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

ANNUAL AUDIT REPORT

on the

JOHN HAY MANAGEMENT CORPORATION
Baguio City

For the Year Ended December 31, 2017

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

JOHN HAY MANAGEMENT CORPORATION
ICT DIVISION - RECORDS SECTION
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John Hay Management Corporation
a member of the BCDA Group
OPCEO-IN-2018-0844

June 18, 2018

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

Sir:

We are pleased to transmit the Annual Audit Report on the John Hay Management Corporation for the year ended December 31, 2017 in compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit aimed to verify the level of assurance that may be placed in management's assertions of the financial statements, ascertain compliance with rules and regulations and determine whether resources were managed economically and efficiently. It was conducted in accordance with Philippine Public Sector Standards of Auditing and we believe that it provided reasonable basis for the results of our audit.

A qualified opinion was rendered on the fairness of the presentation of the financial statements as of December 31, 2017 due to:

- incomplete disclosure of additional information in the Notes to Financial Statements as required under Philippine Accounting Standards 1, thus information contained would not adequately assist users in understanding the financial position of the Corporation, as well as, errors in several amounts and balances presented therein.

- doubtful reliability of Property, Plant and Equipment (PPE) with a total carrying amount of P10,782,812.12 due to (a) non-recognition in the books of accounts of PPE worth P4,779,424.51 acquired thru donation/transfer; (b) non-depreciation of PPE with a total cost of P720,557.46; (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;

- uncertain reliability of Accounts Receivable with a year-end balance of P5,196,525.13 due to (a) improper offsetting of receivables from and payables to

Camp John Hay Development Corporation of P4,060,916.98; (b) irregular derecognition of receivables from the books of accounts totaling P1,246,344.58; (c) inadequately supported Journal Entry Vouchers to adjust the receivables account in the total amount of P4,421,084.19; and (d) other deficiencies which understated the AR account by P83,729.72, and affecting also the balances of other accounts, which includes, among others, Accounts Payable, Other Deferred Credits, and Other Unearned Revenue;

- overstatement of the Input Taxes account by ₱4,091,938.42, representing the accumulated input tax credits attributable to zero-rated sales for the years 2012 to 2015 that could no longer be recovered;

- doubtful accuracy of the Due from and Due to Central/Home/Head Office account balances due to (a) misclassification to the said accounts of receivables from and payables to the Baguio Conversion and Development Authority (BCDA) amounting to ₱17,536,740.76 and ₱12,510,558.21, respectively; (b) unreconciled payables to the BCDA amounting to P2,310,218.04; (c) long outstanding unutilized funds totaling P4,805,330.57; and (d) existence of negative balances in the accounts which reduced the balance of the Due to Central Office account by P2,486,327.59;

- understatement of the Investment Property-Buildings account P47,475.65 due to the non-recognition of a building that is being leased to interested parties for the conduct of special events.

The following are the other significant findings and observations, the details of which are discussed in the Observations and Recommendations portion of the report:

1. Disbursement vouchers and supporting documents of receorded transactions totaling P70,517,048.46 were not submitted for audit;

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; and

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

We request that the recommended remedial measures be immediately implemented and we will appreciate being informed of the actions(s) taken thereon within 60 days from receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act for FY 2017 or Republic Act No. 10924.

We acknowledge the assistance and support extended to the Audit Team by the officials and employees of the Corporation.

Very truly yours,

JOSEPH B. ANACAY
Regional Director

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

#09
JOHN HAY MANAGEMENT CORPORATION
ICT DIVISION - RECORDS SECTION
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By: Time: 3:20

June 18, 2018

THE BOARD OF DIRECTORS
John Hay Management Corporation
Camp John Hay
Baguio City

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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; and

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

We request that the recommended remedial measures be immediately implemented and we will appreciate being informed of the actions(s) taken thereon within 60 days from receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act for FY 2017 or Republic Act No. 10924.

We acknowledge the assistance and support extended to the Audit Team by the officials and employees of the Corporation.

Very truly yours,

JOSEPH B. ANACAY
Regional Director

JOHN HAY MANAGEMENT CORPORATION
Baguio City

Madam

AGENCY ACTION PLAN and
STATUS of IMPLEMENTATION
Audit Observations and Recommendations
for the Calendar Year 2017
As of ________________________

Ref.	Audit Observations	Audit Recommendations	AGENCY ACTION PLAN				Status of Implementation	Reasons for Partial/Delay/Non-implementation, if applicable	Action taken/Actions to be taken
			Action Plan	Persons/ Dept. Responsible	Target Implementation Date				
					From	To			
Part II AAR 2017									
1	1. All the necessary additional information in the Notes to Financial Statements were not fully disclosed as required under Philippine Accounting Standards 1, thus information contained would not adequately assist users in understanding the financial position of the Corporation. Moreover, the Notes to Financial Statements contained several errors in the amounts and balances presented therein.	We recommended that Management ensure that succeeding Notes to Financial Statements are prepared in accordance with the requirements of the PFRS and pertinent PASs to enhance the reliability thereof							
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	We recommended that: a. the GSD immediately provide a copy of the Invoice Receipt of Property (IRPs) and other pertinent documents to the Accounting/Finance Division as its basis to recognize in the books of accounts, the PPEs owned by the JHMC totaling P4,779,424.51 and the respective accumulated depreciation; b. the Supply Officer determine the fair value of the 23 PPE items that were donated or transferred without cost for							

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					From	To			
	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.	use as basis in recognizing the said assets in the books pursuant to PAS 16 and COA Circular No. 2015-010 dated December 1, 2015; the Accounting/Finance Division (i) provide depreciation for PPEs with a total reported cost of P720,557.46, and submit the pertinent documents and necessary information and explanations to support the journal entries made to adjust the Motor Vehicles account in the total net amount of P4,725,837.45; (i) recognize all PPEs owned by JHMC in the books and provide these with depreciation based on the JHMC's accounting policy on depreciation, which should be aligned to PAS 16; (i) review the residual value and the useful life of JHMC's PPE at each annual reporting date in accordance with PAS 16. If expectations differ from previous estimates, account for the change as a change in an accounting estimate pursuant to PAS 8 (par. 51).							
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.	We recommended that Management direct the Accountant to: a. restore/reverse the accounting entry made to offset the receivables due from DevCo of P4,060,916.96 against the payables to the same entity because pursuant to PAS 32, the JHMC has no legally enforceable right to set off the recognized amounts, since that right would be available only upon settlement of the case filed by the JHMC against the said entity; and							

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					From	To			
		b. prepare adjusting entries to correct the entries made to derecognize receivables from the books of accounts totaling P1,246,344.58 without proper authority; and the deficiencies noted which understated the AR account by P83,729.72. We also recommended that Management ensure that, except for valid adjustments such as those to correct inadvertent errors, or inaccurate calculation, reclassification of ARs to appropriate accounts prescribed under the Revised Chart of Accounts, no ARs shall be dropped from the books until the request for authority to write-off dormant receivables is granted pursuant to COA Circular No. 2016-005 dated December 19, 2016.							
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.	We recommended that Management consult the BIR for the possible recovery or refund of the accumulated and unapplied input VAT arising from purchase of goods and services in CYs 2012 to 2015 totaling P4,091,938.42 despite the expiration of the two-year prescriptive period. If recovery of the said amount is nil due to the prescription of the mandatory filing period, direct the Accountant to immediately prepare a journal entry to credit the said amount from the account Input Tax and to debit the same to the account Retained Earnings/(Deficit). In this way, the true financial position of the JHMC would be reflected.							
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	We recommended that Management require the Accountant to: a reclassify the balances of the Intra-Receivables and Intra-Payable accounts, Due from and Due to							

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			Action Plan	Persons/ Dept. Responsible	Target Implementation Date				
					From	To			
	and payables to the Baguio Conversion and Development Authority (BCDA) amounting to ₱17,536,740.76 and ₱12,510,558.21, 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.	Central Office, to the Inter-Receivable and Inter-Payable accounts, Due from and Due to Parent Corporation, in accordance with the RCA to enhance the fair presentation of these accounts in the Statement of Financial Position (SFP); and b trace the origin of the transactions to determine the cause of the discrepancy. Once the correct amount is established, prepare the necessary adjusting entry or remit the amount due to the BCDA to reflect the true balance of the Due to CO account (to be reclassified to the Due to Parent Corporations account) in the SFP. We also recommended that Management: a. investigate the reasons why CAPEX funds received from the BCDA in 2007, 2012 and 2013 for the implementation of various projects totaling P4,202,112.97 remained unutilized for more than four years to more than ten years. In case these were already utilized, determine the accounts used in recording the amounts paid and cause the immediate adjustment of the Due to CO account. Otherwise, return the amount immediately to the BCDA so that it can be utilized for other priority projects; b. remit to the BCDA the unused balance of funds received for the Soil Erosion Protection Project amounting to P312,156.70 considering that the said project was already completed and the purpose for which the fund was released had already been served to preclude the use thereof for unauthorized purposes.							

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		Also, remit immediately to the BCDA the amount of P27,180.00 representing cottage rentals collected in 2002 and 2004; c. request the BCDA for the release of funds amounting to P2,046,281.26 to cover the amount advanced for the payment for the Relocation Survey of JHMC areas; and d. coordinate with the BCDA on how the net over-remittance of PEZA Land Rentals of P391,929.69 can be refunded to the JHMC, and how to account for the net foreign exchange losses amounting to P48,116.64. For the interest earned in 2012 on the Saving Account amounting to P594.58, record these as income of the prior years in the appropriate books in accordance with the provisions of the Performance Agreement executed between the JHMC and BCDA in 2012							
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 ₱209,522.51 between the two accounts.	We recommended that Management require the Accountant reconcile the difference of P209,522.51 noted between the Due to Other Funds and Due from Other Funds accounts and prepare the necessary adjusting entries to balance 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.	We recommended that Management require the Accountant to coordinate with the General Services Division for the submission of the pertinent documents relative to the acquisition of the Gazebo (Historical Core) with an area of 28.09 sq.m. and to recognize the said property in the books of accounts.							

Ref.	Audit Observations	Audit Recommendations	AGENCY ACTION PLAN				Status of Implementation	Reasons for Partial/Delay/Non-implementation, if applicable	Action taken/Actions to be taken
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					From	To			
8	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 have 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.							
9	The accuracy, propriety and validity of recorded transactions totaling ₱70,517,048.46 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.							
10	Items worth P1,809,317.00 were procured through Shopping and Negotiated Procurement-Small Value Procurement (SNP-SVP) without strictly complying with the requirements and procedures provided under Sections 52 and 53.9 of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 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 BAC and the procurement unit to strictly comply with the requirements and procedures for Shopping and Small Value Procurement 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.							
11	The reported year-end balance of the Due to BIR account of ₱865,937.60 included the net over-remittance of taxes withheld in the current and prior years amounting to ₱56,580.62 which resulted from non-reconciliation of the amounts remitted with the actual amounts	We recommended that Management consider requesting the BIR for the refund of the net over-remittance of withheld taxes pertaining to current and prior years of ₱56,580.62; and henceforth, ensure that the exact and accurate amounts are remitted to the BIR to avoid similar deficiencies.							

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	withheld prior to remitting the same to the BIR.								
12	The reported year-end balance of Inter-Agency Payables to SSS, Pag-IBIG, and Philhealth totaling ₱251,343.08 included net under-remittances totaling ₱38,295.00 as a result of non-reconciliation of the amounts remitted with the actual amounts withheld prior to remitting the same to the Offices concerned.	We recommended that Management: a. direct the Accounting Unit to reconcile the Lists of Remittances for the affected months with the amounts that were withheld from employees' salaries in order to account for the total difference of ₱38,295.00; b. cause the immediate remittance of the net under-remittance of contributions and loan payments to the SSS and Pag-IBIG Offices of P29,065.00 and 30,167.48, respectively. For the over-remittance of Philhealth contributions of P20,937.48, consider requesting the said Office to offset the said amount against the succeeding remittance; and c. ensure that the exact and accurate amounts are remitted to the SSS, Pag-IBIG and Philhealth Offices to avoid similar discrepancies.							
13	The amount allotted for Gender and Development (GAD) programs, projects, and activities for CY 2017 of ₱1 Million was not optimized as only P556,730.68 was spent. Moreover, the GAD Plan and Budget was not duly approved and endorsed by the Philippine Commission on Women (PCW) thereby, giving no assurance that the GAD activities were aligned with the GAD agenda and were appropriate to address the identified gender issues and	We have recommended that Management direct the GAD Focal Point System to (a) review the GAD Plan and Budget for the ensuing year to determine whether the proposed budget is realistic/reasonable and if there is a need to implement additional programs and projects or GAD-related undertakings to optimize the use of the allocated amount; and (b) submit the GBP tothe PCW for review, endorsement and approval prior to the implementation of GAD activities to ensure that the proposed activities are aligned to the GAD agenda.							
	concerns, and that the budget was reasonable.								

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Settlement of Audit Suspensions, Disallowances and Charges (SASDC)									
14	Disallowances totaling ₱2,728,562.07 remained unsettled as of year-end as these were all appealed with the COA.	We recommended that Management notify the persons liable and persons responsible and request for the settlement of their disallowances.							
Value for Money Audit									
15	The JHMC generated total revenue collections of ₱ 47.8 million for the year 2017 from lease agreements entered into with the different locators-lessees. This amount was equivalent to only 68.4 per cent of the Estate Management Fee of ₱69.9 million received from the Bases Conversion Development Authority (BCDA); hence, the JHMC will not be able to receive a higher budget for the ensuing year.	We recommended that Management, through its Business Development Department, to scout for more prospective locator-lessees and to come up with other marketing strategies or revenue generating activities to increase its revenues.							
Part III AAR 2017									
16	The accuracy of the Share Capital account with a reported balance of ₱383,814,079.00 could not be ascertained due to non-submission of the Inventory List of Stockholders with the corresponding amounts of subscription, as well as the non-presentation of the updated Stock and Transfer Book for verification and inspection purposes.	We recommended that Management immediately submit to COA the Inventory List of Stockholders with the corresponding amounts of subscription and present the Stock and Transfer Book for proper validation and determination of the accuracy of the Corporation's Share Capital account as presented in its financial statements.							
17	Collection inefficiency and	We recommended that Management:							

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	incomplete documentation resulted in the accumulation of long-term accounts receivable amounting to P7.03 million, thereby, depriving the agency of the much needed cash for its operations	a. Establish claims on these receivables by working back and, if necessary, reconstruct supporting documents of valid claims like bills and statement of accounts or gather all pertinent documents to support claims; and b. Enforce the collection of valid accounts by sending demand letters or withhold payment of money claims due the concerned employees and other persons.							
18	Collection inefficiency and incomplete documentation resulted in the accumulation of long-term accounts receivable (net) to ₱10.781 million.	We recommended that Management: a. Establish claims on long-term accounts receivable by working back, and , if necessary, reconstruct supporting documents of valid claims like bills and statement of accounts; b. Provide allowance for doubtful accounts and request for write-off of uncollectible accounts with the COA; and c. Enforce the collection of valid accounts. Send demand letters or withhold payment of money claims due to affected employees and others.							
19	Salary differential paid in the amount of ₱50,759.00 not in concurrence with the provisions of JHMC Policy No. 003-2004.	We recommended that Management require the refund the salary differential amounting to ₱50,759.00.							

Agency sign-off:

Name and Position of Agency Officer

Date

Note: Status of Implementation may either be (a) Fully implemented, (b) Ongoing, © Not Implemented, (d) Partially Implemented, or (e) Delayed

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 ₱4,091,938.42 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 ₱17,536,740.76 and ₱12,510,558.21, 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 ₱209,522.51 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 ₱70,517,048.46 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

THE BOARD OF DIRECTORS
John Hay Management Corporation
Camp John Hay
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.

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 ₱4,091,938.42 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 ₱17,536,740.76 and ₱12,510,558.21, 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 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:

PURITA O. PACIAL
Supervising Auditor

March 26, 2018

Republic of the Philippines
Office of the President

JHMC

JOHN HAY MANAGEMENT CORPORATION
a member of The BCDA Group

Certificate Number: AJA16/0059

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.

SILVESTRE C. AFABLE JR.
Chairman of the Board

FEB 13 2018
Date Signed

RONALD B. ZAMBRANO
Finance Manager

FEB 13 2018
Date Signed

ALLAN R. GARCIA
President and CEO

FEB 13 2018
Date Signed

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
ASSETS				
Current Assets				
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
Total Current Assets		**193,389,412.94**	**169,229,173.16**	**130,679,425.72**
Non-Current Assets				
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
Total Non-Current Assets		**38,591,761.65**	**44,650,073.94**	**83,595,678.91**
TOTAL ASSETS		**231,981,174.59**	**213,879,247.10**	**214,275,104.63**
LIABILITIES				
Current Liabilities				
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	-	-
Total Current Liabilities		**28,178,398.50**	**30,736,448.59**	**30,736,448.59**
Non-Current Liabilities				
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
Total Non-Current Liabilities		**23,613,724.04**	**25,055,879.56**	**25,055,879.56**
Total Liabilities		**51,792,122.54**	**55,792,328.15**	**55,792,328.15**
DEPOSIT FROM PROSPECTIVE INVESTORS				
Balance at beginning of year				
Additional equity/Adjustment				
Balance at year-end	**19**	-		-

	NOTE	CY2017	01 Jan. 2017 Restated	CY2016
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
Total Equity		**180,189,052.05**	**158,086,918.95**	**158,482,776.48**
TOTAL LIABILITIES AND EQUITY		**231,981,174.59**	**213,879,247.10**	**214,275,104.63**

See accompanying Notes to Financial Statements

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
Income			
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	-
Total Income		**84,725,592.80**	**76,800,864.79**
Expenses			
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)
Total Expenses		**(63,852,295.12)**	**(60,066,963.46)**
Profit/(Loss) Before Tax		**20,873,297.68**	**16,733,901.33**
Income Tax Expense/(Benefit)		(5,619,810.38)	(5,545,046.64)
PROFIT/(LOSS) AFTER TAX		**15,253,487.30**	**11,188,854.69**
Assistance and Subsidy		-	-
Other Comprehensive Income/(Loss) for the Period		-	-
COMPREHESIVE INCOME/(LOSS)		**15,253,487.30**	**11,188,854.69**

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
CASH FLOWS FROM OPERATING ACTIVITIES	**26.1**		
Cash Inflows	**26.1.1**		
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
Total Cash Inflows		**187,272,225.49**	**187,451,760.56**
Adjustments		15,215,236.30	11,470,614.12
Adjusted Cash Inflows		**202,487,461.79**	**198,922,374.68**
Cash Outflows	**26.1.2**		
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)
Tota Cash Outflows		**(185,914,821.48)**	**(167,705,988.97)**
Adjustments		(10,845,043.25)	(9,271,336.67)
Adjusted Cash Outflows		**(196,759,864.73)**	**(176,977,325.64)**
Net Cash Provided By/(Used In) Operating Activities		**5,727,597.06**	**21,945,049.04**
CASH FLOWS FROM INVESTING ACTIVITIES	**26.2**		
Cash Inflows	**26.2.1**		
Collection of COB for Capital Outlay		1,605,000.00	2,472,000.00
Total Cash Inflows		**1,605,000.00**	**2,472,000.00**
Cash Outflows	**26.2.2**		
Purchase/Construction of Property, Plant and Equipment		(1,213,040.00)	(881,524.40)
Purchase of Intangible Assets		(37,500.00)	(547,733.50)
Total Cash Outflows		**(1,250,540.00)**	**(1,429,257.90)**
Net Cash Provided By/(Used In) Investing Activities		**354,460.00**	**1,042,742.10**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**6,082,057.06**	**22,987,791.14**
Effects of Exchange Rate Changes on Cash and Cash Equivalents		(1.51)	160.16
CASH AND CASH EQUIVALENTS, JANUARY 1		**76,373,085.11**	**53,385,133.81**
CASH AND CASH EQUIVALENTS, DECEMBER 31		**82,455,140.66**	**76,373,085.11**

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
BALANCE AT 01 JANUARY, 2016		**(238,653,661.69)**	**120,000,000.00**	**-**	**(118,653,661.69)**
ADJUSTMENTS:					
Add/(Deduct):					
Changes in Accounting Policy		-	-	-	-
Prior Period Errors		-	-	-	-
Other Adjustments		-	-	-	-
RESTATED BALANCE AT 01 JANUARY, 2016		**(238,653,661.69)**	**120,000,000.00**	**-**	**(118,653,661.69)**
CHANGES IN EQUITY FOR 2016					
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
BALANCE AT 31 DECEMBER, 2016	**27**	**(225,331,302.49)**	**383,814,000.00**	**78.97**	**158,482,776.48**
CHANGES IN EQUITY FOR 2017					
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
BALANCE AT 31 DECEMBER, 2017		**(203,625,026.92)**	**383,814,000.00**	**78.97**	**180,189,052.05**

See accompanying Notes to Financial Statements

JOHN HAY MANAGEMENT CORPORATION
Notes to Financial Statements
For the year ended 31 December, 2017

1. GENERAL INFORMATION/ENTITY PROFILE

The financial statement of **John Hay Management Corporation** was authorized for issue on 13 February 2018 as shown in the **Statement of Management Responsibility for Financial Statements** signed by the Board of Directors Chairman Silvestre C. Afable, Jr., President and Chief Executive Officer, Allan R. Garcia, and the Finance Manager, Ronald B. Zambrano.

The John Hay Management Corporation (JHMC) is a non- chartered Government Owned and/or Controlled Corporation, duly incorporated under Batas Pambansa Blg. 68 or "The Corporation Code of the Philippines", with Securities and Exchange Commission registration number ASO93-04846. JHMC is a subsidiary of the Bases Conversion and Development Authority (BCDA). JHMC is located in John Hay Special Economic Zone, Loakan, Baguio City.

HISTORY

In 1991, American military presence in the Philippines ended and Republic Act. No. 7227 or the Bases Conversion and Development Act of 1992 was enacted where the Bases Conversion and Development Authority (BCDA) was created. The BCDA took over the ownership and management of the Camp John Hay.

By virtue of Executive Order No. 103 of 1993, John Hay Development Corporation (JHDC) was created and operated as BCDA's implementing arm for the conversion of Camp John Hay into an environmental, economic, and social development hub in the North and the country in general.

In 1994, the **John Hay Special Economic Zone (JHSEZ)** was established by virtue of Proclamation No. 420 and Republic Act. No. 7227 where portions of the JHSEZ were leased out for developing into a wholesome family oriented public tourism complex, multiple-use forest watershed and human resource development center.

Executive Order No. 132 of 2002, divided John Hay Poro Point Development Corporation into two entities and renaming them as John Hay Management Corporation (JHMC) and Poro Point Management Corporation (PPMC), respectively. JHMC is now the steward and estate manager of the John Hay Special Economic Zone and the John Hay Reservation Area.

Based on the 2017 Performance Agreement by and between Bases Conversion and Development Authority (BCDA), (the property owner of Camp John Hay), and John Hay Management Corporation (JHMC), the following are the mandates of JHMC stipulated in Article V:

The powers and functions of JHMC shall be determined by BCDA as the owner of the Property but is not limited to the following:

1.1 To adhere to general strategies and governance standards of the BCDA.

1.2 To develop, manage and administer the Property, including all property rights, improvements, services and facilities therein and owned by BCDA. JHMC shall formulate, adopt and implement development guidelines along the principles of sustainable development and socio-cultural acceptability. JHMC shall oversee and implement the conversion projects within the Property, including land asset disposition and infrastructure implementation inside the Property subject to prior written approval of BCDA of the conversion project, including the Terms of Reference therefor. The Property shall be developed to become a banner component of the Philippine tourism infrastructure pursuant to E.O. No. 62.

1.3 To formulate and implement trade guidelines and procedures in setting up businesses inside the Property while also administering fiscal and non-fiscal trade incentives, when applicable, to these businesses consistent with existing laws. JHMC shall develop investment-friendly regulatory policies to assist its locators in operating their businesses. JHMC shall accredit all its business locators, and facilitate their registration with Philippine Economic Zone Authority (PEZA), when applicable. The PEZA shall administer the fiscal and non-fiscal incentives as provided for by Philippine laws specifically R.A. 9400, R.A. 7196, and R.A. No. 10708.

1.4 To promote the zone as an attractive and viable investment site in coordination with the (a) Board of Investments (BOI), (b) Philippine Economic Zone Authority (PEZA) and (c) other Philippine Investment Promotion Agencies (IPAs) including the Subic Bay Metropolitan Authority (SBMA), as well as with all concerned Local Government Units (LGUs) and other government and private agencies. JHMC shall also harmonize, simplify and unify all its processes and procedures, including application forms and documentary requirements, for transactions with the other economic zones under the BCDA Group, eliminating red tape and promoting a streamlined bureaucracy.

1.5 Subject to the prior written approval required under Section 5.2 above, to negotiate and execute agreements involving contracts of lease and joint ventures, and perform such acts as necessary to the management and administration of the Property, up to a maximum amount of FIFTY MILLION PESOS (₱50,000,000.00) per contract in consultation with BCDA during the negotiation and finalization of the contracts. JHMC may also execute such agreements in excess of ₱50,000,000.00 upon securing prior written BCDA Board approval.

However, prior approval of the BCDA shall be obtained by JHMC on matters relating to changes or novation of contracts entered into relative to the use or disposition of any portion of the Property.

1.6 To implement sanctions imposed by law for violation of legal and contractual provisions by its locators. Where none is provided by law, JHMC shall recommend to BCDA, as the governing body of the JHSEZ and **John Hay Reservation Area (JHRA)** under R.A. 7227, as amended, the appropriate sanctions to be imposed for such violation.

1.7 To establish revenue and other performance targets in consultation with BCDA prior to its submission to the GCG. The achievement of at least 80% of these targets shall be the basis for the continuous renewal of this Agreement.

1.8 To administer and ensure compliance of the terms of all lease contracts entered into between BCDA and/or JHMC and investors, locators and other lessees within the Property. JHMC shall follow-up the obligations of locators and/or lessees to ensure their timely and regular payment. Regular report on compliance and sanctions, if applicable, shall be submitted to BCDA.

HIGHLIGHTS OF THE OF PROGRAMS, PROJECTS AND ACTIVITIES OF CY 2017

A. Appointment of John Hay Management Corporation's Management and Board of Directors (BOD)

The ascension of the President Rodrigo R. Duterte to the Presidency of the Philippines also marked the change of Management and Board of Directors of John Hay Management Corporation (JHMC) for CY2017. **Mr. Allan R. Garcia** was appointed as the President and Chief Executive Officer and **Miss Jane Theresa G. Tabalingcos** as Vice-President and Chief Operations Officer.

The members of the **Board of Directors** are as follows:

1. Silvestre C. Afable Jr. Chairman of the Board
2. Allan G. Garcia, President and Chief Executive Officer (CEO), Member
3. Eduardo B. Davalan, Member and Corporate Treasurer
4. Mary Marilyn D. Lambino, Member
5. Gloria F. Peralta, Member
6. Monico A. Puentevella, Jr., Member
7. Charito R. Dulay, Member
8. Ceasar G. Oracion, Member
9. Alejandro F. Fernandez, Member
10. Christian Paul L. Ulpindo, Member
11. Rufino G. Ibay, Member
12. Vivencio B. Dizon, Member until 19 November, 2017
13. Jamie Eloise M. Agbayani, former President and CEO and Member of the BOD until 12 January, 2017
14. Gregorio D. Garcia III, Member until 12 March, 2017
15. Emerito P. Manalo, Member until 19 November, 2017
16. Abraham B. Bagasin, Member until 20 June, 2017
17. Teddy Esteban F. Rigoroso, Member until 29 June, 2017
18. Antonio H. Tengco, Member until 27 June, 2017
19. Catherine Mary R. Biazon, Member until 12 February, 2017

B. Signing of the Revised Performance Agreement by and Between JHMC and Bases Conversion and Development Authority (BCDA)

JHMC President and CEO, Allan R. Garcia and BCDA President and CEO Vivencio B. Dizon signed the Revised Performance Agreement (PA) on 13 February 2017. The PA is for 5 years commencing on the date of execution and subject to renewal every 5 years thereafter. The PA states that JHMC will earn an annual Estate Management Fee for its management of the estate of Camp John Hay and retain income/revenues realized at the Historical Core and retention of Common Usage Service Area Fees from its locators. The terms of compensation will allow JHMC to be more flexible in its allocation of annual budget and an opportunity to increase its income.

C. JHMC Passed the Surveillance Audit by AJA Registrars for the Quality Management System (QMS) Related to JHMC's Accreditation for ISO 9001-2008

JHMC was accredited by **AJA REGISTRARS** to be ISO 9001:2008 on 20 February 2016 and the Registration Certificate was subsequently issued on 04 March 2016. In 03 February 2017, JHMC passed the 2nd Year surveillance audit conducted by the same Certifying Body. This indicates and signifies that JHMC's Quality Management System was maintained and continuous to be compliant with the requirements of ISO 9001-2008. JHMC aims be re-certified for the ISO 9001:2015 in CY 2018 to further develop and formulate methods to be able to address present and future risks in its operation and to maintain the level of customer/client service satisfaction.

D. Segregation of Barangays Country Club and Hillside

Preliminary activities for the segregation of BCDA land properties in Barangays Country Club and Hillside such as public consultation to validate the census of legitimate structure owners versus the survey made. The prospective beneficiaries were also briefed on the documentary requirements and the procedures for the awarding of lots. In the end the purpose of the program is to provide land to the landless which is consistent with the National Government program, while generating revenues for the government through BCDA and JHMC.

The segregation of the Barangays is a contribution by BCDA and JHMC to the National Shelter Program of the Philippine Government.

E. Development of Automated System for Permits and Accreditation in the Special Economic Zone Department and One-Stop Action Center (OSAC)

Pursuant to Republic Act No. 9485, Section 5 - Reengineering of Systems and Procedures and Republic Act No. 8792 (RA 8792), Section 27 - Government Use of Electronic Data Messages, Electronic Documents and Electronic Signatures, the project involved the design, development, and implementation of the comprehensive computerized and web-enabled Information System for regulatory processes such as the Special Economic Zone Administrative Department (SEZAD), Office of the Building Official (OBO) and in the issuance of Certificate of Environmental Compliance (CEC), which is user-friendly and functional. Also, it helps track and manage transactions in a manner that provides the right information to the right set of people at the right time to enable efficient process flow and decision making.

F. Increase of Job Generated Within the Economic Zone

Number of jobs generated in the JHSEZ increased from **CY2016** of **5,523** to **5,830** for **CY201**7. It is clear that the JHSEZ contributes to the resolution of unemployment in the City of Baguio and the in the Municipalities of La Trinidad, Itogon, Sablan, Tuba and Tublay (BLISTT).

G. Increase of Gross Sales of Business Enterprises Within the JHSEZ

Economic activities are very vibrant within the John Hay Special Economic Zone where the gross sales of all locators totaled **₱967,475,904.67, compared to 2016 of ₱875,570,000.00.**

H. Compliance of JHMC to the National Ambient Air Quality Guideline Values On Particulate Matter 10 (PM10) Within The JHSEZ

Camp John Hay has maintained its stature as the "Protected Lungs of Baguio City". For the past years, because of its rich forests, the air quality has been within the highest strata of being in the "GOOD" Air Quality Index (0 - 54μg/ncm). This could be attributed to sound Forest and Environment Protection and Management in John Hay Special Economic Zone and John Hay Reservation Area.

I. Excellent or Very Satisfactory Feedback for JHMC Rendered Services

92.79% of the Respondents rated JHMC as Excellent and/or Very Satisfactory in its delivery of services for governmental regulation in the JHSEZ and JHRA. JHMC will continue to measure and sustain customer/client satisfaction as a source of input to improve the organization services in general.

J. Internally Generated Revenue of JHMC

Despite limited area of the Historical Core, and challenges in further construction and development within the JHSEZ, JHMC realized internally generated income/revenue of **₱9,015,836.00.** This amount represents revenues generated from regulatory fees, conduct of events and entrance fees at the Historical Core, and interest income.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been in compliance with the Philippine Financial Reporting Standards (PFRS) prescribed by the Commission on Audit through COA Circular No. 2015-003 dated April 16, 2015.

The accounting policies have been consistently applied throughout the year presented. The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

The Statement of Cash Flows is prepared using the direct method.

The consolidated financial statements are presented in peso (₱), which is also the country's functional currency.

The preparation of financial statements in compliance with the adopted PPSAS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 *Basis of accounting*

The financial statements are prepared on an accrual basis of accounting in accordance with the Philippine Financial Reporting Standards.

3.2 *Financial Instruments (IFRS 9)*

Initial Measurement

At initial recognition, an entity shall measure the financial asset of financial liability at its fair value plus or minus, in case of financial asset or financial liability not fair value through profit or loss, transaction cost that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for those trade receivables.

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of **IFRS 9-** Financial Instruments:

JHMC shall recognize a financial asset in its financial statement of financial position when and only when JHMC becomes party to the contractual provisions of the instrument.

Financial assets are classified into;

1. Fair Value through profit or loss.
2. Held to Maturity investment.
3. Fair Value through other comprehensive income.

JHMC shall classify the Financial Asset at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the JHMC commits to purchase or-sell the asset.

The JHMC's financial assets include: cash and cash equivalents; trade and other trade receivables; loans and other loans receivables; quoted and unquoted financial instruments; and derivative financial instruments.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

1. Financial assets at fair value through Profit or Loss

Financial Assets at fair value through profit of loss is one which the financial asset is being managed with the objective of realizing cash flows through the sale of the asset. The objective is typically result in active buying and selling of Financial Asset.

2. Held to Maturity Financial Asset

Financial asset with the basis of its contractual characteristic held whose objective is to hold the asset to collect cash flows based solely on payment of principal and interest.

Held to Maturity Financial asset are subsequently measured at amortized cost using effective interest method, less any impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

3. Financial Asset through Comprehensive Income or Loss

The financial asset should both meet the following conditions;

i. The Financial Asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset and
ii. The contractual terms of the financial asset give rise on a specified date to cash flows that are solely payment of principal and interest on the principal amount outstanding.

iii. Derecognition

The JHMC derecognizes a financial asset or where applicable, a part of a financial asset or part of JHMC of similar ·financial assets when:

1. The contractual rights to the cash flows from the financial asset expired or waived; and

2. JHMC has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in – Financial Instruments: Recognition and Measurement; and either the entity has:

- transferred substantially all the risks and rewards of ownership of the financial asset; or
- neither transferred nor retained substantially all the risks and
- rewards of ownership of the financial asset, but has transferred the control of the asset

iv. Impairment of financial assets

The JHMC assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty

2. Default or delinquency in interest or principal payments

3. The probability that debtors will enter bankruptcy or other financial reorganization

4. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

v. Financial assets carried at amortized

For financial assets carried at amortized cost, the JHMC first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the JHMC determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a Loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in Profit or Loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the JHMC. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

If a future write-off is later recovered, the recovery is credited to finance costs in Profit or Loss.

b. Financial liabilities

i. Initial recognition and measurement

JHMC shall recognize a financial asset in its financial statement of financial position when and only when JHMC becomes party to the contractual provisions of the instrument.

The John Hay Management Corporation financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts.

ii. Derecognition

Financial liability (or part of a financial liability) shall be removed from the financial position when, and only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in Profit or Loss.

c. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.3 *Cash and Cash Equivalents (PAS 7)*

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

3.4 *Inventories (PAS 2)*

Inventory is measured at cost upon initial recognition. To the extent that inventory are received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

a. Raw materials: purchase cost using the weighted average cost method.

b. Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of JHMC.

3.5 *Investment Property (PAS 41)*

Investment Property is a property (land or building – or part of building – or both) held (by the owner or by the lessee as a right –of – use asset) to earn rentals or for capital appreciation or both rather than for:

a. Use in the production or supply of goods or services for administrative purposes; or
b. Sale in the ordinary course of business.

Recognition

An owned investment property shall be recognized as an asset when and only when;

1. It is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
2. The cost of the investment property can be measured reliably.

Measurement at Recognition

An owned investment property shall be measured initially at cost, transaction cost shall be included in the initial measurement.

Measurement after Recognition

Accounting Policy

An entity shall choose as its accounting policy either the fair value model or the cost model and shall apply that policy to all of its investment property.
JHMC adopts the cost model to its investment property and are depreciated over their estimated useful life of ten to thirty years.

Transfer

Transfer of property to, or from investment property when, and only when, there is a change in use. A change in use occurs when property meets, or ceases to meet, the definition of investment property and there is evidence of change in use. In isolation, a change in management's intention for the use of a property does not provide evidence of a change in use.

Disposals

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

3.6 *Property, Plant and Equipment (PAS 16)*

Property Plant and Equipment are tangible items that;

1. Are held for use in the production of goods or services, for rental to others, or for administrative purposes; and
2. Are expected to be used during more than one period.

a. Recognition

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

a.1 It is probable that future economic benefits associated with the item will flow to the entity; and

a.2 The cost of the item can be measured reliably

a.3 JHMC adopt the minimum cost of at least P15,000.00 prescribed by COA Circular No. 2016-006 dated December 29, 2016.

Elements of Cost

1. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

2. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

3. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Measurement of Cost

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23.

b. Measurement at recognition

An item recognized as property, plant, and equipment is measured at cost.

A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction, its cost is its fair value as at recognition date.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, JHMC recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in Profit or Loss as incurred.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

ii. Depreciation method

The straight line method of depreciation is adopted unless another method is of more appropriate for Entity operation.

iii. Estimated useful life

The JHMC uses the life span of PPE prescribed/recommended in the COA Circular Number 2003-2007 in determining the specific estimated useful life for each asset and based on its experience with similar assets. The following EUL is currently being applied by JHMC:

Item of PPE	Estimated Useful Life
Land Improvements	10 to 25 years
Buildings and Other Structures	15 to 30 years
Machinery and Equipment	5 to 10 years
Transportation Equipment: Motor Vehicles	5 to 10 years
Furniture, Fixtures and Books	5 to 10 years
Other Property, Plant and Equipment	2 to 15 years

The estimated useful life for leased properties depend on the length of the lease. It shall be the period of the lease or the estimated useful life of the assets, as given, whichever is shorter.

iv. Residual value

The JHMC uses a residual value equivalent to at least ten percent (10%) of the cost of the PPE.

e. Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

f. Derecognition

JHMC derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

3.7 ***Leases (PFRS 16)***

Identifying a Lease

At the inception of the contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an asset for a period of time in exchange for consideration.

Lessee

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Lessor

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract.

Lease Term

An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

a. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

b. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

a. JHMC as a lessee

i. Recognition

At the commencement date, a lessee shall recognize a right – of – use asset and a lease liability.

Initial Measurement

At the commencement date, a lessee shall measure the right - of – use asset at cost.

The cost of the right-of-use asset shall comprise:

a. The amount of the initial measurement of the lease liability, as described in paragraph 26;
b. Any lease payments made at or before the commencement date, less any lease incentives received;
c. Any initial direct costs incurred by the lessee; and
d. An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

ii. Initial measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate

iii. Subsequent Measurement

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models.

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(a) Less any accumulated depreciation and any accumulated impairment losses; and
(b) Adjusted for any remeasurement of the lease liability.

The lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term when the lessee has no purchase option.

b. JHMC as a lessor

i. Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
b. The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
c. The lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
d. At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
e. The underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

Finance Lease Initial Measurement

The JHMC recognizes lease payments receivable under a finance lease as assets in the statement of financial position. The assets are presented as receivable at an amount equal to the net investment in the lease.

Subsequent Measurement

The finance revenue is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

ii. Operating lease

Leases in which the JHMC does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Recognition and Measurement

Lease payments from operating leases is recognized as income on either a straight-line basis or another systematic basis. JHMC shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

The depreciation policies for PPE are applied to similar assets leased by the entity.

3.8 *Intangible Assets (PAS 37)*

An Intangible Asset is an identifiable non-monetary asset without physical substance.

a. Recognition and measurement

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably.

Intangible assets acquired separately are initially recognized at cost.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in Borrowing Costs.

b. Intangible assets acquired through non-exchange transactions

The cost of intangible assets acquired in a non-exchange of transactions is their fair value at the date these are acquired.

c. Internally generated intangible assets

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.

Internally generated intangible assets, excluding those that meet the criteria of intangible asset on the development phase, are not capitalized; and expenditures incurred are realized as an expense in the profit or loss in the period in which the expenditure is incurred.

d. Recognition of an expense

Expenditure on an intangible item is recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meet the recognition criteria of an intangible asset.

e. Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost Model

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Revaluation model

After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life are amortized over their useful lives.

Useful Life

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity

Amortization period and amortization method

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognized. The amortization method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognized in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

Review of amortization period and amortization method

The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.

Residual value

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless: (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or (b) there is an active market (as defined in IFRS 13) for the asset and: (i) residual value can be determined by reference to that market; and (ii) it is probable that such a market will exist at the end of the asset's useful life.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Profit or Loss when the asset is derecognized.

3.9 *Changes in Accounting Policies and Estimates (PAS 8)*

The JHMC recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The JHMC recognizes the effects of changes in accounting estimates prospectively through surplus or deficit.

The JHMC corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or

b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.10 *The Effects of Changes in Foreign Exchange Rates (PAS 21)*

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

a. Foreign currency monetary items are translated using the closing rate;

b. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

c. Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss.

3.11 *Revenue from Contracts with Customers (IFRS 15)*

Identifying the Contract

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

a. The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

b. The entity can identify each party’s rights regarding the goods or services to be transferred;

c. The entity can identify the payment terms for the goods or services to be transferred;

d. The contract has commercial substance (ie the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and

e. It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer’s ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

Identifying performance obligations

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

i. A good or service (or a bundle of goods or services) that is distinct; or

ii. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

a. Measurement of revenue

When (or as) a performance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained that is allocated to that performance obligation.

Determining the transaction price

An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

b. Rendering of services

The JHMC recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

c. Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the JHMC.

d. Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

e. Dividends

Dividends or similar distributions are recognized when the JHMC's right to receive payments is established.

f. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

3.12 *Employee Benefits (PAS 19)*

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Definitions relating to classification of plans

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans

JHMC provides Defined Contribution Plans which are the mandatory contribution to the government such as; SSS, Pag-ibig and Philhealth.

The JHMC recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

4. CHANGES IN ACCOUNTING POLICIES

Selection and application of accounting policies

When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS.

In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
a. Relevant to the economic decision-making needs of users; and

b. Reliable, in that the financial statements:

- **i.** Represent faithfully the financial position, financial performance and cash flows of the entity;
- **ii.** Reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- **iii.** Are neutral, ie free from bias;
- **iv.** Are prudent; and
- **v.** Are complete in all material respects

Consistency of accounting policies

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorization of items for which different policies may be appropriate. If an IFRS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

An entity shall change an accounting policy only if the change:

- **a.** Is required by an IFRS; or

- **b.** Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

JHMC adopted the following COA Circulars in its preparation and presentation of its financial reports:

4.1 COA Circular No. 2015-010 dated 01 December, 2015: Adoption of the Revised Chart of Accounts (RCA) for the Government Corporations (GCs);

4.2 COA Circular No. 2016-006 dated 29 December, 2016: Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per COA Circular No. 2004-008 dated 20 September, 2004, as amended, to the Revised Chart of Accounts for Government Corporations under COA Circular No. 2015-010 dated 01 December, 2015, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof;

4.3 COA Circular No. 2017-004 dated 13 December, 2017: Guidelines on the preparation of financial statements and other financial reports and implementations of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises.

The above changes however, have no significant impact on JHMC's financial statements.

5. PRIOR PERIOD ADJUSTMENTS

JHMC has determined that long outstanding balances in the Financial Position have not been reflective of its current balances, such as accounts still containing balances from previous Car Plan granted to former Board of Directors and employees of JHMC. The prior period adjustments also include changes in the reporting classification of the PPEs categorized under the semi-expendable equipment. The result of such adjustments are summarized below:

Year Affected	Nominal Account affected	Amount
1995	Printing expenses	-5,390.00
1998	Depreciation Expenses	-1,096,846.02
2000	Depreciation Expenses	-1.00
2002	Communication Expenses	-8,260.00
2004	Gain from Sale of PPE	-337,806.45
2005	Repairs & Maintenance	78,290.55
2006	Representation Expenses	-16,000.00
	Training Expenses	200,000.00
2007	Communication Expenses	4,786.94
	Depreciation Expenses	-1,314,446.36
	Janitorial Services	-12,488.39
	License Fees	36,000.00
	Personnel Services	245,773.52

	Rent Expense	-30,380.41
	Travelling Expenses	10,050.00
	Utilities expenses	16,034.23
2008	Personnel Services	300,255.88
	Security Services	117,557.60
2009	Representation Expenses	-0.12
	Utilities expenses	-23,704.08
2010	BOD Expenses	151,346.48
	Communication Expenses	15,338.25
	Depreciation Expenses	34,291.29
	Personnel Services	203,971.30
	Utilities expenses	-10,000.00
2012	Other Professional Services	4,294.46
2013	Communication Expenses	-51.94
	Personnel Services	29,204.53
	Representation Expenses	6,531.25
2014	BOD Expenses	9,408.00
	CSR	0.00
	Legal Services	68,808.00
	Other Professional Services	2,139.44
	Utilities expenses	65.84
	General Services	479.40
	Advertising	11,776.00
2015	GAD	15,000.00
	Other Professional Services	9,851.65
	Personnel Services	490,722.52
	Printing expenses	2,500.00
2016	Bad Debts	952,350.15
	BOD Expenses	55,000.00
	Communication Expenses	32,083.63
	Depreciation Expenses	-395,906.53
	Legal Services	600.00
	Miscellaneous Income	6,000.00
	Other Professional Services	10,472.21
	Personnel Services	11,367.61
	Printing expenses	34,350.00
	Repairs & Maintenance	43,740.56
	Representation Expenses	3,668.39
	Taxes, Duties and Licenses	2,429.06
	Terminal Leave Pay	17,828.25
	Travelling Expenses	0.63
	Bad Debts Expense	5,987,020.16
1999 to 2000	Rent Expense	-12,216.37
2006 & 2007	BOD Expenses	-8,107.60

	Personnel Services	-50,864.12
2006, 2007 & 2010	Representation Expenses	45,100.75
2007 & 2008	Personnel Services	54,991.37
2007 & 2010	BOD Expenses	17,504.00
	Representation Expenses	-10,574.66
2008 & 2010	BOD Expenses	25,000.00
2013 & 2014	Personnel Services	421,848.42
Grand Total		**6,452,788.27**

6. CASH AND CASH EQUIVALENTS

The account consists of the following:

Particulars	As at December 31, 2017	As at December 31, 2016
Cash on Hand	173,681.42	149,876.35
Cash in Bank-Local Currency	54,122,974.46	62,878,928.35
Cash in Bank-Foreign Currency	640,608.94	638,302.79
Cash Equivalents	27,517,875.84	12,705,977.62
Total Cash and Cash Equivalents	**82,455,140.66**	**76,373,085.11**

Cash in Bank - Local Currency, Current Account (LCCA) consists of the OPEX Fund, Generated Fund, Scout Barrio Fund and HDMF account for remittances to HDMF. These accounts earn interest at the respective bank deposit rates. It also includes the lease rentals and Common Usage Service Area (CUSA) Fees collected from SC Reservations (Philippines), Inc. (SCRPI) or the InterContinental Hotels Group (IHG), Treetop Adventure Philippines, Inc. (TAPI), Inbound Pacific, Inc. (IPI) – Mile-Hi Center and Cantinetta and from Rustan Coffee Corporation/Starbucks, which is a non-interest bearing account. The above-stated accounts are deposited in the Development Bank of the Philippines (DBP).

The *Foreign Currency, Savings Account (FCSA)* represents the dollar collections from BCDA-PEZA Lease Agreement directly deposited by PEZA to JHMC's account at LBP. Monthly collections were regularly remitted to BCDA before the fifth day of the succeeding month.

Cash Equivalents consists of placements of cash in local currency with Authorized Government Depository Banks (AGDB), which are the DBP and LBP, for a period of 90 days or less.

Dollar depository accounts are restated at the year-end BSP closing exchange rate of ₱49.813:$1.00 for CY 2016 and ₱49.923:$1 for CY 2017.

7. OTHER INVESTMENTS

Particulars	As at 31 December, 2017	As at 31 December, 2016	01 January, 2017 Restated
Investments in Time Deposits-Local Currency	50,983,818.53	-	31,971,229.46
Investments in Time Deposits-Foreign Currency	6,661,907.84	-	6,578,517.98
Total Investment in Time Deposits	**57,645,726.37**	**-**	**38,549,747.44**

This consists of placements of cash in local currency with AGDBs, which are the DBP and LBP, for a period of 91 days or more but not exceeding one year. The restated amount at 01 January, 2017 is the result of misclassification of these accounts under the Non-Current Assets in the CY2016 financial statement.

8. RECEIVABLES

8.1 Loans and Receivables

Particulars	CY2017			CY2016		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Recievable	73,672.74	5,122,852.39	5,196,525.13	281,260.91	14,733,583.58	15,014,844.49
Allowance for Impairment	(3,683.64)	(4,164,065.84)	(4,167,749.48)	(14,063.05)	(11,093,056.74)	(11,107,119.79)
Net Value-Accounts Receivable	**69,989.10**	**958,786.55**	**1,028,775.65**	**267,197.86**	**3,640,526.84**	**3,907,724.70**
A/R Clearing - Tempo Account	119,013.97	-	119,013.97	-	-	-
Total	**189,003.07**	**958,786.55**	**1,147,789.62**	**267,197.86**	**3,640,526.84**	**3,907,724.70**

The current receivables with age of less than one year consist of receivables from locators for special permit fees for imported or critical products and billings for advertisement space for tarpaulins at the Historical Core. The *A/R Clearing - Tempo Account* are advanced electricity expenses for the Ranger Stations within JHRA for billing preparation to the security provider of JHMC.

39% of the total receivable accounts consists mainly of CY1996 uncollected receivables from the use of government facilities by concessionaires, travel agencies, government entities and other corporations during the Resort Operations of the Camp under the Philippine Tourism Authority (PTA). It includes the ₱2,046,190.96 approved by the JHMC Board of Directors (BOD) on 13 April, 2015 under Board Resolution No. 2015-0413-073, which authorizes the JHMC Management to seek authority from COA to write-off the undocumented AR aged over 10 years, exclusive of the AR from CJH DevCo. In its letter dated 27 April 2015, JHMC Management sought COA authority for the write-off of the ₱2,046,190.96 and on June 2016 as COA had requested, JHMC submitted additional supporting documents for the request. The request is pending as of the Financial Statements date.

This account also consists of receivables from various clients and 36% consists of receivables from the Camp John Hay Development Corporation (CJH DevCo) representing the net gain derived from the demolition of cottages and structures in the leased area, and payable to JHMC pursuant to the Agreement dated March 25, 1998. Section 6 of the Agreement which provides that *"upon the completion of the above-stated demolition of structures in Camp John Hay, the net gain that may be derived will pertain to the former JPDC and, in case of net loss, the CJH DevCo will solely shoulder the loss. Net gain is equivalent to the appraised value of the structure demolished less the cost of demolition."*

Validated ARs related to the 1998 and 2007 Car Plan of the JHMC Directors and employees had been adjusted accordingly based on reconciled balances with PPE and liability accounts per individual.

8.2 Aging/Analysis of Receivables

Age of Accounts	Amounts
Less than 1 Year	73,672.74
Over 1 Year to 3 Years	65,910.48
Over 3 Year to 5 Years	483,566.07
Over 5 Year to 10 Years	610,544.95
More than 10 Years	3,962,830.89
TOTAL AR	**5,196,525.13**

The aging of the AR is in accordance with the 23 September, 2013 JHMC Board of Directors approved policy for setting up of Allowance for Doubtful Accounts and the Writing-Off of Uncollectible Accounts. The receivables are classified as follows:

Age of Accounts	% of Allow. For Bad Debts
Less than 1 year	5%
Over 1 year to 3 years	10%
Over 3 to 5 years	15%
Over 5 years to 10 years	20%
Over 10 years	100%

8.3 Inter-Agency Receivables

Accounts	CY2017	CY2016
Due from Government Corporations	356,960.07	360,293.34
Due from BCDA Subsidiaries & Affiliates	-	16,000.00
TOTAL	**356,960.07**	**376,293.34**

The Due from GCs consists of maternity and other benefits advanced to employees and for reimbursement from the Social Security System (SSS).

8.4 Intra-Agency Receivables

Accounts	CY2017	CY2016
Due from Other Funds	1,857,800.32	4,228,626.36
Due from Central Office-BCDA	17,536,740.76	21,573,205.87
TOTAL	**19,394,541.08**	**25,801,832.23**

Due from Other Funds – fund transfers to other bank accounts of JHMC.

Due from Central Office-BCDA – advances to in behalf of BCDA and due for reimbursement. Consists mainly of Land Related Costs which are expenses incurred for the maintenance of the JHRA and projects under BCDA.

8.5 Other Receivables

Accounts	CY2017	CY2016
Receivables-Disallowances/Charges	13,504,692.86	13,504,656.86
Due from Officers and Employees	91,631.39	190,696.95
TOTAL	**13,596,324.25**	**13,695,353.81**

Disallowances/Charges are expenses disallowed by Audit and are for due for collection and settlement by individuals concerned.

Due from Officers and Employees are personal charges of employees deducted from their salaries on a monthly basis.

9. INVENTORIES

Accounts	CY2017	CY2016
	Inventories	Inventories
Inventory Held for Consumption		
Carrying Amount, January 1	6,750,134.98	7,032,707.50
Additions/Acquisitions during the year	770,566.77	523,427.31
Expensed during the year except write-down	(954,048.15)	(805,999.83)
Carrying Amount, December 31	**6,566,653.60**	**6,750,134.98**

This account consists of the following:

Accounts	CY2017	CY2016
	Inventories	Inventories
Inventory Held for Consumption		
Office Supplies Inventory	435,589.25	684,680.56
Construction Materials Inventory	5,851,280.09	5,866,050.09
Other Supplies and Materials Inventory	279,784.26	199,404.33
Carrying Amount, December 31	**6,566,653.60**	**6,750,134.98**

Office and Other Supplies Inventory consists cost or value of purchased/acquired office supplies used in the daily operations of the Corporation.

Other Supplies Inventory consists of supplies and materials not falling under any of the specific inventory accounts held for consumption including prepaid mobile card loads for issuance to authorized employees in subsequent periods.

Construction Materials Inventory consists of unused steel fences for the perimeter fencing of Camp John Hay. The project was however discontinued in previous years due to the opposition from the residents in the CJHR barangays.

Currently, half of the remaining inventory of these steel fencing materials was supposed to be used for the perimeter fence of the PEZA-MOOG Controls leased area in CY 2016. However, due to failure in the bidding process conducted by the PEZA, the project has been rescheduled pending approval of the COA. According to PEZA, their resident auditor did not allow the off-setting of the cost of the project against the lease. To comply with conditions of BCDA and PEZA Memorandum of Agreement (MOA), JHMC then included in its 2018 corporate operating budget (COB) the total cost of the project and expected to be fully accomplished by CY2018.

10. OTHER INVESTMENTS

This account consists of 6,600 shares with ₱1.00 par value Common Stock with Pilipino Telephone Company (PILTEL). On 7 May 2010, PILTEL was renamed PLDT *Communications* and Energy Ventures, Inc. New stock certificates in the name of JHMC were reissued in August 2011. Balances presented in the CY2016 includes placements of local currency with 91 days or more maturity erroneously categorized as non-current asset.

11. INVESTMENT PROPERTY

Particulars	CY2017	CY2016	31 Jan. 2017 Restated
	Investment Property-Buildings	Investment Property-Buildings	Investment Property-Buildings
Carrying Amount, January 01	**15,554,382.03**	**-**	**-**
Additions/ Acquisitions			
Reclassifications at carrying amount	*4,390,000.00*	-	*15,554,382.03*
Total	**19,944,382.03**	**-**	**15,554,382.03**
Disposals		-	-
Depreciation	*(1,005,028.32)*		-
Carrying Amount, December 31	**18,939,353.71**	**-**	**15,554,382.03**

Gross Cost	**34,852,811.01**	**-**	**30,462,811.01**
Accumulated Depreciation	*(15,913,457.30)*	-	*(14,908,428.98)*
Carrying Amount, December 31	**18,939,353.71**	**-**	**15,554,382.03**

The JHMC uses the following criteria to distinguish investment property from owner occupied property and from property held for sale in the ordinary course of operations (inventory):

- Properties used to earn rentals or for capital appreciation or both.

The annual rental revenue earned from the lease of the JHMC Buildings from the Historical Core entrance fees and rent of venues amounts to ₱18,982,302.13 and ₱5,408,215.00 respectively.

One of the Investment Property is the Mini Hydro-Electric Power Plant. Its appraised recorded value of ₱4,390,000.00 was based on the Appraisal Report submitted to the BCDA by the eValuePhils. Inc. (eVPI) dated 03 July 2004. This power plant has been unserviceable since Camp John Hay was transferred under the ownership and administration of the BCDA in 1993. In CY 2014, the COA Technical Team assisted the JHMC in evaluating the appraised value of this asset.

In CY 2015 the JHMC Board approved the amended Terms of Reference for the long-term lease of the 38-hectare BCDA Property for the Reconstruction, Operation and Maintenance of the CJH Mini-Hydro Power Plant through public bidding. In December 2015, the project was subsequently awarded to the consortium of a Turkish company, the Vendeka Bilgi Teknolojileri Ticaret Limited Sirketi and Isabela Power Corporation, called Riverflow Ventures and Power Energy Corporation and the lease contract was duly signed with the BCDA and the JHMC on 16 March 2016.

The Riverflow Ventures completed its comprehensive feasibility study and the Detailed Engineering Design on March 2017. Application for Hydro Service Contract (HSC) and documentary requirements to the Department of Energy (DOE) were submitted on 05 December 2017. Validation of the submitted documents by DOE are on-going as of financial statement date.

12. PROPERTY, PLANT AND EQUIPMENT

As at 31 December, 2017

	Other Land Improvements	Buildings & Other Structures	Machinery & Equipment	Transportation Equipment	Furnitures, Fixtures & Books	Construction-in-Progress	TOTAL
Carrying Amount, 01 January, 2017	**1,708,942.99**	**3,106,251.73**	**3,081,997.93**	**5,327,510.20**	**441,089.40**	**164,545.00**	**13,830,337.25**
Additions/Acquisitions			*354,616.79*	*869,200.00*	-		*1,223,816.79*
Reclassifications		*217,907.32*			-	*(164,545.00)*	*53,362.32*
TOTAL	**1,708,942.99**	**3,324,159.05**	**3,436,614.72**	**6,196,710.20**	**441,089.40**	**-**	**15,107,516.36**
Disposal/Adjustments		*(50,600.00)*		*(2,500,838.68)*	-	-	*(2,551,438.68)*
Depreciation	*(58,984.44)*	*(367,286.72)*	*(708,246.52)*	*(552,482.69)*	*(49,725.08)*		*(1,736,725.45)*
Carrying Amount, 31 December, 2017	**1,649,958.55**	**2,906,272.33**	**2,728,368.20**	**3,143,388.83**	**391,364.32**	**-**	**10,819,352.23**

Gross Cost	**2,101,030.52**	**9,527,061.32**	**12,471,056.21**	**11,979,280.38**	**2,477,630.46**	-	**38,556,058.89**
Accumulated Depreciation	*(451,071.97)*	***(6,620,788.99)***	***(9,742,688.01)***	*(8,835,891.55)*	*(2,086,266.14)*	-	*(27,736,706.66)*
Carrying Amount, 31 December, 2017	**1,649,958.55**	**2,906,272.33**	**2,728,368.20**	**3,143,388.83**	**391,364.32**	**-**	**10,819,352.23**

As at 31 December, 2016

	Other Land Improvements	Buildings & Other Structures	Machinery & Equipment	Transportation Equipment	Furnitures, Fixtures & Books	Construction-in-Progress	TOTAL
Carrying Amount, 01 January, 2016	**2,260,643.08**	**19,790,682.10**	**3,547,259.82**	**6,144,524.21**	**462,256.70**	**1,143,151.63**	**33,348,517.54**
Additions/Acquisitions			*879,555.78*		*30,074.40*	-	*909,630.18*
Reclassifications			*88,380.00*		-	-	*88,380.00*
Total	**2,260,643.08**	**19,790,682.10**	**4,515,195.60**	**6,144,524.21**	**492,331.10**	**1,143,151.63**	**34,346,527.72**
Disposal/Adjustments		*(76,939.11)*	*(233,038.53)*		*(496.50)*	*(978,606.63)*	*(1,289,080.77)*
Depreciation	*(120,573.84)*	*(1,379,412.95)*	*(845,713.38)*	*(817,014.01)*			*(3,162,714.18)*
Impairment Loss					*(114,155.96)*	-	*(114,155.96)*
Carrying Amount, 31 December, 2016	**2,140,069.24**	**18,334,330.04**	**3,436,443.69**	**5,327,510.20**	**377,678.64**	**164,545.00**	**29,780,576.81**

Gross Cost	**2,716,924.97**	**39,217,566.41**	**14,051,064.81**	**15,835,917.83**	**3,065,981.99**	**164,545.00**	**75,052,001.01**
Accumulated Depreciation	*(576,855.73)*	***(20,883,236.37)***	***(10,614,621.12)***	*(10,508,407.63)*	*(2,688,303.35)*	-	*(45,271,424.20)*
Carrying Amount,31 December, 2016	**2,140,069.24**	**18,334,330.04**	**3,436,443.69**	**5,327,510.20**	**377,678.64**	**377,678.64**	**29,780,576.81**

01 January 2017 <u>Restated</u>

	Other Land Improvements	Buildings & Other Structures	Machinery & Equipment	Transportation Equipment	Furnitures, Fixtures & Books	Contruction-in-Progress	TOTAL
Carrying Amount, 01 January, 2017	**2,140,069.24**	**18,334,330.04**	**3,436,443.69**	**5,327,510.20**	**377,678.64**	**164,545.00**	**29,780,576.81**
Additions/Acquisitions			-	-	-	-	-
Reclassifications at carrying amount	*(431,126.25)*	*(15,228,078.31)*	*1,137,694.75*	-	-	-	*(14,521,509.81)*
TOTAL	**1,708,942.99**	**3,106,251.73**	**4,574,138.44**	**5,327,510.20**	**377,678.64**	**164,545.00**	**15,259,067.00**
Disposal/Adjustments	-	-	*(1,492,140.51)*	-	*63,410.76*	-	*(1,428,729.75)*
Depreciation	-	-	-	-	-	-	-
Carrying Amount, 31 December, 2017	**1,708,942.99**	**3,106,251.73**	**3,081,997.93**	**5,327,510.20**	**441,089.40**	**164,545.00**	**13,830,337.25**

Gross Cost	**2,101,030.52**	**9,265,827.32**	**12,116,439.42**	**15,835,917.83**	**2,477,630.46**	**164,545.00**	**41,961,390.55**
Accumulated Depreciation	*(392,087.53)*	***(6,159,575.59)***	***(9,034,441.49)***	*(10,508,407.63)*	*(2,036,541.06)*	-	*(28,131,053.30)*
Carrying Amount, 31 December, 2017	**1,708,942.99**	**3,106,251.73**	**3,081,997.93**	**5,327,510.20**	**441,089.40**	**164,545.00**	**13,830,337.25**

The JHMC PPE records are in place and actual physical count of existing properties was conducted in CY 2017 reconciled between the Accounting and the Property Unit. The concise and accurate record for each Property Ledger Card and Property Card is being fully implemented.

13. INTANGIBLE ASSETS

Particulars	CY2017	CY2016	01 Jan. 2017 Restated
	Computer Software	Computer Software	Computer Software
Carrying Amount, January 1	**220,697.54**	**210,300.00**	**220,697.54**
Additions-Purchased/Acquired	*866,388.88*	*394,263.39*	-
Reclassification (at carrying amount)	-		
Total	**1,087,086.42**	**604,563.39**	**220,697.54**
Disposals	-	-	-
Amortization recognized	*(226,947.54)*	*(383,865.85)*	-
Carrying Amount, December 31	**860,138.88**	**220,697.54**	**220,697.54**
Gross Cost	**1,868,718.12**	**988,429.24**	**1,758,604.81**
Accumulated Amortization	*(1,008,579.24)*	*(767,731.70)*	*(1,537,907.27)*
Carrying Amount, December 31	**860,138.88**	**220,697.54**	**220,697.54**

Intangible Assets (not part of PPE) consists of cost of licenses for computer software amortized over a period of one year.

The cost for the design & development of the Helpdesk Information System (HIS) with a total amount of ₱828,888.88, will be amortized over five years starting January 2018.

14. OTHER ASSETS

Particulars	CY2017			CY2016		
	Current	Non-Currect	Total	Current	Non-Currect	Total
Advances	-		-	4,954.47		4,954.47
Prepayments	6,339,532.34		6,339,532.34	5,279,630.51		5,279,630.51
Deposits	6,845,531.50		6,845,531.50	2,130,943.41		2,130,943.41
Other Assets	-	6,882,130.28	6,882,130.28		11,272,130.28	11,272,130.28
Total	**13,185,063.84**	**6,882,130.28**	**20,067,194.12**	**7,415,528.39**	**11,272,130.28**	**18,687,658.67**

Advances consists of advances to employees for travelling expenses or other time-bound activities to be liquidated within a given period of time.

Prepayments are composed of prepaid insurance for properties assessed as insurable by the GSIS, and also consist of accumulated creditable input taxes.

Deposits consists of deposits made by suppliers and contractors to guarantee compliance with the terms of the agreement with JHMC and by JHMC to NLRC for cases still pending in court.

Other Non-Current Assets consists of properties that are not being used in operation and are due for disposal.

15. FINANCIAL LIABILITIES

Particulars	CY2017		CY2016	
	Current	Non-Current	Current	Non-Current
Accounts Payable	14,450,148.50	2,097,874.23	10,354,223.68	7,829,900.81
Accrued Expense	7,013,189.66	6,571,382.77	6,739,865.08	5,327,148.12
Due to Officers and Employees	14,196.85	300,000.00	53,526.31	306,082.76
Total	**21,477,535.01**	**8,969,257.00**	**17,147,615.07**	**13,463,131.69**

Accounts Payable (AP) consists mainly of the following:

- Unreleased Checks as of 13 December 2017 totaling ₱14,450,148.50
- 2008 Separation Incentive Package of former employees in the amount of ₱1,393,301.54, for reconstruction of their ledgers and verification of their accountabilities before payment;
- Payable to retired employee in the amount of ₱230,005.86; and
- Payable for survey services in the amount of ₱185,320.00 conducted in the unleased areas of Camp John Hay.

Accrued Expenses consists mainly of accrued expenses for CY2017, employees' benefits for CY2015 and CY2016 pending approval from GCG and unpaid salaries of separated employees with no clearance submitted to date.

Due to Officers and Employees Account consists mainly of collections from sale of bid documents, terms of references and refund to employees.

To date, all the liability accounts are adjusted and reclassified in accordance with the available documents except for accounts with unverified details which need to be further cross-checked as to its validity and existence.

16. INTER-AGENCY PAYABLES

Particulars	CY2017		CY2016	
	Current	Non-Current	Current	Non-Current
Due to BIR	865,937.60	-	270,780.30	-
Due to PAGIBIG	72,385.52	25,317.48	55,972.26	26,467.48
Due to PhilHealth	12,562.52	-	12,332.52	-
Due to SSS	141,077.56	-	130,264.06	15,320.00
Income Tax Payable	3,013,108.37	(0.19)	4,726,469.58	0.23
Total	**4,105,071.57**	**25,317.29**	**5,195,818.72**	**41,787.71**

Due to BIR consists of withheld taxes from disbursements as of 31 December 2017 and CY2017 4th quarter income tax payable in the amount of ₱3,013,108.37.

Due to SSS, PhilHealth and Pag-IBIG are amounts withheld from salaries of JHMC employees and employers' share remitted to the respective agencies.

17. INTRA-AGENCY PAYABLES

Particulars	CY2017		CY2016	
	Current	Non-Current	Current	Non-Current
Due to Other Funds	1,648,277.81	0.00	163,270.01	1,983,169.66
Due to Central/ Home/ Head Office	542,737.83	11,967,820.38	7,995,679.66	4,531,495.91
Total	**2,191,015.64**	**11,967,820.38**	**8,158,949.67**	**6,514,665.57**

Due to Other Funds consists of fund transfers to other bank accounts of JHMC.

Due to Central/Home/Head Office_BCDA account consists of CAPEX funds received for prior years mainly from 2007 projects and also includes lease rentals from the Asian Institute Management (AIM) for 1997. These are for reconciliation with BCDA.

Due to BCDA also comprises of rental fees collected from the SCRPI / IHG, TAPI, IPI-Mile-Hi Center and IPI-Cantinetta, Rustan Coffee Corporation, PEZA, the AIM-Igorot Lodge (directly paid to BCDA), the Scout Barrio Housing Project (SBHP) for the sale of lots, and generated revenues from the JHSEZ. The collections under this account are regularly remitted to BCDA in accordance with the prescribed schedule of remittance under the amended Performance Agreement (PA) of 2017.

The SCRPI / IHG lease rental, however, for presentation purposes, is deducted from the Estate Management Fee (EMF) from BCDA, and is presented as EMF-Rent Income in the Statement of Comprehensive Income of JHMC, pursuant to the accounting principle of matching of recording for assets and its related revenues and expenses.

18. TRUST LIABILITIES

Particulars	CY2017		CY2016	
	Current	Non-Current	Current	Non-Current
Trust Liabilities	165,128.56	1,921,880.30	-	-
Guaranty/Security Deposits Payable	96,800.00	549,797.64	174,588.35	528,500.00
Customers' Deposits Payable	-	-	6,000.00	-
Total	**261,928.56**	**2,471,677.94**	**180,588.35**	**528,500.00**

Trust Liabilities are for the amounts held in trust for specific purposes.

Guaranty/Security Deposits Payable are the incurred liability arising from the receipt of cash or cash equivalents to guaranty: (a) that the winning bidder shall enter into contract with JHMC; and (b) performance by the contractor of the terms of the contract.

Customers' Deposits Payable are advances paid by clients for future services and venue rentals and were directly deposited to JHMC's bank account.

19. DEFERRED CREDITS/UNEARNED INCOME

Particulars	CY2017		CY2016	
	Current	Non-Current	Current	Non-Current
Other Deferred Credits	6,297.60	12,280.46	53,476.78	1,062,608.22
Unearned Revenue/Income-Investment Property	136,550.00	-	-	-
Other Unearned Revenue/Income	-	-	-	3,305,815.48
Total	**142,847.60**	**12,280.46**	**53,476.78**	**4,368,423.70**

Other Deferred Credits – the balance in the CY2016 was the unadjusted unamortized portion of 2007 Car Plan of the former BODs and employees which had been adjusted in CY2017 to its other affected accounts after verification. The remaining amount consists of the unreconciled tax on the rental of a locator in CY2017.

Unearned Revenue/ Income-Investment Property are receipt of cash deposits from clients for reservation of venues at Historical Core.

20. OTHER PAYABLES

Particulars	CY2017		CY2016	
	Current	Non-Current	Current	Non-Current
Other Payables	0.12	167,370.97	-	139,370.89
Total	**0.12**	**167,370.97**	**-**	**139,370.89**

The JHMC has payables to entities not classified as financial liabilities pertaining to deduction from salaries of JHMC employees for remittance to DBP for their personal loans. It also includes deductions from salaries of former JHMC employees to cover for disallowances previously assessed by the COA and waiting for finality of decision other accountabilities.

21. SERVICE AND BUSINESS INCOME

Particulars	CY2017	CY2016
Service Income		
Permit Fees	1,717,818.97	-
Registration Plates, Tags & Stickers Fees	40,860.00	-
Clearance & Certification Fees	51,293.25	-
Inspection fees	35,500.00	-
Verification & Authentication Fees	4,320.00	-
Processing Fees	104,363.35	-
Fines & Penalties-Service Income	28,470.57	-
Other Service Income	22,800.00	-
Other Service Income-Common Usage Service Area	5,156,130.69	5,470,012.23
Other Service Income-Overtime SEZAD	598,856.40	518,877.36
Total Service Income	**7,760,413.23**	**5,988,889.59**
Business Income		
Rent/Lease Income	1,392,164.84	-
Interest Income	777,279.70	660,985.67
Fines & Penalties-Business Income	4,500.00	-
Management Fees	56,282,073.91	50,657,929.89
Management Fees-Rent Income	13,683,076.09	19,142,371.11
Admission Fees	4,678,880.00	-
Other Business Income	125,000.00	-
Total Business Income	**76,942,974.54**	**70,461,286.67**
Total	**84,703,387.77**	**76,450,176.26**

22. PERSONNEL SERVICES (PS)

The incurred PS in the total amount of ₱29,518,131.06 for CY 2017 and ₱27,114,133.44 for CY2016 are broken down as follows:

22.1 Salaries and Wages

Particulars	CY2017	CY2016
Salaries and Wages-Regular	(14,946,267.33)	(13,287,155.71)
Total	**(14,946,267.33)**	**(13,287,155.71)**

22.2 Other Compensation

Particulars	CY2017	CY2016
Personnel Economic Relief Allowance (PERA)	(635,791.46)	(580,875.93)
Representation Allowance (RA)	(1,438,337.50)	(1,335,352.47)
Transportation Allowance (TA)	(1,272,367.94)	(1,202,140.80)
Clothing/Uniform Allowance	(212,000.00)	(200,000.00)
Productivity Incentive Allowance	(270,000.00)	(252,000.00)
Honoraria	(220,000.00)	-
Overtime and Night Pay	(568,291.22)	(563,048.56)
Mid-Year Bonus (GCG Circ. No. 2016-01)	(1,125,668.94)	(1,098,401.00)
Year-End Bonus (GCG Circ. No. 2016-01)	(1,281,636.44)	(1,162,059.70)
Cash Gift (DBM Circ. No. 2010-1)	(270,000.00)	(253,000.00)
Other Bonuses and Allowance	(270,000.00)	(250,000.00)
Other Bonus & Allowance-Rice Subsidy	(1,147,941.82)	(1,061,509.09)
Other Bonus & Allowance-Year-End Benefit	(1,958,663.79)	(1,669,383.00)
Other Bonus & Allowance-Performance Based Bonus (PBB)	(1,995,000.00)	(1,995,000.00)
Total	**(12,665,699.11)**	**(11,622,770.55)**

22.3 Personnel Benefit Contributions

Particulars	CY2017	CY2016
Retirement and Life Insurance Premiums	(702,225.30)	(650,895.90)
Pag-IBIG Contributions	(60,700.00)	(59,250.00)
PhilHealth Contributions	(168,350.00)	(156,487.50)
Employees Compensation Insurance Premiums	(15,870.00)	(15,310.00)
Total	**(947,145.30)**	**(881,943.40)**

22.4 Other Personnel Benefits

Particulars	CY2017	CY2016
Retirement Gratuity	-	(115,943.34)
Terminal Leave Benefits	(606,078.16)	(826,488.04)
Other Personnel Benefit-Maternity Benefits	-	(139,832.40)
Other Personnel Benefit-Business Development and Other Allowance	(352,941.16)	(240,000.00)
Total	**(959,019.32)**	**(1,322,263.78)**

23. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

The incurred MOOE in the total amount of ₱31,319,212.78 for CY 2017 and ₱27,611,674.67 for CY2016 consists of the following:

23.1 Travelling Expense

Particulars	CY2017	CY2016
Traveling Expenses-Local	(2,479,681.81)	(2,304,067.49)
Traveling Expenses-Foreign	-	-
Total	**(2,479,681.81)**	**(2,304,067.49)**

23.2 Training and Scholarship Expense

Particulars	CY2017	CY2016
Training Expenses	(1,581,139.79)	(1,361,397.85)
Total	**(1,581,139.79)**	**(1,361,397.85)**

23.3 Supplies and Materials Expense

Particulars	CY2017	CY2016
Office Supplies Expenses	(1,294,363.21)	(1,999,679.58)
Accountable Forms Expenses	(4,011.50)	(10,853.00)
Fuel, Oil and Lubricants Expenses	(768,152.27)	(728,922.73)
Textbooks & Instructional Materials Expenses	-	-
Linens & Beddings Expenses	-	-
Semi-Expendable Machinery & Equipment Expenses	(57,737.60)	-
Semi-Expendable Furniture, Fixtures & Books Expenses	(416,914.00)	-
Other Supplies & Materials Expenses	(335,222.09)	(261,802.28)
Total	**(2,876,400.67)**	**(3,001,257.59)**

23.4 Utility Expense

Particulars	CY2017	CY2016
Water Expenses	(92,755.84)	(134,603.71)
Electricity Expenses	(22,243.59)	(21,507.27)
Total	**(114,999.43)**	**(156,110.98)**

23.5 Communication Expense

Particulars	CY2017	CY2016
Postage and Courier Services	(20,279.00)	(13,658.00)
Telephone Expenses	(685,756.81)	(642,799.90)
Internet Subscription Expenses	(156,366.26)	(212,774.15)
Cable, Satellite, Telegraph and Radio Expenses	(9,030.19)	(9,603.21)
Total	**(871,432.26)**	**(878,835.26)**

23.6 Confidential, Intelligence & Extraordinary Expenses

Particulars	CY2017	CY2016
Miscellaneous Expenses-PRP	-	(98,833.39)
Total	**-**	**(98,833.39)**

This account are expenses incurred for Public Relations Program (PRP) within the year.

23.7 Professional Services

Particulars	CY2017	CY2016
Legal Services	(114,247.37)	(249,901.82)
Auditing Services	(1,819,386.01)	(2,307,934.71)
Consultancy Services	-	(545,268.42)
Other Professional Services	(3,429,076.95)	(2,430,000.00)
Total	**(5,362,710.33)**	**(5,533,104.95)**

23.8 General Services

Particulars	CY2017	CY2016
Environment/Sanitary Services	-	
Janitorial Services	(753,854.12)	(680,634.32)
Security Services	(1,444,424.29)	(1,440,144.91)
Other General Services	(182,385.18)	(62,963.33)
Total	**(2,380,663.59)**	**(2,183,742.56)**

23.9 Repairs and Maintenance

Particulars	CY2017	CY2016
Repairs and Maintenance-Investment Property	(6,857.00)	-
Repairs and Maintenance-Buildings and Other Structures	(66,083.32)	(75,647.11)
Repairs and Maintenance-Machinery and Equipment	(165,365.66)	(102,192.65)
Repairs and Maintenance-Transportation Equipment	(852,850.61)	(735,317.51)
Total	**(1,091,156.59)**	**(913,157.27)**

23.10 Taxes, Insurance Premiums and Other Fees

Particulars	CY2017	CY2016
Taxes, Duties & Licenses	(72,417.44)	(379,897.16)
Fidelity Bond Premiums	(70,291.95)	(33,150.00)
Insurance Expenses	(178,299.58)	(66,475.05)
Total	**(321,008.97)**	**(479,522.21)**

23.11 Other Maintenance and Operating Expenses

Particulars	CY2017	CY2016
Advertising, Promotional & Marketing Expenses	(614,815.09)	(647,439.28)
Printing & Publication Expenses	(275,957.95)	(316,792.45)
Representation Expenses	(1,386,216.72)	(1,383,760.36)
Rent/Lease expenses	-	(1,500.00)
Subscription Expenses	(42,365.18)	-
Directors & Committee Members' Fees	(7,323,372.87)	(5,692,011.08)
Other Maintenance & Operating Expenses (OMOE)	(841,587.50)	(834,369.85)
OMOE-Quality Management System (QMS)	(357,148.38)	(677,296.13)
OMOE-Corporate Social Responsibility	(22,500.00)	(67,729.77)
OMOE-Gender & Development	(541,830.86)	(399,832.78)
OMOE-Common Usage Service Area (CUSA)	(959,678.27)	(512,137.14)
OMOE-Generated Fund (GF)	(1,874,546.52)	(168,776.28)
Total	**(14,240,019.34)**	**(10,701,645.12)**

24. NON-CASH EXPENSES

The non-cash expense with a total amount of ₱3,014,951.28 is the broken down as follows:

24.1 Depreciation

Particulars	CY2017	CY2016
Depreciation-Investment Property	(1,005,028.32)	(739,230.96)
Depreciation-Land Improvements	(58,984.44)	(120,573.84)
Depreciation-Buildings & Other Structures	(367,286.72)	(659,942.15)
Depreciation-Machinery and Equiptment (M&E)	(708,197.52)	(842,261.88)
Depreciation-Transportation Equipment	(552,482.69)	(817,014.01)
Depreciation-Furniture, Fixtures and Books	(49,725.08)	(114,155.96)
Total	**(2,741,704.77)**	**(3,293,178.80)**

24.2 Amortization

Particulars	CY2017	CY2016
Amortization-Intangible Assets	(226,947.54)	(383,865.85)
Total	**(226,947.54)**	**(383,865.85)**

24.3 Impairment Loss

Particulars	CY2017	CY2016
Impairment Loss-Loans & Receivables	-	(1,639,503.70)
Total	**-**	**(1,639,503.70)**

24.4 Losses

Particulars	CY2017	CY2016
Loss of Assets	(46,298.97)	(24,607.00)
Total	**(46,298.97)**	**(24,607.00)**

The loss in CY2017 amount was the proportionate damaged portion of the Other Structure - Canopy installed connecting JHMC Cottages during the Typhoon Gorio on 30 July, 2017. Amount based on estimated replacement cost.

The CY2016 loss emanates from disposal of movable properties deemed not needed in operation and was undertaken on 24 June, 2016 in the presence of COA representatives. This account includes replaced PPEs during the year which were validated through Waste Material Reports.

25. NON-OPERATING INCOME, GAIN OR LOSSES

Non-Operating Income/Gain

Particulars	CY2017	CY2016
Gain on Foreign Exchange (FOREX)	14,602.81	350,688.53
Miscellaneous Income	7,602.22	-
Total	**22,205.03**	**350,688.53**

The *Miscellaneous Income* consists of other receipts not considered as income from normal operating activities such as payment for reproduction of documents, sale of seedlings, scrap materials, coffee table books and the like.

26. CASH FLOWS

The increase in the cash and cash equivalents in the amount of ₱6,082,057.06 for CY2017 and ₱22,987,791.14 for CY2016 are detailed as follows:

26.1 Net Cash Provided by / (Used in) Operating Activities

The net Cash Provided by/(Used in**) Operating Activities** by JHMC in the amount of ₱5,727,597.06 for CY 2017 and ₱21,945,049.04 for CY 2016 are as follows:

26.1.1 Cash Inflows from Operating Activities

The total cash inflows from Operating Activities for CY2017 is ₱202,487,461.79 and ₱198,922,374.68 for CY2016 detailed as follows:

26.1.1.1 Collection of Income and Revenue

Particulars	CY2017	CY2016
Collection of service and business income	*82,212,167.82*	*73,320,091.10*
Collection of CUSA-Share on Utility Expenses by locators	8,792,623.33	780,139.02
Collection of Treetop Adventure CUSA	49,273.11	26,425.60
Collection of SC Reservation-IHG CUSA	180,000.00	240,000.00
CUSA	1,924,591.78	2,062,062.61
Collection of Inbound Pacific Inc.-Cantinetta CUSA	2,620,128.00	2,620,128.00
Collection of Rustan Coffee Corporation CUSA	122,304.00	122,304.00
Collection of Rustan Coffee Corporation-Advanced CUSA	156,800.00	125,440.00
Estate Management Fee (Less Capital Outlay)	6,297.60	15,290.87
Collection of other non-operating income	*7,474.00*	*3,094.95*
Total	**82,219,641.82**	**73,323,186.05**

26.1.1.2 Collection of Receivables

Particulars	CY2017	CY2016
Collection of loans and receivables	189,713.57	2,267,291.42
Collection of other receivables:Return of OPEX	91,483.64	33,585.36
Total	**281,197.21**	**2,300,876.78**

26.1.1.3 Receipt of Intra-Agency Fund Transfers

Particulars	CY2017	CY2016
Receipt of funds for other intra-agency transactions		
Treetop Adventure Rental	783,750.00	783,750.00
SC Reservation-IHG Rental	16,530,421.40	17,711,165.79
Inbound Pacific Inc.-Mile Hi Center Rental	22,007,146.57	21,304,190.00
Inbound Pacific Inc.-Cantinetta Rental	1,304,559.95	1,039,490.00
Rustan Coffee Corporation-Starbucks Rental	1,660,372.50	1,403,366.20
Rustan Coffee Corporation-Starbucks 6 months advance rental	-	929,808.60
Rustan Coffee Corporation-Starbucks security deposit	-	744,840.00
PEZA Rental	7,126,661.19	6,728,861.57
Scout Barrio Housing Project (SBHP)	94,283.91	245,033.81
BCDA Service and Business Income	-	7,035,936.67
Land Related Cost Reimbursement	53,511,936.92	52,343,231.46
Total	**103,019,132.44**	**110,269,674.10**

26.1.1.4 Trust Receipts

Particulars	CY2017	CY2016
Receipt of guaranty/security deposits	99,800.00	153,065.25
Receipt of customers' deposits	-	6,000.00
Collection of other trust receipts	-	309,750.00
Total	**99,800.00**	**468,815.25**

26.1.1.5 Other Receipts

Particulars	CY2017	CY2016
Receipt of unearned income/revenue	258,300.00	1,196.32
Receipt of refund of cash advances	809,446.26	922,680.86
Receipt of bidders documents	80,000.00	158,000.00
Refund of guaranty deposits	484,674.10	-
Receipt of payment for liquidated damages	-	-
Receipt of unused petty cash fund	20,033.66	7,331.20
Total	**1,652,454.02**	**1,089,208.38**

26.1.1.6 Adjustments to Cash Inflows

Particulars	CY2017	CY2016
Restoration of cash for cancelled/lost/stale checks/ADA	259,393.23	1,086,518.36
Restoration of cash for unreleased checks	14,450,148.50	10,339,348.68
Other adjustments-Inflow (Fund Transfers)	505,694.57	44,747.08
Total	**15,215,236.30**	**11,470,614.12**

26.1.2 Cash Outflows from Operating Activities

The total cash inflows from Operating Activities for CY2017 is ₱196,759,864.73 and ₱176,977,325.64 for CY2016 detailed as follows:

26.1.2.1 Payment of Expenses

Particulars	CY2017	CY2016
Payment of personnel services	(18,075,575.16)	(17,954,729.64)
Payment of maintenance and other operating expenses	(28,546,654.18)	(36,259,955.52)
Payment of Bids & Awards Committee Honoraria	(121,000.00)	(100,356.09)
Payment of expenses pertaining to/incurred in the prior years	(8,464,591.39)	(8,840,972.90)
Total	**(55,207,820.73)**	**(63,156,014.15)**

26.1.2.2 Payment of Inventories

Particulars	CY2017	CY2016
Purchase of inventories held for consumption	(1,283,973.87)	(836,023.41)
Purchase of semi-expendable machinery & equipment	(319,718.85)	(96,775.00)
Purchase of semi-expendable furniture, fixtures & books	(365,000.00)	(15,374.40)
Purchase of inventories obligated/incurred in prior years	-	(4,750.08)
Total	**(1,968,692.72)**	**(952,922.89)**

26.1.2.3 Grant of Cash Advances

Particulars	CY2017	CY2016
Advances for special purpose/time-bound undertakings	(57,080.00)	-
Advances to officers and employees	(2,896,825.75)	(3,053,676.00)
Total	**(2,953,905.75)**	**(3,053,676.00)**

26.1.2.4 Prepayments

Particulars	CY2017	CY2016
Prepaid Insurance	(242,206.08)	(182,550.98)
Other Prepayments	-	(206,960.01)
Total	**(242,206.08)**	**(389,510.99)**

26.1.2.5 Refund of Deposits

Particulars	CY2017	CY2016
Payment of guaranty deposits	-	(3,000.00)
Total	**-**	**(3,000.00)**

26.1.2.6 Payment of Accounts Payable

Particulars	CY2017	CY2016
Payment of Accounts Payable	-	(4,391.47)
Total	**-**	**(4,391.47)**

26.1.2.7 Remittance of Personnel Benefit Contributions and Mandatory Deductions

Remittance of taxes withheld	(5,008,944.27)	(2,661,349.00)
Remittance of SSS/Pag-IBIG/PhilHealth:	-	-
Remittance of SSS	(1,621,704.50)	(1,227,345.51)
Remittance of PAG-IBIG	(704,989.17)	(631,296.46)
Remittance of PHIC	(390,900.00)	(362,651.50)
Remittance of other personnel benefits contribution		-
Remittance of other payables (DBP personal loans)	(587,249.90)	
Total	**(8,313,787.84)**	**(4,882,642.47)**

26.1.2.8 Release of Intra-Agency Fund Transfers

Particulars	CY2017	CY2016
Release of other intra-agency fund transfers:		
SC Reservation-IHG Rental	(16,530,421.40)	(19,142,371.11)
Treetop Adventure Rental	(783,750.00)	(1,045,000.00)
Inbound Pacific Inc.-Mile Hi Center Rental	(22,007,146.57)	(21,042,690.00)
Inbound Pacific Inc.-Cantinetta Rental	(1,304,559.95)	(1,247,388.00)
Rustan Coffee Corporation-Starbucks Rental	(1,660,372.50)	(2,870,116.80)
Remittance of PEZA Rental	(7,126,551.19)	(6,726,214.57)
Scout Barrio Housing Project (SBHP)	(94,283.91)	(258,705.94)
Generated Income - BCDA account	-	(5,854,657.88)
Release of other intra-agency advances:		
Land Related Costs/Advances for BCDA CY2017	(34,162,844.78)	(36,219,789.66)
Year	(14,802,279.32)	(383,833.26)
Totals	**(98,472,209.62)**	**(94,790,767.22)**

26.1.2.9 Other Disbursements

Particulars	CY2017	CY2016
Refund of BIR Penalties to Beneficiaries of SBHP	(69,868.49)	(391,648.18)
Refund of Guaranty/Security Deposits & Performance Bond	(95,785.25)	(60,415.60)
Refund of customers' deposits	(13,500.00)	(21,000.00)
Other disbursements	(18,577,045.00)	-
Total	**(18,756,198.74)**	**(473,063.78)**

26.1.2.10 Adjustments

Particulars	CY2017	CY2016
Reversing entry for unreleased checks in previous year	(10,339,348.68)	(9,226,589.59)
Other adjustments-Outflow (Fund transfers)	(505,694.57)	(44,747.08)
Total	**(10,845,043.25)**	**(9,271,336.67)**

26.2 Net Cash Provided by / (Used in) Investing Activities

The net Cash Provided by/(Used in**) Investing Activities** by JHMC in the amount of ₱354,460.00 for CY 2017 and ₱1,042,742.10 for CY 2016 are as follows:

26.2.1 Cash Inflow from Investing Activities

This amount is a portion of the Estate Management Fee of JHMC:

Particulars	CY2017	CY2016
Collection of COB for Capital Outlay	1,605,000.00	2,472,000.00
Total	**1,605,000.00**	**2,472,000.00**

26.2.2 Cash Outflow from Investing Activities

This account consists of total amounts of ₱1,250,540.00 in CY2017 and ₱1,429,257.90 in CY2016 with details as follows:

26.2.2.1 Purchase of Property, Plant, and Equipment (PPE)

Particulars	CY2017	CY2016
Purchase of machinery and equipment	(343,840.00)	(802,324.40)
Purchase of transportation equipment	(869,200.00)	-
Payment for property, plant and equipment obligated in prior year	-	(79,200.00)
Total	**(1,213,040.00)**	**(881,524.40)**

26.2.2.2 Purchase of Intangible Assets

Particulars	CY2017	CY2016
Purchase of computer software	(37,500.00)	(441,575.00)
Purchase of intangible assets obligated in prior year	-	(106,158.50)
Total	**(37,500.00)**	**(547,733.50)**

27. SHARE CAPITAL

The shares of stocks are wholly-owned by BCDA and one (1) share is given to each appointed Member of the JHMC Board of Directors. In April 2015, the BCDA and JHMC Board of Directors approved the increase of JHMC's Authorized Capital Stock from 1,200,000 shares to 5,000,000 shares.

In March 2016, the GCG approved the application of the JHMC for the aforesaid and the Certificate of Approval of Increase in Authorized Capital Stock was subsequently issued by the Securities and Exchange Commission (SEC) on 09 June 2016. The Authorized Capital Stock of JHMC has now increased from ₱120,000,000.00 divided into 1,200,000 shares with par value of ₱100.00 per share to ₱500,000,000.00 divided into 5,000,000 shares with par value of ₱100.00 per share.

By virtue of a Deed of Assignment executed between BCDA and JHMC, BCDA's Deposit for Future Stock Subscription valued at Two Hundred Sixty Three Million Eight Hundred Fourteen Thousand Seventy Eight Pesos and Ninety Seven Centavos (₱263,814,078.97) was converted into 2,638,140 shares of Capital Stock thereby increasing BCDA's stock subscription to a total of 3,838,140 shares of stock in JHMC's increased Authorized Capital Stock.

28. COMPLIANCE WITH TAX LAWS

In compliance with the requirements of RR15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

a. Value-Added Tax:	
VAT input taxes	995,995.33
VAT output taxes	0.00
b. Documentary stamps tax:	0.00
Total	**995,995.33**

c. Withholding Taxes:

The withholding taxes paid and accrued for the year are as follows:	
Tax on compensation and benefits	3,035,071.79
Creditable withholding tax	
Expanded	994,775.25
G-VAT	1,460,228.47
Fringe Benefit Tax	112,941.16
Total	**5,603,016.67**

d. Other taxes and licenses are as follows:

Local	
Business Tax	none
Total	**0.00**
National	
BIR Annual Registration	500.00
PEZA Administrative Fee	45,000.00
Registration & Renewal of Vehicles	21,386.54
Other Taxes	0.00
Total	**66,386.54**

29. COMPLIANCE WITH DIVIDENDS LAW

John Hay Management Corporation (JHMC) as Government-Owned or -Controlled Corporation is covered by Republic Act 7656 or "AN ACT REQUIRING GOVERNMENT-OWNED OR -CONTROLLED CORPORATIONS TO DECLARE DIVIDENDS UNDER CERTAIN CONDITIONS TO THE NATIONAL GOVERNMENT, AND FOR OTHER PURPOSES", where such law mandates that "All government-owned or -controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government. This section shall also apply to those government-owned or -controlled corporations whose profit distribution is provided by their respective charters or by special law, but shall exclude those enumerated in Section 4 hereof: Provided, That such dividends accruing to the National Government shall be received by the National Treasury and recorded as income of the General Fund. (Section 3 of RA7656)

In the last quarter of 2016, JHMC formally requested the Department of Finance for an exemption or a "downward adjustment" of the required percentage of declaration of dividends to the Philippine National Government with the following provisions:

1. In the interest of national economy and general welfare, the percentage of annual net earnings that shall be declared by a government-owned or -controlled corporation may be adjusted by the President of the Philippines upon recommendation by the Secretary of Finance. (SEC. 5. Flexible Clause RA7656)

2. In the interest of the national economy and general welfare, and in consideration of the viability of the GOCCs and the purposes for which these were established, the percentage of annual Net Earnings that shall be declared by the GOCC may be adjusted by the President of the Philippines below the minimum of 50% Dividend rate, upon recommendation by the Secretary of Finance.

3. Subject to Section 7 (a) of these Rules, a downward adjustment in dividends rate below the minimum of 50% may be allowed for the following cases: (i) where there is presence of a deficit as reflected in the GOCC's latest Statement of Equity, (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends

at the minimum dividends rate will breach the minimum regulatory requirements (e.g. capital level and ratios as may be required by the BSP; (iv) for GOCCs governed by Batas Pambansa Blg. 68 (or the Corporation Code of the Philippines), where the declaration and remittance of Dividends at the minimum dividends rate exceeds the unrestricted retained earnings of the GOCC. ((Section 7a Flexibility Revised IRR of RA 7656).

4. The Board of Directors of a stock corporation may declare dividends out of the unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders on the basis of outstanding stock held by them. .xxxx. (BP 68. Sec. 43. Power to declare dividends)

30. STATUS OF PENDING LITIGATIONS

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

	Case Title and Docket Number	Where Pending
Labor Cases:		
1	*Joseph Enver Serafico Agcaoili vs. JHMC, Jamie Eloise Agbayani, in her personal capacity, and the NLRC* CA-G.R. SP No. 147784; NLRC LAC No. 07-001729-14; NLRC RAB-CAR-06-0223-13 (R-03-15) Remanded for: Illegal Dismissal	Court of Appeals (Seventh Division)
2	*JHMC and Dr. Jamie Eloise Agbayani vs. NLRC (First Division) and Atty. Genevieve Padua Ayochok* G.R. 231374; CA-G.R. SP No. 146234 NLRC LER Case 01-002-16; NLRC RAB-CAR-03-0106-13 for: Illegal Dismissal	Supreme Court
3	*JHMC and Jamie Eloise Agbayani both in her personal capacity and company President vs. NLRC and Ana Kristina T. Badon* CA-G.R. SP No. 140123; NLRC LAC 10-002647; NLRC-RAB-CAR-12-0487-13 for: Illegal Suspension/Constructive Dismissal	Pending before the Supreme Court
4	*Nonnette Bennett vs. JHMC and NLRC* CA-GR SP No 120039; NLRC Case No. I-AC LAC-02-000351-10 for: Illegal Dismissal	Court of Appeals
5	*Jezl Boado vs .JHMC, and Jamie Eloise Agbayani and Michelle Niebres, in their personal capacities*. G.R. 228399; CA-SP G.R. No. 142489; NLRC LAC No 07-001728-14; NLRC RAB-CAR-07-0246-13 for: Illegal Dismissal	Supreme Court

6	*Ruel C. de Leon vs. JHMC and Dr. Jamie Eloise M. Agbayani* NLRC RAB-CAR-11-0405-11 for: Illegal Dismissal	NLRC Regional Arbitration Branch-CAR
7	*JHMC represented by its President and CEO, Dr. Jamie Eloise Agbayani vs. NLRC (Third Division) and Arthur Leonard Odsey* CA-G.R. SP No. 140845; NLRC LAC No 07-001730-14(8); NLRC RAB-CAR-06-0224-13 for: Illegal Dismissal	Court of Appeals (Sixteenth Division)
8	*Eric Jonathan M. Picart vs. JHMC, et al.* NLRC RAB-CAR-07-0163-12 for: Illegal Dismissal	NLRC (First Division)
9	*Kurt Cedric Salvador vs NLRC (1st Div.), et al.* CA-G.R. SP No. 116049; NLRC LAC No. 02-000517-09 and LIC No. 03-0017-09; NLRC-RAB-CAR-03-0131-08 for: Illegal Dismissal	Court of Appeals Second Division
10	*Rizzel D. Pascua vs. NLRC, JHMC, Jamie Eloise Agbayani, et al.* CA-GR SP 140261; NLRC LAC 11-002785; NLRC RAB-CAR-04-0155-14 for: Illegal Dismissal	Court of Appeals
Civil Cases:		
11	*John Hay Springs Inc (JHSI) vs. JHMC, Mita Angela Dimalanta and Renegio Basilan* Civil Case No. 7618-R for: Injunction, et al.	Regional Trial Court Branch 5, Baguio City
12	*CJH DevCo vs. Hon. Cecilia Corazon Archog, BCDA, JHMC* CA-GR SP No. 145039 Petition for Certiorari from RTC Order denying inhibition; Civil Case No. 7887-R for: Indirect Contempt	Court of Appeals
13	*BCDA and JHMC vs. City Government of Baguio* SP G.R. 192694; Civil Case No. 7124-R for: <u>Prohibition</u> with prayer for issuance of a Writ of Preliminary Injunction and/<u> or Permanent Injunction</u>	Supreme Court
14	*DHN Construction and Development Corporation vs. Camp John Hay Development Corporation and John Hay Management Corporation* Civil Case No. 7124-R for: Sum of Money with Damages	Metropolitan Trial Court, Branch 9, City of Manila
COA Cases:		

15	*JHMC, rep. by Jamie Eloise Agbayani, President and CEO vs. Hon. Lynn Suerte Felipe-Sicangco* Re: Decision No. 2014-248 (COA ND No 2008-003)	COA, Quezon City
16	*JHMC represented by Jamie Eloise Agbayani vs. Esther E. Miana and Lourdes D. Benitez* Re: COA ND No. 2013-001	COA
17	*Genevieve Ayochok vs. JHMC and Jamie Eloise M. Agbayani* COA CP Case No. 2015-577 for: Money Claim Based on Final and Executory Court-Adjudicated Judgement	COA, Quezon City
18	*Jamie Eloise Agbayani, et al. vs. Rebecca Aganon and Robert Padilla* *Re:* ND No. 2016-001 (2015)	COA Regional Director
19	*Jamie Eloise Agbayani, et al. vs. Rebecca Aganon and Robert Padilla* *Re:* ND No. 2016-002 (2015)	COA Regional Director
20	*JHMC rep. by Jamie Eloise Agbayani vs. Joseph Anacay, Director IV* *Re: COA CP Case No.*2016-509 (ND No. 2014-001 (10)	COA, Quezon City
21	*Jamie Eloise Agbayani vs. Rebecca Aganon and Roberto Padilla* Re: Decision No. 2016-01 (2016)	COA Regional Director
22	Request for Reconsideration of Audit Observation Memorandum 2014-08 dated 15 April 2014	COA
Other Cases:		
23	*BCDA & JHMC vs. JHWSI & NWRB* G.R. 218862; CA-G.R. SP No. 129190; NWRB Case No. 2011-015 In Re: Petition for Increase of Volume of Water under Permit No. 0121803	Supreme Court
24	In Re: Application for Extension of Service, *John Hay Water System, Inc. (JHWSI)*, Applicant NWRB Case No. 10-147	NWRB, Baguio City
25	*Complaint against JHMC/Ma. Cristina Corona* CPL-L-09-0326 For: Abuse of Power and Misuse of Public Fund	Office of the Deputy Ombudsman for Luzon

31. EVENT AFTER THE REPORTING PERIOD

There is no significant event that occurred after the reporting period that has an impact on the corporation's financial position.

PART II

OBSERVATIONS AND RECOMMENDATIONS

PART II - Observations and Recommendations

A. Financial and Compliance

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

1.1 Philippine Accounting Standards (PAS) 1, paragraph 112, requires that Notes to FS shall:

(a) present information about the basis of preparation of the FS and the specific accounting policies used;

(b) disclose the information required by PFRSs that is not presented elsewhere in the FS; and

(c) provide information that is not presented elsewhere in the FS, but is relevant to an understanding of any of them.

1.2 PAS 1 further provides that in the preparation of the Notes to FS in order to assist users to understand the financial statements and to compare them with financial statements of other entities, an entity normally presents notes in the following order:

(a) statement of compliance with PFRS;

(b) summary of significant accounting policies applied;

(c) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures, including: (i) contingent liabilities and unrecognized contractual commitments, and (ii) non-financial disclosures.

1.3 Review of the Revised Notes to FS for the year ended December 31, 2017, which was submitted to the Audit Team on March 23, 2018, revealed that the above provisions and requirements were not strictly complied with, as follows:

a. The accounting policy on the depreciation method used for depreciating Investment Property was not explicitly stated in the Notes. This is not in accordance with PAS 40, which requires that when the cost value model is used, the depreciation method or rate, among others, shall be disclosed.

b. The complete supporting information for the following accounts presented in the Statement of Financial Position together with their corresponding comparative figures with respect to the preceding period were not disclosed in the Notes:

	Account	Balances as of December 31,		Lacking Information
		2017	2016	
1	Due from Central Office (BCDA)	P17,536,740.76	P21,573,205.87	Breakdown of the balances according to the nature/type of the receivables due from the BCDA. Only the narrative information on the breakdown of the said account was provided in the Notes. The corresponding amounts/balances were not reflected therein.
2	Prepayments	P6,339,532.34	P5,279,630.51	Breakdown of the balances according to the nature of the account, namely, Prepaid Insurance, and Creditable Input tax.
3	Deposits	P6,845,531.50	P2,130,943.41	Composition of the account with the corresponding balances.
4	Due to Central/Home/Head Office	P12,510,558.21	P12,527,175.57	Breakdown of the balances according to purpose. Only the narrative information regarding the breakdown of the said account was presented in the Notes.
5	Trust Liabilities	P2,087,008.86	0.00	Breakdown of the balance according to the specific purpose of the Trust account.

1.4 Moreover, the amounts/balances of the following items as reflected in the Notes to FS did not tally with the amounts/balances reflected in the Detailed Statement of Financial Position, to wit:

1. *Note 12 - PPE as at 31 December 2017 (pertinent portions only)*

	Per Notes to FS		Per Detailed SFP	
	Machinery and Equipment	**Total (PPE)**	**Machinery and Equipment**	**Total (PPE)**
Gross Cost	P12,471,056.21	P38,556,058.89	P12,336,391.60	P38,421,394.28
Accumulated Depreciation	(9,742,688.01)	(27,736,706.66)	(9,608,023.40)	(27,602,042.05)
Carrying Amount, 31 December, 2017	**P2,738,368.20**	**P10,819,352.23**	**P2,728,368.20**	**P10,819,352.23**

2. *Note 13 – Intangible assets*

	Per Notes to FS	Per Detailed SFP
Computer Software (CY 2017)		
Gross Cost	P1,868,718.12	P2,624,993.69

Accumulated Depreciation *(should be Accumulated Amortization based on the RCA)*	(1,008,579.24)	(1,764,854.81)
Carrying Amount, 31 December, 2017	**P860,138.88**	**P860,138.88**

Although the carrying amounts of the above items were stated correctly in the Notes to FS, their respective gross cost and the accumulated depreciation were different from the amounts/balances reflected in the Detailed SFP.

1.5 In addition, the total amount of withholding taxes of P5,603,016.67 as reflected in Note 28 for Compliance with Tax Laws was incorrect. Audit and analysis of the Due to BIR account disclosed that the total amount withheld during the year was P5,602,462.42, net of adjustments of P15,764.42, as shown below:

Nature of Tax	**Amount in the Notes to FS**	**Amount per Audit**		
		Total amount withheld in CY 2017	**Adjustments during the year pertaining to taxes withheld in 2017**	**Adjusted Amount**
Tax on compensation and benefits	P3,035,071.79	P3,053,647.06	P(13,214.42)	P3,040,432.64
Creditable withholding tax				
• Expanded	994,775.25	995,075.25	(2,550.00)	992,525.25
• G-VAT	1,460,228.47	1,463,563.37	0.00	1,463,563.37
Fringe Benefit Tax	112,941.16	112,941.16	0.00	112,941.16
Totals	**P5,603,016.67**	**P5,625,226.83**	**P(15,764.42)**	**P5,602,462.42**

Also, according to Note 28, the amounts represent the withholding taxes paid and accrued for the year. It appears, however, that the amounts reflected therein were the amounts that were withheld during the year, as the amounts remitted/paid were lesser than the amounts withheld. Also, the taxes withheld for the month of December 2017 of P922,518.22 were remitted in January 2018.

1.6 The non-disclosure of all the required information in the Notes to FS would not adequately provide the end-users with the necessary information to assist them in understanding the JHMC's FS, as well as bases for comparing these with the FS of other entities.

1.7 **We recommended that Management ensure that succeeding Notes to Financial Statements are prepared in accordance with the requirements of the PFRS and pertinent PASs to enhance the reliability thereof.**

1.8 During the exit conference, Management explained that it submitted on March 23, 2018 the revised FS together with the Notes to FS incorporating therein the necessary corrections to conform to the requirements of the PFRS pertinent to PASs. The e-copy of the revised FS and Notes to FS were emailed to the Government Accountancy Sector on March 26, 2018.

1.9 The Audit Team, however, informed Management that based on its verification of the Revised Notes to FS that was submitted on March 23, 2018, there are remaining deficiencies noted in the review of original Notes to FS that was submitted on February 14, 2018 which were not yet corrected in the revised FS.

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.**

2.1 PAS 16 provides that PPE is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

2.2 COA Circular No. 2015-010 dated December 1, 2015 provides, among others the use of specific PPE accounts to recognize the cost incurred in the purchase of PPE, or fair value, if acquired through donation or transfers without cost.

2.3 The JHMC's Detailed Statement of Financial Position as at December 31, 2017 shows the following PPE account balances:

Account Title	Cost	Accumulated Depreciation	Net Value
Land Improvements			
Other Land Improvements	P2,101,030.52	P 451,071.97	P1,649,958.55
Buildings and Other Structures			
Buildings	6,874,338.13	5,542,444.53	1,331,893.60
Other Structures	2,652,723.19	1,078,344.46	1,574,378.73
Machinery and Equipment			
Office Equipment	1,208,577.80	1,026,933.59	181,644.21
Information and Communication Technology Equipment	7,809,301.93	6,199,892.12	1,609,409.81
Agricultural and Forestry Equipment	97,300.00	67,801.67	29,498.33
Communication Equipment	807,335.29	767,432.18	39,903.11
Disaster, Response and Rescue Equipment	120,000.00	116,994.00	3,006.00
Military, Police & Security Equipment	176,900.00	176,890.00	10.00
Printing Equipment	191,495.00	117,679.50	73,815.50
Other Machinery and Equipment	1,716,681.58	962,140.34	754,541.24
Transportation Equipment			
Motor Vehicles	11,979,280.38	8,835,891.55	3,143,388.83
Furniture, Fixtures and Books			
Furniture and Fixtures	2,477,630.46	2,086,266.14	391,364.32

Account Title	Cost	Accumulated Depreciation	Net Value
Total	**P38,212,594.28**	**P27,429,782.05**	**P10,782,812.23**

2.4 Verification and analysis of the above accounts disclosed the following deficiencies:

a. Understatement of PPE with a total cost of P4,779,424.51 due to non-recognition in the books

The submitted Reconciliation Report on PPE and related reports of the Accounting Unit show that all PPE recorded in the books were accounted for during the physical inventory; however, not all of the PPE as reflected in the property records, were taken up therein. A summary of these PPE with a total cost of P4,779,424.51 is shown in the following table:

	Account Classification/ Description	Acquisition Date	Qty.	Acquisition Cost
1	Building - *CCA @ IHG (temporary –new)*	Not indicated	1	P 83,200.00
2	Transportation Equipment -Motor Vehicles - *Motorcycle KYMCP; Plate No. SL-1831; Property No. 2014-8904*	Not indicated	1	110,000.00
3	Office Equipment	Various	10	359,434.96
4	Furniture and Fixtures	Various	15	696,782.23
5	Information Technology Equipment	Various	47	2,264,470.20
6	Other Machinery and Equipment	Various	13	525,231.61
7	Communication Equipment	Various	5	562,225.51
8	DRRE	Various	4	178,080.00
	Total		**96**	**P4,779,424.51**

Interview with the Accounting staff disclosed that they had no basis in recording the said assets that were reported by the GSD. The head of the GSD, on the other hand, informed that the assets, which were included in their report, are all owned by the JHMC, as evidenced by Invoice Receipts of Property (IRP).

Had the GSD promptly provided the pertinent documents to the Accounting Unit, the subject PPE items could have been recorded in the books to enhance the fair presentation of the affected accounts in the financial statements.

b. Twenty-three (23) PPE items donated or turned over in the prior years by the BCDA to the JHMC without cost and included in the List of PPE reconciled with Property Records were not recognized in the books

These PPE, which are still serviceable, were classified under the following accounts:

	Account Classification	Qty.
1	Buildings (CCA @ IHG, 64 sq.m.)	1
2	Other Structures	13

	Account Classification	Qty.
3	IT Equipment	6
4	Other Machineries and Equipment	2
5	Communication Equipment	1
	Total	**23**

The above items were not recognized in the books because their respective fair values had not been determined. As the said PPE items were not appraised, the value reported in the List of PPE was zero (P0.00), which is not in accordance with COA Circular No. 2015-010.

c. Overstatement of PPE accounts totaling P720,557.46 due to non-depreciation contrary to PAS 16

PAS 16 requires that the depreciable amount of an asset shall be allocated on a systematic basis over its useful life**.** Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Audit revealed that PPE recorded in the books at the total cost of ₱720,557.46 were not provided with depreciation, as follows:

	Description	Account Classification	Acquisition Date	Qty.	Property No.	Estimated. Useful Life based on the PPELC	Cost
1	Perimeter Fence	Other Land Improvements	31 Dec. 00	1	none	None	P137,932.89
2	Perimeter Fence (webforge steel fences (JHMC Building perimeter)	Other Land Improvements	31 Dec. 06	1	none	None	549,224.57
3	Computer set	ICT Equipment	Not indicated	1	2010-0591; 2014-2664; 2010-1106	5 years	33,400.00
	Total			**3**			**P720,557.46**

The non-provision of depreciation for the above assets overstated the net value of the Other Land Improvements and ICT Equipment accounts, as well as the Retained Earnings/ (Deficit) account. The amount of depreciation that could have been provided, however, cannot be determined accurately due to the absence of information on the estimated useful life of the Other Land Improvements' account and the acquisition date of IT equipment. Nonetheless, granting that the IT equipment was acquired in 2010 based on its Property Number which starts with 2010, the said equipment would have been fully depreciated in 2015.

d. Residual value of PPE totaling P7,659,988.24 was less than 10%

a. The Notes to FS for the year ended December 31, 2017 disclosed that the JHMC adopted the straight line method of depreciation of PPE, and used the estimated useful life prescribed in COA Circular No. 2003-2007 for each asset, and based on its experience with similar assets. It further stated that the JHMC used a residual value equivalent to at least ten percent (10%) of the cost of the PPE in the computation for depreciation.

b. The above policy, however, was not adopted in the computation of depreciation for 106 PPE items with a total cost of P7,660,080.24, as the accumulated depreciation and net values thereof as at year end amounted to P7,659,988.24 and P92.00, respectively. This indicated that the residual value used in the computation of depreciation was less than ten percent (10%).

c. Analysis of the various PPE accounts revealed that of the 106 items, 91 items with a total cost of P6,650,334.76 had accumulated depreciation and net values of P6,650,242.76, and P92.00, respectively, while the remaining 15 items with a total cost of P1,009,745.48 had a total accumulated depreciation equal to its cost; hence, the total net value was zero (P0.00), as shown in the following table:

PPE Account Classification	Qty	Total Costs	Accumulated Depreciation as at Dec. 31, 2017	Net Value as at Dec. 31, 2017	Should be 10% Residual Value
a. With Net Values (@ P1.00 to P2.00) per item					
Office Equipment	6	P 242,775.00	P 242,769.00	P 6.00	P24,277.50
ICT Equipment	29	2,093,122.36	2,093,093.36	29.00	209,312.24
Agricultural and Forestry Equipment	1	39,850.00	39,849.00	1.00	3,985.00
Communication Equipment	15	376,390.00	376,375.00	15.00	37,639.00
Disaster Response & Rescue Equipment	6	90,000.00	89,994.00	6.00	9,000.00
Military, Police & Security Equipment	10	176,900.00	176,890.00	10.00	17,690.00
Printing Equipment	1	38,500.00	38,499.00	1.00	3,850.00
Other Machinery and Equipment	13	368,200.00	368,187.00	13.00	36,820.00
Transportation Equipment-Motor Vehicles	5	3,087,037.40	3,087,031.40	6.00	308,703.74
Furniture, Fixtures & Books	5	137,560.00	137,555.00	5.00	13,756.00
Sub-totals	**91**	**P6,650,334.76**	**P6,650,242.76**	**P92.00**	**P665,033.48**
b. With Zero Net Value					
ICT Equipment	7	P 695,300.20	P 695,300.20	P 0.00	69,530.02
Communication Equipment	8	314,445.28	314,445.28	0.00	31,444.53
Sub-totals	**15**	**P1,009,745.48**	**P1,009,745.48**	**P 0.00**	**P100,974.55**
Grand totals	**106**	**P7,660,080.24**	**P7,659,988.24**	**P92.00**	**P766,008.03**

d. The GSD head informed that the above PPE were acquired from 1997 to 2007 and that most of these are already unserviceable and awaiting disposal as at year end. Considering that the net value of each of the said items was either zero or P1.00/P2.00, the Allowance for Impairment was no longer provided.

e. Existence of abnormal net values of Furniture and Fixtures totaling ₱67,700.00 due to the recognition of its depreciation although not recognized in the books

	Description	Qty.	Property No. (PN)	Unit Cost	Total Cost	Recorded in the books	Accumulated Depreciation	Net Value
1	Bar Cabinet	1	No PN	P17,000.00	P17,000.00	P0.00	P16,999.00	P(16,999.99)
1	Swivel Chair (rocker armchair)	2	2006-1200-2015-2702	25,350.00	50,700.00	0.00	50,698.00	(50,698.00)
	Totals	**3**		**42,350.00**	**P67,700.00**	**P0.00**	**P67,697.00**	**P(67,697.99)**

e.1 The foregoing deficiencies were attributed mainly to the following:

a. Lack of coordination between the Accounting/Finance Division and the GSD in the recording, monitoring and reporting of PPEs.

b. Non-strict adherence to the accounting standards and policies on PPE and depreciation.
Had the Accounting Unit strictly complied with the pertinent accounting standards and policies, the accounting errors affecting the provision and computation of depreciation, among others, could have been minimized/avoided.

2.5 In view of the foregoing deficiencies, the accuracy and reliability of the net values or carrying amounts of the various PPE accounts totaling P10,782,812.23 were not fairly presented, thereby affecting the fair presentation of the said accounts in the financial statements.

2.6 **We recommended that:**

a. **the GSD immediately provide a copy of the Invoice Receipt of Property (IRPs) and other pertinent documents to the Accounting/Finance Division as its basis to recognize in the books of accounts, the PPEs owned by the JHMC totaling P4,779,424.51 and the respective accumulated depreciation;**

b. **the Supply Officer determine the fair value of the 23 PPE items that were donated or transferred without cost for use as basis in recognizing the said assets in the books pursuant to PAS 16 and COA Circular No. 2015-010 dated December 1, 2015;**

c. **the Accounting/Finance Division:**

(i) provide depreciation for PPEs with a total reported cost of P720,557.46, and submit the pertinent documents and necessary information and explanations to support the journal entries made to adjust the Motor Vehicles account in the total net amount of P4,725,837.45;

(ii) recognize all PPEs owned by JHMC in the books and provide these with depreciation based on the JHMC's accounting policy on depreciation, which should be aligned to PAS 16;

(iii) review the residual value and the useful life of JHMC's PPE at each annual reporting date in accordance with PAS 16. If expectations differ from previous estimates, account for the change as a change in an accounting estimate pursuant to PAS 8 (par. 51); and

2.7 Management's comments are as follows:

- The GSD Manager and Supply Officer are in the process of validating the unreconciled amounts with the Accounting Division and requested for a copy of the schedule of the unreconciled items from the Accountant in order to be able to submit the required IRPs; and

- As regards the valuation of the 23 PPEs, the Supply Officer, who is also a Licensed Private Appraiser, informed the Audit Team that she conducted an appraisal of the said PPEs in 2015 and made a report as to the fair value and number of economic life of said PPEs. The Audit Team requested that a copy of said Appraisal Report be furnished to COA and the Accountant for proper reconciliation and recognition in the books.

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.**

3.1 PAS 1.32 provides that, "*An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by PFRS.*"

3.2 PAS 32.42 requires that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position *when and only when, an entity*:

a. *Currently has a legally enforceable right to set off the recognized amounts; and*

b. *Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.*

An entity currently has a legally enforceable right to set-off if that right is:

a. Not contingent on a future event [*must be available today/at the moment]*; and

b. Enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

3.3 The PAS clarifies that in order to qualify for offsetting, a right to set-off needs to be exercisable when the amounts are due and payable. Also, the availability of a right to set-off cannot be contingent or conditional on a future event, because the right of set-off would not exist until, or would exist only up to, the occurrence of the contingency.

3.4 Verification and analysis of available records of the Accounts Receivable (AR) account with a reported year-end balance of ₱5,196,525.13 as at December 31, 2017 disclosed that the above standards were not strictly adhered to, as follows:

a. AR totaling ₱4,060,916.98 from Camp John Hay Development Corporation (DevCo) were offset against the Accounts Payables to the same entity in November 2017 despite a pending case filed by the JHMC/BCDA against the said entity, and the JHMC intends to reconcile the data with the same upon settlement of the case.

The explanation for the said entry as indicated in JEV No. 2017-11-133 dated November 30, 2017 was, *"Transfer of common accounts from the Accounts Payable awaiting result of the legal case filed by BCDA/JHMC. To reconcile data with DevCo upon settlement of the case."*

The transfer of common accounts from the Accounts Payable (AP) to the AR, which is tantamount to offsetting, was not in accordance with PAS 32, as there is a pending case filed by the JHMC against the DevCo. It also appears that the move to offset the receivables from the payables is temporary because the JHMC intends to reconcile data with DevCo only upon settlement of the case.

Based on PAS 32, the JHMC has no legally enforceable right to set off the recognized amounts at the moment, since that right is contingent on a future event, i.e, upon settlement of the case.

The Audit Team also observed that the total amount of payables that was offset against the receivables of ₱4,060,916.98 was net of P81,234.10. This amount consisted of the following:

	Particulars	Date Incurred	JEV No.	Amount
1	**Payables not appearing in the SL/List of Accounts Payable as at December 31, 2016, but were reflected in the SL as at December 31, 2017 although no entries were made in 2017 to the account of DevCo**			
	• Various Employees: effect of the year-end tax adjustment	12.31.2006	06-12-12	P 1,930.92
	• Accrual: BOD-traveling (reimbursement of directors)	12.31.2007	2007-12-08	21,000.00
	• Accrual: Office supplies expense (Manila expense)			7,072.53
	Sub-total			**P 30,003.45**
2	"For reconciliation" - with credit balance	12.29.2008		P 1,272.15
3	"For reconciliation" - with debit balance	12.31.2008		(112,509.70)
	Net debit balance			P(**111,237.55)**
	Net Amount			**P (81,234.10)**

The Audit Team noted that the SL balance of payables to the DevCo as at December 31, 2016 was P4,142,151.08. As there were no entries made to the account of the DevCO in 2017, the amount that should have been offset, albeit not in accordance with PAS 32, should have also been equal to P4,142,151.08 instead of ₱4,060,916.98. As at December 31, 2017, the balance of the accounts payable to DevCO was P0.00.

b. ARs totaling P1,246,344.58 were improperly offset against liability accounts and other accounts and/or derecognized from the books of accounts without proper authority or basis, as summarized in the following entry:

	Dr	Cr
Other Deferred Credits	₱1,062,608.34	
Accounts Payable	32,158.79	
Guaranty / Security Deposits	43,965.77	
Retained Earnings	107,611.68	
Accounts Receivable		₱1,246,344.58
1. To record taxes that were not withheld from payments made to employees amounting to ₱1,062,608.34; 2. To revert back to Retained Earnings the amount of P183,479.56 for payables which remained unclaimed for years; and 3. To revert back the Accounts Receivable that were erroneously dropped from the books.		

Section 98 of PD 1445 allows the reversion of payables which have been outstanding for two years or more and against which no actual claim has been filed. The entry for reversion is a debit to the Payables account and a credit to the Retained Earnings/(Deficit) account for the full amount of the payables. Thus, the credit to the AR account to take up the reversion of such payables was tantamount to unauthorized de-recognition of receivables from the books of accounts. The most appropriate procedure could have been to request for write-off of these receivables following the guidelines prescribed under COA Circular No. 2016-005 dated December 19, 2016.

c. Journal Entry Vouchers (JEVs) to adjust the receivables account in the total amount of P4,421,084.19 were not supported with complete documents showing, among others, the original entries vis-a-vis the correct entries to justify and establish the accuracy and propriety of the said adjustments.

The Manual of New Government Accounting – Corporate requires the use the JEV as basis for recording all government transactions in the books of accounts. As such, these should be supported by appropriate documents and any adjusting entries should be properly explained.

Verification of the AR account disclosed that several entries were made to adjust/credit the account in the total amount of P4,421,084.19. The corresponding JEVs, however, lacked sufficient explanations and necessary documents to justify the adjustments made. These JEVs and the corresponding entries made were as follows:

a. *JEVs crediting the AR account at the total amount of P957,103.38*

	Particulars (Explanation in the JEVs)	**JEV No.**	**Date**	**Account Debited**	**Amount Credited to AR**	**Deficiency**
1	Adjustment for payment made to DevCO for the power & water consumption for GSP Camping event at VOA in Dec. 2010	2017-11-133	11.30.2017	Due from CO	P 10,000.00	Copy of the JEV showing the original entry made vis-a-vis the correct entry to arrive at the adjusting entry and the corresponding amount was not attached. Also, the explanation for the adjustment was not clearly stated therein.
2	Adjustment of JEV Nos. 2010-12-132 and 2017-10-123 for accrued expenses payable to CJH Golf Club for 2006-2007 green fees **against accumulated receivables**	2017-10-123 & 2017-12-132	10.31.2017/ 12.31.2017	Retained Earnings (RE)	70,008.91	The correct entry as indicated in the JEV was a debit to the Retirement and Life Insurance Premiums account and a credit to the AR account for P78,008.91. The reason why the AR account was credited was not properly explained.

	Particulars (Explanation in the JEVs)	JEV No.	Date	Account Debited	Amount Credited to AR	Deficiency
						Copy of JEV No. 2010-12-132 issued in 2010 showing the original entry was not attached.
3	Cancelled check no. 48530199 dated Feb. 25, 2015 applied to receivables from Le Chef	2017-12-146	12.31.2017	Accounts Payable (AP)	1,062.19	Information that JHMC has no more intention to pay the debtor for the amount of the cancelled check was not indicated.
4	Adjustment of payable to AIM for receivable from AIM Igorot Lodge for overtime services rendered on Aug. 18, 2007	2017-12-146	12.31.2017	Guaranty/ Security Deposits Payable	505.46	Same as No. 1 above. No explanation why the Guaranty/Security Deposits Payable was debited/offset against the AR.
5	Adjustment for payable to BCDA for proceeds from sale of BCDA assets, and to correct entry for receivable from PTA for various PTA furniture and fixtures transferred to BCDA recorded per JEV No. 2004-10-05	2017-12-147	12.31.2017	Due to Other Funds – P111,236.50 RE- P337,806.45	449,042.95	Copy of JEV No. 2004-10-05 showing the original entry/ies vis-a-vis the correct entry/ies was not attached. The adjusting journal entry (AJE) appears to be a compound entry, but the details were not presented. No explanation why the Due to Other Funds account was debited when the amount is payable to the BCDA.
6	Adjustment for JEV No. 2004-08-04 for receivables from the City Government of Baguio for MOA executed with the BCDA re: Proposed concepts and possible general land uses of CJH	2017-12-147	12.31.2017	Due from CO	400,000.00	Copy of JEV No. 2004-08-04 showing the original entry made vis-à-vis the correct entry was not attached. Also, the explanation for the adjustment was not clearly stated in the JEV.
7	To record application of deduction from last pay of Ms. Alma Sison per check no. 50878254 dated 14 Dec. 2015 over	2017-12-147	12.31.2017	Due from Officer and Employees – P2,800.00	2,779.79	The RE account was also credited for P20.21. The entry appears to be a compound entry, but the details were not shown. Copy of the JEVs

	Particulars (Explanation in the JEVs)	JEV No.	Date	Account Debited	Amount Credited to AR	Deficiency
	refund of withheld taxes in CY 2012					showing the original entry/ies made vis-à-vis the correct entry/ies were not attached. Also, the explanation for the adjustment was not clearly stated therein. Name of debtor whose accounts receivable was credited, as the name of Alma Sison was not included in the SL/Schedule of Debtors as at December 31, 2016.
8	Record adjustment for water consumption for May 27 to June 26, 2009 per check no. 30744735 dated 08/18/09 and check no. 32316305 dated 10/19/09. **No supporting documents to support claim.**	2017-12-147	12.31.2017	RE	23,704.08	Copy of the JEVs showing the original entries vis-a-vis the correct entries were not attached. No clear explanation and pertinent documents to justify why the AR account was credited, when it appears that payments were made under the mentioned checks. Also, the reason for the adjustment was “No supporting documents to support claim”. No list of debtors attached with their corresponding receivables that were credited.
	Net (Total)				**P957,103.38**	

b. *JEV No. 2017-12-152 dated December 31, 2017 crediting the AR account for a total amount of P3,039,979.33 in relation to the dropping of four motor vehicles acquired thru a Car Plan in 2009.*
The entries made which were not supported with documents and necessary information and explanations were, as follows:

	Particulars	Debit			Credit
		AP	Other Unearned Revenue	Retained Earnings (RE)	AR
1	Mazda 3 V 1.6L-AT issued and returned by former VP L. Pagano-Calde, and sold to Dir. D. Rojas, Jr. [in 2009].	0.00	P 326,666.68	P 492,316.84	P 818,983.52

	Particulars	Debit			Credit
		AP	Other Unearned Revenue	Retained Earnings (RE)	AR
2	2007 Honda Civic 1.8 V-MT issued to and returned by Dir. G. de Leon [in 2009]. Transferred and paid by Dir. J. Arenas in 2010.	13,993.64	326,666.68	406,545.94	733,212.62
3	2007 Honda Civic 1.8 V-A/T to Dir. R. Marcasite. Transferred to and paid by former Dir. A. Galba.	54,941.36	326,666.68	417,825.91	744,492.59
4	Mazda 3 1.6 LV to Dir. G. Seno. Transferred to Dir. C. Estela, Jr. and paid by Bonnie Chan.		326,666.68	416,623.92	743,290.60
	Totals	**P68,935.00**	**P1,306,666.72**	**P1,733,312.61**	**P3,039,979.33**

c. *Additional entries made under JEV No. 2017-12-152 dated December 31, 2017 crediting the AR account for P424,001.48 to drop six MVs acquired under the Car Plan granted in 2007.*

The entries made which were likewise not supported with documents and necessary information and explanations were, as follows:

	Particulars	Debit			Credit	
		Other Unearned Revenue	Due from Officers and Employees (DFOE)	RE	RE	AR
1	Ford Club Wagon XLT unamortized and undepreciated 1998 Car Plan pf former Dir. Ramon Cardenas	P 19,900.00	P 0.00	P 0.00	P 10,000.00	P9,900.00
2	Hyundai Stare. Unamortized and undepreciated 1998 car plan of Dir. Eduardo Gumaru	204,166.67		49,797.35		253,964.02
3	Hyundai Starex. Unamortized and undepreciated 1998 car plan of Dir. Manuel Mendoza	89,618.26	39,618.26		49,797.35	59,618.26
4	Toyota Altis 1.6S issued and bought by Dir. Teodoro Regino, fully paid on 12 Dec. 2013 with overpayment	326,666.68			69,618.26	26,315.43
5	2007 Honda CRV issued to Dir. Amado Valdez.	653,333.36			300,351.25	65,171.77
6	2007 Hyundai Tucson 2 WD SUV-A/T, to Dir. Marissa Bondoc. Recomputation of redemption value not recorded when billed.	280,000.04	230,997.90		588,161.59	9,032.00
	Totals	**P1,573,685.01**	**P270,616.16**	**P49,797.35**	**P1,470,097.04**	**P424,001.48**

In sum, the failure to attach complete supporting documents to the JEVs adjusting the AR account in the total amount of P4,421,084.19, and to indicate therein the reasons or justifications why the said account and other affected accounts were adjusted rendered difficulty in determining the accuracy and propriety of the adjusting entries made.

d. The amounts credited to the AR account in relation to motor vehicles that were dropped from the books were overstated by P83,729.72, thereby understating the AR balance as at yearend by the same amount.

Comparison of the SL balances as at December 31, 2016 with the corresponding amounts credited in 2017 to the respective receivable accounts of the then VP and members of BOD totaling P3,140,498.53 revealed that only the amount of ₱3,056,768.81 was related to their car plans. The difference of P83,729.72 represents disallowed payments made by previous COA audit teams without Notice of Disallowances, and expenses incurred in the prior years that are chargeable against the said debtors.

The summary of the debtors concerned and their corresponding receivables that were dropped in relation to their respective Car Plans is shown in the following table:

	Name of Debtor	Total Amount Credited to the AR account	Amount of AR Related to the CAR Plan	Amount of AR Not related to the CAR Plan
	1st set of entries under JEV 2017-12-152			
1	Vice President	P 818,983.52	P 798,680.75	P 20,302.77
2	Director	733,212.62	723,296.30	9,916.32
3	Director	744,492.59	730,840.59	13,652.00
4	Director	743,290.60	739,899.40	3,391.20
	Sub-totals	**P3,039,979.33**	**P2,992,717.03**	**P47,262.29**
	2nd set of entries			
1	Director	P 26,315.43	P 0.00	P26,315.43
2	Director	65,171.77	64,051.77	1,120.00
3	Director	9,032.00	0.00	9,032.00
	Sub-totals	**74,203.77**	**64,051.77**	**10,152.00**
	Grand Totals	**P3,140,498.53**	**P3,056,768.81**	**P83,729.92**

As only the total amount of P3,056,768.81 was related to the Car Plans granted to the above debtors, the total amount of the AR that was credited to their receivable accounts of P3,140,498.53 was overstated by ₱83,729.92, thereby, understating the AR balance as at year end.

e. Unaccounted difference of ₱49,137.88 between the AR of a former of the Board as at December 31, 2016 of ₱303,101.90, and the amount credited to his account in 2017 of ₱253,964.02.

Review of the SL of the then former Director disclosed that his outstanding receivable balance pertaining his Car Plan as at December 31, 2016 was

P303,101.90, of which the amount of P253,964.02 was credited in 2017. The balance as shown in the SL as at year end, however, was P0.00.

As the total of the SL balances of the AR account was equal to the general ledger (GL) balance as at December 31, 2017, it was possible that the said amount was offset against the receivable accounts of other debtors.

3.5 In view of the foregoing deficiencies, the accuracy and reliability of the AR account with a reported year-end balance of P5,196,525.13 including the affected accounts were uncertain. The summary of the other accounts that were affected by the foregoing deficiencies and the corresponding amounts that were debited are, as follows:

	Account Title	**Total**
1	Accounts Payable	₱ 32,158.79
2	Other Deferred Credits	1,062,608.34
4	Guaranty Deposits Payable	43,965.77
5	Retained Earnings	107,631.89
	Total	**₱ 1,246,364.79**

3.6 Interview with the head of the Finance Division revealed that the adjusting entries were made to clean the AR of accounts that have been long been outstanding. She also informed that a request was already filed with the COA for the write-off of some of the receivables.

3.7 The Audit Team countered that Accounts Receivable account shall be credited or dropped from the books only in the following instances: (a) for valid adjustments such as those to correct inadvertent errors, or inaccurate calculation, reclassification of ARs to appropriate accounts prescribed under the Revised Chart of Accounts; and (b) when the request for authority to write-off dormant receivables is granted pursuant to COA Circular No. 2016-005 dated December 19, 2016.

3.8 **We recommended that Management direct the Accountant to:**

a. **restore/reverse the accounting entry made to offset the receivables due from DevCo of P4,060,916.96 against the payables to the same entity because pursuant to PAS 32, the JHMC has no legally enforceable right to set off the recognized amounts, since that right would be available only upon settlement of the case filed by the JHMC against the said entity; and**

b. **prepare adjusting entries to correct the entries made to derecognize receivables from the books of accounts totaling P1,246,344.58 without proper authority; and the deficiencies noted which understated the AR account by P83,729.72.**

3.9 **We also recommended that Management ensure that, except for valid adjustments such as those to correct inadvertent errors, or inaccurate calculation, reclassification of ARs to appropriate accounts prescribed under the Revised Chart of Accounts, no ARs shall be dropped from the books until the request for authority to write-off dormant receivables is granted pursuant to COA Circular No. 2016-005 dated December 19, 2016.**

3.10 The Accountant committed to reverse/correct the accounts during the first semester of 2018 after getting approval from the Board since this will affect the financial status of the Corporation. A request for write-off of the long outstanding accounts will also be submitted after the same will be taken up in the next Board meeting.

4. **The Input Taxes account balance was overstated by ₱4,091,938.42 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.**

4.1 The Revised Chart of Accounts (RCA) for Government Corporations, which was prescribed under COA Circular No. 2015-010 dated December 1, 2015 provides the use of the account Input Tax (under Prepayments**)** to recognize the amount creditable against the output tax for the purchase or importation of goods for sale; or for conversion into or intended to form part of a finished product for sale including packaging materials or for use as supplies in the course of business; or for use as materials supplied in the sale of service; or for use in the trade or business for which deduction or amortization is allowed under the National Internal Revenue Code, except services on which a value-added tax has been actually paid. This account is credited upon offsetting against the output tax and/or set up of creditable input tax.

4.2 Audit of the account Input Tax revealed that the balance as at December 31, 2017 of ₱6,116,519.59 consisted of input taxes attributed to zero-based sales for the years 2012 to 2017.

4.3 The summary of the balances of the said account as at December 31, 2013 to December 31, 2017 is presented in the following table:

As of Dec. 31,	Balance of Input Tax (in Pesos) for			Total Balance	Remarks
	Goods	Services	Capital Goods		
2013	P629,780.96	P1,503,757.50	P 0.00	P2,133,538.46	Includes input taxes prior to 2013
2014	826,853.25	2,211,950.90		3,038,804.15	Input Taxes for 2014 - P905,265.69
2015	1,036,197.98	3,055,740.44		4,091,938.42	Input Taxes for 2015 -

					P1,053,134.27
2016	1,289,011.40	3,749,706.67	81,806.19	5,120,524.26	Input Taxes for 2016 - P1,028,585.84
2017	1,469,391.45	4,560,098.74	87,029.40	6,116,519.59	Input Taxes for 2017 – P995,995.33

4.4 The Audit Team noted that the account Input Tax was never credited since 2014; hence, the input taxes had accumulated to P6.116 million by the end of CY 2017. As shown in the above table, the account has been increasing from year to year. This indicated that the JHMC did not apply or file any claim for Value Added Tax (VAT) refund/Tax Credit Certificate (TCC) within two (2) years from the last quarter of its sales/receipts, as provided in Section 10 of Republic Act (RA) No. 9337, amending Section 112(A), among others, of the 1997 Tax Code.

4.5 Records show that the JHMC was registered with the Bureau of Internal Revenue (BIR) as a VAT entity on January 16, 2012 with zero-rated sales. "A zero-rated sale is a sale, or exchange of goods, properties and/or services subject to 0% VAT" pursuant to Section 106(A) and 108(B) of the Tax Code. It is a taxable transaction for VAT purposes, but shall not result in any output tax. In zero-rated sales, the VAT-registered seller does not impose VAT on its sales so it generates no output VAT. However, suppliers still pass to the seller VAT on their purchases of goods or services; thus, input VAT from suppliers for the purchase of goods, properties or services, related to such zero-based sales normally accumulates in the books of accounts. The VAT-registered entity, however, could apply for VAT refund or TCC within a two-year period from the last quarter of the sale in accordance with Section 10 of RA No. 9337, amending Section 112 of the 1997 Tax Code.

4.6 Section 10 of RA No. 9337, amending Section 112(A), among others, of the 1997 Tax Code, provides the remedy of a taxpayer to recover the unapplied accumulated input VAT arising from zero-rated transactions, viz:

> "*112(A). Zero-Rated or Effectively Zero-Rated Sales. Any VAT-registered person, whose sales are zero-rated or effectively zero-rated may, within two (2) years after the close of the taxable quarter when the sales were made, apply for the issuance of a tax credit certificate or refund of creditable input tax due or paid attributable to such sales, except transitional input tax, to the extent that such input tax has not been applied against output tax: . . . .*"

4.7 In Revenue Memorandum Circular (RMC) No. 57-2013 dated August 23, 2013, the BIR stated that based on the above-cited provision, **the unutilized creditable input taxes attributable to zero-rated sales can only be recovered through the application for refund or tax credit.** *(Emphasis ours)*

4.8 Pursuant to BIR RMC No. 54-2014 dated June 11, 2014, the taxpayer can file his administrative claim for VAT refund or credit at any time within the two-year prescriptive period. The Commissioner shall have 120 days from the date of submission of complete documents to decide whether or not to grant the claim for refund or issue a TCC for creditable input taxes. If the claim for VAT refund or credit is not acted upon by the Commissioner within the 120-day period as required by law, such "inaction shall be deemed a denial" of the application for tax refund or credit. The taxpayer affected may appeal the decision or the unacted claim with the Court of Tax Appeals within 30 days from receipt of the decision denying the claim or after the expiration of the 120-day period.

4.9 In the case of the JHMC, to be able to avail of the refund of its unused input taxes for the years 2012 to 2015 or the issuance of a TCC therefor, it should have filed its application within two (2) years after the close of the taxable quarter when the sales were made in the said years, as follows*:*

Year	Taxable Period	Deadline for the filing of Application for Refund/Tax Credit
2012	1st quarter	March 31, 2014
	2nd quarter	June 30, 2014
	3rd quarter	September 30, 2014
	4th quarter	December 31, 2014
2013	1st quarter	March 31, 2015
	2nd quarter	June 30, 2015
	3rd quarter	September 30, 2015
	4th quarter	December 31, 2015
2014	1st quarter	March 31, 2016
	2nd quarter	June 30, 2016
	3rd quarter	September 30, 2016
	4th quarter	December 31, 2016
2015	1st quarter	March 31, 2017
	2nd quarter	June 30, 2017
	3rd quarter	September 30, 2017
	4th quarter	December 31, 2017

4.10 As the JHMC did not apply for the refund of input tax credits or the issuance of a TCC attributable to its zero-rated sales within the prescriptive period of two years from last quarter when the sales were made in 2012 to 2015, it was denied of the opportunity to avail of the said tax benefits.

4.11 Consequently, the account Input Taxes as of year-end was overstated by P4,091,938.42, representing the accumulated input taxes for the years 2012 to 2015 that can no longer be recovered or refunded due to prescription of the two-year period under Section 112(A) of the Tax Code, as amended by Section 10 of RA 9337. The said amount therefore cannot be considered in the books as an asset anymore pursuant to the Conceptual Framework for Financial Reporting.

4.12 Chapter 4 of the Conceptual Framework defines assets as *"a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Assets shall be recognized in the financial statements when it fulfills the following criteria:*

a. *It is probable that any future economic benefits associated to the item will flow to or from the entity; and*

b. *Cost or value can be measured with reliability."*

4.13 Considering that there is no more future economic benefit that will flow to the JHMC from the Input Taxes amounting to ₱4,091,938.42**,** the said amount should already be deducted or credited from the balance of the account Input Tax, otherwise, its assets would be overstated and the fair presentation of its Statement of Financial Position would be affected.

4.14 We recommended that Management consult the BIR for the possible recovery or refund of the accumulated and unapplied input VAT arising from purchase of goods and services in CYs 2012 to 2015 totaling P4,091,938.42 despite the expiration of the two-year prescriptive period. If recovery of the said amount is nil due to the prescription of the mandatory filing period, direct the Accountant to immediately prepare a journal entry to credit the said amount from the account Input Tax and to debit the same to the account Retained Earnings/(Deficit). In this way, the true financial position of the JHMC would be reflected; and

4.15 Management noted and agreed with the above audit recommendations, but requested for time allowance since this matter will be taken up for approval by the Board. All the audit recommendations which require the approval by the Board will be included in the agenda during their meeting in May 2018.

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 ₱17,536,740.76 and ₱12,510,558.21, 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.**

5.1 The Revised Chart of Accounts (RCA) for Government Corporations (GCs), prescribed for adoption under COA Circular No, 2015-010 dated December 1, 2015, provides, among others, the use of the following Inter- and Intra- Agency Receivable and Payable accounts:

Inter-Agency Receivables

- Due from Parent Corporations (10303070). This account is used to recognize the amounts receivable by subsidiaries and associates/affiliates of government corporations from parent corporations. Credit this account for receipt of goods/services, liquidation of fund transfers and receipt of share/payment from parent corporations.

Intra-Agency Receivables

- Due from Central Office/Home/Head Office (10304060). This account is used to recognize the amount of receivables of regional/branch/field offices from their central/home/head office. Credit this account for payment/liquidation of receivables.

Inter-Agency Payables

- Due to Parent Corporations (20201100). This account is used to recognize the amounts payable by subsidiaries and associates/affiliates of government corporations to parent corporations. Debit this account for delivery of goods/services, liquidation of funds received and settlement of liabilities.

Intra-Agency Payables

- Due to Central/Home/Head Office (20301060). This account is used to recognize the receipt of funds from the Central/Head/Home Office by Regional/Branch/Field Offices of government corporations for the implementation of specific programs or projects subject to liquidation. Debit this account for liquidation of funds received or settlement of liabilities.

5.2 Reconciliation of accounts between parent and subsidiary entities is a necessary accounting procedure to determine reconciling items for immediate adjustment in the pertinent books. For subsidiary ledger (SL) balances, the Manual on New Government Accounting System (NGAS) – Corporate requires that at the end of each month, the total of the SL balances shall be reconciled with the corresponding controlling account.

5.3 Verification and analysis of the Due from and Due to Central/Home/Head Office accounts with reported balances of ₱17,536,740.76 and ₱12,510,558.21, respectively, as at December 31, 2017 revealed that the Due from Central/Home/Head Office account was used to record expenses advanced by the JHMC for the operation and maintenance of BCDA cottages and land related costs, such as security services including land improvement projects of the BCDA, subject to reimbursement by the latter. This account was credited for amounts/funds received/collected from the BCDA to reimburse the said expenses.

5.4 The Due to Central/Home/Head Office account, on the other hand, was used to record collections of cottage rentals by the JHMC for remittance to the BCDA; funds received from the BCDA for the implementation of projects and the corresponding disbursements; collection of land rentals from PEZA in dollars and remittance thereof; and other adjustments.

5.5 The use of the above accounts to record the transactions was not in accordance with the RCA considering that JHMC is a wholly-owned subsidiary of the BCDA pursuant to Executive Order (E.O.) No. 103, series of 1993, as amended by E.O. No. 31, series of 1998. Thus, BCDA is the parent corporation of the JHMC, and not its Central/Home/Head Office.

5.6 Accordingly, amounts receivable by subsidiaries of government corporations, such as the JHMC from parent corporations like the BCDA should be recognized in the Inter-agency Receivables account Due from Parent Corporations, while the amounts payable by the said subsidiary to the parent corporation shall be recorded under the Inter-Payables account Due to Parent Corporations.

5.7 The erroneous use of the Intra-Receivables and Intra-Payables accounts affected the reliability of the JHMC's Statement of Financial Position as at yearend.

5.8 Analysis of the Due to Central Office (CO) account with a year-end balance of P12,510,558.21 also revealed the following:

a. The balance includes lease rentals for CY 1997 from the Asian Institute Management (AIM) totaling P2,310,218.04 that remained unremitted to the BCDA for more than 17 years due to non-reconciliation of the account with the BCDA from the time it was recognized in the books in April 2000 to date.

Based on the information indicated in the SL, the above amount was credited to the Due to CO account under JEV 04/2000 as a "reconciliation entry". The Notes to Financial Statements for the year ended December 31, 2017 also disclosed that the above amount is for reconciliation with the BCDA.

Considering that the amount was not reconciled with the BCDA and had been dormant for more than 17 years to date, the validity of the said payables was doubtful.

b. The total balance of the Schedule/SLs of the Due to CO account as at December 31, 2017 did not reconcile with the general ledger (GL) balance by ₱2,200.00, as presented in the following table:

Particulars	GL	SLs/Schedule	Difference
Due to BCDA	P 4,368,761.72	P 4,366,561.72	P2,200.00
Due to BCDA-Revenue Collections	8,002,272.85	8,002,272.85	0.00
Due to BCDA-Other Funds	139,523.64	139,523.64	0.00
Totals	**P12,510,558.21**	**P12,508,358.21**	**P2,200.00**

5.9 The amount of P2,200.00 was traced to the difference between the balances of the SL and GL maintained for the Due to BCDA account, wherein the GL showed a balance of P4,368,761.78 while the SL showed a total balance of P4,366,561.78 as at December 31, 2017.

5.10 Analysis of the SL for the Due to BCDA account revealed that the balance of P4,366,561.78 consisted of the following:

	Particulars	**Period Covered**	**Amount**	**Remarks**
1	Cottage rentals	March 2002 to 2004	P 27,180.00	No remittance from March 2002 to date
2	Lease rentals-AIM reconciling entry	1997	2,310,218.04	No movement since it was recorded in April 2000
3	CAPEX Projects	April 26, 2007-Oct. 31, 2013	2,467,988.41	Last entry was on October 31, 2013. Balance represents the net amount of unused funds released for projects.
4	PEZA land rentals	Mar. 31, 2012 to May 31, 2013	(439,451.75)	Net over-remittance of rentals with foreign exchange net losses
5	Other Adjustments	Dec. 31, 2012	627.02	Adjustments in the receivables from BCDA credited to the Due to CO-BCDA account.
	Total		**P4,366,561.72**	

a. As shown in the above table, the transactions pertained to the prior years and the last entry made to this SL account was on October 31, 2013. The Audit Team noted that the balance of P4,366,561.72 was the same balance appearing in the SL/Schedule as at December 31, 2016.

b. As the SL and GL still reflected an unreconciled difference, the reliability of the balance of the above account was affected.

c. The Due to Central Office account included negative balances which reduced the year-end balance by P2,486,327.59. This amount was traced to the following transactions recorded in the SL maintained for the said account:

<table>
<tr><th></th><th>Particulars</th><th>Amount</th></tr>
<tr><td>1</td><td>Payment for the first progress billing, re: Structure Survey: relocation with structure survey and utility survey for the 13 barangays within the JHRA was debited to the account on December 21, 2012. The SL, however, showed that no CAPEX funds were received from the BCDA for the said project, hence the abnormal balance</td><td>P(2,046,281.26)</td></tr>
<tr><td>2</td><td>Net over-remittance of PEZA land rentals collected for the months of March to November 2012, to wit:
<table>
<tr><th>Period of Collection</th><th>Month Remitted</th><th>Amount Collected</th><th>Amount Remitted</th><th>Difference Under/(Over) Remittance</th></tr>
<tr><td>March 2012</td><td>April 2012</td><td>P1,053,760.58</td><td>P1,516,966.88</td><td>P(463,206.30)</td></tr>
</table></td><td>(391,929.69)</td></tr>
</table>

Mar. to May 2012	July 2012	1,505,918.03	1,477,433.80	28,484.23	
June to Sept. 2012	Oct. 2012	1,966,434.98	1,454,726.24	511,708.74	
Oct. to Nov. 2012	Dec. 2012	964,330.36	1,433,246.72	(468,916.36)	
Totals		**P5,490,443.95**	**P5,882,373.64**	**P(391,929.69)**	

3	Net foreign exchange loss for the period April to May 2013 included in the Due to CO account:	(48,116.64)

Foreign Exchange Loss for the period April to December 2012	P(70,880.82)
Foreign Exchange Gain for the months of August to December 2012, and February, April and May 2012	22,764.18
Net Amount	**P(48,116.64)**

	Total	**P(2,486,327.59)**

d. The PEZA Land rentals also include interest earned on the savings account for the quarters ending September and December 2012 of P594.58.

e. It was noted that only one SL was maintained for the Due to CO account wherein all of the above transactions were recorded. Had separate SLs been maintained for each component, such as Cottage rentals, CAPEX Projects and PEZA Land Rentals, the negative balances could have been detected immediately for disposition or appropriate action.

f. CAPEX funds received from the BCDA totaling P4,805,330.57 for the implementation of various projects had been outstanding for more than 4 years to more than 10 years. Considering that the purpose for which the funds were released was for the benefit of the JHMC/BCDA, and the length of time that the said funds had been outstanding in the books, it was highly improbable that the funds were not utilized. It may also be possible that the funds were used for another purpose. As mentioned in c.1 above, no funds were received for the implementation of the Structure Survey project; thus, the amount paid for the first progress billing of P2,046,281.26 was charged against the above funds.

The amount of ₱4,805,330.57 is broken down as follows:

1. Funds received in 2007, 2012 and 2013 for the implementation of four projects, but which remained unutilized for more than four years to more than ten years - ₱4,202,112.97:

	Name of Project	Date of Release of Funds (Per SL)	Amount Released	Balance as at Dec. 31, 2017	No. of Years Outstanding
1	Construction of access road to the former JHMC office	26-Apr-07	P 536,489.10	P 536,489.10	More than 10 years
2	Renovation of cottages 625,	04-Dec-12	2,965,625.00	2,965,625.00	5 years

	Name of Project	Date of Release of Funds (Per SL)	Amount Released	Balance as at Dec. 31, 2017	No. of Years Outstanding
	626, 627 and 628				
3	Relocation Survey of JHMC Areas - Eric. C. Baldo	31-Dec-12	104,999.87	104,999.87	5 years
4	Relocation Survey of JHEZ areas conducted by Eric Baldo in 2009	17-Oct-13	594,999.00	594,999.00	4 years
	Totals		**P4,202,112.97**	**P4,202,112.97**	

2. Unused balance of the CAPEX funds received on September 30, 2012 for the Soil Erosion Protection Project which had not been returned to the BCDA although the project was already reported as completed, and the purpose of the said fund had already been served - **P312,156.70.**

3. Audit disclosed that CAPEX funds of P603,217.60 were received from the BCDA on September 30, 2012 for the implementation of the Soil Erosion Protection Project. On December 26, 2012, the amount of P291,060.90 was spent for the payment of the completed project: Proposed Restoration of Riprap Wall at Bell House and History Trail, a related project, leaving a balance of P312,156.70. As at the December 31, 2017, the unused balance had not been returned.

5.11 The above deficiencies were attributed to the non-reconciliation of the amounts collected with the amounts that were remitted to the BCDA including the non-reconciliation of SL balances with the GL balances periodically, and the lack of monitoring on the utilization of the funds received for their intended purposes.

5.12 As a result, the validity and accuracy of the year-end balance of the Due to CO account, which should have been appropriately reclassified to the Due to Parent Corporations account, was uncertain. Also, the misclassification of receivables from and payables to the BCDA to the Intra-Receivables and Intra-Payables accounts affected the reliability of the JHMC's Statement of Financial Position as at yearend.

5.13 We recommended that Management require the Accountant to:

a. reclassify the balances of the Intra-Receivables and Intra-Payable accounts, Due from and Due to Central Office, to the Inter-Receivable and Inter-Payable accounts, Due from and Due to Parent Corporation, in accordance with the RCA to enhance the fair presentation of these accounts in the Statement of Financial Position (SFP); and

b. trace the origin of the transactions to determine the cause of the discrepancy. Once the correct amount is established, prepare the necessary adjusting entry or remit the amount due to the BCDA to reflect

the true balance of the Due to CO account (*to be reclassified to the Due to Parent Corporations account*) in the SFP.

5.14 **We also recommended that Management:**

a. **investigate the reasons why CAPEX funds received from the BCDA in 2007, 2012 and 2013 for the implementation of various projects totaling P4,202,112.97 remained unutilized for more than four years to more than ten years. In case these were already utilized, determine the accounts used in recording the amounts paid and cause the immediate adjustment of the Due to CO account. Otherwise, return the amount immediately to the BCDA so that it can be utilized for other priority projects;**

b. **remit to the BCDA the unused balance of funds received for the Soil Erosion Protection Project amounting to P312,156.70 considering that the said project was already completed and the purpose for which the fund was released had already been served to preclude the use thereof for unauthorized purposes. Also, remit immediately to the BCDA the amount of P27,180.00 representing cottage rentals collected in 2002 and 2004;**

c. **request the BCDA for the release of funds amounting to P2,046,281.26 to cover the amount advanced for the payment for the Relocation Survey of JHMC areas; and**

d. **coordinate with the BCDA on how the net over-remittance of PEZA Land Rentals of P391,929.69 can be refunded to the JHMC, and how to account for the net foreign exchange losses amounting to P48,116.64. For the interest earned in 2012 on the Saving Account amounting to P594.58, record these as income of the prior years in the appropriate books in accordance with the provisions of the Performance Agreement executed between the JHMC and BCDA in 2012.**

5.15 Management noted and agreed with the above observations and recommendations and will discuss these with the concerned officials. Management informed the Audit Team that they will request a special meeting with the concerned BCDA officials to take up the matter with them. The concerned staff of the Accounting Division have already started with the required reconciliation of accounts.

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 ₱209,522.51 between the two accounts.**

6.1 This is a reiteration of prior year's audit observation in view of the partial compliance with the corresponding audit recommendation.

6.2 The Manual on New Government Accounting System (NGAS) – Corporate provides that theoretically, reciprocal accounts such as the Due from Other Funds and Due to Other Funds shall have the same balance at the end of the accounting period. The Due from Other Funds and Due to Other Funds are intra-agency receivables and payables, respectively; thus, these accounts shall be completely kept up-to-date so as to keep their balances equal. In the preparation of the combined financial statements, these reciprocal accounts shall be eliminated through a working paper. A reconciliation of these accounts is required to identify the reconciling items for immediate adjustment.

6.3 Audit of the Detailed Statement of Financial Position of the JHMC as of December 31, 2017 revealed that the Due from Other Funds account had a balance of ₱1,857,800.32 while the Due to Other Funds account had a balance of ₱1,648,277.81 or a difference of ₱209,522.51.

6.4 The difference of P209,522.51 was traced to the following:

1. Remaining unaccounted difference of P304,782.58 between the adjusted beginning balances of the Due From Other Funds and the Due to Other Funds accounts.

   The Audit Team noted that despite several adjustments made during the year to the beginning balances of the above accounts in the total net amount of P1,777,404.11, a difference of P304,782.58 remained unaccounted as of year-end, as summarized below:

Particulars	Due From Other Funds	Due to Other Funds	Difference
Unadjusted Balance, January 1,2016	**₱4,228,626.36**	**₱2,146,439.67**	**2,082,186.69**
Add/(Deduct) 2017 Adjustments to the Due From Other Funds			
• Debit adjustments	25,000.00		
• Credit adjustments	(4,002,849.47)		
Add/(Deduct) 2017 Adjustments to the Due to Other Funds			
• Debit Adjustments		(2,200,445.36)	
Net Adjustment	**(3,977,849.47)**	**(2,200,445.36)**	(1,777,404.11)
Adjusted Balance, January 1, 2016	**250,776.89**	**(54,005.69)**	**304,782.58**

2. CY 2017 transactions in the net amount of P95,260.07 were recorded in the Due from Other Funds account, but were not taken up in the Due to Other Funds account and vice versa. The said amount was arrived at, as follows:

	Particulars	Amount
1	Collections for Operating Expense Fund for the month of June 2017 credited to the Due to Other Funds account under JEV No. 2017-060-070 dated June 30, 2017, but remained unrecorded as a debit to the Due From Other Funds account as at December 31, 2017. The said collections were deposited with the DBP under account no. 510-	P(165,128.56)

	004308-0310.	
2	Reimbursements of BIR penalties paid by SBHP beneficiaries (2nd batch) for the months of February and March 2017 totaling P69,868.49 were debited to the Due to Other Funds account, but were not yet credited to the Due from Other Funds account as at year end. The said transactions were recorded under the following JEVs:	69,868.49
	Net Amount	**P(95,260.07)**

	JEV No.	Date	Amount
1	2017-02-019	02.02.2017	₱54,433.19
2	2017-03-031	03.31.2017	15,435.30
	Total		**₱69,868.49**

6.5 The above deficiencies, particularly those incurred in 2017 could have been avoided had the Due from Other Funds and the Due to Other Funds account balances been reconciled periodically for their immediate adjustment. It is worthy to mention, however, that the difference between the two accounts as at December 31, 2016 of P2,082,186.69 decreased by P1,872,664.18, as compared to the difference as at December 31, 2017 of P209,522.51, as shown below:

Balance as of	Due From Other Funds	Due to Other Funds	Difference
December 31, 2016	₱4,228,626.36	₱2,146,439.67	₱2,082,186.69
December 31, 2017	1,857,800.32	1,648,277.81	209,522.51
Decrease in the Difference			**₱1,872,664.18**

6.6 Notwithstanding, as there is still an unreconciled difference of P209,522.51 between the two accounts, the accuracy and reliability of their respective balances as shown in the JHMC's financial statements remained uncertain.

6.7 **We recommended that Management require the Accountant reconcile the difference of P209,522.51 noted between the Due to Other Funds and Due from Other Funds accounts and prepare the necessary adjusting entries to balance the two accounts.**

6.8 Management informed that the Accountant has started the required reconciliation of the difference noted in this particular account.

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.**

7.1 The Revised Chart of Accounts (RCA) for Government Corporations, as prescribed under COA Circular No. 2015-010 dated December 1, 2015, provides the use of the Investment Property, Buildings account to recognize the cost of buildings or part of a building held by the owner to earn rentals or for capital appreciation or both.

7.2 Audit and analysis of accounting and property records pertaining to the Investment Property-Buildings account disclosed that the Gazebo (Historical Core) with an area of 28.09 sq.m. worth ₱49,475.65, as shown in the Property Records, was not recognized in the books of accounts as at yearend. In addition, the acquisition date of the said structure was not indicated in the Property Records; hence, the accumulated depreciation cannot be computed.

7.3 As a result, the balance of the Investment Property, Buildings account was understated by ₱49,475.65, thereby affecting the fair presentation of this account in the JHMC's Statement of Financial Position as at year end.

7.4 Interview revealed that the above structure/building is being leased to interested parties for the holding of special events at a fee. The earnings from the lease rental of the subject structure were recognized as Rent Income by the JHMC. The Accounting Unit, however, explained that this was not taken up in the books because it has still to look into the acquisition documents.

7.5 **We recommended that Management require the Accountant to coordinate with the General Services Division for the submission of the pertinent documents relative to the acquisition of the Gazebo (Historical Core) with an area of 28.09 sq.m. and to recognize the said property in the books of accounts.**

7.6 During the exit conference, the Supply Officer, who is also a Licensed Private Appraiser, informed the Audit Team that she had conducted an appraisal of the Gazeebo in 2015, and made a report as to the fair value and number of years of its economic life. The Audit Team requested that a copy of the said Appraisal Report be furnished to COA and the Accountant for proper reconciliation and recognition of the said property in the books.

8. **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.**

8.1 The entries made under JEV No. 2017-12-152 dated December 31, 2017 to adjust the Motor Vehicles account by a net amount of ₱4,725,837.45 were not supported with necessary documents and explanations to justify the said entries.

8.2 Verification and analysis of the Motor Vehicle account revealed that adjusting entries were made under JEV No. 2017-12-152 dated December 31, 2017 to drop motor vehicles (MVs) together with their corresponding accumulated depreciation from the books of accounts, and to adjust the MV account for negative balances and for alleged erroneous entries made in the prior years.

8.3 The Accountant informed that the MVs dropped from the books were acquired under a Car Plan granted in 1998 and 2007 to the then Vice President (VP) and members of the Board of Directors (BOD). She added that the MVs are no longer under the custody of the JHMC because these were already transferred in the prior years to the said officers thru sale.

8.4 The adjusting entries made were, as follows:

a. Entries to adjust the negative balances of the individual MV accounts in the total amount of ₱636,072.13:

	Particulars	Allowed CAR Plan Limit	Debit		Credit
			MV	**AD-MV**	**Retained Earnings**
1	Mazda 3 V 1.6L-AT issued and returned by former VP L. Pagano-Calde, and sold to Dir. D. Rojas, Jr. [in 2009] No Depreciation during the term of the Dir.	₱550,000.00	₱82,680.76	₱29,166.70	₱111,847.46
2	2007 Honda Civic 1.8 V-MT issued to and returned by Dr. G. de Leon [in 2009]. Transferred and paid by Dir. J. Arenas in 2010. Depreciation not recorded during the term as Dir.	700,000.00	174,549.83	29,166.70	203,716.53
3	2007 Honda Civic 1.8 V-A/T to Dir. R. Macasaet. Transferred to and paid by former Dir. A. Galimba. Depreciation not recorded the during term as Dir.	700,000.00	201,960.78	29,166.69	231,127.47
4	Mazda 3 1.6 LV to Dir. G. Seno transferred to Dir. C. Estepa, Jr. and paid by Mr. Bonnie Chan. Depreciation not recorded the during term of the Dir.	700,000.00	176,880.76	29,166.69	206,047.45
	Totals		**₱636,072.13**	**₱116,666.78**	**₱752,738.91**

8.5 All of the above motor vehicles were reportedly surrendered by the then VP and members of the BOD concerned in 2009 and were later sold thru negotiated sale.

8.6 The foregoing adjusting entries were not supported with necessary documents, and information on the series of events that transpired from the date of acquisition of the motor vehicles to the date of the latest transaction, together with corresponding JEVs showing the entries made that resulted in the abnormal balance of the individual MV accounts:

a. *Entries crediting the MV account for P2,494,409.58 to drop five MVs acquired under the Car Plan granted in 2007:*

	Particulars	Approved Ceiling of the Car Plan	Debit		Credit
			Accumulated Depreciation	**Retained Earnings**	**Motor Vehicles**
1	Toyota Altis 1.6S issued and bought by Dir. T. Regino, fully paid on 12 December 2013 with overpayment	₱700,000.00	₱29,166.69	P297,645.23	₱326,811.92
2	2007 Honda CRV issued to Dir. A. Valdez. Depreciation not recorded during term of the Director	700,000.00	5,833.33	644,166.67	650,000.00
3	2007 Hyundai Tucson 2 WD SUV-A/T, to Dir. M. Bondoc. Re-computation of redemption value not recorded when billed. Depreciation not recorded during the Director's term.	700,000.00	69,999.96	580,000.04	650,000.00
4	Toyota Inova 2.5E DSL M/T with plate no. AHJ 353 issued to Dir. L. Pangilinan but returned. Transferred to Dir. C. Estepa Jr. and paid by Mr. B. Chan. Depreciation not recorded.	700,000.00	64,166.68	114,627.95	178,794.63
5	Toyota Innova 2.5 E DSL M/T issued to and bought by Dir. Ma. C. Corona. Depreciation not recorded.	700,000.00	198,333.26	490,469.77	688,803.03
	Totals	**P3,500,000.00**	**P367,499.92**	**P2,126,909.66**	**P2,494,409.58**

Interview with the Accountant/Finance Officer revealed that above MVs were taken up in the books at the total cost of ₱3,500,000.00 or at P700,000.00 per vehicle issued to the then members of the BOD. The Audit Team, however, noted that the total amount credited to the MV account was only P2,494,409.58, or a difference of P1,005,590.42. This indicated possible erroneous journal entries, but which cannot be validated as the JEV was not supported with necessary documents and explanations.

b. *Entries crediting the MV account for P2,100,000.00 to drop the cost of three vehicles acquired thru the Car Plan granted in 1998:*

	Particulars	Debit		Credit
		Accumulated Depreciation	**Retained Earnings**	**Motor Vehicles**
1	Ford Club Wagon XLT unamortized and undepreciated 1998 Car Plan of former Dir. R. Cardenas	P 299,999.87	390,000.13	P 700,000.00
2	Hyundai Starex. Unamortized and undepreciated 1998 Car Plan of Dir. Eduardo L. Gumaru, Jr.	350,000.00	399,797.35	700,000.00
3	Hyundai Starex. Unamortized and undepreciated 1998 car plan of Dir. M. Mendoza	323,333.20	307,048.54	700,000.00
	Totals	**P973,333.07**	**P1,096,846.02**	**P2,100,000.00**

c. The 2007 Annual Audit Report (AAR) mentioned that Director Eduardo L. Gumaru, Jr., did not surrender the vehicle despite demands. There was no mention about the Car Plans granted in 1998 to the two other directors in the said AAR. It was, however, reported that Management wrote the separated BODs and inquired as to their intention, whether to purchase or return the motor vehicles. In their reply letter to the current JHMC BOD, the separated Directors confirmed their intention to purchase the MV and requested that they be allowed to pay the monthly amortizations due over the coming years until the cost of the vehicles are fully paid. No information was available on what transpired thereafter.

d. *Entry to adjust the alleged erroneous entry in the prior year pertaining to an L200 vehicle worth ₱767,500.00 that was recorded as acquired in 2000, but was not in the records of the JHMC Property Unit:*

Particulars	Debit	Credit
Accumulated Depreciation-Motor Vehicle	P767,499.00	
Retained Earnings	1.00	
Motor Vehicles		P767,500.00

8.7 All of the above adjusting entries under JEV No. 2017-12-152 dated December 31, 2017 were not duly supported with pertinent records and necessary information, such as, but not limited to the following:

- historical records and documents showing the series of events/transactions that took place from the time the subject vehicles were acquired thru CAR Plans granted in 1998 and 2007 to the date of the last transaction together with the corresponding JEVs;

- Copy of the JEV pertaining to the L200 vehicle worth ₱767,500.00 that was recorded as acquired in 2000; the documents used by the Accounting Unit in recognizing the said vehicle in the books; and explanations why the entry made for the acquisition thereof was considered erroneous, and why the same was not taken up in the records of the JHMC Property Unit; and

- Information on the original journal entries made, and the correct entries that should have been made.

8.8 As a result, the propriety and accuracy of the adjustments to the MV account in the total net amount of P4,725,837.45 were uncertain. Also, the failure to attach complete supporting documents to the JEVs adjusting the AR account in the total amount of P4,421,084.19, and to indicate therein the reasons or justifications why the said account and other affected accounts were adjusted rendered difficulty in determining the accuracy and propriety of the adjusting entries made.

8.9 We have 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.

8.10 The Accountant committed to submit the needed supporting documents in the third quarter of CY 2018.

9. **The accuracy, propriety and validity of recorded transactions totaling ₱70,517,048.46 could not be ascertained due to non-submission of the corresponding disbursement vouchers and supporting documents.**

9.1 The laws, rules and regulations governing the submission of government accounts are as follows:

- Section 39 of PD No. 1445 states that:

  "(1) The Commission shall have the power, for purposes of inspection, to require the submission of the original of any order, deed, contract, or other document under which any collection of, or payment from, government funds may be made, together with any certificate, receipt, or other evidence in connection therewith. If an authenticated copy is needed for record purposes, the copy shall upon demand be furnished.

  (2) In the case of deed to property….
  (3) It shall be the duty of the officials or employees concerned, including those in non-government entities under audit, or affected in the audit of government and non-government entities, to comply promptly with these requirements. Failure or refusal to do so without justifiable cause shall constitute a ground for administrative disciplinary action as well as for disallowing permanently a claim under examination, assessing additional levy or government share, or withholding or withdrawing government funding or donations through the government."

- Section 7.2.1 (a) of COA Circular No. 2009-06 dated September 15, 2009 provides that:

"The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that:

(a) The reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month."

- Section 6.05 of COA Circular No. 95-006 dated May 18, 1995 states that:

*"The official involved in the daily recording of transactions in the books of accounts shall turn over the receipts and the **disbursement records with all paid vouchers and documents evidencing the transaction to the Auditor within ten (10) days from the date of receipt of said documents.**" (Emphasis ours)*

9.2 Review of the Reports of Checks Issued and Checks Disbursements Journal for the period January to December 2017 disclosed that 407 Disbursement Vouchers (DVs) totaling ₱70,517,048.46 and their corresponding supporting documents were not yet submitted to the Office of the Auditor as of February 28, 2018 contrary to the above provisions.

9.3 The said DVs covered the payments for goods and services, civil works or infrastructure projects, Personal Services and Maintenance and Other Operating Expenses including remittances to the BIR, which were recorded in the books as assets, expenses, or liabilities. The summary of the un-submitted DVs and the corresponding amounts per month are as follows:

Month	Qty.	Gross Amount	Net Amount
January	17	P 578,467.34	P 535,746.75
February	29	16,335,326.78	15,499,462.46
March	25	3,338,563.36	3,269,758.53
April	24	9,410,090.98	9,154,473.53
May	28	5,234,019.21	4,355,481.46
June	28	3,436,642.79	3,339,173.97
July	21	3,429,303.37	3,381,768.28
August	33	4,835,708.12	4,656,755.00
September	25	3,846,219.23	3,750,381.37
October	35	5,143,183.97	5,071,228.69
November	28	5,067,400.29	4,936,056.35
December	114	13,387,060.85	12,566,762.07
Total	**407**	**P74,041,986.29**	**P70,517,048.46**

9.4 The non-submission of the above DVs within the prescribed period precluded the audit team from identifying possible errors and misstatements of the affected accounts in the financial statements, as well as in promptly conducting review and evaluation as to the validity, legality and propriety of the recorded financial transactions of the JHMC. The practice, if not corrected, gives the impression that the disbursements were made even without complete documentation or that the transactions are not proper.

9.5 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.

9.6 Management explained that some of the DVs, particularly those involving capital expenditures were submitted to the BCDA; however, the other DVs will be submitted the soonest possible time**.**

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

10.1 Section 48 of the 2016 Revised IRR of RA No. 9184 provides, among others, that Alternative Methods of Procurement shall be resorted only in the highly exceptional cases in order to promote economy and efficiency, subject to the prior approval of the Head of the Procuring Entity (HOPE) upon recommendation of the Bids and Awards Committee (BAC). In all instances, the procuring entity shall ensure that the most advantageous price for the government is obtained.

10.2 Section 52 of the 2016 IRR defines Shopping as a method of procurement of goods whereby the PE simply requests for the submission of price quotations for readily available off-the shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method of procurement shall be employed only in any of the following cases:

- When there is unforeseen contingency requiring immediate purchase provided that the amount shall not exceed the prescribed thresholds in Annex "H" of the IRR *[Section 51.1(a)]*

- Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the threshold prescribed in Annex "H" of the IRR. *[Section 52.1(b)]*.

The phrase "ordinary or regular office supplies" shall be understood to include those supplies, commodities, or materials which are necessary in the transaction of its official businesses, and consumed in the day-to-day operations. However, office supplies shall not include services such as repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security, and related or analogous services.

Under Section 52.1(b), at least three (3) quotations from bona fide suppliers shall be obtained.

10.3 Section 53.9 of the same IRR provides that Negotiated Procurement – Small Value Procurement (NP-SVP) is a method of procurement of (a) goods not covered by Shopping under Section 52 of the IRR of RA 9184, (b) infrastructure projects, and (c) consulting services subject to the prescribed threshold.

10.4 Annex "H" of the 2016 IRR prescribes the Consolidated Guidelines for the Alternative Methods of Procurement, which include specific guidelines and the procedures for Shopping and NP-SVP.

10.5 Audit of the procurement of items worth P1,809,317.00 in CY 2017 disclosed that the above provisions were not strictly complied with, to wit:

a. Various ordinary or regular office supplies and equipment with a total cost of P475,670.00 were procured through SVP contrary to Annex "H" of the 2016 IRR of RA No. 1984.

The items procured were as follows:

	Description	Qty.	Estimated Unit Cost	Total Estimated Cost	Total Amount Awarded	No. of Suppliers who submitted Quotations
A	**IT Equipment**					**2**
1	Laptop Computer	5	40,000.00	P200,000.00	P167,900.00	
2	Laser Printer	1	40,000.00	40,000.00	35,200.00	
3	Scanner	1	80,000.00	80,000.00	52,365.00	
4	Barcode Printer	1	15,000.00	15,000.00	32,500.00	
5	Digital Projector with White Screen	1	80,000.00	80,000.00	74,285.00	
6	Anti-Virus Software	50	1,600.00	80,000.00	37,500.00	
	Sub-total			**P495,000.00**	**P399,750.00**	
B	**Prepaid Cards**	**200**		**P 76,000.00**	**P 75,920.00**	**1**
	Grand Total			**P571,000.00**	**P475,670.00**	

Considering that the above items are ordinary or regular office supplies, as defined under Section 52 of the 2016 IRR, these should have been appropriately procured thru Shopping under Section 52.1(b) thereof, following the procedures prescribed under Annex "H".

The adoption of the NP-SVP as the mode of procurement of ordinary or regular supplies and equipment gave rise to suspicions that the said method was resorted to so as to evade or circumvent the requirements and procedures of Shopping under Section 52.1(b), particularly the following:

a. At least three price quotations from suppliers of known qualification must be obtained; and

b. If none or less than the required number of quotations are received, the deadline for submission shall be extended until the required number of at least three quotations have been obtained.

In Shopping under Section 52.1(b), it is imperative upon the procuring entity to obtain at least three quotations before awarding a contract for the procurement of goods. No award of contract can be made if only one supplier submitted a price quotation.

As the NP-SVP was adopted, the BAC proceeded with the evaluation even if there were less than three quotations received. There was, however, no proof that the corresponding RFQ was sent to at least three suppliers, as required under Annex "H" of the 2016 IRR.

b. **The BAC recommended the award of the Purchase Order (PO) for the procurement thru NP-SVP of 80 pcs. Prepaid Cards amounting to P41,600.00 to the lone supplier although the total price quoted was P1,600.00 higher than the Agency Budget for the Contract (ABC) contrary to Section 31.1 of 2016 IRR**.

Section 31.1 of the 2016 IRR of RA No. 9184 states that, *"The ABC shall be the upper limit or ceiling for acceptable bid prices. If a bid price, as evaluated and calculated in accordance with this IRR, is higher than the ABC, the bidder submitting the same shall be automatically disqualified. There shall be no lower limit or floor on the amount of the award."*

Audit disclosed that Prepaid Cards @P500.00 and @ P300.00 were procured at the total cost of P75,920.00; however, the price that was quoted for the Prepaid Cards @ P500.00 was higher than the ABC by a total amount of P1,600.00, as shown below:

Item No.	Description	Qty	Unit Cost	Total Estimated Cost or ABC	Unit Price Offered by/ Awarded to Supplier	Total Price Offered by/ Awarded to Supplier	Difference between ABC and Price Awarded
1	Prepaid Card @ P500.00	80	P500.00	P40,000.00	P520.00	P41,600.00	P(1,600.00)
2	Prepaid Card @ 300.00	120	300.00	36,000.00	286.00	34,320.00	1,680.00

	Totals	**200**		**P76,000.00**		**P75,920.00**	

The Audit Team noted that the evaluation was on a "per item" basis and not on a "per lot basis". Thus, although the supplier quoted P75,920.00 for the two items, which was lower than the total ABC of P76,000.00, as the evaluation of the offer was on an item basis, the BAC should have disqualified the supplier outright for Item 1 since the price offered was over the ABC by a total amount of P1,600.00. It could have only recommended the award for Item 2 since the price offered for the said item was within the ABC.

Consequently, the procurement of Item 2 was questionable not only for the above deficiency, but also for the procurement thereof thru SVP-NP instead of Shopping under Section 52.1(b).

c. **IT Equipment and Supplies worth P61,682.00 were procured through Shopping under Section 52.1(a), but the Purchase Request (PR) dated October 19, 2017 does not indicate the urgency to address the identified need of the JHMC and the unforeseen contingency that caused the necessity, as required under Annex "H" of the 2016 IRR. Also, there was no approved PO attached to the claim indicating that there was no BAC recommendation for the award and approval thereof by the HOPE prior to the procurement of the same.**

Annex "H" of the 2016 IRR prescribes the requirements and procedures for Shopping under Section 52.1(a) which include the following:

1. The end-user unit or the duly authorized official or personnel shall submit a purchase request to the BAC indicating the urgency to address an identified need of the procuring entity and the unforeseen contingency that caused the necessity; and

2. Upon confirmation and ascertainment of the technical, legal and financial capability of the supplier to supply and deliver the goods, the BAC shall recommend to the HOPE the award of contract in favor of the supplier with the Single or Lowest Calculated and Responsive Quotation. In case of approval, the HOPE shall immediately enter into a contract with the said supplier.

Audit of the procurement of IT equipment and supplies worth P61,682.00 thru Shopping under Section 52.1(a) revealed that the above requirements were not strictly complied with, to wit:

3. The PR that was attached to the procurement documents did not contain the required information to justify the procurement through Shopping under Section 52.1(a). A Certificate of Immediate Purchase dated November 7, 2017, however, was attached to the disbursement voucher for the payment of the above items. The said Certificate, which was signed by the ASD

Manager and approved by the Vice President and COO, states the following:

"*I hereby certify:*

"1. That the need for the procurement of 52 and 24 Port Network switch covered by the attached documents, is exceptionally urgent or absolutely urgent or absolutely indispensable to prevent immediate danger to or loss of life and/or property, or to avoid delay without causing detriment to public service;

"2. That the following are unforeseen contingencies requiring immediate purchase through "shopping" under section 52.1(a) of RA 9184 implementing rules and regulations;

"3. That to procure them through regular requisition or order would result in the disruption of work and cause detriment to public service;

"4. ***That the price paid or contracted for was the lowest obtainable in the locality at the time of the purchase or orders****; and*

"5. That ***all expenses incurred are official in nature and were incurred*** *in the interest of the corporation, subject to the usual government audit rules and regulations."* (Emphasis ours)

a. There was no approved PO attached to the DV.

As a result, the propriety and regularity of the procurement of the above items were questionable. The statements in nos. 1 to 3 of the above certification should have been properly indicated in the PR before the items were procured to justify the procurement through Shopping under Section 52.1(a). Also, since the certification was prepared only on November 7, 2017 or after the items were already procured, and the fact that there was no approved PO, it was construed that the items were procured even without the BAC's recommendation for award and the HOPE's approval thereof contrary to the above provisions.

b. **No documents were available to show proof that Request for Quotations (RFQs) were sent to at least three suppliers of known qualifications for the procurement thru NP-SVP of goods and services worth P1,271,965.00.**

Annex "H" of the 2016 IRR provides, among others, that for NP-SVP, the BAC shall immediately prepare and send the RFQs/Requests for Proposals (RFPs) to at least three (3) suppliers, contractors and consultants of known qualifications, but the receipt of at least one quotation is sufficient to proceed with the evaluation.

Audit disclosed that several goods and services were procured thru NP-SVP at the total cost of P1,271,965.00, where only one supplier submitted an RFQ for the subject procurements, as shown in the following table:

	Description	PR No.	PR Date	ABC	Amount Awarded
1	Fabrication of signage at the Historical Core	119	04.21.17	P199,544.00	P193,150.00
2	Contract Services covering labor, materials and equipment for the treatment, transport and disposal of identified hazardous	071	03.14.2017	89,000.00	88,900.00
3	Contract of services covering labor, materials and equipment to establish/maintain fire line stage 1 and 2 within JHRA	099	02.23.2017	300,000.00	290,515.00
4	Corporate giveaways for CY 2017	360	10.27.2017	300,000.00	299,400.00
5	Catering services for year-end activities	368	11.03.2017	400,000.00	400,000.00
	Total			**P1,288,544.00**	**P1,271,965.00**

The copies of the JHMC-BAC Resolutions recommending award that were attached to the procurement documents state that: (a) the procurement of the items complied with the posting requisites prescribed by RA 9184 and its Revised IRR; and (b) the Request for Quotation was duly advertised in the JHMC Website, PhilGEPS and in conspicuous places at the premises of JHMC. The said Resolutions, however, did not state the required sending of said RFQs to at least three suppliers or contractors of known qualifications.

In the absence of proof or document showing that RFQs were sent to and received by at least three suppliers, the regularity of the above procurements thru NP-SVP are doubtful.

d. **Notice of Award and Notice to Proceed were prepared for the procurement of items thru NP-SVP and supposedly thru Shopping under Section 52.1(b) although these documents are not applicable under the said modes of procurement, as provided in Annex "H" of the 2016 IRR**.

Section L of Annex "H" of the 2016 IRR provides that, **except in Shopping and Negotiated Procurement through SVP**, among others, the issuance of Notice to Award (NOA) and Notice to Proceed (NTP) shall be issued. *(Emphasis ours)*

Verification of procurement documents attached to the claims for the payment of goods and services procured thru NP-SVP and supposedly thru Shopping under Section 52.1(b) totaling P1,048,235.00 disclosed that NOAs and NTPs were prepared and issued, although these were not necessary pursuant to the above provision.

As a result, the procurement process of the items was delayed, not to mention the cost and time spent on the preparation of the unnecessary documents.

Below is the summary of the procured items totaling P1,048,235.00, and the corresponding dates of procurement activities from the date of approval of the BAC Resolution recommending the award to the date of the PO, and the time lost due to the preparation of the NOA and NTP:

	Good/ Services Procured	Amount	Date of				No. days lost From	
			Approval of BAC Resolution	Prepara-tion/ Issuance of NOA	Prepara-tion/ Issuance of PO	Prepara-tion/ Issuance of NTP	Approv-al of BAC Res. To PO	Prepara-tion of PO to NTP
1	Various ICT	P 399,750.00	06.13.2017	06.15.2017	06.27.2017	07.03.2017	14	6
2	Prepaid Cards	75,920.00	08.01.2017	08.16.2017	08.25.2017	08.25.2017	24	0
2	Fabrication of signages	193,150.00	08.01.2017	08.16.2017	08.23.2017	09.05.2017	22	13
3	Treatment, transport and disposal services	88,900.00	06.13.2017	06.15.2017	06.27.2017	07.03.2017	14	6
4	Establishment and maintenance of fire line	290,515.00	04.19.2017	04.27.2017	05.26.2017	05.26.2017	37	0
	Total	**P1,048,235.00**						

Had the preparation of the NOA and NTP been no longer required, the above goods and services could have been procured on a timely basis for the benefit of the intended end-users.

10.6 As a result of the foregoing deficiencies, the JHMC was not assured that the most advantageous terms and prices for the above goods and services were obtained.

10.7 **We recommended that Management direct the BAC and the procurement unit to strictly comply with the requirements and procedures for Shopping and Small Value Procurement 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.**

10.8 Management noted and agreed with the observations and the corresponding recommendation. It assured the Audit Team that requirements and procedures for Shopping and Small Value Procurement under the 2016 Revised IRR of RA No. 9184 will be strictly adhered to in its succeeding procurement thru the same modes.

11 The reported year-end balance of the Due to BIR account of ₱865,937.60 included the net over-remittance of taxes withheld in the current and prior years amounting to ₱56,580.62 which resulted from non-reconciliation of the amounts remitted with the actual amounts withheld prior to remitting the same to the BIR.

11.1 Revenue Memorandum Circular (RMC) No. 23-2012 dated February 14, 2012 provides that for GOCCs, the heads of offices (*officials holding highest position such as the President, Chief Executive Officer, and General Manager*) and Chief Accountant/s or other person/s holding similar positions officially designated as such by the head of office are personally charged with the following duties and obligations, among others:

a. To withhold on, among others, government money payments to VAT registered taxpayers (GVAT) and Non-VAT registered taxpayers subject to percentage tax (GPT) pursuant to Sections 80(A), 57 and 114, all of the Tax Code; and

b. To remit taxes withheld on or before their due dates using the prescribed monthly/quarterly withholding tax remittance returns, together with other attachments, where applicable, as follows:

Kind of WT	BIR Form	Period Covered	Due Date
WTC (Withholding Tax on Compensation)	BIR Form No. 1601-C	January to November	10th day of the following month
	BIR Form No. 1601-C	December	January 15 of the following year.
EWT (Expanded Withholding Tax)	BIR Form No. 1601-E [with Monthly Alpha list of Payees (MAP)]	January to November	10th day of the following month
	BIR Form No. 1601-E (with MAP)	December	January 15 of the following year.
GVAT [Government Money Payments (GMP) to VAT registered suppliers]	BIR Form No. 1600 (with MAP)	January to December	10th day of the following month
GPT (GMP to non-VAT registered suppliers subject to Percentage Tax)	BIR Form No. 1600 (with MAP)	January to December	10th day of the following month
Fringe Benefits Tax **(**for fringe benefits paid to employees other than rank and file)	BIR Form 1603 (with MAP)	January to December	25th day of the month following the quarter

11.2 Audit of disbursement vouchers/payrolls, as well as analysis of the Due to BIR account disclosed that for CY 2017, taxes totaling ₱5,625,226.84 were withheld from employees' compensation, from payments to suppliers/contractors of goods and services, and from payments of fringe benefits to employees other than rank and file.

11.3 Of the total amount due for remittance during the year of ₱5,874,881.87 (net of adjustments of ₱21,125.27), taxes totaling ₱5,008,944.27, which includes taxes withheld pertaining to the prior year of P327,660.92, were remitted within the prescribed period to the BIR, leaving a balance of ₱865,937.60 as at year end.

11.4 Below is a summary of the taxes withheld and remitted in CY 2017 and the corresponding balances as at year-end:

	Nature of Tax	Beg. Balance Jan. 1, 2017 (Based on the GL)	Total Amount Withheld	Adjustments	Adjusted Balance/ Amount for Remittance	Total Amount Remitted	Balance, December 31, 2017
1	Withholding Tax on Employees' Compensation						
	PY	₱ (30,606.31)		₱ (5,360.85)	₱ (35,967.16)	₱ 26,574.31	₱ (62,541.47)
	CY		₱3,053,647.06	(13,214.42)	3,040,432.64	2,656,948.76	383,483.88
	Sub-totals	**₱ (30,606.31)**	**₱3,053,647.06**	**₱ (18,575.27)**	**₱3,004,465.48**	**₱2,683,523.07**	**₱320,942.41**
2	Creditable Withholding Tax on government payments to suppliers/contractors of goods and services						
	a. EWT						
	PY	₱108,213.71		₱ 0.00	₱108,213.71	₱107,913.71	₱ 300.00
	CY		₱995,075.25	(2,550.00)	992,525.25	777,938.42	214,586.83
	Sub-total	**₱108,213.71**	**₱995,075.25**	**₱ (2,550.00)**	**₱1,100,738.96**	**₱885,852.13**	**₱214,886.83**
	b. VAT						
	PY	₱164,937.61		₱ 0.00	₱ 164,937.61	₱ 164,937.61	₱ 0.00
	CY		₱1,463,563.37	0.00	1,463,563.37	1,161,690.30	301,873.07
	Sub-total	**₱164,937.61**	**₱1,463,563.37**	**₱ 0.00**	**₱1,628,500.98**	**₱1,326,627.91**	**₱301,873.07**
3	**Fringe benefits Tax** payments to employees other than rank and file						
	PY	₱28,235.29		₱ 0.00	₱ 28,235.29	₱ 28,235.29	₱ 0.00
	CY		₱112,941.16	0.00	112,941.16	84,705.87	28,235.29
	Sub-total	**₱28,235.29**	**₱112,941.16**	**₱ 0.00**	**₱ 141,176.45**	**₱ 112,941.16**	**₱ 28,235.29**
	Grand Totals	**₱270,780.30**	**₱5,625,226.84**	**₱ (21,125.27)**	**₱5,874,881.87**	**₱5,008,944.27**	**₱865,937.60**

11.5 The year-end balance of ₱865,937.60 consisted of taxes that were withheld in December 2017 of ₱922,518.22 which were remitted to the BIR on January 9, 2018, and the net over-remittance of taxes withheld in the current and prior years totaling ₱56,580.62. The details of these amounts are shown in the following table:

	Nature of Tax	Taxes withheld in December 2017, remitted on January 9, 2018	Total Net Over-remittance in the CY and PY	Balance as at December 31, 2017
1	Withholding Tax on Employees' Compensation	₱378,123.03	₱(57,180.62)	₱320,942.41
2	Creditable Withholding Tax on government payments to suppliers/contractors of goods and services			
	a. EWT	214,286.83	600.00	241,886.83
	b. VAT	301,873.07	0.00	301,873.07
3	Fringe Benefits Tax	28,235.29	0.00	28,235.29
	Totals	**₱922,518.22**	**₱ (56,580.62)**	**₱865,937.60**

11.6 The net over-remittance of taxes withheld amounting to ₱56,580.62 resulted from non-reconciliation of the actual Withholding Taxes on Compensation and Expanded Withholding Taxes (EWT) deducted from payments to employees and to suppliers/contractors, respectively, with the amounts remitted prior to remittance of the same to the BIR.

11.7 The net-over remittance of P56,580.62 is further broken down, as follows:

1. Withholding Tax on Compensation – net over-remittance of ₱57,180.62 consisted of the over-remittance of taxes pertaining to the prior year of P62,541.17 and the net-under remittance of taxes withheld in the current year of P5,360.85, as shown below:

a. Prior Year – over-remittance of taxes withheld in 2016 by ₱62,541.47:

	Amount
Balance, January 1, 2017 *(over-remittance in 2016)*	**₱ (30,606.31)**
Adjustments to the beginning balance in January 2017	(5,360.85)
Adjusted Balance, January 1, 2017	**₱ (35,967.16)**
Remittance in January 2017 of taxes withheld in December 2016.	(26,574.31)
Total Over-remittance, January 2017	**₱ (62,541.47)**

b. Current Year 2017 – net under remittance of taxes withheld in March and April 2017 by ₱5,360.85:

Month Withheld	Tax Withheld	Adjustments	Month Remitted	Amount due for Remittance	Tax Remitted	Difference Under/(Over) Remittance
March 2017	₱ 213,705.26	₱ (13,214.42)	April 2017	₱ 200,490.84	₱ 213,705.26	₱ (13,214.42)
April 2017	227,865.65	0.00	May 2017	227,865.65	209,290.38	18,575.27
Totals	**₱ 441,570.91**	**₱ (13,214.42)**		**₱ 428,356.49**	**₱ 422,995.64**	**₱ 5,360.85**

2. EWT – net under-remittance of ₱600.00 represents the total net under remittances of taxes pertaining to the prior year of P300.00 and the current year of P300.00, to wit:

a. *Prior Year – net under-remittance of taxes withheld in 2016 by ₱300.00:*

Type of EWT	Month Withheld	Tax Withheld	Month Remitted	Amount due for Remittance	Tax Remitted	Difference Under/(Over) Remittance
Dir. Fees <720K 10%	PY 2016 (Balance)	₱ 5,200.00	Jan. 2017	₱ 5,200.00	₱ 5,500.00	₱ (300.00)
Prof./consultant 10%	PY 2016 (Balance)	600.00	Jan. 2017	600.00	0.00	600.00
Totals		**₱ 5,800.00**		**₱ 5,800.00**	**₱ 5,500.00**	**₱ 300.00**

b. *Current Year – net under-remittance of taxes withheld in January and July 2017 by ₱300.00*

Type of EWT	Month Withheld	Tax Withheld	Adjustments	Month Remitted	Amount due for Remittance	Tax Remitted	Difference Under/(Over) Remittance
Dir. Fees <720K 10%	Jan. 2017	₱ 9,300.00	₱ 0.00	Feb. 2017	₱ 9,300.00	₱ 9,000.00	₱ 300.00
	July 2017	7,000.00	0.00	Aug. 2017	7,000.00	12,100.00	(5,100.00)
Sub-total		**₱ 16,300.00**	**₱ 0.00**		**₱ 16,300.00**	**₱21,100.00**	**₱ (4,800.00)**
Dir. Fees >720K 10%	July 2017	₱ 10,500.00	₱ 2,500.00	Aug. 2017	₱ 7,950.00	₱ 2,850.00	₱ 5,100.00
Sub-total		**₱ 10,500.00**	**₱ 2,500.00**		**₱ 7,950.00**	**₱ 2,850.00**	**₱ 5,100.00**
	Totals	**26,800.00**	**₱ 2,500.00**		**₱ 24,250.00**	**₱23,950.00**	**₱ 300.00**

11.8 The above discrepancies could have been avoided had the Accountant checked the correctness of the amounts to be remitted before remitting the same to the BIR. As a result, the JHMC was deprived of the immediate or timely use of the said amount for the payment of its necessary expenditures from the time this was remitted to the BIR until it will be refunded by the said agency.

11.9 **We recommended that Management consider requesting the BIR for the refund of the net over-remittance of withheld taxes pertaining to current and prior years of ₱56,580.62; and henceforth, ensure that the exact and accurate amounts are remitted to the BIR to avoid similar deficiencies.**

11.10 Management noted and agreed with the above observation. The same will be taken up with the Board during their meeting in May 2018.

12 The reported year-end balance of Inter-Agency Payables to SSS, Pag-IBIG, and Philhealth totaling ₱251,343.08 included net under-remittances totaling ₱38,295.00 as a result of non-reconciliation of the amounts remitted with the actual amounts withheld prior to remitting the same to the Offices concerned.

12.1 Inter-Agency Payables include collections received and/or amounts withheld for remittance to the SSS, Pag-IBIG and Philhealth.

12.2 The following are the rules and regulations on remittance of mandatory deductions to the SSS, Pag-Ibig and Philhealth Offices:

a. **For SSS**, Republic Act (RA) No. 8282 dated May 1, 1997, amending RA 1161, known as the Social Securities Law states the following provisions on the remittance of contributions to the SSS:

"Section 22. *Remittance of Contributions*. -- (a) The contributions imposed in the preceding Section shall be remitted to the SSS within the first ten (10) days of each calendar month following the month for which they are applicable or within *such time as the Commission may prescribe. Every employer required to deduct and to remit such contributions shall be liable for their payment and if any contribution is not paid to the SSS as herein prescribed, he shall pay besides the contribution a penalty thereon of three percent (3%) per month from the date the contribution falls due until paid. . . .*

"(b) The contributions payable under this Act in cases where an employer refuses or neglects to pay the same shall be collected by the SSS in the same manner as taxes are made collectible under the National Internal Revenue Code, as amended. Failure or refusal of the employer to pay or remit the contributions herein prescribed shall not prejudice the right of the covered employee to the benefits of the coverage."

The SSS prescribes the following payment or remittance deadlines for contributions and member loans which are according to the 10^{th} digit of the employer's ID number.

If the 10^{th} digit of the13-digit ID number ends in:	**Payment Deadline (following the applicable month)**
1 or 2	10^{th} day of the month
3 or 4	15^{th} day of the month
5 or 6	20^{th} day of the month
7 or 8	25^{th} day of the month
9 or 0	Last day of the month

Considering that the SSS ID No. of JHMC is 01-1275336-8-000 and the 10^{th} no. is 8, the prescribed deadline for the remittance of contributions and member loan payments is on the 25^{th} day of the month.

b. **For Pag-IBIG remittances,** Section E of Home Development Mutual Fund (HDMF) Circular No. 275 dated January 22, 2010 provides, among others, that employers shall remit the required monthly employer and employee contributions to the nearest Pag-IBIG branch or its authorized collecting banks, together with the duly accomplished Membership Contribution Form (MCRF), in accordance with the following remittance schedule:

First Letter of employer's name	Due Date
A to D	10th to the 14th day of the month following the period covered
E to L	15th to the 19th day of the month following the period covered
M to Q	20th to the 24th day of the month following the period covered
R to Z, Numeral	25th to the end of the month following the period covered

Based on the above schedule, the deadline for PAG-IBIG remittances for JHMC is on the 15th to the 19th day of the following month.

c. **For PhilHEALTH remittances**, PhilHEALTH Circular No. 0001, s. 2014, states that the monthly premium contribution of employed members shall be remitted by the employer on or before the date prescribed by the Corporation, as follows:

	New Payment Schedule
Employers with PENs ending in 0-4	Every 11th – 15th day of the month following the applicable period
Employers with PENs ending in 5-9	Every 16th – 20th day of the month following the applicable period

The PEN of JHMC ends in 9; thus, remittance of premium contributions to PhilHEALTH is every 16th to 20th of the following month.

12.3 As at December 31, 2017, the Inter-Agency Payables accounts of JHMC showed a total balance of ₱251,343.08 arrived at, as follows:

Account Title	Balance, Jan. 1, 2016	Amount Withheld	Adjustments	Adjusted Totals for Remittance	Amount Remitted	Balance, Dec. 31, 2016
Due to SSS	₱145,584.06	₱1,630,333.00	₱(13,135.00)	₱1,762,782.06	₱1,621,704.50	₱141,077.56
Due to Pag-IBIG	82,439.74	722,752.43	(2,500.00)	802,692.17	704,989.17	97,703.00
Due to Philhealth	12,332.52	397,505.00	(6,375.00)	403,462.52	390,900.00	12,562.52
Totals	**₱240,356.32**	**₱2,750,590.43**	**₱ (22,010.00)**	**₱2,698,936.75**	**₱2,717,593.67**	**₱251,343.08**

12.4 Verification and analysis of the above accounts and pertinent documents disclosed that the deductions were remitted to the Offices concerned within the periods prescribed under the pertinent rules and regulations, except for the remittance of Philhealth contributions for the months of July, October and November 2017 which were delayed by one day.

12.5 Of the total ending balance of the above Inter-Agency Payable accounts of ₱251,343.08, the total amount of ₱213,048.08 represents deductions for the month of December 2017 that were remitted in January 2018. The remaining amount of ₱38,295.00 represents the difference noted between the amounts deducted from employees' salaries, and the amounts remitted during the year, as follows:

Account Title	Deductions in December 2017 Remitted in January 2018		Difference Under/ (Over) Remittance	Balance, Dec. 31, 2017
	Date Remitted	Amount Remitted		
Due to SSS	Jan. 12, 2018	₱112,012.56	₱29,065.00	₱141,077.56
Due to Pag-IBIG	Jan. 19, 2018	67,535.52	30,167.48	97,703.00
Due to Philhealth	Jan. 19, 2018	33,500.00	(20,937.48)	12,562.52
Totals		**₱213,048.08**	**₱38,295.00**	**₱251,343.08**

12.6 For the Due to SSS account, the amount of P29,065.00 was traced to the net under remittance of deductions for the months of December 2016 and January to May 2017, as follows:

Month	Total Amount of Deductions	Amount Remitted	Difference Under/(Over) remittance
December 2016 (*Adjusted Balance)*	₱132,449.06	₱130,264.06	₱ 2,185.00
January 2017	119,567.42	123,147.42	(3,580.00)
February 2017	159,395.78	127,095.78	32,300.00
March 2017	131,195.78	130,305.78	890.00
April 2017	131,442.66	130,254.34	1,188.32
May 2017	131,226.30	135,144.62	(3,918.32)
Totals	**₱805,277.00**	**₱776,212.00**	**₱29,065.00**

12.7 For the Due to Pag-IBIG account, the difference of ₱30,167.48 represents the net under-remittance of deductions for the months of December 2016, and January to March and May 2017, as shown below:

Month	Total Amount of Deductions	Amount Remitted	Difference Under/(Over) remittance
December 2016 (*Adjusted Balance)*	₱ 79,939.74	₱ 55,972.26	₱23,967.48
January 2017	43,830.28	45,980.28	(2,150.00)
February 2017	56,466.86	49,766.86	6,700.00
March 2017	51,314.24	51,214.24	100.00
May 2017	57,598.88	56,048.88	1,550.00
Totals	**₱289,150.00**	**₱258,982.52**	**₱30,167.48**

12.8 For the Due to Philhealth account, the amount of ₱20,937.48 represents the net over remittance of deductions for the months of December 2016, and January to May 2017, to wit:

Month	Total Amount of Deductions	Amount Remitted	Difference Under/(Over) remittance
December 2016 (*Adjusted Balance)*	₱ 5,957.52	₱ 29,825.00	₱(23,867.48)
January 2017	28,375.00	29,250.00	(875.00)
February 2017	32,175.00	30,600.00	1,575.00
March 2017	31,650.00	31,450.00	200.00
April 2017	32,125.00	31,925.00	200.00

Month	Total Amount of Deductions	Amount Remitted	Difference Under/(Over) remittance
December 2016 (*Adjusted Balance)*	₱ 5,957.52	₱ 29,825.00	₱(23,867.48)
May 2017	34,705.00	32,875.00	1,830.00
Totals	**₱164,987.52**	**₱185,925.00**	**₱(20,937.48)**

12.9 The above discrepancies resulted from not ensuring that the amounts remitted were equal to the amounts that were deducted prior to remitting the same to the Offices concerned.

12.10 As a result, the responsible employee may be held liable for the payment of the corresponding penalties/interests, if any, for the delayed remittance of the full amounts due to the SSS and Pag-IBIG. For the net-over remittance of PhilHealth contributions of P20,937.48, the JHMC was denied of the immediate use of the said funds for its operations from the time this was remitted to the said Office up to the time that the same will be refunded to the JHMC. Notwithstanding, the prompt remittance of the above deductions assured that the employees concerned will be able to avail of the loan privileges and other benefits from the said Offices in a timely manner.

12.11 **We recommended that Management:**

a. direct the Accounting Unit to reconcile the Lists of Remittances for the affected months with the amounts that were withheld from employees' salaries in order to account for the total difference of ₱38,295.00;

b. cause the immediate remittance of the net under-remittance of contributions and loan payments to the SSS and Pag-IBIG Offices of P29,065.00 and 30,167.48, respectively. For the over-remittance of Philhealth contributions of P20,937.48, consider requesting the said Office to offset the said amount against the succeeding remittance; and

c. ensure that the exact and accurate amounts are remitted to the SSS, Pag-IBIG and Philhealth Offices to avoid similar discrepancies.

12.12 Management noted and agreed with the observations and the corresponding recommendations and instructed the concerned personnel to look into the discrepancies between the amounts withheld and the amounts remitted.

13 The amount allotted for Gender and Development (GAD) programs, projects, and activities for CY 2017 of ₱1 Million was not optimized as only ₱556,730.68 was spent. Moreover, the GAD Plan and Budget was not duly approved and endorsed by the Philippine Commission on Women (PCW) thereby, giving no assurance that the GAD activities were aligned with the GAD agenda and were appropriate to

address the identified gender issues and concerns, and that the budget was reasonable.

13.1 Section 30 of the General Provisions of the General Appropriations Act (GAA) for FY 2017, or RA No. 10924, provides that all agencies of the government formulate a GAD Plan designed to address gender issues within their concerned sectors or mandate.

13.2 Joint Circular No. 2012-01 of the PCW, NEDA, and DBM sets the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GAD Plans and Budgets (GPBs), and GAD Accomplishment Report to implement the Magna Carta of Women (MCW). Its policy guidelines state that Agency Heads shall formulate GAD Plans in accordance with RA No. 9710 and the GAA and within the context of their mandates to mainstream gender perspective in their policies, programs and projects. The GAD plan shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five percent (5%) of the agency's total annual budget.

13.3 Pursuant to Joint Circular No. 2012-01, the GAD Focal Point System (GFPS) shall, among others, review the GPBs, which shall focus on the alignment of the GBP with the GAD Agenda. The GFPS shall then submit the final GPB to the PCW for review and endorsement to the DBM. Upon receipt of the letter of endorsement from the PCW, the agency head shall issue an appropriate policy directive, copy furnished PCW, to disseminate and implement the GPB.

13.4 Audit revealed that the JHMC allocated the total amount of P1 million for the implementation of the identified GAD programs, activities and projects (PAPs) outlined in the GPB for the year. The submitted copy of the GPB for FY 2017, however, does not show any indication that the said GPB was submitted to, reviewed and duly approved by the PCW prior to implementation of the same contrary to provisions of the Joint Circular.

13.5 Notwithstanding, evaluation of the submitted GAD Accomplishment Report disclosed that the JHMC implemented the following GAD activities during the year at the total cost of ₱556,730.96:

GAD Activities	Amount
Client-Focused Activities:	
Seminars/Trainings/Workshops related to GAD	₱ 125,701.00
Information/Education Campaign	20,702.65
Organization-Focused Activities:	
Seminars/Trainings/Workshops related to GAD (for JHMC personnel)	236,842.10
Salaries of the GAD Coordinator (contractual)	44,231.32
Information Education Campaign (Breast Cancer Awareness)	105,500.00
Representation Expenses for GAD trainings conducted	23,753.61

Total	**₱ 556,730.68**

13.6 The amount spent is equivalent to only 55.67 percent of the GAD budget; hence, the amount allotted for the GAD activities for the year of ₱1 million was not optimized to address the identified GAD concerns and issues.

13.7 This is a reiteration of prior year's audit observation where the same amount of P1 million was allocated for GAD PAPs, but only the amount of P447,471.25 was utilized during that year. This is an indication that the GAD budget may be too high, or there is a need to implement additional PAPs relevant to current gender issues or GAD-related undertakings.

13.8 As there is no indication that the GPB was submitted to, reviewed, endorsed and approved by the PCW prior to the implementation of the above PAPs, there is no assurance that the activities conducted were in line with the GAD agenda of the JHMC and were appropriate to address the identified gender issues and concerns; and that the budget was realistic or reasonable.

13.9 **We have recommended that Management direct the GAD Focal Point System to (a) review the GAD Plan and Budget for the ensuing year to determine whether the proposed budget is realistic/reasonable and if there is a need to implement additional programs and projects or GAD-related undertakings to optimize the use of the allocated amount; and (b) submit the GBP to the PCW for review, endorsement and approval prior to the implementation of GAD activities to ensure that the proposed activities are aligned to the GAD agenda.**

13.10 Management agreed to implement the audit recommendation in 2018.

Settlement of Audit Suspensions, Disallowances and Charges (SASDC)

14 Disallowances totaling ₱2,728,562.07 remained unsettled as of year-end as these were all appealed with the COA.

14.1 Below is the Status of Audit Suspensions, Disallowances and Charges as of December 31, 2017:

Particular	Beginning Balance (Jan. 1, 2016)	Issuance This Period (Jan. – Dec.)	Settlement This Period (Jan. – Dec.)	Ending Balance (Dec. 31, 2017)
Notice of Suspension	-	-	-	-
Notice of Disallowance	₱ 2,130,772.68	₱ 597,789.39.00	₱ 0.00	₱ 2,728,562.07
Notice of Charge	-	-	-	-

B. Value for Money Audit

15 The JHMC generated total revenue collections of ₱47.8 million for the year 2017 from lease agreements entered into with the different locators-lessees. This amount was equivalent to only 68.4 per cent of the Estate Management Fee of ₱69.9 million received from the Bases Conversion Development Authority (BCDA); hence, the JHMC will not be able to receive a higher budget for the ensuing year.

15.1 Records show that the JHMC and the BCDA signed a Revised Performance Agreement on February 13, 2017 aimed to ensure the continuous productive operation of Camp John Hay and the development and economic enhancement of the areas embraced therein through the provision of estate management services by the JHMC. The Agreement sets forth the performance criteria and targets of JHMC and JHMC's compensation for its services as Estate Manager of JHSEZ.

15.2 The Obligations of the BCDA include the review and approval of the annual operating budget of JHMC in accordance with BCDA Policy on Budget releases to Subsidiaries; and to pay JHMC Estate Management Fee at the end of the year in consideration of its services, as well as incentives for meeting or exceeding the defined targets in Article VI of the Agreement.

15.3 The obligations of the JHMC as estate manager include, among others, the following:

1. To formulate and implement trade guidelines and procedures in setting up businesses inside the Property while also administering fiscal and non-fiscal incentives;

2. Negotiate and execute agreements involving contracts of lease and joint ventures, and perform such other acts as necessary to the management and administration of the Property, up to a maximum of P50 million per contract in consultation with BCDA during the negotiation and finalization of contracts. It may also execute such agreements more than P50M upon securing prior written BCDA Board approval; and

3. To establish revenue and other performance targets in consultation with BCDA prior to its submission to the GCG.

15.4 Item 6.1 of the Revised Performance Agreement provides that for and in consideration of JHMC's services as Estate Manager, JHMC shall receive an estate management fee (EMF) equivalent to Personnel Services (PS) and Maintenance and Other Operating Expenditures (MOOE) budget as approved by the BCDA; or 50% of revenues to be generated in the Property, whichever is higher.

15.5 Relative to the above agreement, JHMC together with the **BCDA** entered into lease agreements with several locators-lessees covering portions of the Camp John Hay for the purpose of generating rental revenues and developing the property into a wholesome family-oriented public tourism complex and human resource development center.

15.6 For the year 2017, JHMC collected from its locators-lessees total revenues of ₱47,827,831.82 and remitted the same to BCDA as agreed upon in the Revised Performance Agreement. The JHMC's EMF for 2017 was ₱69.9 million, which is equivalent to its budget for PS and MOOE. The income generated was 68.42 percent of the said budget.

15.7 Based on Item 6.1 of the Performance Agreement, since total revenues generated from the property in 2017 was only P47.8 M, the JHMC is expected to receive EMF equivalent to its PS and MOOE budget estimated at P69.9 in the ensuing year considering that 50% of P47.8M is only P23.9M, which is much lower than its current budget of P69.9M. Had it generated revenues from the property amounting to more than P47.8M or at least P142M, it will be receiving P1M more than its current EMF of P69.9M, as computed below:

EMF based on PS and MOOE budget	**In Millions**	**EMF based on Income Generated (If Income generated is at least P142M)**	**In millions**
PS and MOOE Budget	P69.90	Current Budget for PS and MOOE	P69.90
50% of 47.8 M (revenues generated from the property)	P23.90	50% of 142M	P71.00
EMF in the ensuing year based on Budget	P69.90	EMF based on 50% of revenues generated	P71 M

15.8 In 2017, records show that the JHMC and BCDA entered into new lease agreements with two lessees but these were only for a period ranging from 51 days to 1 year. Had it identified additional areas within the property for lease, without necessarily sacrificing the environment, and looked for new lessees, negotiated and entered into new lease agreements with them, or set up new businesses inside the Property, within its allowed authority, it could have generated more revenues which will be the basis for the computation of its EMF.

15.9 **We recommended that Management, through its Business Development Department, to scout for more prospective locator-lessees and to come up with other marketing strategies or revenue generating activities to increase its revenues.**

15.10 Management noted and agreed with the audit observation and recommendation. The matter will be taken up during the next MANCOM meeting to come up with a more detailed list of activities or strategies to generate more income for the Corporation.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 30 prior years' audit recommendations, 13 were fully implemented and 17 were partially implemented as detailed below:

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
1. Due to delayed submission of financial statements together with the required reports and supporting documents, the accuracy and reliability of financial statements and pertinent accounts were not immediately validated. Also, errors in the presentation of the accounts and their balances in the submitted financial statements were not corrected. *Recommendations:*	2016 AAR page 52		
a) We recommended that the Accountant **submit the revised financial statements prepared** in accordance with the prescribed formats including the Notes to Financial Statements which shall include all the necessary information.		Management submitted the revised financial statements (FS) to comply with the audit recommendation.	Fully implemented The revised financial statements for 2016 were submitted to the Audit Team in 2017. The restated Statement of Financial Position (SFP) as of December 31, 2016 was indicated in the SFP as of December 31, 2017.
b) We also recommended that the Finance Manager supervise and monitor the submission of financial statements and other financial reports to the		The Budget Officer, Treasury Officer, Cashier, Finance Analyst and Accountant were instructed to submit	Fully Implemented The 2017 FS were submitted to the Audit Team on February 14, 2018.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Office of the Audit Team within the prescribed period to enable the team to conduct of timely verification thereof.		the succeeding Annual FS on or before February 14 of each year, as well as the Monthly Trial Balance on the month following the month of transaction. Implementation of the submission of the needed financial reports will be strictly monitored by the Finance Manager.	
2. The accuracy of the Share Capital account with a reported balance of ₱383,814,079.00 could not be ascertained due to non-submission of the Inventory List of Stockholders with the corresponding amounts of subscription, as well as the non-presentation of the updated Stock and Transfer Book for verification and inspection purposes. *Recommendation:* We recommended that Management immediately submit to COA the Inventory List of Stockholders with the corresponding amounts of subscription and present the Stock and Transfer Book for proper validation and determination of the accuracy of the Corporation's Share	2016 AAR page 54	The matter was already discussed by the MANCOM. The Board Secretary was advised to submit to COA the Inventory List of Stockholders earlier than the Stock and Transfer Book.	Partially Implemented The Board Secretary submitted the Inventory List of Stockholders on February 19, 2018; however, the Audit Team was informed

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Capital account as presented in its financial statements.			that the Stock and Transfer Book was not yet updated as of date.
3. A building with a total cost of ₱22 million leased to the Intercontinental Hotels Group (IHG)/SC Reservations Philippines, Inc. (SCRPI) was not reclassified to the Investment Property, Buildings account, thereby overstating the Property, Plant and Equipment (PPE) account by the same amount. *Recommendation:* We recommended that the Accountant prepare the necessary entry to reclassify the building with a total cost of ₱22 million, and its corresponding Accumulated Depreciation from the PPE account to the Investment Property, Buildings account in accordance with PAS 40 and COA Circular 2015-10 to reflect the true balances of the affected accounts in the Corporation's financial statements.	2016 AAR page 55	The Accountant prepared a Journal Entry Voucher (JEV) to reclassify the JHMC Office Building leased to the IHG from the Buildings account to the Investments Property, Buildings account in January 2017 to comply with the audit recommendation.	Fully Implemented The JHMC Building with a total cost of P22,006,344.63 and its corresponding Accumulated Depreciation was reclassified to the Investment Property, Buildings under JEV No. 2017-01-013 dated January 31, 2017. The total amount of the JEV was ₱30,567,633.54 which includes the cost of the JHMC Building and other structures at the Historical Core being used to generate income.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
4. Long-Term Accounts Receivable (AR) and Accounts Payable, which includes those recorded under Accrued Expenses, totaling ₱14,345,842.05 and ₱4,359,735.37, respectively, had been long outstanding and lacked documentation, thereby rendering the validity of the reported balances uncertain. *Recommendations:* We recommended that Management:	2016 AAR page 56		
a. exert extra efforts to retrieve the supporting documents to validate the receivables and payables recorded in the books;		Various JEVs have already been made through-out CY 2017 for every validated account. The Accountant validated and analyzed outstanding Accounts Receivable and Accounts Payable recorded in the books. Unsupported payables were reverted to Retained Earnings and accounts with similar creditors and debtors were adjusted/offset against the payable accounts.	Partially Implemented Adjustments during the year were verified; however, the accuracy and propriety of receivables that were offset against payables totaling P5,307,261.56, were uncertain, as discussed in Observation no. 3, Part II of this Report.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
b. exhaust all means to collect the outstanding receivables and if efforts fail, request for write-off of the remaining receivables not yet requested for write-off; and		Management, in its letter dated April 27, 2015, requested the COA for the write-off of receivables totaling P2,046,190.96. In June 2016, it submitted to the COA additional documents to support the said request.	Partially Implemented The Audit Team noted that there are still Accounts Receivables and Accounts Payables that are outstanding for over 5 to 10 years, as of December 31, 2017.
c. determine the reasons why payables amounting to ₱4,359,735.37 remained unpaid for more than two years, and if these are not supported with the required documents or if found to be invalid, revert the corresponding amount to the retained earnings.		A contractual employee was hired on Dec. 13, 2017 to work on the settlement of the other remaining accounts and final actions will be done in CY 2018.	Partially Implemented A Job Order personnel was hired to assist in the analysis and reconciliation of the payable accounts. As of December 31, 2017, the total amount of payables that were reverted back to Retained Earnings was ₱1,978,867.43.
5. Reciprocal accounts namely, Due to Other Funds and Due from Other Funds accounts, do not tally by ₱2,082,186.69 due to non-reconciliation and misclassification errors, thereby affecting the reliability of the financial statements.	2016 AAR page 58		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Recommendation: We recommended that the Accountant reconcile the difference of ₱2,083,186.69 [the correct amount is ₱2,082,186.69] noted between the Due to Other Funds and Due from Other Funds accounts and prepare the necessary adjusting entries to balance the two accounts and ensure the fair presentation of the Corporation's financial statements.		The two accounts were reconciled and adjusting entries were made in 2017 under JEV Nos. 2017-08-090, 2017-12-146 and 2017-12-147. Transferred other recorded items to their proper accounts.	Partially Implemented Adjusting entries in the net amount of P1,777,404.11 were made to the partially reconcile the balances of the Due From and Due to Other Funds account, to wit: a. Net credit adjustments Due from Other Funds account – P3,977,849.47; and b. Debit Adjustments to the Due to Other Funds account – P2,200,445.36 As a result, the difference between the two accounts was reduced from P2,082,186.69 to P304,782.58, which remained unaccounted as of December 31, 2017. Reiterated in Observation No. 6, Part II of this Report.
6. Except for the Due to BIR account, the accuracy of the other reported Inter-Agency	2016 AAR page		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Payables accounts with a total reported balance of ₱240,356.32 is doubtful due to non-reconciliation of the subsidiary ledger balances with those of the general ledger balances which showed an unreconciled difference of ₱195,219.62. *Recommendation:* We recommended that the Accountant account for the difference of ₱195,219.62 between the general ledger balance and the subsidiary ledger balances for the Inter-Agency Payable accounts with a reported balance ₱240,356.32, and to prepare the necessary adjusting entries to reflect the correct balance of the said accounts.	61	The Human Resource Assistant who was tasked to reconcile the balances between the two records had already made the necessary adjustments in the subsidiary ledgers.	Fully Implemented The SLs were already adjusted. The difference between the two records was due to system errors which could not readily be adjusted or corrected.
7. Taxes totaling ₱3,658,322.99 were withheld from payments of employees' compensation and from payments to suppliers of goods and services of which the amount of ₱3,309,285.90 was remitted during the year. The balance of ₱349,037.09 consisted of taxes withheld in December 2016 of ₱299,425.63 and the tax credit granted by BIR of ₱49,611.46. The tax credit was not taken up in the books, thereby overstating the Due to BIR account by the same amount.	2016 AAR page 62		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Recommendations: We commended Management for complying with tax laws, rules and regulations. We recommended that the Accountant recognize in the books the tax credit amounting to ₱49,611.46 by debiting the Due to BIR account and crediting the appropriate income account to reflect the true year-end balance pertaining to taxes withheld from compensation and from payments to suppliers of goods and services.		Management sought the approval of BIR to treat the amount (over remittance) of P49,611.46 as tax credit. The corresponding entries were effected in January 2017.	Fully Implemented
8. Mandatory amounts withheld from employees' salaries including the corresponding employers' share in CY 2016 were remitted within the prescribed deadlines to the SSS, Pag-ibig and Philhealth. *Recommendation:* We recommended that Management continue to remit mandatory deductions from the employees' salaries together with the corresponding employer's share and loan amortizations to the SSS, Pag-ibig and Philhealth within the prescribed period for the advantage of employees concerned.	2016 AAR page 64	Management continuously complied with the prescribed deadlines for the remittance of the mandatory deductions and the corresponding employer's share to the Offices concerned.	Fully Implemented In 2017, mandatory deductions including the employer's share were remitted within the prescribed deadlines.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
9. The amount allotted for GAD programs, projects, and activities for CY 2016 of ₱1 Million was not optimized as only ₱447,571.25 was spent. Moreover, the Accomplishment Report in the prescribed format was not submitted rendering difficulty in assessing whether the activities conducted had addressed the issues and concerns identified in the GPB. *Recommendation:* We recommended that Management implement the GAD activities outlined in the GPB to address the identified gender issues and concerns; and to prepare the corresponding annual GAD Accomplishment Report for the year using the prescribed form to facilitate review and evaluation.	2016 AAR page 66	In 2017, Management undertook the following activities in relation to GAD: 1. Created a GAD Focal Point System 2. Implemented GAD activities outlined in the GAD Plan and Budget 3. Prepared the corresponding Annual GAD Accomplishment Report for the year using the prescribed form to facilitate the review and evaluation.	Partially Implemented For 2017, the Audit Team noted that of the total amount allotted for GAD programs, activities, and projects (PAPs) of ₱1 million, only ₱556,730.68 or 55.67 percent was spent. Reiterated in Observation No. 12, Part II of this Report.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
10. The Corporation paid the Social Security System (SSS) the total amount of ₱151,749.58 in penalties and interest for (a) delayed remittance of contributions totaling ₱1,344,747.00 for the period January 2010 to January 2016, (b) arrears from May 1995 to February 10, 2010 of ₱35,644.82, and (c) past due loan of ₱2,056.02, instead of collecting the same from the responsible officials. *Recommendation:* We recommended that Management identify the officers/personnel directly and/or indirectly responsible for the delayed remittance of contributions and unpaid accounts, and require them to refund to the Corporation the penalties amounting to ₱151,749.58 pursuant to Section 103 of PD 1445.	2016 AAR page 68	Management explained that the contributions totaling ₱1,344,747.00 for the period January 2010 to January 2016, including the arrears from May 1995 to February 10, 2010 of ₱35,644.82, were **remitted to the SSS under protest** so as not to deny the member employees of their benefits from the said Office. Management, however, committed to resolve the issue with the SSS and reconcile its records with the said Office in 2018.	Partially Implemented The Human Resource Assistant started reconciling JHMC records with the SSS relative to the delayed remittance of SSS contributions. As regards the unpaid SSS loan amortizations, they are presently in the process of identifying the concerned personnel so that the corresponding penalties and interests arising from the delayed remittance thereof will be duly collected from them.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
11. Accuracy of the Accounts Payable account could not be ascertained due to long outstanding balances totaling ₱17,786,847.75 and the presence of negative balances totaling ₱1,557,080.01, contrary to Sections 111 and 112 of Presidential Decree (P.D.) No. 1445. *Recommendations:* We recommended that Management:	2015 AAR page 50		
a. Institute or enhance the policy on accounts payable as regards its recognition with complete documentation, settlement, and reversion in accordance with the above-cited provisions of PD 1445;		Management instructed the concerned personnel to ensure that accounts payable are recognized in the books only if these are duly supported with complete documentation.	Fully Implemented. Management already stopped the practice of setting up payables without valid supporting documents.
b. Verify and revert to retained earnings payables accounts and long term liabilities that have been outstanding for two years or more and without valid documents. Adjust negative balances, when warranted;		In 2017, Management reverted to retained earnings, payables totaling P1,283,994.06 which were determined as no longer valid claims and not supported with supporting documents.	Partially Implemented. Accounts Payable totaling P1,283,994.06 were reverted back to Retained Earnings account under JEV Nos. 2017-12-146 & 147 dated Dec. 31, 2017.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
c. Consider the possibility of offsetting the payable accounts of persons who, at the same time, have receivable accounts;			Fully Implemented. Accounts Payables to creditors totaling P4,093,075.77 were offset against their respective receivable accounts with the JHMC; however, the propriety thereof was doubtful due to reasons cited in Observation No. 3, Part II of this Report.
d. Consider hiring additional job order/contractual personnel to help in the validation of payables;		Management hired a contractual employee on Dec. 13, 2017 to assist the Accounting/Finance Division in the validation of payables recorded in the books.	Fully Implemented
e. Strictly comply with the provisions of Sections 111 and 112 of PD 1445 in order to have a better presentation of this account in the financial statements;		Management complied with the provisions of Sections 111 and 112 of PD 1445 by maintaining subsidiary ledgers for Accounts Payable, which were kept up to date.	Fully Implemented
12. Disbursement vouchers totaling ₱516,887.53, representing payment for the salaries of an employee who has not been reporting for work, were processed and paid without supporting	2015 AAR page 53		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
documents, contrary to the provisions of Sections 4 and 61 of the Government Auditing Code of the Philippines (PD 1445) dated June 11, 1978, thereby, rendering said disbursements to be irregular and which might result in the loss of government funds, hence, were disallowed in audit. *Recommendation:* We recommended that Management direct the persons liable to settle immediately the said disallowance or file an appeal within six months from receipt of the Notice of Disallowance, otherwise, the same shall become final and executory as prescribed under Sections 48 and 51 of Presidential Decree No. 1445.		Management filed an Appeal with the Commission on Audit relative to the disallowance within the prescribed period in order to settle the disallowance.	Fully Implemented Notice of Disallowance (ND) No. 2016-001(2015) dated February 12, 2016 was issued for the subject transaction amounting to ₱516,887.53, but this was appealed with COA. Included in the Status of Disallowances, Observation No. 13, Part II of this Report.
13. Settlement of Audit Suspensions, Disallowances and Charges (SASDC) Records of settlement show that audit suspensions and disallowances issued in previous years have not yet been settled.	2014 AAR, page 46		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Recommendations: We recommended that Management: a. notify the persons liable and persons responsible and request for the settlement of their disallowances and suspensions, respectively.		All disallowances issued in the prior years have been appealed with the Commission on Audit.	Partially implemented. There were no disallowances and suspensions issued in 2017. Records shows that as at December 31, 2017, disallowances issued in the prior years totaling P2,728,562.07 have not been settled.
b. constantly communicate with the concerned persons for a possible full settlement of the recorded disallowances.		Management is waiting for the results of its appeal with the COA.	Partially Implemented. Discussed in the Status of Disallowances, Observation No. 13, Part II of this Report.
Value-for-Money Audit 14. Collection inefficiency and incomplete documentation resulted in the accumulation of long-term accounts receivable amounting to ₱7.03 million, thereby, depriving the agency of the much needed cash for its operations. *Recommendations:* We recommended that	2014 AAR, page 46		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Management: a. Establish claims on these receivables by working back and, if necessary, reconstruct supporting documents of valid claims like bills and statement of accounts or gather all pertinent documents to support claims; and		Management is still in the process of reconstructing accounting records relative to these accounts.	Partially implemented. As of December 31, 2017, the total receivables that are outstanding for over 5 to more than 10 years amounted to P4.573 million.
b. Enforce the collection of valid accounts by sending demand letters or withhold payment of money claims due the concerned employees and other persons.		Demand letters had been sent to debtors with identified addresses.	Partially Implemented. Of the total receivables in 2016 of P15,014,844.49, receivables totaling P127,924.15 were collected in 2017, P5,182,959.57 were offset from the corresponding payable accounts of the debtors concerned, and P4,511,682.10 were dropped from the books in view of the adjustments made relative to the dropping of various motor vehicles acquired thru Car Plan in 1998 and 2007. Adjustments in the net amount of P18,000.00 were added to the beginning balance;

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
			hence, as at December 31, 2017, the total outstanding receivables pertaining to the 2016 balance was reduced to P5,210,278.67.
15. Collection inefficiency and incomplete documentation resulted in the accumulation of long-term accounts receivable (net) to ₱10.781 million. *Recommendations:* We recommended that Management:	2013 AAR, page 27		
a. Establish claims on long-term accounts receivable by working back, and , if necessary, reconstruct supporting documents of valid claims like bills and statement of accounts;		Management had already identified the debtors; however, it has a hard time reconstructing the records.	Partially Implemented Recommendation was reiterated in the CY 2014 AAR as shown in no. 14 above.
b. Provide allowance for doubtful accounts and request for write-off of uncollectible accounts with the COA; and		The Accountant has already provided an Allowance for Doubtful Accounts (*now Allowance for Impairment)*.	Partially Implemented The request for write-off is in process as of December 31, 2017.
c. Enforce the collection of valid accounts. Send demand letters or withhold payment of money claims due to affected employees and others.		Management had sent demand letters or Notices of Collection to debtors with known addresses.	Partially Implemented Recommendation was reiterated in the CY 2014 AAR as shown in no. 14 above.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
16. JHMC Policy No. 012-2004 on the Retirement of Officers and Employees provides a Compulsory Retirement Program entitling qualified employees to 200 per cent of his/her salary for every year of service while the Early Retirement Program shall be equivalent to 50 per cent of the monthly salary for every year of service for the first 5 years with an additional 10 per cent of the monthly salary for each succeeding year but not to exceed 150 per cent. *Recommendation:* In the absence of prior approval from the Office of the President, we recommended that JHMC Retirement Policy No. 012-2004 be set aside and instead apply the amount equivalent to one-half (1/2) month salary for every year of service in accordance with RA 7641, the Retirement Pay Law. Any excess payment of retirement pay shall be disallowed in audit.	2013 AAR, page 28	Management has a pending request filed with the Office of the President for the approval of the new Retirement Policy. As of December 31, 2017, Management did not receive any communication from the Office of the President regarding the matter.	Fully Implemented The JHMC Retirement Policy No. 012-2004 had been set aside for the past years, as recommended.
17. Due to Home Office and Other Long-term liabilities amounting to ₱2.310 million and ₱3.743 million respectively, unreliable due to incomplete documentation.	2012 AAR		

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
Recommendation: We recommended that Management 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		Verification of unsupported payables is still on-going as of December 31, 2017.	Partially Implemented. The account Due to Home Office had been reclassified to the Due to Central/Head/Home Office account. To date, the amount of P2.310M, representing the 1997 lease rental collections from AIM remained unreconciled with the BCDA. The Other Long-Term Liabilities amounting to P3.743M was traced to Retention Fees amounting to ₱42,076.68 and Other unearned Revenue resulting from the Car Plan in 1998 and 2009 amounting to ₱3,695,279.24. As at December 31, 2017, the balance of the Other Long-Term Liabilities was zero (P0.00). Reiterated in Observation No. 5, Part II of this Report.

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
18. Health insurance coverage paid to Fortune Medicare, Inc. in the amount of ₱458,298 without legal basis. *Recommendation:* We have recommended that Management obtain an authority from the Office of the President.	2013 AAR, page 20	Management has appealed the matter to the COA Regional Office.	Fully Implemented Considering that ND No. 2014-01 dated January 10, 2014 was issued for the subject payment, and that COA Decision No. 2013 – 049 was issued in 2013, re: ND for Life and Health Insurance Benefits 1997-2004, the recommendation that Management obtain an authority from the Office of the President is no longer applicable. Included in the Status of Disallowances, Observation No. 13 Part II of this Report.
19. Salary differential paid in the amount of ₱50,759.00 not in concurrence with the provisions of JHMC Policy No. 003-2004. *Recommendation:* We recommended that Management require the refund the salary differential amounting to ₱50,759.00.	2012 AAR	The matter was endorsed to the DOLE where the advisory opinion	Partially Implemented An ND was issued in

Observations and Recommendations	Ref.	Management's Action	Status of Implementation
		rendered is in the affirmative based on the appointment paper when the employee actually assumed the duties and responsibilities of a Cashier.	the prior year. The concerned employee refunded the amount of ₱6,500 in CY 2012; however, no additional refunds were made since then because the matter was referred to the DOLE.