



Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

ANNUAL AUDIT REPORT
ON THE

CAGAYAN ECONOMIC ZONE AUTHORITY

For the Year Ended December 31, 2016

EXECUTIVE SUMMARY

Introduction

The Cagayan Economic Zone Authority (CEZA) was created by virtue of Republic Act No. 7922, otherwise known as the "Cagayan Special Economic Zone Act of 1995". It is a government corporate body mandated to develop, promote, manage and operate the Cagayan Special Economic Zone and Freeport (CSEZFP) as a viable investment and transshipment hub, agro-industrial business, and an attractive tourist destination in order to boost employment and economic opportunities in Northern Philippines.

Spatially, the CSEZFP covers the entire Municipality of Sta. Ana and the Islands of Fuga, Barit, Mabbag in the Municipality of Aparri, Cagayan. Approximately 54,118 hectares of land for prime development falls within the jurisdiction of CEZA. It is surrounded by the waters of Babuyan Channel and South China Sea on the North and the Pacific Ocean on the East.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of CEZA for calendar years 2016 and 2015. It was aimed at expressing an opinion on the fairness of presentation of the Authority's financial position, results of operations and cash flows, and at determining the Authority's compliance with pertinent laws, rules and regulations.

Financial Highlights

Comparative Financial Position

| | 2016 | 2015 | Increase (Decrease) |
|-------------------|---------------|---------------|------------------------|
| Total Assets | 7,089,554,874 | 6,767,998,716 | 321,556,158 |
| Total Liabilities | 365,369,665 | 269,819,367 | 95,550,298 |
| Equity | 6,724,185,209 | 6,498,179,349 | 226,005,860 |

Comparative Results of Operations

| | 2016 | 2015 | Increase (Decrease) |
|--|---------------|---------------|------------------------|
| Total Revenue | 1,009,450,603 | 819,230,761 | 190,219,842 |
| Personal Services | (36,267,271) | (32,255,590) | 4,011,681 |
| Maintenance and Other Operating Expenses | (247,470,334) | (237,982,415) | 9,487,919 |
| Loss on Disposal of Asset | (1,130,418) | (94,693) | 1,035,725 |
| Financial Expenses | (232) | (1,621) | (1,389) |
| Total Expenses | (284,868,255) | (270,334,319) | 14,533,936 |
| Profit from Operations | 724,582,348 | 548,896,442 | 175,685,906 |
| Income Tax Expense | 206,221,816 | 158,403,097 | 47,818,719 |
| Net Profit | 518,360,532 | 390,493,345 | 127,867,187 |

Independent Auditor's Report on the Financial Statements

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

Significant Audit Observations and Recommendations

Below is the summary of audit observations and recommendations which are discussed in detail in the Audit Observations and Recommendations portion of this report:

1. Frequent procurement of printer ink is an indication of the absence of proper planning of procurement

We recommended that Management instruct the Procurement Section to purchase the normal three-month requirement of commonly used office supplies; require all end-users to prepare their respective PPMPs; and instruct the Supply Officer to ensure that all procurement are properly planned.

2. Accounts receivable from non-operating locators and cash advances of former CEZA employees totaling P163,504 and P214,590, respectively, are already dormant for over ten years.

We recommended and Management agreed to:

- a. Request authority for the write off of the long-outstanding accounts receivable and cash advances to employees in accordance with COA Circular No. 2016-005 dated December 19, 2016; and
 - b. Provide a 100 per cent allowance for uncollectibility on the long-outstanding receivables from CEZA locators pending filing of request for write off.
3. The lack of policy guidelines on the reasonable period within which expenses incurred may be charged/reimbursed from the Petty Cash Fund (PCF) resulted in delays in the inclusion of these expenses in the PCF replenishments.

We recommended that Management:

- a. Issue guidelines that would set the period within which expenses incurred would be allowed to be reimbursed/charged against the PCF to preclude the possible inclusion of questionable charges;
- b. Require the Accountable Officer to ensure that all disbursements out of the PCF during a specific period are duly accounted for to ensure that these are timely included in the PCF replenishments.

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2016, disallowances of P3.230 million which were all issued prior to the effectivity of the 2009 COA Rules and Regulations on Settlement of Accounts remain unsettled.

Status of Implementation of Prior Year's Audit Recommendations

All ten audit recommendations contained in the CY 2015 Annual Audit Report were implemented.



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Cagayan Economic Zone Authority
7/F Westar Building, 611 Shaw Blvd.
Pasig City

Report on the Financial Statements

We have audited the accompanying financial statements of Cagayan Economic Zone Authority, which comprise the statements of financial position as at December 31, 2016 and 2015, statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cagayan Economic Zone Authority as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with state accounting principles generally accepted in the Philippines.

***Report on Supplementary Information Required under
BIR Revenue Regulations 15-2010***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


PRISCILLA D.C. CRUZ
State Auditor V
Supervising Auditor

April 21, 2017



REPUBLIC OF THE PHILIPPINES
OFFICE OF THE PRESIDENT
Cagayan Economic Zone Authority

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Cagayan Economic Zone Authority is responsible for all information and representations contained in the financial statements as of December 31, 2016 and 2015 and for each of two years in the period ended December 31, 2016. The financial statements have been prepared in conformity with state accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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


NILO A. ALDEGUER

Senior Deputy Administrator

3/30/2017
Date Signed



JOSE MARI B. PONCE

Administrator and Chief Executive Officer

3/30/2017
Date Signed



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BOUNTIFUL CAGAYAN VALLEY REGION

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015
(In Philippine Peso)

| | Note | 2016 | 2015 |
|--------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 3 | 1,887,115,595 | 878,456,170 |
| Receivables | 4 | 44,634,585 | 590,084,900 |
| Prepayments | 5 | 404,601 | 375,146 |
| Total Current Assets | | 1,932,154,781 | 1,468,916,216 |
| Non-Current Assets | | | |
| Investments | 6 | 701,000,000 | 701,000,000 |
| Property and equipment, net | 7 | 4,450,637,030 | 4,592,319,437 |
| Other non-current assets | 8 | 5,763,063 | 5,763,063 |
| Total Non-Current Assets | | 5,157,400,093 | 5,299,082,500 |
| TOTAL ASSETS | | 7,089,554,874 | 6,767,998,716 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable | | 1,391,890 | 1,397,991 |
| Due to officers and employees | 9 | 3,793,192 | 3,226,130 |
| Inter-agency payables | 10 | 353,632,808 | 258,735,150 |
| Other current liabilities | 11 | 5,517,646 | 5,094,851 |
| Total Current Liabilities | | 364,335,536 | 268,454,122 |
| Non-Current Liabilities | | | |
| Deferred credits | 12 | 1,034,129 | 1,365,245 |
| Total Non-Current Liabilities | | 1,034,129 | 1,365,245 |
| Equity | | 6,724,185,209 | 6,498,179,349 |
| TOTAL LIABILITIES AND EQUITY | | 7,089,554,874 | 6,767,998,716 |

See accompanying Notes to Financial Statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF PROFIT OR LOSS
For the years ended December 31, 2016 and 2015
(In Philippine Peso)

| | Note | 2016 | 2015 |
|---|------|--------------------|--------------------|
| REVENUE | | | |
| Franchising and licensing fees | 13 | 861,640,677 | 722,305,866 |
| Processing fee | | 39,763,684 | 26,162,017 |
| Rent income | | 8,554,283 | 8,015,507 |
| Port operations | | 2,215,876 | 24,667 |
| Permit fee | | 684,819 | 620,058 |
| Garbage fee | | 342,200 | 0 |
| Share on the 5% final tax on gross income of locators | 14 | 12,003,000 | 755,415 |
| | | 925,204,539 | 757,883,530 |
| EXPENSES | | | |
| Personal services | 15 | 36,267,271 | 32,255,590 |
| Maintenance and other operating expenses | 16 | 247,470,334 | 237,982,415 |
| Financial expenses | | 232 | 1,621 |
| | | 283,737,837 | 270,239,626 |
| PROFIT FROM OPERATIONS | | 641,466,702 | 487,643,904 |
| OTHER INCOME (EXPENSES) | | | |
| Fines and penalties | | 57,942,350 | 41,121,834 |
| Gain on foreign exchange | 17 | 22,180,680 | 16,866,324 |
| Interest income | | 4,123,034 | 3,359,073 |
| Loss on disposal of asset | | (1,130,418) | (94,693) |
| | | 83,115,646 | 61,252,538 |
| PROFIT BEFORE INCOME TAX | | 724,582,348 | 548,896,442 |
| INCOME TAX EXPENSE | | 206,221,816 | 158,403,097 |
| NET PROFIT | | 518,360,532 | 390,493,345 |

See accompanying Notes to Financial Statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015
(In Philippine Peso)

| | Share Capital (Note 18) | Retained Earnings | Total Equity |
|---|----------------------------|-------------------|---------------|
| Balances, December 31, 2014 | 5,639,893,777 | 565,307,288 | 6,205,201,065 |
| Closure of donated capital to retained earnings | | 26,340,705 | 26,340,705 |
| Restated balances, January 1, 2015 | 5,639,893,777 | 591,647,993 | 6,231,541,770 |
| Changes in equity for 2015 | | | |
| Additional subscriptions | 115,247,808 | | 115,247,808 |
| Net profit for the year | | 390,493,345 | 390,493,345 |
| Closure of donated capital to retained earnings | | 7,236,600 | 7,236,600 |
| Dividends (Note 19) | | (195,246,672) | (195,246,672) |
| Tax deficiency (Note 20) | | (51,093,502) | (51,093,502) |
| Balances, December 31, 2015 | 5,755,141,585 | 743,037,764 | 6,498,179,349 |
| Changes in equity for 2016 | | | |
| Net profit for the year | | 518,360,532 | 518,360,532 |
| Dividends (Note 19) | | (292,354,672) | (292,354,672) |
| Balances, December 31, 2016 | 5,755,141,585 | 969,043,624 | 6,724,185,209 |

See accompanying Notes to Financial Statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(Philippine Peso)

| | Note | 2016 | 2015 |
|--|------|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Collection of receivables | | 541,934,146 | 494,325,300 |
| Receipt of income from operations | | 926,723,128 | 59,464,711 |
| Receipt of share on the 5% final tax on gross income of locators | | 12,003,000 | 755,414 |
| Receipt of interests from deposits | | 4,123,034 | 3,359,073 |
| Refund of disallowances/cancelled checks | | 772,555 | 1,036,003 |
| Receipt of guaranty deposit | | 600,000 | 0 |
| Refund of cash advances | | 432,513 | 256,835 |
| Amounts received in trust - sale of bid documents, VAT and donations | | 247,684 | 1,130,061 |
| Payment of maintenance and other operating expenses | | (87,062,823) | (87,591,148) |
| Payment of personal services | | (35,562,978) | (29,897,212) |
| Cash advances to officers and employees | | (2,810,499) | (3,719,773) |
| Payment from trust receipts - honorarium of BAC members, etc. | | (327,505) | (805,782) |
| Remittance of trust liabilities | | (170,061) | (51,544,157) |
| Payment of other payables | | (5,317) | (685,978) |
| Net cash generated from operations | | 1,360,896,877 | 386,083,347 |
| Income taxes paid | | (169,432,883) | (147,028,816) |
| Net cash provided by operating activities | | 1,191,463,994 | 239,054,531 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures | | (18,261,357) | (227,931,564) |
| Proceeds of sale of disposed assets | | 64,865 | 0 |
| Net cash used in investing activities | | (18,196,492) | (227,931,564) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Additional equity from the National Government | | 0 | 115,247,808 |
| Payment of dividends | | (187,180,928) | (200,000,000) |
| Net cash used in financing activities | | (187,180,928) | (84,752,192) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | |
| | | 22,572,851 | 16,866,324 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 1,008,659,425 | (56,762,901) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 878,456,170 | 935,219,071 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 3 | 1,887,115,595 | 878,456,170 |

See accompanying Notes to Financial Statements.