

## Executive Summary

### A. Introduction

John Hay Management Corporation (JHMC), a wholly-owned subsidiary of the Bases Conversion and Development Authority (BCDA), has the mission to develop Camp John Hay into a premier tourist and investment destination that enforces efficient and effective regulation; ensures sustainable multiple use of the forest watershed; and contributes to national economic growth and job generation.

JHMC envisions that by 2018, Camp John Hay shall have transformed into the primary catalyst for the tourist development within the Cordillera Region and the leader of environment and forest stewardship in the Philippines.

Pursuant to COA Resolution No. 2011-009 dated October 20, 2011, the integrated results and risk based audit methodology has been adopted in the audit of the accounts and operations of the JHMC for the period ended December 31, 2017.

A value for money audit was also conducted in a selected audit area. The objectives of the audit were to ascertain the fairness and reliability of the Corporation's financial position and results of operations, to determine whether the plans, programs and activities for the year were attained in an efficient, economical and effective manner and to check the legality and propriety of the transactions and compliance with applicable laws, rules and regulations.

### B. Financial Highlights

The JHMC's financial condition and results of operations for Calendar Year (CY) 2017 with comparative figures for CY 2016 are, as follows:

Accounts	Calendar Year		Increase (Decrease)	
	2017	2016	Amount	Percent
Assets	₱231,981,174.59	₱214,275,104.63	₱ 17,706,069.96	8.26%
Liabilities	51,792,122.54	55,792,328.15	(4,000,205.61)	(7.17%)
Equity	180,189,052.05	158,482,776.48	21,706,275.57	13.70%
Gross Income	84,725,592.80	76,800,864.79	7,924,728.01	10.32%
Expenses	69,471,105.50	65,612,010.10	3,859,095.40	5.88%
Net Income	15,253,487.30	11,188,854.69	4,064,632.61	36.33%

### C. Operational Highlights

The JHMC continues to be a strong catalyst for economic growth and job generation in the Cordillera Region, unwavering in its mandate to develop Camp John

Hay as a premier tourist and investment destination and a center for human resource development, while ensuring sustainable multiple use of the forest watershed and enforcing effective and efficient regulation in the John Hay Special Economic Zone (JHSEZ) and the John Hay Reservation Area (JHRA).

Notwithstanding the unresolved issue of possession of the 247-hectare prime property within the JHSEZ under the pending case filed by the BCDA against the private developer, Camp John Hay Development Corporation (CJH DevCo.) which has restricted new business development and the generation of revenues by the JHMC, the Corporation has proudly achieved many milestones in fidelity to its mandate, that have contributed to its growth and efforts toward financial viability.

Among its accomplishments are the following:

1. Passed the Surveillance Audit by AJA Registrars for the Quality Management System (QMS) Related to JHMC's Accreditation for ISO 9001-2008;
2. Segregated Barangays Country Club and Hillside, which is a contribution by the BCDA and JHMC to the National Shelter Program of the Philippine Government;
3. Developed Automated System for Permits and Accreditation in the Special Economic Zone Department and One-Stop Action Center (OSAC);
4. Increased the number of jobs generated within the JHSEZ from **5,523** in CY 2016 to 5,830 in CY2017, thereby contributing to the resolution of unemployment in the City of Baguio and the in the Municipalities of La Trinidad, Itogon, Sablan, Tuba and Tublay (BLISTT); and
5. Increased gross sales of business enterprises within the JHSEZ from ₱875,570,000.00 in CY 2016 to ₱967,475,904.67 in CY 2017.

#### **D. Independent Auditor's Report**

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the JHMC for the following reasons:

1. All the necessary additional information in the Notes to FS were not fully disclosed as required under Philippine Accounting Standards 1, thus information contained therein would not adequately assist users in understanding the financial position of the Corporation. Moreover, the Notes to FS contained several errors in the amounts and balances presented therein.

2. The Property, Plant and Equipment (PPE) accounts with a total net value of P10,782,812.23 was misstated due to: (a) non-recognition of PPE worth P4,779,424.51 and other items acquired thru donation/transfer; (b) non-depreciation of PPE with a total cost of P720,557.46; and (c) use of residual values equivalent to less than ten percent (10%) in the computation of depreciation for PPE with a total cost of P7,660,080.24 resulting in a total net value of only P92.00.
3. The reliability of the year-end balance of the Accounts Receivable of P5,196,525.13 was uncertain due to: (a) improper offsetting of receivables from and payables to the Camp John Hay Development Corporation of P4,060,916.98; and (b) improper derecognition of receivables from the books of accounts totaling P1,246,344.58.
4. The Input Taxes account balance was overstated by P4,091,938.42 representing the accumulated input tax credits attributable to zero-rated sales for the years 2012 to 2015 that could no longer be recovered. As such, these are no longer considered assets as there is no more future economic benefit that will flow to the JHMC.
5. The accuracy of the Due from and Due to Central/Home/Head Office accounts balances was doubtful due to (a) misclassification to the said accounts of receivables from and payables to the Baguio Conversion and Development Authority (BCDA) amounting to P17,536,740.76 and P12,510,558.21, respectively; (b) unreconciled payables to the BCDA amounting to P2,310,218.04; and (c) existence of negative balances in the accounts which reduced the amount of the Due to Central Office account by P2,486,327.59.
6. The year-end balances of the Due from Other Funds and Due to Other Funds accounts are not reliable due to the remaining unreconciled difference of P209,522.51 between the two accounts.
7. The Investment Property-Buildings account balance was understated by P47,475.65 due to non-recognition in the books of the cost of a building that is being leased to interested parties for special events.

#### **E. Comments and Observations**

Other than the bases for the adverse opinion as stated above, the following are the other significant observations, with the corresponding recommendations, which need immediate action:

1. The accuracy, propriety and validity of recorded transactions totaling P70,517,048.46 could not be ascertained due to non-submission of the corresponding disbursement vouchers and supporting documents.

We recommended that Management require the concerned officer/s to immediately submit the disbursement vouchers totaling ₱70,517,048.46 and their supporting documents to the Audit Team to establish the validity, accuracy and propriety of the recorded expenditures.

2. Adjusting journal entries to drop several motor vehicles from the books in the net amount of P4,725,837.45 were not supported with necessary documents and explanations to justify the said entries.

We recommended that the Accountant submit the necessary documents to support the JEV to drop several motor vehicles from the books in order to determine the propriety and accuracy of the adjustments.

3. Items worth P1,809,317.00 were procured through Shopping and Negotiated Procurement-Small Value Procurement (NP-SVP) without strictly complying with the requirements and procedures provided under Sections 52 and 53.9 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 and its Annex "H"; hence, the JHMC was not assured that the most advantageous terms and prices had been obtained.

We recommended that Management direct the Bids and Awards Committee and the procurement unit to strictly comply with the requirements and procedures for Shopping and NP-SVP as provided under Sections 52 and 53.9 of the 2016 Revised IRR of RA No. 9184 and its Annex "H" in its succeeding procurement of similar goods and services. This will ensure efficiency and economy in procurement, and assure the JHMC that the most advantageous prices and terms for the procured goods and services are obtained.

#### **F. Summary of Total Suspensions, Disallowances and Charges**

The unsettled disallowances, suspensions and charges of the JHMC as of December 31, 2017 amounted to ₱2,728,562.07, ₱0.00, and ₱0.00, respectively.

#### **G. Status of Implementation of Prior Years' Audit Recommendations**

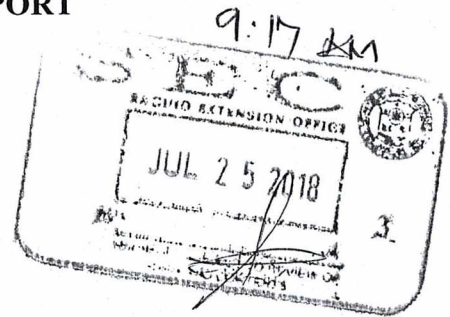
Of the 30 prior years' audit recommendations, 13 were fully implemented and 17 were partially implemented.



Republic of the Philippines  
**COMMISSION ON AUDIT**  
**Cordillera Administrative Region**  
Km 6, La Trinidad, Benguet

## INDEPENDENT AUDITOR'S REPORT

**Mr. ALLAN R. GARCIA**  
President and Chief Executive Officer  
John Hay Management Corporation  
John Hay Special Economic Zone  
Baguio City



We have audited the accompanying financial statements of John Hay Management Corporation which comprise the Statement of Financial Position as at December 31, 2017, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirement 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 amount 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 adverse audit opinion.

*Bases for Qualified Opinion*

As discussed in Part II – Observations and Recommendations of this Report, we considered the following in the formulation of our audit opinion:

1. All the necessary additional information in the Notes to FS were not fully disclosed as required under Philippine Accounting Standards 1, thus information contained therein would not adequately assist users in understanding the financial position of the Corporation. Moreover, the Notes to FS contained several errors in the amounts and balances presented therein.
2. The Property, Plant and Equipment (PPE) accounts with a total net value of P10,782,812.23 was misstated due to: (a) non-recognition of PPE worth P4,779,424.51 and other items acquired thru donation/transfer; (b) non-depreciation of PPE with a total cost of P720,557.46; and (c) use of residual values equivalent to less than ten percent (10%) in the computation of depreciation for PPE with a total cost of P7,660,080.24 resulting in a total net value of only P92.00.
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6. The Investment Property-Buildings account was understated by P47,475.65 due to the non-recognition in the books of a building that is being leased to interested parties for special events.

*Qualified Opinion*

In our opinion, except for the effects of the matters described in the Bases for Qualified Opinion paragraph, the financial statements present fairly the financial position of John Hay Management Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

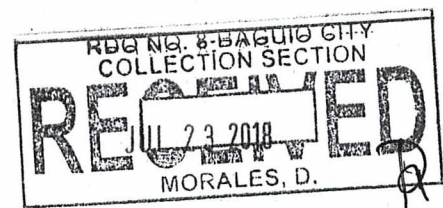
**COMMISSION ON AUDIT**

BY:

*P.O. Pacial*

**PURITA O. PACIAL**  
Supervising Auditor

March 26, 2018





JOHN HAY MANAGEMENT CORPORATION  
a member of The BCDA Group



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the JOHN HAY MANAGEMENT CORPORATION is responsible for the preparation of the financial statements as at 31 December 2017, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The 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 before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the JOHN HAY MANAGEMENT CORPORATION in accordance with the Philippine Public Sector Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

  
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SILVESTRE C. AFABLE JR.

Chairman of the Board

FEB 13 2018

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Date Signed

  
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RONALD B. ZAMBRANO

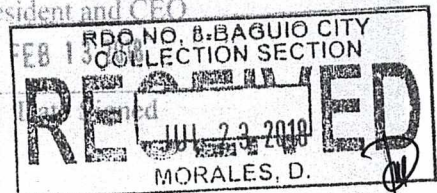
Finance Manager

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Date Signed

  
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ALLAN R. GARCIA

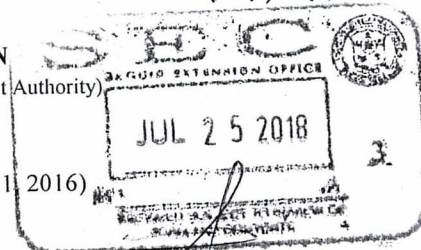
President and CEO





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**JOHN HAY MANAGEMENT CORPORATION**  
 (A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)  
**STATEMENT OF FINANCIAL POSITION**  
 As of December 31, 2017  
 (With Comparative Figures for the year ended December 31, 2016)  
 (In Philippine Peso)

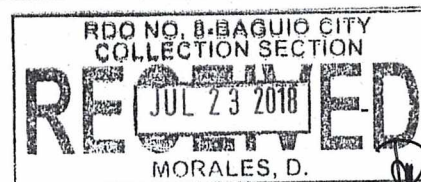


	NOTE	CY2017	01 Jan. 2017 Restated	CY2016
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	6	82,455,140.66	76,373,085.11	76,373,085.11
Other Investments	7	57,645,726.37	38,549,747.44	-
Receivables	8	33,536,828.47	40,140,677.24	40,140,677.24
Inventories	9	6,566,653.60	6,750,134.98	6,750,134.98
Other Current Assets	14	13,185,063.84	7,415,528.39	7,415,528.39
<b>Total Current Assets</b>		<b>193,389,412.94</b>	<b>169,229,173.16</b>	<b>130,679,425.72</b>
<b>Non-Current Assets</b>				
Other Investments	10	132,000.00	132,000.00	38,681,747.44
Receivables	8	958,786.55	3,640,526.84	3,640,526.84
Investment Property	11	18,939,353.71	15,554,382.03	-
Property, Plant and Equipment	12	10,819,352.23	13,830,337.25	29,780,576.81
Intangible Assets	13	860,138.88	220,697.54	220,697.54
Other Non-Current Assets	14	6,882,130.28	11,272,130.28	11,272,130.28
<b>Total Non-Current Assets</b>		<b>38,591,761.65</b>	<b>44,650,073.94</b>	<b>83,595,678.91</b>
<b>TOTAL ASSETS</b>		<b>231,981,174.59</b>	<b>213,879,247.10</b>	<b>214,275,104.63</b>

<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Financial Liabilities	15	21,477,535.01	17,147,615.07	17,147,615.07
Inter-Agency Payables	16	4,105,071.57	5,195,818.72	5,195,818.72
Intra-Agency Payables	17	2,191,015.64	8,158,949.67	8,158,949.67
Trust Liabilities	18	261,928.56	180,588.35	180,588.35
Deferred Credits/Unearned Income	19	142,847.60	53,476.78	53,476.78
Other Long-Term Liabilities				
Other Payables	20	0.12	-	-
<b>Total Current Liabilities</b>		<b>28,178,398.50</b>	<b>30,736,448.59</b>	<b>30,736,448.59</b>
<b>Non-Current Liabilities</b>				
Financial Liabilities	15	8,969,257.00	13,463,131.69	13,463,131.69
Inter-Agency Payables	16	25,317.29	41,787.71	41,787.71
Intra-Agency Payables	17	11,967,820.38	6,514,665.57	6,514,665.57
Trust Liabilities	18	2,471,677.94	528,500.00	528,500.00
Deferred Credits/Unearned Income	19	12,280.46	4,368,423.70	4,368,423.70
Other Long-Term Liabilities				
Other Payables	20	167,370.97	139,370.89	139,370.89
<b>Total Non-Current Liabilities</b>		<b>23,613,724.04</b>	<b>25,055,879.56</b>	<b>25,055,879.56</b>
<b>Total Liabilities</b>		<b>51,792,122.54</b>	<b>55,792,328.15</b>	<b>55,792,328.15</b>

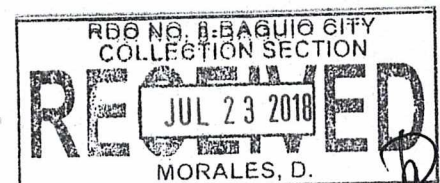
**DEPOSIT FROM PROSPECTIVE INVESTORS**

Balance at beginning of year			
Additional equity/Adjustment			
<b>Balance at year-end</b>	19		



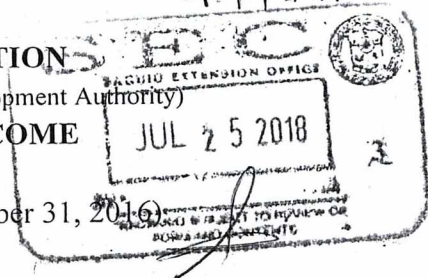
	NOTE	CY2017	<u>01 Jan. 2017</u> <u>Restated</u>	CY2016
<b>EQUITY</b>				
<b>Equity</b>				
Retained Earnings/(Deficit)		(203,625,026.92)	(225,727,160.02)	(225,331,302.49)
Stockholders' Equity		383,814,078.97	383,814,078.97	383,814,078.97
<b>Total Equity</b>		<b>180,189,052.05</b>	<b>158,086,918.95</b>	<b>158,482,776.48</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>231,981,174.59</b>	<b>213,879,247.10</b>	<b>214,275,104.63</b>

*See accompanying Notes to Financial Statements*



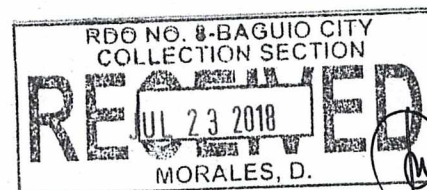
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**JOHN HAY MANAGEMENT CORPORATION**  
 (A Wholly-Owned Subsidiary of the Bases Conversion and Development Authority)  
**STATEMENT OF COMPREHENSIVE INCOME**  
 For the year ended December 31, 2017  
 (With Comparative Figures for the year ended December 31, 2016)  
 (In Philippine Peso)



	NOTE	CY2017	CY2016
<b>Income</b>			
Service and Business Income	21	84,703,387.77	76,450,176.26
Gains	25	14,602.81	350,688.53
Other Non-Operating Income	25	7,602.22	-
<b>Total Income</b>		<b>84,725,592.80</b>	<b>76,800,864.79</b>
<b>Expenses</b>			
Personnel Services	22	(29,518,131.06)	(27,114,133.44)
Maintenance & Other Operating Expenses	23	(31,319,212.78)	(27,611,674.67)
Non-Cash Expenses	24	(3,014,951.28)	(5,341,155.35)
<b>Total Expenses</b>		<b>(63,852,295.12)</b>	<b>(60,066,963.46)</b>
<b>Profit/(Loss) Before Tax</b>		<b>20,873,297.68</b>	<b>16,733,901.33</b>
<b>Income Tax Expense/(Benefit)</b>		<b>(5,619,810.38)</b>	<b>(5,545,046.64)</b>
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>15,253,487.30</b>	<b>11,188,854.69</b>
Assistance and Subsidy		-	-
Other Comprehensive Income/(Loss) for the Period		-	-
<b>COMPREHESIVE INCOME/(LOSS)</b>		<b>15,253,487.30</b>	<b>11,188,854.69</b>

*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, 2017  
(With Comparative Figures for the year ended December 31, 2016)  
(In Philippine Peso)

	NOTE	CY2017	CY2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>26.1</b>		
<b>Cash Inflows</b>	<b>26.1.1</b>		
Collection of Income/Revenue		82,219,641.82	73,323,186.05
Collection of Receivables		281,197.21	2,300,876.78
Receipt of Intra-Agency Fund Transfers		103,019,132.44	110,269,674.10
Trust Receipts		99,800.00	468,815.25
Other Receipts		1,652,454.02	1,089,208.38
<b>Total Cash Inflows</b>		<b>187,272,225.49</b>	<b>187,451,760.56</b>
Adjustments		15,215,236.30	11,470,614.12
<b>Adjusted Cash Inflows</b>		<b>202,487,461.79</b>	<b>198,922,374.68</b>
<b>Cash Outflows</b>	<b>26.1.2</b>		
Payment of Expenses		(55,207,820.73)	(63,156,014.15)
Purchase of Inventories		(1,968,692.72)	(952,922.89)
Grant of Cash Advances		(2,953,905.75)	(3,053,676.00)
Prepayments		(242,206.08)	(389,510.99)
Refund of Deposits		-	(3,000.00)
Payment of Accounts Payable		-	(4,391.47)
Remittance of Personnel Benefit Contributions and Mandatory Deductions		(8,313,787.84)	(4,882,642.47)
Release of Intra-Agency Fund Transfers		(98,472,209.62)	(94,790,767.22)
Other Disbursements		(18,756,198.74)	(473,063.78)
<b>Total Cash Outflows</b>		<b>(185,914,821.48)</b>	<b>(167,705,988.97)</b>
Adjustments		(10,845,043.25)	(9,271,336.67)
<b>Adjusted Cash Outflows</b>		<b>(196,759,864.73)</b>	<b>(176,977,325.64)</b>
<b>Net Cash Provided By/(Used In) Operating Activities</b>		<b>5,727,597.06</b>	<b>21,945,049.04</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>26.2</b>		
<b>Cash Inflows</b>	<b>26.2.1</b>		
Collection of COB for Capital Outlay		1,605,000.00	2,472,000.00
<b>Total Cash Inflows</b>		<b>1,605,000.00</b>	<b>2,472,000.00</b>
<b>Cash Outflows</b>	<b>26.2.2</b>		
Purchase/Construction of Property, Plant and Equipment		(1,213,040.00)	(881,524.40)
Purchase of Intangible Assets		(37,500.00)	(547,733.50)
<b>Total Cash Outflows</b>		<b>(1,250,540.00)</b>	<b>(1,429,257.90)</b>
<b>Net Cash Provided By/(Used In) Investing Activities</b>		<b>354,460.00</b>	<b>1,042,742.10</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>6,082,057.06</b>	<b>22,987,791.14</b>
Effects of Exchange Rate Changes on Cash and Cash Equivalents		(1.51)	160.16
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>		<b>76,373,085.11</b>	<b>53,385,133.81</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>		<b>82,455,140.66</b>	<b>76,373,085.11</b>

*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, 2017**  
(With Comparative Figures for the year ended December 31, 2016)  
(In Philippine Peso)

	NOTE	Retained Earnings/ (Deficit)	Share Capital	Share Premium	TOTAL
<b>BALANCE AT 01 JANUARY, 2016</b>		(238,653,661.69)	120,000,000.00	-	(118,653,661.69)
<b>ADJUSTMENTS:</b>					
Add/(Deduct):					
Changes in Accounting Policy		-	-	-	-
Prior Period Errors		-	-	-	-
Other Adjustments		-	-	-	-
<b>RESTATED BALANCE AT 01 JANUARY, 2016</b>		(238,653,661.69)	120,000,000.00	-	(118,653,661.69)
<b>CHANGES IN EQUITY FOR 2016</b>					
Add/(Deduct):					
Issuance of Share Capital			263,814,000.00	78.97	263,814,078.97
Comprehensive Income for the Year		11,188,854.69			11,188,854.69
Other Adjustments		2,133,504.51			2,133,504.51
<b>BALANCE AT 31 DECEMBER, 2016</b>	27	(225,331,302.49)	383,814,000.00	78.97	158,482,776.48
<b>CHANGES IN EQUITY FOR 2017</b>					
Add/(Deduct):					
Issuance of Share Capital			-	-	-
Comprehensive Income for the Year		15,253,487.30			15,253,487.30
Other Adjustments	5	6,452,788.27			6,452,788.27
<b>BALANCE AT 31 DECEMBER, 2017</b>		(203,625,026.92)	383,814,000.00	78.97	180,189,052.05

*See accompanying Notes to Financial Statements*