TGC should have secured the required permits from DENR-MGB and not from Local Government Unit of Porac, Pampanga. These requirements on permits and licenses were likewise stated in the first paragraph of page 4 of the OGCC Contract Review No. 546 dated December 14, 2018 considering that the quarry area is more than 11 hectares.

10. **Communication expenses reimbursed by members of the Board of Directors of PNCC amounting to P185,970 are considered unreasonable pursuant to Section 10.2(b) of GCG Memorandum Circular No. 2016-01 dated May 10, 2016, and the same expenses amounting to P244,128 were not supported with complete documents as required under Section 4 of Presidential Decree 1445 and Section 6.2 of COA Circular No. 2012-001 dated June 14, 2012.**

10.1 Section 10.2 of GCG Memorandum Circular No. 2016-01 dated May 10, 2016 provides that:

> ***The only time that Directors obtain a reimbursement of expenses can be:***
>
> *(a)* xxx. . .
>
> *(b)* ***Limited to actual and reasonable*** *transportation expenses for attending meetings; expenses for official travel;* ***communications expenses;*** *and meals during business meetings; and*
>
> *(c)* *Provided that the amount that may be reimbursed shall not be higher than the monthly RATA of an Undersecretary. (Emphasis supplied).*

10.2 Audit of the reimbursements for monthly transportation/travelling, communication and meals/representation expenses of the members of the Board of Directors (BOD) which were incurred in the discharge of their functions and in attendance to Board, Committee and other business meetings, disclosed that reimbursements for communication expenses incurred by some members of the BOD were considered unreasonable, as follows:

A. Reimbursements of cellphone load expenses (prepaid or postpaid) of the four (4) members of the BOD ranging from P3,550 to P 9,724 in several months of 2020, as shown below:

	Director 1	Director 2	Director 3	Director 4	**Unreasonable**
Jan			6,010	4,250	**10,260**
Feb	9,372	8,837	5,000	6,223	**29,432**
Mar	4,876	8,797	4,000	*1,050	**17,673**
Apr		8,797	4,000		**12,797**
Jun	9,724	8,797	5,500	*3,000	**24,021**
Jul	8,754	8,797	5,500	*1,370	**23,051**
Aug	8,752	8,797	5,000	*2,350	**22,549**
Sep		8,797	5,000		**13,797**
Oct			5,000	3,550	**8,550**
Nov				6,200	**6,200**
Dec				4,340	**4,340**
Total	**41,478**	**61,619**	**45,010**	**24,563**	**172,670**

**Included for presentation only but considered reasonable expense*

10.3 For CY 2020, the communication expenses incurred by members of the BOD amounted to P368,806, comprising of cellphone load expenses of P280,335 and internet expenses of P88,471. As shown in the table above, the monthly claims for cellphone load used for communication were unreasonably high. These claims were exclusive of internet expenses which they claimed separately. We found these monthly claims for communication unreasonable considering that the nature of work of the members of the BOD is not on a daily basis that requires frequent communication.

10.4 In relation thereto, we have gathered information that the country's two major telecommunication network providers, Globe Telecom and Smart Communication, are both offering postpaid plans amounting to P1,500 per month which includes unlimited all network calls and texts including calls to landline and up to 20 gigabyte (GB) of mobile internet data which can be used for calls/video calls using the internet.

10.5 Had PNCC availed of the said plan from both of the major telecommunication network providers of the country and provided the same to the members of the BOD, it could have incurred only P3,000 per month for each member.

10.6 On the other hand, we noted that PNCC executives were also granted communication allowance but at the rate of P1,000 to P2,800 per month only.

10.7 Considering the above premises, the reasonable amount of communication expenses for cellphone load that may be reimbursed by members of the BOD should not exceed P3,000 per month, except on extraordinary circumstances.

10.8 While it is true that the members of the Governing Board are allowed to reimburse transportation/travelling, meals and communication expenses of up to P22,000 monthly (equivalent to monthly RATA of an Undersecretary) and no amount was specifically allocated for each of these expenses, the GCG Circular explicitly requires that such reimbursement is limited to actual and **reasonable** expenses.

B. Reimbursements of Director 2 for payment of two postpaid accounts both with Globe Telecom amounting to P61,619, to wit:

CV No.	Check No.	Bill No.	Date	Merchant	Account No.	Amount
10-081-21	570163	181	03/02/20	Globe	XX922365	5,748
10-081-21	570163	280	03/12/20	Globe	XX129664	3,089
10-081-21	570163	183	05/14/20	Globe	XX922365	11,496
10-081-21	570163	282	05/13/20	Globe	XX129664	6,098
10-081-21	570163	185	07/08/20	Globe	XX922365	5,748
10-081-21	570163	284	07/08/20	Globe	XX129664	3,049
10-081-21	570163	186	08/16/20	Globe	XX922365	5,748
10-081-21	570163	285	08/21/20	Globe	XX129664	3,049
12-075-20	570297	187	09/16/20	Globe	XX922365	5,748
12-075-20	570297	286	09/16/20	Globe	XX129664	3,049
12-075-20	570297	188	10/17/20	Globe	XX922365	5,748
12-075-20	570297	287	10/17/20	Globe	XX129664	3,049
Total						**61,619**

10.9 We found the practice of claiming reimbursements for the payment of maintaining two postpaid accounts from the same network provider unreasonable and excessive. Had the Corporation instead issued two postpaid plans from the two major networks to the concerned Director amounting to P1,500 each, which include unlimited calls and texts, his communication expenses could have been P3,000 per month only, which is considerably lower by more than P5,000 from his monthly average claim of P8,797.

C. Reimbursements for communication expenses amounting to P35,865 of Director 5 include the monthly installment cost of the unit of cellular phone in the postpaid plan amounting to P13,300. Details are shown hereunder:

			Breakdown of the bill				Amount
CV No.	OR No.	OR date	Monthly Plan	Add -ons	Excess usage	**Gadget cash-out**	**in OR/ reimbursed**
01-047-21	513496	01/19/20	1,999	399	1,025	**1,900.00**	5,500.00
01-047-21	709790	02/13/20	1,999	399	774	**1,900.00**	5,292.00
01-047-21	93457	03/14/20	1,999	399	900	**1,900.00**	5,073.00
01-047-21	214161	05/22/20	1,999	399	570	**1,900.00**	5,000.00
01-047-21	078154	06/09/20	1,999	399	562	**1,900.00**	5,000.00
01-047-21	389575	07/23/20	1,999	399	549	**1,900.00**	5,000.00
01-047-21	727457	08/18/20	1,999	399	570	**1,900.00**	5,000.00
Total			13,993	2,793	4,950	**13,300.00**	35,865.00

10.10 As shown in the table, the monthly amortization of the cellular phone amounting to P1,900 was included in the monthly billing and reimbursed by PNCC. This is contrary to the provision of the above-mentioned GCG Circular which requires that only actual and reasonable communication expenses can be reimbursed and this excludes the cost of cellular phone unless the same shall be surrendered to PNCC at the end of the contract.

10.11 In addition, the claims of seven members of the BOD totaling P244,128 for the reimbursement of their postpaid bills and internet expenses were not supported with complete documentary requirements contrary to Section 4 of PD No. 1445 and Section 6.2 of the COA Circular No. 2012-001 dated June 14, 2012. Details are as follows:

Name	CV No.	CV Date	Amount	Remarks
Director 1	09-008-20	09/07/20	4,876	Without Statement of Account (SOA)/Billing
	09-009-20	09/02/20	9,372	Without SOA/Billing
	10-058-20	10/19/20	32,426	Without SOA/Billing
Director 2	10-081-20	10/19/20	44,025	Without SOA/Billing and Official Receipt (OR); email notice of billing and OR only
	12-075-20	12/07/20	17,594	Without SOA/Billing and OR; email notice of billing and OR only
	10-081-20	10/19/20	17,500	Without OR; email of confirmation of payment notice only
	12-075-20	12/07/20	7,000	Without OR, email of confirmation of payment notice only
Director 3	09-100-20	09/28/20	29,000	Without SOA and OR; email notice of billing and OR only (Postpaid)
	01-056-21	No date	6,899	Without SOA and OR; email notice of billing and OR only (Postpaid)
	09-100-20	09/28/20	11,394	Without OR (Internet)
Director 4	09-002-20	08/24/20	3,000	Without SOA/Billing
	01-097-21	01/18/21	8,820	Without OR
Director 6	02-096-20	02/26/20	2,737	Without SOA/Billing
	06-004-20	03/13/20	2,850	Without SOA/Billing
	01-016-21	01/06/21	6,100	Without SOA/Billing
Director 7	09-003-20	08/24/20	3,292	Without OR
	09-012-20	09/02/20	3,253	Without OR
	01-039-21	01/11/21	3,432	Without OR
Director 8	02-021-20	02/04/20	2,394	Without SOA/billing
	02-097-20	02/26/20	2,113	Without SOA/billing
	10-070-20	10/19/20	26,051	Without SOA/billing
Total			**244,128**	

10.12 Item 6, Section 4 of PD 1445 provides that:

> *Fundamental principles. Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit:*
>
> *xxx...*
>
> *6. Claims against government funds shall be supported with complete documentation.*
>
> *xxx.*

10.13 Moreover, Section 6.2 of COA Circular No. 2012-001 dated June 14, 2012 provides the documentary requirements for claims of telephone/communication services, as follows:

> ***Telephone/ Communication Services***
>
> *Documentary Requirements*
>
> - ✓ *Statement of Account/ Bill*
> - ✓ *Invoice/ Official Receipt or machine validated statement of account (for post-audit activities)*

10.14 As shown in the table, several claims for communication expenses (cellphone load and internet) were processed and reimbursed by PNCC despite submission of incomplete documentary requirements. The concerned Directors submit OR only, without the corresponding SOA/billing to support their claims. Further, in some instances, some claims were not supported with OR, a basic requirement in claiming reimbursements. While in some instances, print-outs of email notice of the bill and email notice of payment were attached to the claims.

10.15 In the absence of these required documents, the expenses and charges incurred by the concerned Directors cannot be verified and examined whether they are valid, necessary and reasonable. Moreover, in the absence of the SOA/billing and OR, PNCC cannot account for the input VAT in the transactions. Hence, depriving PNCC of the input VAT which can be used to off-set with output VAT resulting to lesser VAT payable.

10.16 While under EO No. 24 and GCG Memorandum Circular No. 2016-001, the only requirement in claiming reimbursements was submission of receipts, COA requires submission of other supporting documents pursuant to PD 1445 and COA Circular No. 2012-001 dated June 14, 2012 considering that reimbursable expenses of the members of the BOD are subject to auditing rules and regulations. The submission of these documents in addition to receipts are necessary to ascertain validity, propriety and reasonableness of the expenses claimed.

10.17 **We recommended that Management and the Board of Directors:**

a) **Prepare/develop policy/guidelines on the proper reimbursement of communication expenses with the end view of ensuring reasonableness, economy and propriety of expenses reimbursed;**

b) Consider the issuance of cellphone with fixed postpaid plan offered by major telecommunication networks with unlimited text and call features for all networks;

c) Discontinue the reimbursement on the payment of installment cost of the cellular phone in postpaid plan, unless the unit will be surrendered to PNCC at the end of the contract;

d) Require the concerned members of the BOD to submit the lacking documents such as ORs and SOAs/billings on their claims for communication expenses; and

e) Instruct the Accounting and Treasury Departments to review thoroughly the supporting documents of the claims for reimbursements and ascertain the reasonableness of reimbursements on communication expenses before payment.

10.18 The Management and members of the BOD noted COA's recommendations. To address the issue, the BOD passed Board Resolution BD 12-2021 dated June 23, 2021, allowing members of the BOD to avail the amount of P5,000 as communication expenses on an interim basis, in view of the current situation and exigencies of the times brought by the COVID-19 pandemic. Due to the COVID-19 pandemic, which limited their movement and physical access to the office, the members of the BOD relied on communication technology such as the use of internet, cellular phones, e-mails and e-conferences to conduct business.

10.19 Further, Management and the BOD informed that they will no longer consider availing new fixed postpaid plan offered by major telecommunication networks since most members of the BOD have an existing postpaid plan while others might not consider it due to the required lock-in period of two years. They explained that since the National Election is less than a year, the new administration might appoint new members of the BOD who may not accept or continue the postpaid plan which will result to cancelation/penalty expenses on the part of PNCC. With regard to the reimbursement of the installment cost of the cellular phone included in the postpaid plan, the concerned member of the BOD committed to discontinue the reimbursement thereof. Lastly, Management informed that the concerned members of the BOD will exert effort to locate and submit the lacking documents on their claims for communication expenses and the Accounting and Treasury Departments have been instructed to thoroughly review the supporting documents on the claims for reimbursement of communication expenses before payments.

10.20 We maintain our position that communication expenses reimbursed by members of the BOD should be the actual and reasonable expenses. With regard to non-consideration on the availment of fixed postpaid plan offered by major telecommunication networks, we noted the justifications and explanations given by Management and the BOD.

11. **PNCC continuously incurred expenses for salaries and benefits of three project employees, rental and other incidental costs totaling P1.391 million despite the cessation of operations and service contracts with Philippine Phosphate Fertilizer Corporation (Philphos) in Isabel, Leyte, contrary to Section 2 of Presidential Decree No. (PD) No. 1445 and considered unnecessary expenditures pursuant to Section 4.1 of COA Circular No. 2012-03 dated October 29, 2012.**

11.1 Section 2 of PD No. 1445, otherwise known as the Government Auditing Code of the Philippines, provides that:

> *It is the declared policy of the State that all resources of the government shall* ***be*** *managed,* ***expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through*** *illegal or* ***improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government.*** *The responsibility to take that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned. (Emphasis supplied)*

11.2 Moreover, Section 4.1 of COA Circular No. 2012-03 dated October 29, 2012 defined "Unnecessary" Expenditures, as follows:

> *The term pertains to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation.* ***This would also include incurrence of expenditure not dictated by the demands of good government,*** *and those the utility of which cannot be ascertained at a specific time.* ***An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary.*** *xxx. (Emphasis supplied)*

11.3 Records showed that on October 1, 2015, PNCC assumed the operations and functions of DISC Contractors, Builders and General Services Inc. (DCBGSI), a subsidiary of the Corporation, in view of the approval of abolition of PNCC's subsidiaries by the Office of the President per Memorandum dated August 7, 2014. DCBGSI's operations and all existing and future contracts were absorbed and continued by the Corporation which include, supply of manpower services to the Skyway Operations and Maintenance Corporation and services for the maintenance and rehabilitation of fertilizer plant of Philphos in Isabel, Leyte. The Philphos is considered one of the major clients of DCBGSI, which is engaged in the manufacture, supply and distribution of agricultural fertilizer in the country and even abroad.

11.4 On January 15, 2018, the PNCC Board of Directors (BOD) passed Board Resolution (BR) 005-2018 resolving the following matters pertaining to the DISC Operations in Isabel, Leyte being handled by PNCC, to wit:

> *RESOLVE, AS IT IS HEREBY RESOLVED, to confirm and ratify the decision of Management to cease providing services for the rehabilitation of the Philphos fertilizer plant in Isabel, Leyte;*
>
> *RESOLVE FURTHER, to authorize the Materials Management Division/Task Force Disposal to include in their disposition all PNCC-Operation idle inventories at Philphos in Isabel, Leyte;*

RESOLVED FINALLY, to authorize the Personnel Department to schedule the separation/termination of the four (4) project employees in the Philphos project in Isabel, Leyte, namely:xxx.

11.5 The above-cited decision to cease providing services for the rehabilitation of Philphos' fertilizer plant was due to the latter's non-payment of contractual obligations to PNCC amounting to P12.924 million as of December 31, 2017. These obligations still stood at a balance of P12.790 million as of December 31, 2020.

11.6 On March 23, 2017, Philphos informed PNCC thru its President, that it already filed a petition for voluntary rehabilitation in court.

11.7 In compliance with the above-mentioned Board Resolution, the Materials Management Division (MMD)/Task Force Disposal proceed with the disposal, thru public bidding, of the various idle inventories and equipment used in Philphos project. Three public biddings were conducted from November 28, 2018 to May 8, 2019 in Isabel, Leyte and even in PNCC Main Office in Bicutan, Parañaque City, which resulted to substantial disposal of the said idle inventories and equipment, generating proceeds of P1.081 million. However, various inventory items and equipment (consisting of supplies/materials, plates, testing machine and truck tractor) with an aggregate minimum bid price of P0.513 million remained undisposed due to lack/absence of interested bidders.

11.8 These undisposed inventory items and equipment, together with the two serviceable transportation equipment (Boom truck and service vehicle) with a total net book value of P95,513, were under the custody and safekeeping of the three project employees.

11.9 Further, we noted that the last withdrawal/pull-out of the disposed equipment and inventories by the winning bidder in Isabel, Leyte was made on July 15, 2019.

11.10 Inquiry with the Head-MMD disclosed that the remaining undisposed equipment and inventory items, together with the two serviceable vehicles will be transferred from Isabel, Leyte to PNCC Main Office in Bicutan, Parañaque City, for disposal and safekeeping. Accordingly, request to facilitate the transfer was already communicated to the Head-Administration Department, but to date, such transfer was not yet acted upon.

11.11 Moreover, with regard to the instruction to terminate/separate the four project employees, only one was separated from service. The three project employees were still employed with PNCC to date, despite the termination of supply of maintenance services to Philpos in January 2018. Their only activity was safekeeping of the remaining undisposed equipment and inventory items secured in a warehouse.

11.12 For Calendar Years 2019 and 2020, our audit of the account showed that PNCC already incurred expenses aggregating P1.391 million pertaining to salaries and benefits of the three project employees, warehouse rental and other incidental expenses. Breakdown of the expenses are as follows:

Operating Expenses*	2019	2020	Total
Employee cost	P 605,161	P 575,355	P 1,180,516
Rental	78,262	78,261	156,523
Fuel, oil, lubricants, etc.	10,554	5,869	16,423
Communication expenses	9,907	4,821	14,728
Sports and recreation	7,000	6,000	13,000
Light and water	5,341	506	5,847
Office supplies	1,576	959	2,535
Bank charges	500	40	540
Miscellaneous	729	0	729
Total	**P 719, 030**	**P 671,811**	**P 1,390,841**

**Excluding LTO registration of vehicles since this is an unavoidable expense*

11.13 As shown in the table, PNCC still incurred expenses notwithstanding the cessation of business with Philphos in Isabel, Leyte. Considering that PNCC has ceased business operations with Philphos due to the termination of its service contract, the above-cited expenses should not have been incurred. Had proper and immediate implementation of the Board Resolution No. 005-2018 been undertaken, these expenses could have been avoided.

11.14 Taking into consideration the lapse of time since the last withdrawal/pull-out by the winning bidder of the disposed unserviceable equipment and inventories on July 15, 2019, Management could have facilitated the transfer of the remaining undisposed items to PNCC Main Office and thereby, avoiding unnecessary expenses of maintaining them.

11.15 Because of travel restrictions imposed due to COVID- 19 pandemic, transfer of the remaining undisposed properties was again delayed. Management still did not facilitate the transfer when travel restrictions was eased effective June 1, 2020 .

11.16 **We recommended that Management:**

a) Instruct the Head- Administration Department to immediately facilitate the transfer of the two serviceable vehicles and the remaining undisposed equipment and inventory items to PNCC Main Office. If immediate transfer is still not feasible due to restrictions brought by the COVID-19 pandemic, allow only one personnel to serve as caretaker of the remaining equipment and inventory items for the mean time; and

b) Immediately terminate the remaining project employees in Isabel, Leyte.

11.17 Management informed that it already instructed the Human Resource and Administration Department to facilitate the immediate transfer of the serviceable vehicles and the remaining undisposed equipment and inventory items from Isabel, Leyte to PNCC Main Office. Likewise, the Materials Management Department was directed to schedule the immediate disposal of the remaining disposable items. Thereafter, the services of the two project employees will be terminated and only one will be retained as caretaker until such time that the remaining equipment and inventory have been disposed.

11.18 The Audit Team will monitor Management's full compliance with the recommendations.

12. **The grant and liquidation of cash advances (CAs) to PNCC employees were not adequately controlled/monitored resulting in the accumulation of unliquidated cash advances aggregating P481,881 as of December 31, 2020, contrary to the provisions of COA Circular No. 97-002 dated February 10, 1997 and Section 89 of Presidential Decree (PD) No. 1445.**

12.1 Section 89 of PD No. 1445 provides that:

> *Limitations on cash advance. No cash advance shall be given unless for a legally authorized specific purpose.* ***A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.*** *(Emphasis supplied)*

12.2 Moreover, Sections 4 and 5 of COA Circular No. 97-002 dated February 10, 1997 provide the guidelines on the granting, utilization and liquidation of CAs, as follows:

> *General Guidelines*
>
> *xxx.*
>
> *4.1.2 No additional cash advances shall be allowed for any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.*
>
> *4.1.3 A cash advance shall be reported on as soon as the purpose for which itwas given has been served.*
>
> *xxx*
>
> *4.1.6 Transfer of cash advance from one Accountable Officer (AO) to another shall not be allowed.*
>
> *xxx*
>
> *5. LIQUIDATION OF CASH ADVANCES*
>
> *5.1 The AO shall liquidate his cash advance as follows:*
>
> *xxx*
>
> *5.1.2 Petty Operating Expenses and Field Operating Expenses – within twenty (20) days after the end of the year; subject to replenishment as frequently as necessary during the year.*
>
> *5.1.3 xxx*
>
> *Failure of the AO to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary and the instruction of other sanctions as provided for under paragraphs 9.2 and 9.3 hereof.*
>
> *xxx*

5.8 All cash advances shall be fully liquidated at the end of each year.

12.3 Audit of the Other Receivables- Due from Officers and Employees account showed that eight employees of the Corporation were granted CAs amounting to P0.581 million, of which P481,881 are already due for liquidation as of December 31, 2020. Details of their CAs are as follows:

Name of Employee	Particulars/Purpose of CA	Date Granted	Unliquidated/ granted CA prior to 2020	Unliquidated/ granted CA in 2020	Total	CAs Due for liquidation as of Dec. 31, 2020	No. of years outstanding for long overdue CAs
Employee A	Local purchases- vehicle spare parts in 2018 and company jackets in 2020	08/02/2018	6,665	136,000	142,665	142,665	2 yrs & 4 mos.
Employee B	Temporary CA from petty cash fund	09/29/2016	* 1,500	0	1,500	1,500	4 yrs & 3 mos.
Employee C	BOD Per Diem/purchase of food for Board meetings	06/30/2019	18,040	80	18,120	18,120	1 yr & 6 mos.
Employee D	Budget for 2020 Christmas Celebration	12/14/2020	0	99,119	99,119	0	
Employee E	Tarpaulin - 2019 Xmas Celebration	12/31/2019	1,500	0	1,500	1,500	1 yr
Employee F	Local purchases	4/30/2017	688	0	688	688	3 yrs. & 8 mons.
Employee G	Filing/appeal fees	03/31/2018	11,628	7,000	18,628	18,628	2 yrs. & 9 mos.
Employee H	BOD Per Diem/purchase of food for Board meetings	12/11/2018	** 298,780	0	298,780	298,780	2 yrs. & 1 mos.
Total			**338,801**	**242,199**	**581,000**	**481,881**	

**remaining balance of temporary CA after salary deduction made of P2,500 from November 2019 to January 2020*
*** accumulated balance of unliquidated cash advances as of December 31, 2018*

12.4 Analysis of the account and review of pertinent documents related to the CAs granted to PNCC employees disclosed that:

- The CA granted to Employee A amounting to P136,000 on December 7, 2020 for the payment of customized jackets for employees as token for PNCC's Anniversary on November 22, 2020 came from the cash advance of the Accounting Manager. The Cash Advance Slip dated December 7, 2020, signed by him and approved by the OIC- Human Resource and Administration states that the CA shall be accounted within three days, otherwise, the same shall be submitted for salary deduction on the next working day. Said CA was not liquidated as of December 31, 2020. Moreover, it was granted despite that he has still unliquidated CA amounting to P6,665 for the purchase of vehicle spare parts in 2018.

- The unliquidated CAs of Employee H amounting to P298,780 were part of his regular CAs for the purchase of food during Board meetings and payment of per diems of the members of the Board of Directors (BOD). The said CA represents the accumulated unliquidated balance since December 31, 2018 which is already due for liquidation considering that their purposes have long been served. Due to frequency of Board and Committee meetings, multiple CAs were granted to him and liquidations were made simultaneously. The Audit Team experienced difficulty in matching and accounting the liquidations with the grants due to absence of reference number in the Expense Report, such as the check voucher number of the CA, when it was granted.

- Likewise, the CA granted to Employee C in 2019 pertains to purchase of food during Board meetings and payment of per diems of the members of the BOD which remained unliquidated as of December 31, 2020. We noted that, although already liquidated, still several CAs were granted to her despite having an unliquidated CA in 2019.

- CAs granted to Employee G pertains to payment of filing/appeal fees of various pleadings and petitions filed by the Corporation in court. New CA was granted to him in 2020 despite the fact that he has outstanding CA granted on March 31, 2018 in the amount of P11,628.

12.5 We found the foregoing grants to and liquidations of CAs by PNCC employees not adequately monitored and contrary to the pertinent provisions of COA Circular No. 97-002 dated February 10, 1997 because of the following:

a.) New CAs were granted despite the non-settlement or proper accounting of the previous CA;
b.) CAs were not reported on as soon as the purposes for which they were granted have been served;
c.) CAs were not fully liquidated at the end of each year or 20 days after end of the year for CA pertaining to field operating expenses;
d.) Transfer of CA from one AO to another was allowed; and
e.) Withholding of salaries of the AO upon failure to liquidate the CA within the prescribed period, was not fully implemented.

12.6 The observations above are manifestations of weaknesses of the internal control system over the grant and liquidation of CA by the Corporation. There was an apparent lack of monitoring and control system over those employees granted with CAs. There was no settlement mechanism to enforce liquidation of CA after the lapse of prescribed period to liquidate and then resort to withholding of salaries upon failure to liquidate them.

12.7 The non-adherence with the rules and regulations on the grant and liquidation of the CA as provided under COA Circular No. 97-002 resulted in the accumulation of unliquidated CAs; exposed to risks of misappropriation and loss of corporate funds; and undermined the principle of accountability.

12.8 **We recommended that Management:**

a) Require the concerned employees to immediately liquidate the outstanding CAs. If liquidation is still not made within the prescribed period, cause the withholding of their salaries and apply to their unliquidated CAs;

b) Adhere to the pertinent provisions of COA Circular No. 97-002 dated February 7, 1997 on the proper grant and liquidation of CA; and

c) Take necessary corrective actions to strengthen the internal control system on the grant, utilization and liquidation of CAs.

12.9 Management commented that it has already called the attention of its officers and employees for the immediate liquidation of their unliquidated CAs, otherwise, the same shall be deducted from their salaries if these remain unliquidated by end of August 2021. Further, Management informed that out of the P481,881 unliquidated CAs, P273,951 has already been liquidated by the concerned employees. Finally, the Controllership Department was instructed to adhere to the pertinent provisions of COA Circular No. 97-002 dated February 7, 1997 on the grant and liquidation of cash advances and to strengthen the internal control system on the grant, utilization and liquidation of cash advances.

12.10 The Audit Team will evaluate the liquidation documents submitted by Management pertaining to CAs amounting to P273,951 which were reportedly liquidated and will closely monitor its full compliance with the recommendations.

13. **A temporary cash advance (TCA) drawn from the Revolving Fund amounting to P60,000 granted on February 27, 2020 was still unliquidated as of cash count date on October 12, 2020, contrary to Sections 4.1.3 and 5.1.3 of COA Circular No. 97-002 dated February 10, 1997.**

13.1 Section 4.1.3 of COA Circular No. 97-002 dated February 10, 1997 provides that:

> *A cash advance shall be reported as soon as the purpose for which it was given has been served.*

13.2 Further, Section 5.1.3 of the same Circular states that:

> *5. LIQUIDATION OF CASH ADVANCES*
> *5.1.1 Xxx.*
> *5.1.2 Xxx.*
> *5.1.3 Official Travel - within sixty (60) days after return to the Philippines in the case of foreign travel or* ***within thirty (30) days after return to his permanent official station in the case of local travel,*** *as provided for in EO 248 and COA Circular No. 96-004. (emphasis supplied)*

13.3 During the conduct of cash count of Board Revolving Fund, it was observed that one of the cash items is a temporary cash advance slip pertaining to cash advance granted to the Executive Secretary amounting to P60,000 on February 27, 2020. The purpose of the said cash advance is for the purchase of plane tickets of four (4) members of the Board of Directors (BOD) in the attendance of Board meetings on March 5 and 18, 2020. As of October 12, 2020, the said cash advance was still outstanding despite that the purpose for which it was granted has long been served contrary to Sections 4.1.3 and 5.1.3 of COA Circular No. 97-002 dated February 10, 1997.

13.4 Details of the temporary cash advance are as follows:

Date	Purpose	Amount
02/27/2020	Plane Ticket re. Special Board Meeting on March 05, 2020 of Directors (Davao-Manila-Davao)- Directors 1 and 2	P 35,000
02/28/2020	Plane Ticket re. Special Board Meeting on March 05, 2020 of Directors (Davao-Manila)- Directors 3 and 4	12,000
03/03/2020	Plane Ticket re. Special Board Meeting on March 05, 2020 of a Director (Manila-Legazpi)- Director 4	4,000
03/05/2020	Plane Ticket re. Special Board Meeting on March 05, 2020 af a Director (Manila-Davao)- Director 3	4,000
03/12/2020	Plane Ticket re. Regular Board Meeting on March 18, 2020 of Director (Masbate-Davao)- Director 4	5,000
Total		**P 60,000**

13.5 While we understand that the liquidation of said cash advance was affected by the imposition of the Enhanced Community Quarantine by the National Government on March 17, 2020 to May 31, 2020 due to the COVID-19 pandemic, PNCC reopened and resumed office works on June 3, 2020. Within the period June 3, 2020 to October 12, 2020 (date of cash count), which is more than 30 days, the said cash advance was still not liquidated. We noted that despite the current situation, claims for reimbursements in relation to travel of the concerned members of BOD were processed after the office resumed on June 3, 2020. This is a manifestation that liquidation of the said cash advance is possible since the concerned Directors were able to send the official receipts supporting their other claims via courier services.

13.6 **We recommended that:**

a) The Accountable Officer require the grantee to liquidate immediately the said cash advance; and

b) The grantee/s strictly observe the prescribed period of liquidating cash advance for travel as required under Sections 5.1.3 of COA Circular No. 97-002 dated February 10, 1997.

13.7 Management agreed on the observations and acknowledged that there was oversight in the follow ups on the submission of complete documents to support liquidation. Due to inactivity, the minuscule boarding passes could have possibly been misplaced. Since boarding passes could no longer be located, Management will secure the requisite certification from the airline company manifesting the presence of the four Directors in their respective flight dates. They committed to secure this document on or before August 30, 2021.

13.8 By way of rejoinder, we recognized Management on its plan to secure necessary documents to support liquidation of the outstanding TCA. However, we request that liquidation of the subject TCA should be fast tracked considering that it is already one year that such should have been liquidated.

14. **For CY 2020, the appropriate premium contributions and loan amortizations were deducted from salaries of the employees of PNCC. Employees' share together with the employer's share as well as the loan amortizations of employees were remitted to SSS (inclusive of ECC contribution), PHIC and Pag-IBIG Fund within the prescribed period. The remittances for CY 2020 are as follows:**

SSS contribution	P	5,937,222
PHIC contribution		1,617,821
Pag-IBIG contribution		750,100
SSS loan amortization		1,325,768
Pag-IBIG loan amortization		1,632,526
Total	**P**	**11,263,437**

15. **Summary of unsettled audit suspensions, disallowances and charges**

15.1 As of December 31, 2020, Notices of Suspension, Disallowance and Charge issued and unsettled are as follows:

	Beginning Balance (as of January 1, 2020)	Issued during the year	Settled during the year	Ending balance (as of December 31, 2020)
Notices of Suspension	0	0	0	0
Notices of Disallowance	468,499,733	51,606	0	468,551,339
Notices of Charge	0	0	0	0
Total	468,499,733	51,606	0	468,551,339

15.2 The unsettled disallowances are made up of 37 Notices of Disallowance (NDs) issued in CYs 2011 to 2020. Status of the said NDs as of December 31, 2020 are as follows:

Particulars	Quantity	Amount (in millions)
With Cluster's decision but under automatic review by the Commission Proper	4	172.468
NDs affirmed in the decision rendered by the COA CGS Cluster Director. Petition for Review filed with the COA Commission Proper	24	199.965
With Petition for Certiorari filed with the Supreme Court	2	91.697
NDs with Notice of Finality of Decision (NFD) and COA Order of Execution (COE)	6	4.369
ND waiting appeal from persons liable	1	0.052
	37	468.551

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 69 prior years' recommendations, 12 were implemented/reconsidered, 39 were partially implemented and 18 were not implemented, as shown below:

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2019 AAR Observation No. 1 Page 86	1. The financial statements of PNCC remained materially misstated due to the continued recording of the unconverted debts as equity, instead of liability, in the total amount of P5.552 billion.	Recognize the P5.552 billion unconverted debts as liability in the books of accounts of the PNCC, instead of equity, together with the interests and other charges thereon of P63.115 billion as of December 31, 2019. Further, follow up the status of the pending appeal with the Office of the President.	Not implemented Reiterated in Observation No. 1 of this Report.
CY 2019 AAR Observation No. 2 Page 89	2. The correctness of PNCC's 10 per cent revenue share amounting to P112.322 million, remitted by the Joint Venture (JV) Companies operating the SLEX, NLEX and Skyway as of December 31, 2019 cannot be ascertained due to the absence of verifiable data/ information as basis in the computation of such share.	Continue its efforts to make representation with the JV Companies to obtain pertinent documents used as the basis for the computation of 10 per cent revenue share of PNCC and validate the same and furnish the Audit Team with the said documents including the results of validation.	Partially implemented Meetings with the representatives of JV Companies were already conducted but pertinent documents pertaining to the revenue share were still not provided. Reiterated in Observation No. 2 of this Report.
CY 2019 AAR Observation No. 3 Page 91	3. Variances between the balance per books and confirmed balances in the amount of P6.545 million, negative balances of P0.950 million and non-provision of allowance for impairment losses in	a) Analyze and reconcile the variances and negative balances and provide allowance for impairment loss; and b) Effect the necessary adjusting journal	Not implemented Not implemented

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	the amount of P28,169, render the validity and reliability of the Receivables account aggregating P7.523 million doubtful. A. Confirmation of various accounts receivable disclosed an unreconciled difference of P6.545 million. B. The Aging/Schedule of Other Receivables – Officers and Employees and Trade Receivables from Lessees showed negative balances of P140,109 and P0.810 million, respectively. C. Non-provision of allowance for impairment loss of overdue accounts of separated employees amounting to P28,169.	entries in the books, if warranted, so that reliable information is presented in the financial statements.	Reiterated in Observation No. 3 of this Report.
CY 2019 AAR Observation No. 4 Page 94	4. The delisted PNCC's investment (golf membership shares) in Mimosa Golf and Country Club (MGCC) amounting to P1.200 million is considered worthless and unrecoverable.	Inform and secure authority from the Board of Directors for the Controllership Department to derecognize the investment with MGCC and effect the necessary adjusting entry in the books.	Implemented The Controllership Department derecognized from the books the said investment per JV No. 12-17-03-20 dated December 31, 2020 pursuant to Board Resolution No. BD 2-2021 dated January 22, 2021.
CY 2019 AAR Observation	5. PNCC's investments totaling P0.733 million were not properly	a) Locate documents supporting PNCC's investments with	Partially implemented

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
No. 5 Page 95	supported with documents, thereby casting doubt on the existence, accuracy and valuation of the account. A. Investment in Manila Electric Company (Meralco) shares per books is overstated by P430,840 compared to balance per inventory count. B. Result of confirmation of investment in Laguna Lake Development Authority (LLDA) shares disclosed an unreconciled balance of P15,542. C. The investments recorded under Investment - Others account aggregating to P286,600 lacked documents to ascertain the nature and ownership.	Meralco and reconcile the same. If necessary, make representation with Meralco to inquire the balance of its investment; b) Coordinate with LLDA and reconcile the variance of PNCC's investment; c) Locate documents pertinent to other investments and trace the original entries when these investments were recorded; d) Coordinate with the appropriate government agencies such as SEC to inquire on the status of these companies where PNCC has investments; and e) Effect the necessary adjusting entries in the books after performing the above-cited procedures, if warranted.	Documents pertaining to investments with Meralco are being searched from the archives. Partially implemented Already requested details on investment with LLDA but no reply yet. Not implemented Not implemented Not implemented
CY 2019 AAR Observation No. 6 Page 98	6. The non-redemption of PLDT shares amounting to P273,000 despite its maturity deprived PNCC of additional funds that could have been used	Secure another authority from the Board of Directors to redeem the PNCC's investment in PLDT shares and apply for redemption of said shares.	Partially implemented Revisions were being made for the seven documents required by PLDT for

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	for operating and investing activities.		the redemption and this will be presented for Board approval.
CY 2019 AAR Observation No. 7 Page 99	7. The two condominium units in Nasugbu, Batangas were not recorded in the books despite PNCC's full control and access over the property contrary, to the recognition principle of assets provided under Paragraph 89 of the Framework for the Preparation and Presentation of Financial Statements.	While Management has already recorded the value of the two condominium units in the books per JV No. 11-12-01-19 dated November 30, 2019, we further recommended that Management expedite the registration of CCTs of these properties under PNCC's name.	Partially Implemented The transfer of ownership from Land Bank of the Philippines (LBP) to Gulod Resorts, Inc. (GRI) is still on-going. PNCC will work for the transfer of CCTs into its name after the said transfer from LBP to GRI has materialized.
CY 2019 AAR Observation No. 8 Page 100	8. The exact location and boundaries of the properties in Tagaytay and Morong, Rizal with an aggregate area of 100,749 square meters and an aggregate book value of P96.862 million cannot be reliably identified casting doubts on the existence of these assets.	Expedite the conduct of relocation survey of these properties to ascertain existence and secure boundaries to protect PNCC's interest and safeguard its assets.	Partially Implemented Morong property- The only remaining action is the placement of concrete markers "mohons" at the property corners. Tagaytay property- Relocation survey is still on-going. Management requested from City Government of Tagaytay for a permit/clearance and possibly assistance from the Barangay Chairman to have access on the property.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2019 AAR Observation No. 9 Page 101	9. The faithful representation of the balance of Customer Deposit account amounting to P125.553 million could not be ascertained due to continuous recognition of expired security deposits from lessees totaling P24.484 million and bid deposits already due for recognition as income amounting to P240,019, contrary to the Conceptual Framework for General Purpose Financial Report (GPFR) by Public Sector Entities.	a) Determine the propriety of the recorded security deposits and if found in order, inform the former lessees to claim their security deposits within a reasonable period of time, after which if no reply is received, the same shall be forfeited in favor of PNCC;	Partially implemented Only the security deposit of Gold Coast Marine (Export) Ltd amounting to P4,480 was adjusted per JV No. 12-06-04-20 dated December 31, 2020.
		b) Reclassify to miscellaneous income or appropriate account the unapplied and unclaimed long outstanding bid deposits;	Not implemented
		c) Make representation with the two lessees (Ley and TGC) and inquire on the proper disposition/application of their bid deposits. Effect the necessary adjustments in the books, if warranted;	Not implemented
		d) Document and account for the bid deposit of Golden Construction and effect the necessary adjustments in the books, if warranted; and	Not implemented
		e) Conduct periodic monitoring of the conditions/status of lease contracts relative to the refund of security deposits	Partially implemented Reiterated in Observation No. 7 of this Report.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		and settlement of winning bidders' bid price for the disposed assets applying the bid deposits as payments.	
CY 2019 AAR Observation No. 10 Page 106	10. Nine out of 13 real properties of PNCC, eight classified as Investment property and one Property, Plant and Equipment (PPE), with an aggregate book value of P1.825 billion are idle and/or unutilized to its maximum potential to earn income while incurring maintenance expenses, contrary to the policy provided under Section 2 of Presidential Decree (PD) No. 1445.	a) Develop a plan of action/disposition with timelines of implementation for each property that is most advantageous to the Corporation, with the end view of utilizing these properties for income generating activities; and b) Make representation with the National Government, thru the Toll Regulatory Board, regarding the appropriate disposition of Sta. Ines property. Further, recognize in the books the value of this property.	Partially implemented Sta. Rita, Bulacan property was scheduled for open bidding for lease on May 31, 2021. Further, Bocaue, Bulacan property will be scheduled for bidding for lease after resolving right-of-way issues on the subject property. Not implemented
CY 2019 AAR Observation No. 11 Page 109	11. The properties in Tagoloan, Misamis Oriental and in Tabang, Guiguinto, Bulacan were occupied by informal settlers while the property in Brgy. Sapang Maisac, Mabalacat, Pampanga was utilized by unauthorized persons resulting to foregone	a) Take appropriate action to protect PNCC's interest over its properties especially those which are presently occupied by informal settlers; b) Pursue negotiations with San Vicente Village Homeowners	Partially implemented Occupants in Mabalacat, Pampanga property were already instructed to vacate. Partially implemented

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	potential rental income.	Association and Local Government Unit of Tagoloan, Misamis Oriental for the eventual sale of Tagoloan property. If feasible, explore the possibility of entering into the Community Mortgage Program (CMP) of the Social Housing Finance Corporation with the Homeowner's Association, considering that the occupants are organized informal settlers;	Management wrote a letter to the Municipal Mayor of Tagoloan, Misamis Oriental on November 9, 2020, inquiring on the status of its previous offer to purchase the subject property. To date, no reply was received on said letter.
		c) Execute lease contracts between PNCC and occupants of Tabang, Guiguinto, Bulacan and Mabalacat, Pampanga properties for a determinable lease term and lease payments; and	Not Implemented
		d) Monitor the properties regularly to prevent entry of additional informal settlers.	Implemented Two caretakers are engaged to guard the properties.
CY 2019 AAR Observation No. 12 Page 111	12. The non-payment of concession fees to the National Government (NG) amounting to P6.302 billion which is contrary to Clause 2 of the Toll Operation Agreement (TOA) entered into by and between PNCC and the Republic of the	a) Develop/devise a payment plan for approval by the Board of Directors to settle the unpaid concession fees to the NG; and	Partially implemented Management has already initiated to maximize the use of Financial Center Area property by entering into lease contract with Pacific Concrete Products,

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	Philippines thru the Toll Regulatory Board (TRB), resulted in incurrence of unnecessary penalty charges of at least P258.000 million annually.		Inc. and engaged in various toll road projects. Income derived from these activities will be used to settle the unpaid concession fees.
		b) Comply with the provisions of the TOA by paying the remaining balance of the concession fee due to the NG, together with the penalty charges thereon.	Not implemented
CY 2019 AAR Observation No. 13 Page 113	13. Continuous membership and payment of membership fees totaling P127,200 for the years 2018 and 2019 in two exclusive membership clubs were considered unnecessary due to insignificant and minimal benefit derived therefrom and are no longer appropriate to the present operational status of PNCC.	Resume and fast track the disposal process of the club membership shares, including Metropolitan Club, Inc.'s shares, to avoid incurring unnecessary expenses in the form of membership fees.	Partially implemented The Board of Directors approved the disposal of the club shares. A bidding was conducted last April 5, 2021 but only one bidder submitted a bid, thus, the bidding was declared a failure.
CY 2019 AAR Observation No. 14 Page 115	14. The Contract of Lease entered into by and between PNCC and Tokagawa Global Corporation (TGC) lacked provision/stipulation for the collection/payment of royalty fee pursuant to Section 3 of PD No. 512, hence, considered	a) Revisit the Contract of Lease with TGC and renegotiate with them to include the terms on payment of royalty fee and amend the Contract of Lease after renegotiation accordingly; and	Recommendation reconsidered

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	disadvantageous to the interest of PNCC. Moreover, the permit applied for by TGC in the sand quarrying operations was not in accordance with Section 8 of the Lease Contract and Item b, Section 8 of the DENR Department Order 210-21 dated June 28, 2010.	b) Inform TGC of its non-compliance of the provision of the Lease Contract on permit application and request for immediate corrective actions.	Not implemented Reiterated in Observation No. 9 of this Report.
CY 2019 AAR Observation No. 15 Page 119	15. The unjustified use of motor vehicles during weekends (Saturdays and Sundays) and holiday was considered irregular being contrary to Administrative Order (AO) No. 239, series of 2008.	a) Stop the practice of allowing the use of service vehicles during weekends and holidays, except for official purpose, otherwise, the cost of fuel and related expenses incurred will be disallowed in audit; and b) Disclose properly and adequately in the trip tickets the specific purpose of travel and destination.	Implemented The concerned Directors has already stopped using service vehicles on weekends and holidays. Implemented Trip tickets were already filled-out adequately and properly.
CY 2019 AAR Observation No. 16 Page 121	16. In several instances, the purposes and destinations of travels of Executive Assistants (EAs) of two Directors were not specific in the trip tickets to determine the propriety and validity of the travels.	Require the approving officer of the driver's trip ticket to verify the validity and nature of the travel and ensure that information provided in the request for vehicle are specifically disclosed/stated before approving any travel.	Implemented The approving officer had already verified the validity and purpose of travel and ensured that information are specifically disclosed.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2019 AAR Observation No. 17 Page 122	17. The format of the driver's trip ticket used by PNCC is not similar to and does not include the important information required in the Driver's Trip Ticket provided in Appendix A of the Manual on Audit for Fuel Consumption of Government Motor Vehicles dated September 26, 1977.	Amend the driver's trip ticket used to conform with the format provided in Appendix A of the Manual to include the following details: • Time of arrival in destination; • Time of departure from destination; and • Estimated distance.	Partially implemented The new trip ticket form is already for delivery.
CY 2019 AAR Observation No. 18 Page 123	18. The non-submission of Monthly Report of Official Travels and Monthly Report of Fuel Consumption of government motor transportation pursuant to Section B, Items 2 and 4 on Specific Rules and Regulations of the Manual on Audit for Fuel Consumption of Government Motor Vehicles dated September 26, 1977 resulted in inability to determine the reasonableness of the fuel consumption and related expenses.	Require the General Services Department to prepare and submit the Report of Official Travels and Report of Fuel Consumption monthly in order to facilitate audit and to determine the reasonableness of travels.	Partially implemented The old form has been revised to come up with monthly report of fuel consumption.
CY 2019 AAR Observation No. 19 Page 124	19. The propriety of the reimbursements for hotel accommodations of one member of the Board of Directors of PNCC cannot be established due to questionable and doubtful Official Receipts (ORs) supporting the claim.	a) Require the concerned Director to explain the validity and manner of issuance of the official receipts issued to him to support his claim for reimbursements;	Implemented The concerned Director has already submitted his explanation/ justification on the matter.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		b) Stop the practice of booking hotel accommodations thru a travel agency, instead, book directly to hotel establishments thru the service of EA; and	Implemented The concerned Director has already stopped booking his hotel accommodations thru travel agency.
		c) Require the Controllership and Treasury Departments to verify and examine carefully the validity and propriety of documents submitted to support reimbursements.	Implemented The Controllership and Treasury Departments had already examined carefully the validity and propriety of documents submitted for reimbursements.
CY 2018 AAR Observation No. 2 Page 84	20. The faithful representation of the balance of Accounts Receivable amounting to P464.174 million as at December 31, 2018 could not be established due to the variance of P105.488 million between the balance per books and the confirmed amount.	a) Identify the cause/s of the discrepancies on the subject receivables.	Partially implemented The Controllership Department had already reconciled the MIAA account and treated the variance as adjustment to Retained Earnings account. With regards to SOMCO account, the variance pertains mostly to Unbilled Contract Receivables which are not recognized in SOMCO's books. Other accounts are on-going reconciliation.
		b) Coordinate with the Legal Department of Philphos in reconciling its	Partially implemented

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		accounts with PNCC in accordance with the court-supervised rehabilitation plan.	Negotiation and reconciliation with Philphos is on-going. The Philphos Accounting Manager had already provided the reconciliation report of the accounts but PNCC disagreed with the treatment of retention receivable.
		c) Intensify efforts to reconcile the variances between the balance per books and debtor's records and effect the necessary adjusting journal entries in the books, if warranted.	Partially implemented While Management exerted efforts to reconcile the variances, still there are some accounts which are still unreconciled as of December 31, 2020.
CY 2018 AAR Observation No. 4 Page 88	21. The variance of P1.760 million between the utility vehicle account in the books and balance per Physical Inventory Report of GSD cast doubt on the reliability of the account.	a) Locate the Deeds of Donation/ Conveyance that will serve as basis for the derecognition of the transferred/donated vehicles that were still recorded in the books; if necessary, request copy of the documents from the receiving agencies.	Partially implemented The Controllership Department had already gathered one Deed of Conveyance/ Transfer and two Fixed Asset Delivery forms from the receiving government agencies.
		b) Reconcile regularly the balance of properties and equipment per accounting record with the report on physical count.	Partially implemented Reconciliation is on-going.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2018 AAR Observation No. 5 Page 91	22. The Management did not conduct physical inventory count of some properties and equipment with a carrying amount of P0.570 million, as required under COA Circular No. 80-124 dated January 18, 1980.	a) Submit reconciliation report on computer instruments.	Not implemented Management did not submit reconciliation report; only inventory report was submitted.
		b) Identify the causes of the negative net book values of some property and equipment items and adjust accordingly.	Partially implemented One of the causes of negative net book values identified by Management was the improper derecognition of items which were sold by lot instead of per unit.
CY 2018 AAR Observation No. 7 Page 94	23. The grant of salary adjustment at the rate of P3,700 to 42 PNCC employees lacked approval or authority from the President of the Philippines, as required under Section 9 of Executive Order (EO) No. 7, series of 2010, and Item 9 of Joint Resolution (J.R.) No. 4, series of 2009.	a) Cause the refund of all the amounts paid to 42 employees for the salary adjustment	Not implemented Still waiting for the approval of OP for the salary increase/adjustment.
		b) Secure approval from the Office of the President (OP) for any salary increase pursuant to the provisions of Section 9 of EO No. 7, s. 2010 and Item 9 of J.R. No. 4, s. 2009.	Partially implemented Management requested approval from OP on June 7, 2019. To date, no reply from OP yet.
CY 2018 AAR Observation No. 9 Page 102	24. The use of the Corporation's service vehicles by the three members of the Board of Directors (BOD) is not properly controlled and regulated as	a) Institute measures such as requiring the immediate return of the vehicles to the carpool upon every accomplished trips as stated in the	Implemented Measures on immediate return of service vehicles were already instituted.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
	required in Section B, Item 2 on Specific Rules and Regulations of the Manual on Audit for Fuel Consumption of Government Motor Vehicles dated September 26, 1977.	approved trip tickets, to ensure that usage of the Corporation's service vehicles by members of the BOD are properly controlled and regulated.	
		b) Formulate policy on the proper use of the Corporation's service vehicles under carpool for use by PNCC employees and members of the BOD taking into consideration the provisions of Section B, Item 2 of the Manual on Audit for Fuel Consumption of Government Motor Vehicles, EO No. 24, series of 2011, GCG Memorandum Circular No. 2016-01 dated May 10, 2016, and GCG letter-reply dated January 26, 2018.	Not implemented
		c) Accomplish trip tickets completely and properly by providing all the required necessary information.	Implemented Trip tickets were already filled-out completely and properly.
CY 2017 AAR Observation No. 2 Page 80	25. Results of confirmation of Accounts Receivable – Others (NLRC) disclosed an unreconciled variance of P5.336 million.	a) Coordinate with NLRC Accounting personnel in order to reconcile the book balances and effect the necessary adjustments, if warranted;	Partially implemented The Legal Department is still in the process of coordinating with NLRC on the matter.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
			However, the said coordination was hampered by work suspension due to the Covid-19 pandemic.
		b) Exert effort to follow-up with NLRC the release of the appeal bonds for decided cases in favor of PNCC; and	Partially Implemented Coordination with the NLRC is on-going.
		c) Request from NLRC copies of documents to support the release of bonds to claimants in various cases to which PNCC is a party thereof.	Partially implemented Documents were already provided by NLRC but it was found out that these were incomplete. The Corporate Legal will coordinate with NLRC for the lacking documents to support the release of bonds to claimants in various labor cases of PNCC.
CY 2017 AAR Observation No. 5 Page 84	26.Cash collateral amounting to P71.072 million paid to Investor's Assurance Corporation (IAC) was not returned to PNCC despite the Supreme Court's decision in favor of PNCC.	While waiting for the release of the bond, discuss with IAC Management the P3.994 million for the 5-year premium on the surety bond demanded by IAC to be paid by PNCC and the return of the cash collateral amounting to P71.072 million including the interest earned since August 29, 2012.	Partially implemented On February 19, 2019, PNCC sent a final demand letter to IAC reiterating its request of the latter to return the cash collateral plus the legal interest thereon. Further, an administrative complaint was filed by PNCC with Insurance

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
			Commission (IC) against IAC for the return of P71.072 million collateral. The same is now submitted for resolution of the IC.
CY 2017 AAR Observation No. 6 Page 86	27. Delay in the procurement of security services	a) Prepare an updated/revised Procurement Manual which adheres to the provisions of 2016 Revised Implementing Rules and Regulations of Republic Act (RA) No. 9184; and	Partially implemented Still in the process of revising the manual.
		b) Require PNCC personnel performing the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities /documentation with the requirements of RA No. 9184.	Partially implemented PNCC personnel performing procurement activities attended seminars/trainings on some areas of procurement only. Significant topics such as conduct of bidding and components of Philippine Bidding Documents are not attended.
CY 2017 AAR Observation No. 7 Page 89	28. The payment of gratuity benefits and separation pay to the former President and his Executive Assistant has no legal basis.	Cause the refund of the paid gratuity benefits absent justification and legal basis; and	Implemented Issued ND No. 2019-001(2017) dated November 8, 2019 which was affirmed by the Cluster Director.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2017 AAR Observation No. 12 Page 94	29. Refund of unutilized cash advance amounting to P37,000 remained undeposited for more than a year.	a) Conduct a thorough investigation on the matter and impose the necessary sanction in accordance with the PNCC's Code of Conduct for employees, if warranted.	Partially implemented An investigation was already conducted by a Committee, however, a decision on the result of such investigation is yet to be released.
CY 2017 AAR Observation No. 13 Page 96	30. Abolished PNCC subsidiaries continue to exist.	a) Assist the Alabang-Sto. Tomas Development, Inc. (ASDI) to undertake the necessary legal action to facilitate the collection of receivables from DPWH that causes the delay in the dissolution of the Corporation;	Partially implemented On October 17, 2018, the ASDI Corporate Secretary sent follow-up letter to the DPWH Secretary, reiterating their request for reimbursement on the subject receivables. On December 27, 2018, the ASDI Corporate Secretary was furnished with a letter reply from DPWH Undersecretary for Planning and Public-Private Partnership addressed to the Director, Legal Service, DPWH, requesting for the submission of the status of claims in order to settle the said payables to ASDI.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2016 AAR Observation No. 3 Page 76	Weaknesses in internal control noted over property and equipment		
CY 2016 AAR Observation No. 3.1 Page 76	31. Non- compliance with Section IX (A) 6 of the PNCC Controller's Manual and Section IV of COA Circular No. 80-124 dated January 18, 1980 on the conduct of annual inventory count of property and equipment	a) Account for any missing item and determine persons accountable; and	Not implemented
		b) Establish the physical condition and determine whether any adjustment is necessary to state the property and equipment at their recoverable amounts.	Partially implemented Some items of property and equipment were determined to be unserviceable but no adjustments were made.
CY 2016 AAR Observation No. 3.2 Page 77	32. Computer instruments exposed to risk of loss, theft, and misuse	a) Investigate the variance between the inventory count sheet and accounting records; and	Partially implemented The Management Information System staff has conducted inventory of the Information and Communication Technology resources on hand but not in use and will provide COA the result.
		b) Determine the personnel accountable for the missing items of computer instruments.	Not implemented

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2016 AAR Observation No. 3.3 Page 77	33. Unaccounted for service vehicles due to lack of coordination and non-reconciliation of financial and non-financial data	Take the necessary legal action to collect the receivables from the former PNCC Director.	Partially implemented PNCC has already issued a Statement of Account to the former PNCC Director for the remaining receivables.
CY 2016 AAR Observation No. 4 Page 79	34. Ten (10) units of utility vehicles purchased for the Toll Regulatory Board remained in the books of the Corporation.	Revisit the TOA, review the purchase documents and execute the necessary legal documents that will serve as basis for the derecognition of the said vehicles from PNCC books.	Partially implemented Three units were already sold, three units are for disposal, and four units are still unaccounted.
CY 2016 AAR Observation No. 5 Page 79	35. PNCC not fully compliant with the provisions of RA 9184	a) Adhere to the provisions of RA 9184;	Partially implemented Management has created the Bids and Awards Committee of the Corporation and designated its members pursuant to PNCC Memorandum dated January 31, 2018. However, some areas in the procurement process were not yet applied by PNCC.
		b) Prepare an updated/revised Procurement Manual which is RA 9184-compliant and submit the same to the PNCC Board of	Partially implemented The Procurement Manual was already revised and submitted to ISO

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
		Directors for approval; and c) Require PNCC personnel undertaking the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities /documentation with the requirements of RA 9184.	Committee for review. Partially implemented The PhilGEPS Project Manager sent a letter dated March 28, 2019 to the Head of Materials Management Division of PNCC, informing the schedules of trainings. Management informed that it will send personnel performing procurement activities to attend the said trainings. However, the scheduled trainings/seminars were postponed due to events beyond PNCC's control. Management will be informed as to the next schedule of trainings/seminars.
CY 2015 AAR Observation No. 4 page 65	36. Miscellaneous deposits of P0.838 million are not supported with documents and pertain to transactions or services which are no longer being availed of by PNCC.	Validate whether the services with corresponding MERALCO meter/service deposit receipts are still being availed of by PNCC. If not, steps should be taken to have the deposits refunded.	Partially implemented MERALCO promised to refund the meter deposits by offsetting against monthly billing of PNCC.

REF.	OBSERVATIONS	RECOMMENDATIONS	STATUS OF IMPLEMENTATION
CY 2015 AAR Observation No. 5 page 65	37. Investment in PLDT shares per books is over by P77,599 when compared with the balance per inventory count. Further, PLDT shares amounting to P273,200 had not yet been redeemed.	Redeem the PLDT shares.	Partially implemented Revisions were being made for the seven documents required by PLDT for the redemption and this will be presented for Board approval.