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**SECURITIES AND EXCHANGE COMMISSION**

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Republic of the Philippines
COMMISSION ON AUDIT
Office of the Auditor
JOHN HAY MANAGEMENT CORPORATION
Camp John Hay, Baguio City

November 8, 2013



Atty. ANNIE G. TESORO
Director
Securities and Exchange Commission
Baguio Convention Center
Government Center
Baguio City

Dear Madam:

This is to certify that John Hay Management Corporation (JHMC), a Government-owned and Controlled Corporation (GOCC) located at Camp John Hay, Baguio City, submitted its financial statements and accompanying notes for CY 2012 on March 5, 2013 to this Office and that the corresponding Annual Audit Report was transmitted to JHMC Management on October 2, 2013.

This certification is being issued for whatever legal purpose it may serve the JHMC.

Very Truly Yours,


ESTHER E. MIANA
Audit Team Leader 

Republic of the Philippines)
City of Baguio.....) S.c.

COMMISSION ON AUDIT
RECEIVED BY: AS
Date : 11/14/2013
Time : _____

AFFIDAVIT

I, **JAMIE ELOISE M. AGBAYANI**, of legal age, married, Filipino Citizen, and with office address at Cottage 624, Camp John Hay, Baguio City, Philippines, do hereby depose and state that:

1. I am the President and Chief Executive Officer (PCEO) of the John Hay Management Corporation (JHMC), a Government-owned and Controlled Corporation (GOCC);
2. On 05 March 2013, the JHMC provided the Commission on Audit (COA) its 2012 Financial Statement and all supporting documents;
3. On 02 October 2013, the JHMC received the Annual Audit Report of the COA;
4. I am executing this Affidavit to attest to the truth of the foregoing, and for all legal intents and purposes it may serve.

IN WITNESS WHEREOF, I have set my hand this 29th day of October 2013, in the City of Baguio, Philippines.


JAMIE ELOISE M. AGBAYANI, M.D.
Affiant
TIN 107-954-766

SUBSCRIBED AND SWORN to before me this 31 OCT 2013 day of _____ 2013, in the City of Baguio, Philippines, by above-named affiant, who has satisfactorily proven to me her identity through her TIN Identification Card stated below her name and signature, known to me to be the same person who executed the foregoing affidavit, and has acknowledged before me that the same is her free and voluntary act and deed.

Doc. No. 486;
Page No. 98;
Book No. 15;
Series of 2013.

JANO RAFAEL ADDON BOGNERON
Notary Public for Baguio City
Notarial Commission No. 124-NR-12-N
My Commission Expires On 31 September 2013
Roll of Attorney No. 57876 30 April 2016 Manila
IBF Membership No. 910672 : Baguio Benguet
PTR No. 1338205 : Baguio City

Republic of the Philippines)
City of Baguio.....) S.c.

COMMISSION ON AUDIT
RECEIVED BY: [Signature]
Date : 11/14/2013
Time : _____

AFFIDAVIT

I, **MIRIAM M. MOSUELA**, of legal age, married, Filipino Citizen, and with office address at Cottage 625, Camp John Hay, Baguio City, Philippines, do hereby depose and state that:

1. I am the Finance Manager of the John Hay Management Corporation (JHMC), a Government-owned and Controlled Corporation (GOCC);
2. On 05 March 2013, the JHMC provided the Commission on Audit (COA) its 2012 Financial Statement and all supporting documents;
3. On 02 October 2013, the JHMC received the Annual Audit Report of the COA;
4. I am executing this Affidavit to attest to the truth of the foregoing, and for all legal intents and purposes it may serve.

IN WITNESS WHEREOF, I have set my hand this 29th day of October 2013, in the City of Baguio, Philippines.

[Signature]

MIRIAM M. MOSUELA
Affiant
TIN 101-650-749

SUBSCRIBED AND SWORN to before me this 31 day of OCT 2013, 2013, in the City of Baguio, Philippines, by above-named affiant, who has satisfactorily proven to me her identity through her TIN Identification Card stated below her name and signature, known to me to be the same person who executed the foregoing affidavit, and has acknowledged before me that the same is her free and voluntary act and deed.

Doc. No. 487;
Page No. 98;
Book No. 15;
Series of 2013.

JANO RAFAEL ARDON BOGNEDON
Notary Public for Manila, etc.
Notarial Commission No. 126-MC-12-N
My Commission Expires On 31 December 2013
Roll of Attorney No. 57876 30 April 2010 Manila
IBP Membership No. 910672; Baguio-Benguet
PTR No. 1338265; Baguio City

COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

(Business Address: No. Street City/Town/Province)									

MS. MIRIAM M MOSUELA

(Contact Person)

074-444-8980

(Company Telephone Number)

1 2 3 1
Month Day
(Fiscal Year)

A	A	F	S	
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(Form Type)

Month _____ Day _____
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

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Amended Articles Number/Section

Total Amount of Borrowings

11/11/2016

Total No. of Stockholders

Domestic

[illegible]

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

LCU

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REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
CLUSTER 4

September 6, 2013

The Board of Directors

John Hay Management Corporation
John Hay Special Economic Zone
Baguio City



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and operations of the John Hay Management Corporation (JHMC), a subsidiary of Bases Conversion and Development Authority, for the year ended December 31, 2012.

We expressed an adverse opinion on the fairness of the presentation of the financial statements of the Corporation in view of the exceptions noted in the audit as stated in the Independent Auditor's Report, as follows:

- d) Property, plant and equipment stated at a book value of P47.428 million is overstated by P38.368 million because of the inclusion in the account of BCDA-owned properties. On the other hand, the report on the physical count of the remaining property, plant and equipment stated at a net book value of P9.060 million has not been completed and we were not able to establish the existence of these properties and the accuracy of the reported balance by alternative means because of the inadequacy of the accounting records.
- e) Long-term liabilities stated at P3.737 million and the other payable accounts stated at P11.599 million could not be validated because of lack of documents to support said obligations.
- f) Because of the absence of a policy on the provision of allowance for doubtful accounts, long-outstanding accounts receivable of P16.383 million presented under Non-Current Assets were not stated at net realizable value except for 1996 accounts subject of pending litigations of P2.025 million which were provided 100% allowance.

The other findings and observations are discussed in detail in the Comments and Observations portion of the report.

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

JHMC

In replying, pls refer to reference number

2013 - 1049

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

Very truly yours,

COMMISSION ON AUDIT

By:

A handwritten signature in black ink, appearing to read 'W. Agito', is written over the printed name and title.


WILFREDO A. AGITO
Director IV


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of John Hay Management Corporation is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2012, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

The Commission on Audit, in pursuance of its mandate under Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree 1445, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.


SILVESTRE C. AFABLE JR.
Chairman of the Board


JAMIE ELOISE M. AGBAYANI, M. D.
President and Chief Executive Officer


MIRIAM M. MOSUELA
Finance Manager



Signed this 21st day of February 2013



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

ANNUAL AUDIT REPORT

on the

JOHN HAY MANAGEMENT CORPORATION
(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

For the Year Ended December 31, 2012

EXECUTIVE SUMMARY

INTRODUCTION

By virtue of Presidential Proclamation No. 198 issued on June 29, 1993, the John Hay Air Station, a former American Rest and Recreation facility, was turned over to the Bases Conversion and Development Authority (BCDA) and declared for tourism, human resource development center and multiple-use forest watershed reservation. Subsequently, the John Hay Air Station/Camp John Hay was renamed Club John Hay.

In same year, Executive Order (EO) 103 created the John Hay Development Corporation (JHDC) as the operating and implementing arm of the BCDA to manage the Club John Hay. The same EO mandated that JHDC shall be a body corporate and subsidiary corporation of the BCDA, formed in accordance with Philippine Corporation Law and existing rules and regulations promulgated by the Securities and Exchange Commission pursuant to Section 16 of RA 7227. The JHDC was also subjected to the policies, rules and regulations of the BCDA. JHDC was created with the primary purpose of developing, managing, leasing and operating all establishments and facilities within the camp.

EO 103 series of 1993 was later amended by EO 31, where the former Wallace Air Station in Poro Point, La Union was encompassed in JHDC's scope of responsibility and JHDC was renamed the John Hay Poro Point Development Corporation (JPDC).

On July 5, 1994, the issuance of Proclamation No. 420 created and designated the John Hay Special Economic Zone (JHSEZ) from a portion of land occupied by the former Camp John Hay Reservation, as embraced, covered and defined under the 1947 Military Bases Agreement between the Philippines and the United States of America. The objective of this is to lease out certain portions of the land for the purpose of developing the leased property into a wholesome family oriented public tourism complex, multiple use of forest watershed and human resource development center.

With the implementation of EO 132, John Hay Poro Point Development Corporation was finally renamed as the John Hay Management Corporation (JHMC); and the Poro Point Management Corporation (PPMC) was created to oversee the development of the Poro Point Special Economic and Freeport Zone.

JHMC continues to carry its mandate of monitoring the development within the Camp John Hay and the enforcement of the Implementing Rules and Regulations of the JHSEZ, while ensuring the preservation of the reservation areas and regulating the development of the unleased areas.

On December 11, 2006, Presidential Proclamation No. 1191 was issued which registered JHMC as Philippine Economic Zone Authority (PEZA) locator and developer of John Hay Special Tourism Economic Zone (JHSTEZ). However, with the passage of RA 9400 dated July 24, 2006 which amended RA 7227, the JHSTEZ was reverted to JHSEZ to be entitled to the same tax and duty incentives as provided for under RA 7916; that for the purpose of administering these incentives, PEZA shall register, regulate, and supervise all registered enterprises within JHSEZ.

As administrator of the John Hay Special Economic Zone and steward of its forest reservation, JHMC binds itself to:

- Convert and develop investment opportunities in Camp John Hay to maintain its viability, sustainability and competitiveness while keeping its historical value;
- Preserve and conserve its forest watershed and its environment; and
- Contribute in human resource development through job generation.

The main developer of the Camp is the Camp John Hay Development Corporation (CJHDevCo), a consortium formed by Fil-Estate Management, Inc., College Assurance Plan Philippines, Inc. and Penta Capital Holdings. Among the much loved places in the Camp are the world-class Manor, a hotel that offers five-star service and a magnificent view of the Cordillera Mountain range; the Camp John Hay Historical Core, a living museum which showcases the colorful history of Camp John Hay and features the classic Bell House Museum and Bell Amphitheater; the History Trail, a two-kilometer path which cuts through a lush pine forest; the Honeymoon Cottage, a "favorite" for newlyweds which used to be the home of nurses assigned to the Camp; and the Cemetery of Negativism, which is believed to serve as a burial ground for negative thoughts.

Proceeds from lease/rent derived from contracts entered into by BCDA and JHMC are revenues of BCDA. The corresponding collections from lease/rent are remitted periodically to BCDA. On the other hand, JHMC, as overseer, charges BCDA estate management fee (subsidy income) equivalent to JHMC's annual budget comprising of operating and capital expenditures. JHMC also earns regulatory fees and other charges; rental income and fees from the Historical Core; and interest income generated from cash in bank or investment activities.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the accounts, transactions and operations of JHMC for calendar year 2012. It was aimed at expressing an opinion on the fairness of presentation of the Corporation's financial position, results of operations and cash flows and at determining the Corporation's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.

FINANCIAL HIGHLIGHTS

Financial Condition	2012	2011
Total Assets	166,969,707	127,288,328
Total Liabilities	37,024,463	35,045,321
Total Equity	129,945,244	92,243,007

Results of Operation		
Total Income	71,062,038	50,194,973
Total Expenses	63,904,509	53,613,808
Net Profit (Loss)	7,157,529	(3,418,835)

2012 Budget & Actual Expenditures	Budget	Actual Expenditures
Personal Services	25,919,502	22,487,493
Maintenance & Other Operating Expenses	64,911,450	38,167,755
Capital Outlay	15,096,000	8,248,342
Total	105,926,952	68,903,590

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We rendered an adverse opinion on the fairness of presentation of the financial statements because of the significance of the matters discussed in the following paragraph.

Property, plant and equipment stated at a book value of P47.428 million is overstated by P38.368 million because of the inclusion in the account of BCDA-owned properties. On the other hand, the report on the physical count of the remaining property, plant and equipment stated at a net book value of P9.060 million has not been completed and we were not able to establish the existence of these properties and the accuracy of the reported balance by alternative means because of the inadequacy of the accounting records. Further, we were not able to establish the validity of the long-term liabilities stated at P3.737 million and the other payable accounts stated at P11.599 million because of lack of documents to support said obligations. Likewise, because of the absence of a policy on the provision of allowance for doubtful accounts, long-outstanding accounts receivable of P16.383 million presented under Non-Current Assets were not stated at net realizable value except for 1996 accounts subject of pending litigations of P2.025 million which were provided 100% allowance.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 17 audit recommendations contained in the previous years' Annual Audit Reports, 3 were fully implemented, 11 were partially implemented, and 3 were not implemented. Five (5) audit observations were reiterated in this report.

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Part I – Audited Financial Statements



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

John Hay Management Corporation
John Hay Special Economic Zone
Baguio City

We have audited the accompanying financial statements of the John Hay Management Corporation (a wholly-owned subsidiary of the Bases Conversion and Development Authority), which comprise the statement of financial position as at December 31, 2012, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted state accounting principles 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 audit. We conducted our audit in accordance with Philippine 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 misstatements 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 adverse audit opinion.

Basis for Adverse Opinion

Property, plant and equipment stated at a book value of P47.428 million is overstated by P38.368 million because of the inclusion in the account of BCDA-owned properties. On the other hand, the report on the physical count of the remaining property, plant and equipment stated at a net book value of P9.060 million has not been completed and we were not able to establish the existence of these properties and the accuracy of the reported balance by alternative means because of the inadequacy of the accounting records. Further, we were not able to establish the validity of the long-term liabilities stated at P3.737 million and the other payable accounts stated at P11.599 million because of lack of documents to support said obligations. Likewise, because of the absence of a policy on the provision of allowance for doubtful accounts, long-outstanding accounts receivable of P16.383 million presented under Non-Current Assets were not stated at net realizable value except for 1996 accounts subject of pending litigations of P2.025 million which were provided 100% allowance.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the John Hay Management Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with generally accepted state accounting principles in the Philippines.

COMMISSION ON AUDIT

By:

Lourdes D. Benitez

LOURDES D. BENITEZ
OIC - Supervising Auditor



24 June 2013

JOHN HAY MANAGEMENT CORPORATION

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

STATEMENT OF FINANCIAL POSITION**DECEMBER 31, 2012**

(With comparative figures as of December 31, 2011)

(In Philippine Peso)

	Notes	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	3	68,728,000	30,427,422
Receivables	4	8,824,610	7,590,657
Inventories	5	7,358,263	7,606,039
Prepayments	6	253,227	104,934
Guaranty deposits	7	594,203	594,203
Total Current Assets		85,758,303	46,323,255
Non-Current Assets			
Accounts receivable - long term, net	8	22,368,609	21,354,259
Investments	9	132,000	132,000
Property, plant and equipment - net	10	47,427,539	48,195,565
Other assets	11	11,283,256	11,283,249
Total Non-Current Assets		81,211,404	80,965,073
TOTAL ASSETS		166,969,707	127,288,328
LIABILITIES AND EQUITY			
Current Liabilities			
Payable accounts	12	19,535,870	15,552,972
Inter-agency payables	13	1,443,985	699,735
Intra-agency payables	14	10,338,352	13,328,118
Other liability accounts	15	823,292	618,832
Total Current Liabilities		32,141,499	30,199,657
Long-Term Liabilities	16	3,737,356	3,737,356
Deferred Credits	17	1,145,608	1,108,308
Equity		129,945,244	92,243,007
TOTAL LIABILITIES AND EQUITY		166,969,707	127,288,328

See accompanying Notes to Financial Statements.



JOHN HAY MANAGEMENT CORPORATION

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

STATEMENT OF INCOME

For the year ended December 31, 2012

(With comparative figures for the year ended December 31, 2011)

(In Philippine Peso)

	Notes	2012	2011
REVENUES			
Subsidy income from BCDA	18	65,183,988	45,565,224
General income	19	5,878,050	4,376,273
GROSS INCOME		71,062,038	49,941,497
OPERATING EXPENSES			
Personal Services	20	22,487,493	19,962,729
Maintenance and Other Operating Expenses	21	41,243,053	33,648,965
Financial Expenses		2,818	2,114
TOTAL EXPENSES		63,733,364	53,613,808
OPERATING INCOME (LOSS)		7,328,674	(3,672,311)
OTHER INCOME (EXPENSES)	23	(171,145)	253,477
NET INCOME (LOSS)		7,157,529	(3,418,834)

See accompanying Notes to Financial Statements.



JOHN HAY MANAGEMENT CORPORATION

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

STATEMENT OF CHANGES IN EQUITY**For the year ended December 31, 2012**

(With comparative figures for the year ended December 31, 2011)

(In Philippine Peso)

	Notes	2012	2011
CAPITAL STOCK - P100.00 par value			
Authorized, issued and fully paid - 1,200,000 shares		120,000,000	120,000,000
DEPOSIT FOR FUTURE SUBSCRIPTIONS			
	24		
Balance at beginning of year		254,065,367	252,767,566
Additional equity		5,061,964	1,297,800
Balance at end of year		259,127,331	254,065,366
DEFICIT			
Balance at beginning of year			
As previously reported		(281,822,359)	(287,367,267)
Correction of prior years' errors	25	25,482,743	8,963,742
As adjusted		(256,339,616)	(278,403,525)
Net profit (loss)		7,157,529	(3,418,834)
Balance at end of year		(249,182,087)	(281,822,359)
TOTAL EQUITY		129,945,244	92,243,007

See accompanying Notes to Financial Statements.

JOHN HAY MANAGEMENT CORPORATION

(A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)

STATEMENT OF CASH FLOWS**For the year ended December 31, 2012**

(With comparative figures for the year ended December 31, 2011)

(In Philippine Peso)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipt of estate management fee (Current and PYs)	84,821,770	46,015,224
Collection of leases/rentals for remittance to BCDA	26,693,247	23,992,799
Collection of income, penalties, charges, others	8,682,234	5,424,624
Collection of receivables	1,339,469	2,028,067
Collection of cost of bid documents/bidder's bond/ guaranty deposit and performance/cleanliness bond	964,893	408,000
Cancellation of checks	256,459	927,399
Interest from bank accounts (net of bank charges)	196,311	146,432
Collection for provident fund	24,862	-
Payment to suppliers/creditors and employees	(51,300,903)	(53,021,178)
Remittance to BCDA	(30,884,997)	(24,222,395)
Remittance of Pag-IBIG/SSS/PHIC/BIR	(5,458,991)	(4,013,656)
Refund of security deposit/advance rental/bonds, etc.	(584,007)	(619,281)
Payment of taxes and duties, and others	(296,603)	(207,836)
Net cash provided by (used in) operating activities	34,453,744	(3,141,801)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection for capital expenditures	3,568,843	603,218
Deposit for future sales subscription	3,383,854	694,583
Capital outlay/CAPEX projects	(2,737,159)	(603,218)
Proceeds from sale of property and equipment	1,100	100,094
Net cash provided by (used in) investing activities	4,216,638	794,677
EFFECT OF FOREIGN EXCHANGE CHANGES ON CASH AND CASH EQUIVALENTS	(369,804)	6,950
NET INCREASE (DECREASE) ON CASH AND CASH EQUIVALENTS	38,300,578	(2,340,174)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	30,427,422	32,767,596
CASH AND CASH EQUIVALENTS AT END OF YEAR		

See accompanying Notes to Financial Statements.

Acc of Nov. 21
 47,208,597
 Dec. Receipt 20,996,694
 68,205,291

JOHN HAY MANAGEMENT CORPORATION

(A wholly-owned subsidiary of the Bases Conversion and Development Authority)

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The John Hay Management Corporation (JHMC) is a subsidiary corporation, wholly-owned by the Bases Conversion and Development Authority (BCDA), a government-owned and controlled corporation created on March 13, 1992 by Republic Act (RA) No. 7227 to accelerate the sound and balanced conversion into alternative productive uses of former U.S. Bases and their extensions, to raise funds by the sale of portions of Metro Manila camps, and to apply said funds for the development and conversion to productive civilian use of the lands covered under the 1947 Military Bases Agreement between the Philippines and the United States of America.

By virtue of Presidential Proclamation No. 198 issued on June 29, 1993, the John Hay Air Station, a former American Rest and Recreation Facility, was turned over to BCDA and declared for tourism, human resource development center and multiple-use forest watershed reservation. Subsequently, the John Hay Air Station/Camp John Hay was renamed Club John Hay.

In the same year, Executive Order (EO) 103 created the John Hay Development Corporation (JHDC) as the operating and implementing arm of the BCDA to manage the Club John Hay. The same EO mandated that JHDC shall be a body corporate and subsidiary corporation of the BCDA, formed in accordance with Philippine Corporation Law and existing rules and regulations promulgated by the Securities and Exchange Commission pursuant to Section 16 of RA 7227. The JHDC was also subjected to the policies, rules and regulations of the BCDA. JHDC was created with the primary purpose of developing, managing, leasing and operating all establishments and facilities within the camp.

EO 103 was later amended by EO 31, where the former Wallace Air Station in Poro Point, La Union was encompassed in JHDC's scope of responsibility and JHDC was renamed the John Hay Poro Point Development Corporation (JPDC).

On July 5, 1994, the issuance of Proclamation No. 420 created and designated the John Hay Special Economic Zone (JHSEZ) from a portion of land occupied by the former Camp John Hay Reservation, as embraced, covered and defined under the 1947 Military Bases Agreement between the Philippines and the United States of America. The objective of this is to lease out certain portions of the land for the purpose of developing the leased property into a wholesome family oriented public tourism complex, multiple use of forest watershed and human resource development center.

With the implementation of EO 132, John Hay Poro Point Development Corporation was finally renamed as the John Hay Management Corporation (JHMC); and the Poro Point Management Corporation (PPMC) was created to oversee the development of the Poro Point Special Economic and Freeport Zone.

JHMC continues to carry its mandate of monitoring the development within the Camp John Hay and the enforcement of the Implementing Rules and Regulations of the JHSEZ, while ensuring the preservation of the reservation areas and regulating the development of the unleased areas.

On December 11, 2006, Presidential Proclamation No. 1191 was issued which registered JHMC as a Philippine Economic Zone Authority (PEZA) locator and developer of John Hay Special Tourism Economic Zone (JHSTEZ). However, with the passage of RA 9400 dated July 24, 2006, which amended RA 7227, the JHSTEZ was reverted to JHSEZ to be entitled to the same tax and duty incentives as provided for under RA 7916; that for the purpose of administering these incentives, PEZA shall register, regulate, and supervise all registered enterprises within JHSEZ.

As administrator of the John Hay Special Economic Zone and steward of its forest reservation, JHMC binds itself to:

- convert and develop investment opportunities in Camp John Hay to maintain its viability, sustainability and competitiveness while keeping its historical value;
- preserve and conserve its forest watershed and its environment; and
- contribute in human resource development through job generation.

The main developer of the Camp is the Camp John Hay Development Corporation (CJHDevCo), a consortium formed by Fil-Estate Management, Inc., College Assurance Plan Philippines, Inc. and Penta Capital Holdings. Among the much loved places in the Camp are the world-class Manor, a hotel that offers five-star service and a magnificent view of the Cordillera Mountain range; the Camp John Hay Historical Core, a living museum which showcases the colorful history of Camp John Hay and features the classic Bell House Museum and Bell Amphitheater; the History Trail, a two-kilometer path which cuts through a lush pine forest; the Honeymoon Cottage, a "favorite" for newlyweds which used to be the home of nurses assigned to the Camp; and the Cemetery of Negativism, which is believed to serve as a burial ground for negative thoughts.

Lease revenues derived from contracts entered into by BCDA and JHMC are remitted periodically to BCDA. On the other hand, JHMC, as overseer, charges BCDA estate management fee (subsidy income) equivalent to JHMC's annual budget comprising of operating and capital expenditures. JHMC also earns regulatory fees and other charges; rental income and fees from the Historical Core; and interest income generated from cash in bank or investment activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

JHMC is implementing the New Government Accounting System for Corporations (NGAS – Corporate) in the preparation of financial reports.

Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement.

The petty cash fund is being maintained under the Imprest System.

Foreign currency deposits are revalued at the exchange rate prescribed by the Bangko Sentral ng Pilipinas (BSP) as of reporting date.

Inventories

Inventories are stated at cost using the moving average method.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 20 years. A residual value equivalent to 10 percent of the cost of the asset is provided.

Construction in progress is stated at cost. This consists of the actual costs to date of the unfinished project to include labor, materials and other direct costs. Construction in progress is reclassified to the appropriate asset account upon final completion and acceptance; and the depreciation thereon commences upon actual use in the operations. Maintenance and repairs are charged to operations.

Revenue and expense recognition

The Corporation adopts the accrual method of accounting for revenue and expenses.

Foreign currency transactions

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at end of reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2012	2011
Cash on hand	139,226	64,432
Cash in bank – local currency, current account	60,694,044	22,109,207
Cash in bank – local currency, time deposits	1,055,836	1,037,687
Cash in bank – foreign currency, savings account	1,009,461	1,076,495
Cash in bank – foreign currency, time deposits	5,829,433	6,139,601
	68,728,000	30,427,422

Cash in bank - local currency, current account (LCCA) consists of the OPEX Fund, Generated Fund, Retirement Fund (Peso) and Scout Barrio Fund which earn interest at the respective bank deposit rates. It also includes Adopt-a-Tree Fund and Intercontinental Hotels Group (IHG) collections which are non-interest bearing accounts. The above enumerated accounts are deposited at the Development Bank of the Philippines (DBP).

Cash in bank - local currency, time deposits (LCTD) refers to short-term placements for varying periods to a maximum of sixty (60) days depending on the immediate cash requirement of the Corporation, and earn interest at the respective short-term placement rates. This account is deposited at the Land Bank of the Philippines (LBP).

Foreign currency, savings account (FCSA) represents dollar collections arising from the BCDA-PEZA Lease Agreement which are directly deposited by PEZA to the JHMC's account at LBP. Quarterly collections are regularly remitted to BCDA in 2012.

Foreign currency, time deposits (FCTD) refers to dollar funds earmarked for the JHMC Retirement Fund.

Dollar depository accounts are restated at year-end rate of P41.192:\$1.00 for CY 2012 and P43.928:\$1.00 for CY 2011.

4. RECEIVABLES

The account consists of the following:

	2012	2011
Accounts receivable	1,603,020	782,746
Due from officers and employees	102,587	79,352
Inter-agency receivables	60,000	60,000
Intra-agency receivables	7,059,003	6,247,957
Other receivables	-	420,602
	8,824,610	7,590,657

Accounts receivable includes various accounts and unsettled car plan from members of the Board of Directors (BOD) up to July 2007. The Motor Vehicle Lease-Purchase Plan of JHMC provides that an officer who avails of the plan has an option to purchase the vehicle upon separation from the service at a redemption book value, provided rentals have been paid for at least one year. To date, only one (1) separated BOD member has not fully settled the car plan. The account also includes receivables from various clients. As of December 31, 2012, the other receivables account was merged into this account. Review of validity of accounts is on-going.

Due from officers and employees pertains to receivables from former members of the Board of Directors, separated and current officers and employees of JHMC for telephone charges and miscellaneous receivables.

Inter-agency receivables pertains to the amount due from the Social Security System for maternity benefits of availing employees.

Intra-agency receivables consists of payments made by JHMC on behalf of BCDA for the maintenance of the BCDA cottages and other advances of similar nature. These are regularly billed to BCDA for reimbursement.

5. INVENTORIES

This account consists of the following:

	2012	2011
Construction materials inventory	5,866,050	5,866,050
Office supplies inventory	1,393,263	1,446,156
Other supplies inventory	98,950	293,833
	7,358,263	7,606,039

Construction materials inventory consists of unused steel fences for the perimeter fencing of Camp John Hay. The perimeter fencing project of the camp was discontinued due to the opposition of affected residents. An inventory count of the remaining steel fences, to include the materials issued for the various projects of the administration, is ongoing.

6. PREPAYMENTS

This account consists of the following:

	2012	2011
Advance to contractors	137,902	-
Prepaid insurance	112,125	102,288
Other prepaid expense	3,200	2,646
	253,227	104,934

This account consists of the unexpired portions of the fire and earthquake insurance premium of the Bell House and JHMC cottages, motor vehicle insurance premium of the JHMC vehicles, mobilization fund granted to the survey consultant for the 13 barangays within Camp John Hay and prepaid website subscription.

7. GUARANTY DEPOSITS

This account consists of deposits with the following :

	2012	2011
National Labor Relations Commission (NLRC)	559,990	559,990
Feliza Ronquillo	12,216	12,216
Smart Communications	8,260	8,260
DENR-CENRO	7,250	7,250
Philippine Fuji Xerox	5,390	5,390
BENRCO	1,097	1,097
	594,203	594,203

Deposits with NLRC were made pending the resolution of various labor cases filed against the JHMC.

Deposit given to Ms. Feliza Ronquillo covers two-month advance rental for the lease of her property which is being used by the forest rangers as outpost.

8. ACCOUNTS RECEIVABLE - LONG-TERM

This account consists of the following:

	2012	2011
Accounts receivable	16,382,642	16,743,442
Allowance for doubtful accounts	(2,024,738)	(2,024,738)
	14,357,904	14,718,704
Receivables/disallowances/charges	8,010,705	6,635,555
	22,368,609	21,354,259

Accounts receivable consists of uncollected accounts for the calendar years 1998-2006. It includes receivables from the CJHDevCo amounting to P5,912,516 representing the net gain derived from the demolition of cottages and structures which are part of the leased area, per Agreement dated March 25, 1998.

The account also includes Other receivables consisting of the uncollected charges from the use of government facilities by concessionaires, travel agencies, government entities and other corporations during resort operations. Also included are accounts of establishments amounting to P2,024,738 which are subjects of pending litigations. One hundred percent allowance for doubtful accounts has been provided since these have remained outstanding since 1996. A request for write off was submitted to the Commission on Audit but was not acted upon due to lack of supporting documents. This account also includes the tax due on the retirement benefits given to 12 retired employees in 2003 amounting to P1,062,608 which was not withheld by the previous finance officers.

Receivables/disallowances/charges consists mainly of the following:

- missing properties that were included in the Lease Agreement between CJHDevCo & BCDA in 1996 with net book value of P2,793,547.50;
- disallowances for employer's share on Employees Provident Fund of P1,336,358.57;
- other benefits granted to personnel of JPDC of P1,125,751.05;
- other benefits granted to previous employees of JHMC of P235,000.00;
- benefits granted to previous BODs of P572,000.00; and
- benefits of the BODs and OGCC lawyers for CYs 1996 to 2001 with Notices of Final Disallowances in the amount of P1,395,151.61.

Property and equipment amounting to P30,291,791 with a net book value of P2,793,547.50 were found missing in January 2004 and subsequently dropped from the property and equipment account in June 2005. With the issuance of COA Adjudication and Settlement Board Decision No. 2007-07 dated February 14, 2007 denying the request for relief from accountability, the corresponding receivable account from the accountable officer was taken up in the books in January 2011.

9. INVESTMENTS

This account consists of 6,600 common shares at P20 per share of the Pilipino Telephone Company (PILTEL), now PLDT Communications and Energy Ventures, Inc.

10. PROPERTY, PLANT AND EQUIPMENT

This account consists of the following:

	Land Improvements	Office Buildings and Other Structures	Office Equipment, Machinery and Other Equipment	Furniture and Fixtures	Motor Vehicles	Construction in Progress	Total
At December 31, 2011							
Cost	687,158	38,958,311	46,221,663	8,945,762	14,308,452	164,545	109,285,891
Accumulated depreciation	-	(14,396,643)	(30,270,482)	(8,297,002)	(8,126,199)	-	(61,090,326)
Net carrying amount	687,158	24,561,668	15,951,181	648,760	6,182,253	164,545	48,195,565
At December 31, 2012							
Cost:							
January 1, 2012	687,158	38,958,311	46,221,663	8,945,762	14,308,452	164,545	109,285,891
Additions/Adjustments	656,383	226,532	1,279,639	56,684	-	260,898	2,480,136
	1,343,541	39,184,843	47,501,302	9,002,446	14,308,452	425,443	111,766,027
Accumulated depreciation:							
January 1, 2012	-	(14,396,643)	(30,270,482)	(8,297,002)	(8,126,199)	-	(61,090,326)
Provision	-	(1,252,693)	(1,126,333)	(205,073)	(664,063)	-	(3,248,162)
	-	(15,649,336)	(31,396,815)	(8,502,075)	(8,790,262)	-	(64,338,488)
Net carrying amount	1,343,541	23,535,507	16,104,487	500,371	5,518,190	425,443	47,427,539

Furniture and fixtures, motor vehicles, and machinery and equipment accounts include leased out properties of BCDA to CJHDevCo totaling P38,368,074. The amount has not been validated due to incomplete supporting documents.

Construction in progress pertains to the labor and materials used for the extension of the carport and accrual of expenses for the project. This will be reclassified to the appropriate asset account upon proper documentation. This account also includes materials, labor and overhead expenses incurred for the on-going CAPEX projects.

11. OTHER ASSETS

This account consists of the following:

	2012	2011
Hydro – electric power dam	4,390,000	4,390,000
Unserviceable machinery and equipment, and furniture and equipment	6,893,256	6,893,249
	11,283,256	11,283,249

Hydro-electric power dam is recorded at appraised value based on the appraisal conducted by E-value Appraisal in June 2004. This has been unserviceable since the BCDA took over the management of Camp John Hay in 1993.

Unserviceable machinery and equipment, and furniture and equipment will be inventoried, appraised and disposed in 2013.

12. PAYABLE ACCOUNTS

This account consists of the following:

	2012	2011
Accounts payable	9,618,908	5,498,516
Accrued expenses	8,271,132	8,801,127
Due to officers and employees	657,940	247,453
Miscellaneous	987,890	1,005,876
	19,535,870	15,552,972

Accounts payable for CY 2012 is composed of the following:

- unreleased checks totaling P5,074,437.00;
- P4,142,151.00 for utilities i.e. electricity, water, garbage and telephone charges payable to CJHDevCo accumulated from the year 2000 till 2007; and
- payables to PBAIberto Surveying in the amount of P120,000.00 for the survey of unleased areas of Camp John Hay which remains unpaid to date.
- payables to various claimants in the aggregate amount of P282,320.00.

Accrued expenses include unpaid security services, telephone charges, subscriptions, electricity, travelling costs, supplies and gasoline expenses. Also included in this account are separation pays (excluding last pay and terminal leave benefits) of employees who have availed of the Separation Incentive Package (SIP) offered in 2008, which remain unpaid due to non- submission of clearances.

13. INTER-AGENCY PAYABLES

This account consists of the following:

	2012	2011
Due to BIR	1,238,825	491,546
Due to Pag-IBIG	80,216	77,130
Due to PHILHEALTH	18,271	39,971
Due to SSS	106,673	91,088
	1,443,985	699,735

14. INTRA-AGENCY PAYABLES

This account consists of the following:

	2012	2011
Due to BCDA	8,681,293	11,710,935
Due to other funds	1,657,059	1,617,183
	10,338,352	13,328,118

Due to BCDA consists mainly of rentals and Common Usage Service Area (CUSA) fees collected from IHG, Treetop Adventure and PEZA. Also included in this account are Scout Barrio Housing Project collections received in behalf of BCDA for the fourth quarter of 2012. These collections were regularly remitted to BCDA at the end of each quarter in CY 2012 in accordance with prescribed schedule of remittance. It also

includes lease rentals from Asian Institute Management for 1997 which is still due for reconciliation with BCDA.

Breakdown of the *Due to other funds* is as follows:

	2012	2011
Adopt a Tree	390,819	387,553
BID fees	(5,000)	(5,000)
Disallowances/charges deducted from Separation Incentive Package (SIP)	442,743	436,243
Provident fund	702,557	702,557
Transfer of funds	125,940	95,830
	1, 657,059	1,617,183

Due to other funds - Adopt a Tree represents collections from sponsors who have committed to provide funds for the preservation of particular adopted century trees in the reservation.

15. OTHER LIABILITY ACCOUNTS

This account consists of the following:

	2012	2011
Guaranty deposits payable	404,628	232,054
Performance bond payable	279,294	247,407
Other payables	139,370	139,371
	823,292	618,832

Guaranty deposits payable consists of the security deposit paid by the Asian Institute of Management in 2007 amounting to P200,000.00 and the amount withheld from the partial payment of the survey for the 13 barangays within John Hay Reservation Area (JHRA).

Performance bond payable consists of the performance bonds paid by locators SC Reservations/IHG, McKleene and the contractor of janitorial services, Le Monet.

Other payables pertains to the amounts deducted from employees' retirement pay to cover for whatever liability they may owe the JHMC.

16. LONG-TERM LIABILITIES

This account consists of the following:

	2012	2011
Retention fee	42,077	42,077
Unamortized portion of car plan – 2006	313,685	313,685
Unamortized portion of car plan – 2007	3,381,594	3,381,594
	3,737,356	3,737,356

17. DEFERRED CREDITS

This account consists of the following:

	2012	2011
Deferred income tax	1,062,608	1,062,608
Bell Amphitheatre rental advances	83,000	45,550
Gate pass advances	-	150
	1,145,608	1,108,308

18. SUBSIDY INCOME FROM BCDA

Subsidy income represents the estate management fees charged to BCDA by JHMC, being its implementing and regulating arm of JHSEZ, to finance operations in accordance with the approved corporate budget.

19. GENERAL INCOME

This account consists of the following:

	2012	2011
Service income	2,641,260	2,540,654
Permits and licenses	1,299,400	1,296,581
Business income	695,236	440,708
Other income	1,242,154	98,330
	5,878,050	4,376,273

Service and business income are receipts from the Historical Core for events, sponsorships and entrance fees. Also included are charges for overtime work rendered at JHSEZ, fines and penalties, CUSA fees from locators, labor center ID for employees within JHSEZ and receipts from purchase coupons.

Permits and licenses consists of collections from the regulatory functions of JHMC within the Special Economic Zone.

Other income pertains to miscellaneous collections not identified as income from the economic zone, business or service income.

20. PERSONAL SERVICES

This account consists of the following:

	2012	2011
Salaries and wages	12,183,527	11,019,354
Other personnel benefits	2,732,118	1,465,610
Representation allowance	1,205,600	1,052,996
Year-end bonus	1,062,080	990,539
Transportation allowance	1,020,108	878,458
Overtime and night pay	870,194	665,824
Terminal leave benefits	811,387	812,211
Life and retirement insurance contributions	620,619	516,999

Other bonuses and allowances	564,706	1,046,000
Personnel economic relief allowance	554,867	519,003
Cash gift	240,625	216,625
Productivity enhancement incentive	227,500	437,000
Clothing/uniform allowance	188,000	160,000
Philhealth contributions	133,862	116,650
Pag-IBIG contributions	57,150	52,900
ECC contributions	15,150	12,560
	22,487,493	19,962,729

21. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2012	2011
Security services	15,212,231	12,863,835
Depreciation	3,249,261	3,008,793
Council/Board members' benefits (Note 22)	3,117,856	2,879,808
Office supplies	1,834,655	1,170,903
Consultancy services	1,829,181	351,660
Representation	1,767,033	1,601,694
Repairs and maintenance	1,499,389	2,178,772
Training	1,172,888	822,670
Marketing and advertising	1,152,927	662,137
General services	1,140,532	907,774
Gasoline, oil, lubricants and other fuel	1,069,087	1,444,878
Environment / sanitary services	1,039,541	427,305
Traveling expense - local	1,005,490	590,341
Other professional services	891,641	261,145
Legal services	882,704	331,974
Telephone	829,205	776,329
Auditing services	583,768	974,477
Janitorial services	579,646	403,735
Other supplies	497,394	586,297
Printing, binding and reproduction	267,939	139,963
Traveling expense - foreign	255,366	-
Water	252,189	363,380
Insurance	200,530	231,968
Electricity	133,981	115,428
Taxes, duties and licenses	106,619	137,125
Other maintenance and operating expenses	672,000	416,574
	41,243,053	33,648,965

22. BOARD MEMBERS' BENEFITS

This account is broken down as follows:

	2012	2011
Per diem	1,987,233	1,772,000
Representation allowance	577,363	429,343
Transportation allowance	438,677	540,339
Communication expense	114,583	138,126
	3,117,856	2,879,808

The Board of Director's benefits are in consonance with Executive Order (EO) 24 issued on February 10, 2011 by the Office of the President of the Philippines.

23. OTHER INCOME(EXPENSES)

This account is broken down as follows:

	2012	2011
Interest income	212,802	146,432
Gain (loss) on foreign exchange	(383,947)	6,950
Gain (loss) on disposal of assets	-	100,095
	(171,145)	253,477

24. DEPOSIT FOR FUTURE SUBSCRIPTIONS

This account represents the BCDA Equity in excess of the authorized capital stock of JHMC. On December 9, 2004, BCDA approved an increase in the authorized capital stock from P120 million to P800 million.

JHMC has an extended Memorandum of Agreement with the Office of the Government Corporate Counsel (OGCC) which includes the update of the JHMC Stock and Transfer Book (STB). The update of the STB is a requirement for the amendment of the Articles of Incorporation to increase the JHMC's authorized capital stock. The STB was turned over to OGCC in 2011.

25. CORRECTION OF PRIOR YEARS' ERRORS

The CY 2012 balance is mainly due to the receipt from BCDA of the unreleased subsidies pertaining to CYs 2010 until 2011 and penalties and interests paid by SC Reservations/IHG for delayed payment of rentals from 2007 to 2010. It also includes adjustments for disallowances of prior years' transactions which were issued with Notice of Finality of Decision on March 2012.

26. COMPLIANCE WITH TAX LAWS

JHMC remitted the amount of P4.141 million, representing 100% of the total taxes withheld for the calendar year 2012.

The total tax withheld for calendar year 2012 is as follows:

Particulars	2012
Tax withheld on compensation	2,249,594
Creditable income tax withheld – expanded	1,009,371
Value added tax	768,988
Fringe benefit tax	112,941
	4,140,894

27. STATUS OF PENDING LITIGATIONS

Among the numerous cases filed by and against JHMC/BCDA are the following:

CASE	STATUS
1. BCDA vs Freddie Aglasi and ten other consolidated cases (Civil Case Nos. 5437-R to 5446-R) pending before RTC Branch 5, for: recovery of possession	BCDA, through OGCC, submitted memorandum for resolution by the trial court.
2. Teodoro Regino vs JHMC, et al. (Civil Case No. 08-0089-D) pending before RTC Branch 41, for specific performance and damages	The case is set for mediation at the PMC - CA on August 12, 2013 at 9:30 am. (Handled by OGCC)
3. Ruel C. de Leon vs JHMC, et al. (NLRC RAB-CAR-11-0405-11) pending before the NLRC-RAB-CAR LA Tabingan, for illegal dismissal, et al.	Mr. de Leon was ordered to file his comment to the letter of COA-CAR dated January 11, 2013 within ten calendar days from receipt of the order but failed. JHMC received a Writ of Execution dated April 11, 2013 which was transmitted to OGCC. (Delegated by OGCC to JHMC LSD)
4. JHSI vs JHMC, et al. (Civil Case No. 7618-R) pending before RTC Branch 6, for injunction, et al.	The motion for reconsideration filed by JHSI was granted. It was re-raffled to RTC Br. 3 for JDR. JDR is set on July 25, 2013, however, it was reset on August 08, 2013. Another JDR will be conducted on September 12, 2013. (Handled by OGCC)
5. Ancestral Claim of Apeng Carantes (Petition No. BC-050-LJ) pending before NCIP-Central Office	BCDA and JHMC filed oppositions. (Handled by BCDA and JHMC)

ANTI-SQUATTING & ILLEGAL STRUCTURES (Handled by JHMC LSD)

CASE	STATUS
6. JHMC vs. Ernesto Banes (Demolition Complaint No. 977-05-2012)	With POSD 2 nd Indorsement to the City Legal.
7. JHMC vs. Joselito Dizon (Demolition Complaint No. 978-05-2012)	With POSD 2 nd Indorsement to the City Legal. Tentative date of hearing is on September 12, 2013.
8. JHMC vs. Imelda Canuto-Ramos (Demolition Complaint No. 1029-07-2012)	Case submitted for resolution. No resolution as of August 05, 2013.
9. JHMC vs. Teddy Carreon (Demolition Complaint No. 1074-09-2012); (and Demolition Complaint against Abner Bacod)	With POSD 3 rd Indorsement to the the Anti-Squatting and Anti-Illegal Structures Committee. Tentative date of hearing is on September 12, 2013.

Part II – Observations and Recommendations

COMMENTS AND OBSERVATIONS

1. Non-completion of the inventory report on PPE; non-maintenance of ledger cards and property cards; and inappropriate recording of the leased-out property of BCDA

Non-completion of the inventory report on PPE at a net book value of P9.060 million and non-maintenance of ledger cards and property cards

Section 102 of PD 1445 provides that the head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency. Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him without prejudice to the liability of either party to the government.

To operationalize the aforementioned provision of law, COA Circular No. 80-124, dated January 18, 1980, was issued, governing that physical inventory-taking, being an indispensable procedure for checking the integrity of property custodianship, has to be regularly enforced.

The Circular also prescribes that physical inventory of fixed assets shall be made at least once a year and all inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) to be properly reconciled with accounting and inventory records.

The foregoing regulations were not observed at JHMC. The Finance Department (FD) does not maintain property, plant and equipment ledger cards (PPELC) but prepares only a schedule of PPE which, however, lacks information on acquisition, description, estimated life, depreciation, disposal, accumulated incidental or maintenance expenses incurred and other information about an item or property. Likewise, the General Services Office (GSO) does not maintain property card for each item of property. Thus, no reconciliation of the property account between the records of the FD and the GSO was undertaken. Further, they were not able to complete the Report on physical count of Property, plant and equipment (RPCPPE).

As a result of said lapses, the accuracy of the PPE stated at a net book value of P9,059,465 as of December 31, 2012 (excluding the BCDA-owned properties of P38,368,074) could not be ascertained. This is a recurring exception in the auditor's report and as of audit report date, the issue remains unresolved.

We recommended that Management institute policy and guidelines in safeguarding PPE, including the following:

- a) conduct of physical inventory and the completion and submission of the corresponding inventory report;
- b) maintenance of PPE ledger cards by the FD and property cards by the GSO;
- c) regular reconciliation of the PPE account by the FD and GSO.

Management commented that:

- a) policies on property, plant and equipment will be developed. Since this would take time until its approval by the Board of Directors, they requested that this will be complied fully within the year 2013.
- b) GSO will be directed to conduct the physical inventory every 4th quarter of each year. They are however constrained with the on-going legal issues with CJHDevCo, a locator within Camp John Hay, who has in its possession several properties.
- c) ledger cards for land transport, building and land improvements are already in place.
- d) GSO has strengthened its property management and started to maintain property cards since August 2012. Property documentation will likewise be improved to comply with government auditing rules and regulations.
- e) GSO and the FD will reconcile the PPE account.

Inappropriate recording of the leased-out property of BCDA amounting to P38.368 million

PPE as presented in the financial statements is interpreted by readers as owned or controlled by the Corporation and that the Corporation possesses the rights associated with these assets such that cash flows or economic benefits derived from the utilization of these assets accrue to the Corporation. Thus, it is inaccurate to include in the PPE account any property that does not belong to the Corporation.

Properties amounting to P38,368,074 which are owned by BCDA and leased out to locators was still carried in the books of JHMC as of December 31, 2012 despite the recurring exception in the auditor's report and COA's recommendation to adjust the error. BCDA refused to accept the transfer of the property pending verification of supporting documents and existence of the property.

In CY 2011, COA recommended and Management agreed to conduct a joint inventory taking on the leased property for proper accounting and submit to BCDA the complete documentation to support the transfer of said property to BCDA. However, the reconciliatory inventory to be conducted among JHMC, CJDevCo and BCDA was stalled by the Writ of Preliminary Injunction issued by the Regional Trial Court, Branch 6, Baguio City on August 23, 2012, earlier filed by CJDevCo, wherein BCDA, its subsidiaries, officials, employees, agents and other third parties were restrained from committing any act tending to wrest control and/or possession of the leased property.

We recommended that Management drop the leased property of P38.368 million from the PPE account and instead disclose in the notes to financial statements the existence, ownership, and description of the leased property and a brief narration on the legal cases embroiled between BCDA and CJDevCo regarding this leased property. Meantime, JHMC should secure or salvage whatever it can under the circumstances and work-out for the documentation as required by BCDA.

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2. Inadequate allowance for doubtful accounts; collection inefficiency; and incomplete and erroneous documentation of accounts receivable

Inadequate allowance for doubtful accounts on long-term accounts receivable of P16.383 million

Generally accepted state accounting principles in the Philippines require that accounts receivable be valued at their face amounts minus allowances set up for doubtful accounts and for any anticipated adjustments which, in the normal course of events, will reduce the amounts receivable from the debtors to estimated realizable values. The allowance for doubtful accounts shall be provided in an amount determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experiences of the agency in relation to the particular receivables, past and expected loss experiences and identified doubtful accounts.

Verification of accounts receivable disclosed that JHMC has no policy on the provision of allowance for doubtful accounts. Consequently, long-outstanding accounts receivable of P16,382,642 presented under Non-Current Assets were not stated at net realizable value except for 1996 accounts subject of pending litigations of P2,024,287 which were provided 100% allowance.

Collection inefficiency and incomplete/erroneous documentation of accounts receivable

Management has not intensified its collection efforts resulting in the aforementioned uncollected accounts that has ballooned to P16.383 million in a span of 13 years from CY 1998 CY to 2011. Moreover, there were no available records/documents to support some accounts being claimed.

Further, negative or abnormal account balances in the aggregate amount of P818,287 was erroneously deducted from the total accounts receivable. Management agrees that these are errors possibly due to non-recording of receivable account or excess in collection.

We recommended that Management:

- a) establish and implement a policy on accounts receivable: its recognition based on complete documentation; enforcement of collection; and the setting-up of allowance for doubtful accounts in accordance with the afore-cited rules and regulations;
- b) adjust or correct erroneous or negative entries.

Management commented that they will:

- a) comply with the recommendation to develop policies which will address the recognition, documentation; enforcement of collection and setting up of allowance for doubtful accounts in accordance with PD1445. The proposed policy on accounts receivable will be presented to the JHMC Board of Directors.

Management explained that this will be completely complied within the year 2013 since it would entail time to develop and evaluate the policy until its approval;

- b) enforce the collection of valid claims. However, since the accounts are from the year 1996, they have to retrieve the supporting documents to validate the receivables. After determining the doubtful accounts, they will request from the JHMC Board of Directors for the write off; and
- c) review and adjust the negative entries.

3. Long-outstanding and unsubstantiated payable accounts and long-term liabilities

Long-outstanding and unsubstantiated payable accounts of P11.599 million

Subsidiary ledgers of payable accounts showed obligations totaling P9,730,117 that remained long outstanding ranging from two (2) to fifteen (15) years, most of which lack supporting documents. Included in these accounts are claims pertaining to separation pays of various employees who availed of the separation incentive package offered in 2008 but remained unpaid for non-submission of their clearances. The dormant accounts also include the amount of P4,142,151 for electricity, water, garbage and telephone charges payable to CJDevCo that accumulated from the year 2000 till 2007.

Moreover, erroneously deducted from the total accounts payable are negative balances totaling P1,868,509 million payable to employees, suppliers, contractors and unknown payees. The negative balances were most likely due to errors in recording of transactions or overpayment of accounts.

Thus, validity of payable accounts in the total amount of P11,598,626 is doubtful.

Dormant and unsubstantiated long term liabilities of P3.737 million

Long term liabilities amounting to P3,737,356 as presented under Note 16 pertain to retention fees and unamortized portion of car plans for CYs 2006 and 2007. However, there are no documents to support the obligations. Thus, the validity of such claims by third parties is uncertain.

We have recommended and Management agreed to:

- a) revert to retained earnings payable accounts and long-term liabilities that have been outstanding for two years or more and found to be invalid;
- b) adjust negative balances; and
- c) stop the practice of setting up accounts without valid supporting documents.

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4. Underutilized GAD Budget of P1 million

In compliance with Joint Circular No. 2004-1 dated April 5, 2004 of the Department of Budget and Management (DBM), National Economic and Development Authority (NEDA) and the National Commission on the Role of Filipino Women (NCRFW), Management was able to prepare an Annual GAD Plan with an approved budget of P1 million.

Management conducted Gender and Sensitivity Training to John Hay Special Economic Zone locators; Recycled Art Workshop; Anti-Violence against Women and Children Awareness Seminar; and Eco-workshop for the 14 barangays in the John Hay Rehabilitation Area; and attended the GAD summit.

However, the aforesaid activities cost P133,519 or 13.35% only of the total approved budget, indicating incomplete implementation of the approved plans and programs, thereby impairing the aim for the fulfillment of gender responsive governance.

We recommended that Management fully implement their GAD Plans and Programs for the attainment of the objective of GAD commitments, plans and policies.

5. COA disallowances/charges

The Statement of Audit Suspensions, Disallowances and Charges (SASDC) which summarizes the total suspensions, disallowances and charges as of December 31, 2012 showed a zero balance. However, ND/NC/NS issued prior to the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA-COA Circular No. 2009-006) totaling P8,010,705.71 are not included in the reflected balance but are deemed disallowances/charges which shall continue to be enforced.

Report and Analysis of Disallowances and Charges	Amount Disallowed
Notice of Disallowances (ND) not appealed	P 572,897
NDs with Notice of Finality of Decision	2,793,547
NDs with Notice of Finality of Decision and COA Order of Execution	4,644,261
	P 8,010,705

**Part III – Status of Implementation of Prior Years' Audit
Recommendations**

STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 17 audit recommendations contained in the previous years' Annual Audit Reports, 3 were fully implemented, 11 were partially implemented and 3 were not implemented. Five (5) audit observations were reiterated in CY 2012.

Observations/ Recommendations	Action(s) taken by Management	Status
<p>1. PPE account overstated by P38.368 million due to the inclusion of leased out property of the BCDA</p> <p>➤ Conduct a joint inventory taking on the leased property and submit to BCDA complete documents to support the transfer for the final acceptance.</p>	<p>The reconciliatory inventory to be conducted among JHMC, BCDA and CJHDevCO has been deferred due to the Temporary Restraining Order (TRO) issued in favor of CHJDevCo against BCDA.</p>	<p>Not Implemented. Reiterated in the CY 2012 AAR.</p>
<p>2. Accuracy of AR-long term totaling P21.354 million unreliable due to non-maintenance of subsidiary ledgers; absence of records/documents; and non-provision of allowance for doubtful accounts</p> <p>➤ Maintain subsidiary ledgers for the accounts receivable and exert effort to locate documents/records to support the accounts being claimed and recorded; and</p> <p>➤ Establish allowance for doubtful accounts to appropriately present the accounts receivable at its realizable value in the financial statements.</p>	<p>Started preparing the subsidiary ledgers.</p> <p>Required the Finance Department to establish the necessary allowance for doubtful accounts for past due accounts.</p>	<p>Partially Implemented. No allowance for doubtful accounts was established for the years 1998 to 2011. Reiterated in the CY 2012 AAR.</p>
<p>3. Existence and accuracy of Inventories totaling P7.606 million unreliable due to non-</p>		

Observations/ Recommendations	Action(s) taken by Management	Status
<p>preparation of Report of Supplies and Materials Issued (RSMI); non-maintenance of stock cards; and failure to conduct the physical count of inventories</p> <ul style="list-style-type: none"> ➤ Require the Property and Procurement Management Unit (PPMU) to prepare and submit the RSMI to the Finance Department as basis to update the supplies ledger cards and to prepare JEV for stock issuances; ➤ Require the PPMU to maintain stock cards to record all the receipts and issuances for each item of supplies and materials; and ➤ Conduct physical count of inventories and submit the corresponding report. 	<p>The Report of Supplies and Materials Issued (Office Supplies and Other Supplies Inventory) for the previous periods were already submitted to Finance Department on March 30, 2012. PPMU has started the preparation of stock cards and these records will be monitored to comply with accounting and auditing requirements. Reconciliation of accounts is on-going. Report on the Physical Count of Inventories was submitted to their Vice President for submission to their President and the BCDA.</p>	<p>Partially Implemented. No Report on the Physical Count of Inventories had been submitted to the audit team.</p>
<p>4. PPE account totaling P109.285 unreliable due to non-maintenance of property, plant and equipment ledger cards and property cards and non-submission of the Report on the Physical Count of Property, plant and equipment</p> <ul style="list-style-type: none"> ➤ Require the Finance Department to maintain property, plant and equipment ledger cards; ➤ Require the Property and Procurement Management Unit to maintain property 	<p>Finance Department has started the preparation of ledger cards.</p>	<p>Partially Implemented. Report on the Physical Count of PPE is yet to be completed by the PPMU. Reiterated in the CY 2012 AAR.</p>

Observations/ Recommendations	Action(s) taken by Management	Status
<p>cards;</p> <ul style="list-style-type: none"> ➤ Require the Finance Department and the Property and Procurement Management Unit to conduct regular reconciliation of the property, plant and equipment account; and ➤ Conduct inventory of PPE and submit the corresponding Report. 		
<p>5. AP – current of P9.357 million with negative balances</p> <ul style="list-style-type: none"> ➤ Resolve the accounts payable which are maturing within one year and more than one year for reclassification purposes; and ➤ Establish the obligations which are valid to adjust the negative entries in the accounts payable account. 	<p>Management has reclassified the accounts. Finance Department is still in the process of gathering data to substantiate the recording of the accounts payable.</p>	<p>Partially Implemented. Reiterated in the CY 2012 AAR.</p>
<p>6. Due to Home Office and Other long term liabilities amounting to P2.310 million and P3.743, respectively, unreliable due to incomplete documentation</p> <p>Instruct the Finance Department to properly document the accounts affected in order to establish their authenticity in compliance with the provisions of PD No. 1445.</p>	<p>Reconciliation of accounts was conducted with BCDA officers.</p>	<p>Not Implemented. No result of reconciliation was submitted to validate adjustments made. Reiterated in the CY 2012 AAR.</p>
<p>7. Absence of policies and procedures in the process of billing, payment and recording of overtime</p>		

Observations/ Recommendations	Action(s) taken by Management	Status
<p>services resulting in unauthorized claim of overtime pay by the Custom Clearance Division personnel</p> <ul style="list-style-type: none"> ➤ Prepare a policy on overtime services to authorize the process of billing, payment and recording in the books of the Corporation and to provide rules and regulations in its imposition to locators/enterprises; and ➤ Comply with the provisions of the Rules and Regulations governing and regulating the JHSEZ pursuant to Presidential Proclamation No. 420 in relation to Republic Act No. 7227. 		Fully Implemented.
<p>8. Health insurance coverage paid to Fortune Medicare, Inc. in the amount of P458,298 without legal basis</p> <p>Obtain an authority or legal basis exempting JHMC from COA Resolution No. 2005-001 dated February 3, 2005, otherwise, cause the immediate refund of the disbursements.</p>	<p>Cited OGCC Opinion No. 133 and stated that the Corporation is exempt from COA Resolution No. 2005-001 considering that JHMC is not covered by Civil Service Rules and regulations and its funding source is provided by the BCDA and not through the General Appropriations Act.</p>	<p>Not Implemented. We do not agree with the justification submitted. Notice of Suspension was issued to accountable officers in CY 2013.</p>
<p>9. Salary differential paid in the amount of P50,759 not in concurrence with the provisions of JHMC Policy No. 003-2004</p> <ul style="list-style-type: none"> ➤ Cause the refund of the salary differential amounting to P50,759; and 	<p>Endorsed the matter to the DOLE where the advisory opinion rendered is in the</p>	<p>Partially Implemented. The employee has agreed to refund the</p>

Observations/ Recommendations	Action(s) taken by Management	Status
<ul style="list-style-type: none"> ➤ Observe strict compliance to the provisions of JHMC Policy No. 003-2004. 	affirmative based on the appointment paper when the employee actually assumed the duties and responsibilities of a Cashier.	salary differential. Audit Team has confirmed with the DOLE where they concurred with the recommendation.
<p>10. Improper payment of security services due to the non-conformity to the provisions of the contract by the Superb Security and Investigation Agency, Inc. and non-imposition by JHMC</p> <ul style="list-style-type: none"> ➤ Comply to the provisions of Section 7 of the contract for security services; ➤ Prepare billing statement for the payment of lease corresponding to the area occupied by the security agency in the stockyard and in the CCA; ➤ Require the posting of Performance Security Bond and Wage Bond by Superb Security Services as stated under Section 12 of the security contract. 	Security contract has expired but the final payment is yet to be computed taking into consideration violations that have been incurred.	Fully Implemented.
<p>11. Delayed submission of financial statements, trial balances, disbursements vouchers, official receipts and journal entry vouchers deferring COA audit</p> <ul style="list-style-type: none"> ➤ Require all accountable officers to immediately submit supporting documents to the Finance Department for recording of the transactions in the books of accounts and later for submission to the Office of the Auditor; and 	Instructed the concerned department for the prompt submission of reports to the COA.	Partially Implemented.

Observations/ Recommendations	Action(s) taken by Management	Status
<p>➤ Require the Finance Department Manager to supervise and monitor the submission of the financial reports to the Office of the Auditor within the prescribed period.</p>		
<p>12. Non-submission of disbursement vouchers and necessary evidences to support claims against government funds totaling P814,995 contrary to the provisions of Section 4 of PD 1445 and COA Circular No. 2009-006 dated September 15, 2009</p> <p>Instruct the Finance Department the immediate submission of disbursement vouchers and other required evidences to support government expenditures.</p>	<p>Management instructed the Finance Department to retrieve the disbursement vouchers and immediately submit same to COA.</p>	<p>Partially Implemented.</p>
<p>13. Non-maintenance of subsidiary ledgers to supplement the accuracy of the general ledger contrary to the provisions of the NGAS and Section 403 of the GAAM</p> <p>Require the Finance Department to maintain subsidiary ledgers to support the general ledger.</p>	<p>Instructed the Finance Department to maintain the subsidiary ledgers.</p>	<p>Fully Implemented.</p>
<p>14. Record book for accountable forms and Report of Accountability for Accountable Forms (RAAF) as required by the provisions of Section 95 and Section 98 of the</p>		

Observations/ Recommendations	Action(s) taken by Management	Status
<p>Government Accounting and Auditing Manual (GAAM), Volume 1, not appropriately prepared for control and accountability of the forms</p> <p>Instruct the concerned employees to properly prepare the record book and the report of accountability for accountable forms as prescribed under Sections 95 and 98 of the GAAM.</p>	<p>Instructed the concerned department/responsible persons to prepare the necessary reports. RAAF is being prepared by the Finance Department and the forms issued by the Permits and Licenses Division and Customs Clearance Division.</p>	<p>Partially Implemented. Other concerned division has not prepared the required report.</p>
<p>15. Continuous occupancy of informal settlers in the 677 hectares of the John Hay reservation area</p> <ul style="list-style-type: none"> ➤ Design policies and implementing guidelines to prevent illegal occupancy or construction of structures by informal settlers in the area to end the rampant conversion of the forests and watersheds; ➤ Design a monitoring mechanism to validate effectiveness of the policies and its implementation; and ➤ Conduct comprehensive survey within the reservation area to identify the actual number of informal settlers. 	<p>Data gathered from the results of the relocation with structure survey and utility survey for the 13 barangays within the John Hay Reservation Area (JHRA), with Military Cut-off and Outlook Drive for further validation as to its inclusion into the JHRA, will be used to establish guidelines for the following:</p> <ul style="list-style-type: none"> a) Preservation of delineated forest covers and watersheds; b) Open areas to be retained by BCDA/JHMC to be proposed for master planning for investment possibilities; c) Updated census for actual occupants within the JHRA; and 	<p>Partially Implemented. Audit team will continuously monitor the courses of action undertaken by Management.</p>

Observations/ Recommendations	Action(s) taken by Management	Status
	d) Prevention of entry of illegal settlers into non-segregated areas.	
<p>16. JHMC Stock and Transfer Book not updated</p> <ul style="list-style-type: none"> ➤ Update the Stock and Transfer Book; ➤ Expedite the issuance of stock certificates to present members of the JHMC Board of Directors, so as not to compromise the authority of the members of the board to exercise corporate powers and conduct business; and ➤ Cancel stock certificates of separated member of the Board. 	<p>Management is in process of collecting the available data needed to update the stock and transfer book through its request for assistance with BCDA and from the Office of the President.</p>	<p>Partially implemented. Audit team will continuously monitor the courses of action undertaken by Management.</p>
<p>17. JHMC stock certificates issued in excess of the authorized capital stock not approved by the Securities and Exchange Commission (SEC)</p> <p>Request the Corporate Secretary to seek the approval of the SEC on the increase in authorized capital stock.</p>	<p>Updating the stock and transfer book is a prerequisite to the approval of the increase in the authorized capital and Management is in process of collecting data needed to update its stock and transfer book.</p>	<p>Partially implemented. Audit team will continuously monitor the courses of action undertaken by Management.</p>