



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

ANNUAL AUDIT REPORT

on the

**SOCIAL HOUSING FINANCE
CORPORATION**
**(A Wholly-owned Subsidiary of the National Home
Mortgage Finance Corporation)**

For the Year Ended December 31, 2007

PART I
Audited Financial Statements



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Social Housing Finance Corporation
Banco de Oro Plaza
8737 Paseo de Roxas, Makati City

We have audited the accompanying financial statements of Social Housing Finance Corporation, a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), which comprise the balance sheet as of December 31, 2007, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles applicable in the Philippines. This responsibility includes: designing, implementing and maintaining internal control 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.

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 auditing standards applicable in the Philippines. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Social Housing Finance Corporation as of December 31, 2007, and its financial performance and cash flows for the year then ended in accordance with generally accepted accounting principles applicable in the Philippines.

COMMISSION ON AUDIT


JOSE R. ROCHA, JR.

Director IV
Cluster II, Financial B
Corporate Government Sector 

October 15, 2008

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
BALANCE SHEET
DECEMBER 31, 2007
(In Philippine Peso)

	Notes	2007	2006 (As Restated)
ASSETS			
CURRENT ASSETS			
Cash - on hand and in banks	3	486,062,042	420,065,551
Receivables	4	55,438,722	86,208,704
Other current assets	5	7,516,629	5,346,353
		550,017,393	511,620,608
ASSETS HELD IN TRUST			
National Home Mortgage Finance Corporation	6	6,284,083,383	5,612,094,783
Abot-Kaya Pabahay Fund	6	557,420,483	547,134,938
		6,841,503,866	6,159,229,721
NON-CURRENT ASSETS			
Property and equipment - net	7	179,651,714	171,388,028
Other assets - net	8	4,496,455	-
		184,148,169	171,388,028
TOTAL ASSETS		7,585,669,428	6,842,238,357
LIABILITIES			
CURRENT LIABILITIES			
Payables	9	342,239,827	224,320,260
Inter-agency payables	10	22,914,297	52,590,127
Other current liabilities	11	70,672,890	45,998,817
		435,827,014	322,909,204
LONG-TERM LIABILITIES			
Other long-term liabilities	12	141,919,972	147,216,600
TRUST LIABILITIES			
National Home Mortgage Finance Corporation	13	6,287,656,271	5,757,064,636
Abot-Kaya Pabahay Fund	14	557,420,483	547,134,938
		6,845,076,754	6,304,199,574
TOTAL LIABILITIES		7,422,823,740	6,774,325,378
STOCKHOLDER'S EQUITY		162,845,688	67,912,979
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		7,585,669,428	6,842,238,357

The notes on pages 7 to 17 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF INCOME
For the Year Ended December 31, 2007
(In Philippine Peso)

	Notes	2007	2006 (As Restated)
INCOME			
Interest income - regular	16	154,052,595	70,675,509
Interest on savings deposits		30,437,087	18,665,073
Service fees		4,961,050	6,294,167
Processing fees	16	-	17,839,758
Collection servicing fees	16	-	13,800,824
Miscellaneous income - penalty		64,938,415	9,674,419
		254,389,147	136,949,750
EXPENSES			
PERSONAL SERVICES			
Salaries and wages		25,443,229	15,253,567
Other compensation		16,517,964	11,509,963
Personnel benefit contributions		2,003,985	2,081,517
Other personnel benefits		20,366,302	2,235,094
		64,331,480	31,080,141
MAINTENANCE and OTHER OPERATING EXPENSES			
Taxes, insurance premiums and other fees		10,478,761	5,975,353
Professional services		10,361,691	4,476,348
Depreciation		8,107,760	837,744
Utility		3,837,573	2,170,697
Supplies and materials		2,673,092	1,645,458
Representation		2,592,443	-
Confidential, extraordinary and miscellaneous		2,237,925	1,949,710
Building association dues and contribution		1,640,452	-
Travelling		1,428,471	1,286,620
Advertising		1,353,225	216,300
Communication		1,124,303	545,422
Rent		969,544	8,728,725
Repairs and maintenance		308,398	-
Printing and binding		268,730	413,251
Custodianship fees	17	211,128	1,504,160
Subsidies and donations		147,849	-
Litigation		27,080	18,337
Miscellaneous		895,929	5,890,024
		48,664,354	35,658,149
FINANCIAL EXPENSES			
Bank charges		16,519	11,582
Interest expense		8,137,707	-
Other financial charges		671,861	815,485
		8,826,087	827,067
INCOME FROM OPERATIONS		132,567,226	69,384,393
Loss on foreign exchange		-	18,598
INCOME BEFORE INCOME TAX		132,567,226	69,365,795
Provision for income tax		37,634,517	16,460,164
NET INCOME AFTER INCOME TAX		94,932,709	52,905,631

The notes on pages 7 to 17 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
For the Year Ended December 31, 2007
(In Philippine Peso)

	Note	2007	2006 (As Restated)
CAPITAL STOCK			
Authorized			
Common stock 100,000 shares			
@ P1,000 par value per share		100,000,000	100,000,000
Subscribed			
Initial subscription, 25,000 shares		25,000,000	25,000,000
Subscription receivable		(15,000,000)	(15,000,000)
Paid-in capital		10,000,000	10,000,000
RETAINED EARNINGS			
	15		
Balance at beginning of year		57,912,979	5,007,348
Net income for the year		94,932,709	52,905,631
Balance at end of year		152,845,688	57,912,979
STOCKHOLDER'S EQUITY		162,845,688	67,912,979

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
CASH FLOW STATEMENT
For the Year Ended December 31, 2007
(In Philippine Peso)

	Note	2007	2006 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from borrowers		221,991,677	180,124,768
Subsidy income			
Receipt of Community Mortgage Program fund transferred from NHMFC		500,000,000	533,878,431
Other income			
Receipts of interests from deposits		26,887,423	18,665,073
Service fee income		4,961,049	6,294,167
Insurance prepayments		1,989,007	5,377,362
Receipts of interests on notes		12,000,000	12,233,333
Miscellaneous income		4,739,889	551,385
Other receipts			
Guaranty deposits		13,577,036	14,473,524
Receipts of HUDCC payments		21,400,601	-
Receipts of NHMFC payments		67,843,297	-
Miscellaneous		1,021,828	3,321,599
Cash paid to suppliers and employees		(797,700,655)	(749,665,654)
Net cash provided by operating activities		78,711,152	25,253,988
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of office, IT equipment and furniture and fixtures		(8,963,387)	(2,473,752)
Data build up		(3,751,274)	-
Downpayment for the purchase of office building and other structures		-	(16,357,400)
Purchase of transportation equipment		-	(4,485,418)
Leasehold improvements		-	(4,164,989)
Net cash used in investing activities		(12,714,661)	(27,481,559)
NET INCREASE/(DECREASE) IN CASH ON HAND AND IN BANKS		65,996,491	(2,227,571)
CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR		420,065,551	422,293,122
CASH ON HAND AND IN BANKS AT END OF YEAR	3	486,062,042	420,065,551

The notes on pages 7 to 17 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

On January 20, 2004, Executive Order No. 272 was signed and approved by the President of the Republic of the Philippines authorizing the National Home Mortgage Finance Corporation (NHMFC) to organize and establish the Social Housing Finance Corporation (SHFC) as a wholly-owned subsidiary, in accordance with the Corporation Code and pertinent rules and regulations issued by the Securities and Exchange Commission (SEC).

As a subsidiary of NHMFC, SHFC was created primarily to be the lead agency to undertake social housing programs that will cater to the formal and informal sectors in the low-income bracket and shall take charge of developing and administering social housing program schemes, particularly the Community Mortgage Program (CMP) and the Amortization Support and Development Financing Programs of the Abot-Kaya Pabahay Fund (AKPF) as well as other social housing programs of the NHMFC in order to allow the NHMFC to focus on its primary mandate that is, developing the secondary market for home mortgages.

Presently, SHFC is merely a trustee of the transferred CMP Funds. The NHMFC remains in control of the affairs of SHFC and did not abandon its obligation to use its ownership under a trust relationship having retained its full ownership over the subject funds.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting system

The SHFC uses the commercial accounting system. Under this system, recording of financial transactions is centralized in the Finance and Controllershship Department (FCD). The operating groups/departments submit a report covering their transactions for a particular period duly reviewed, certified and approved by a responsible officer to the FCD for Journal Entry Voucher (JEV) preparation and recording in the books of accounts.

The corporate chart of accounts are prepared to conform with the accounts prescribed under COA Circular No. 2004-002 dated April 29, 2004.

2.2 Accounting basis

The SHFC adopts the modified accrual basis of accounting. Under this method, all expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Income is on accrual basis except for transactions where accrual basis is impractical or when other methods are required by law.

2.3 Related party disclosures

This new standard under PAS 24 ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may be affected by the existence of related parties and by transactions and outstanding balances with such parties. Related party transactions are transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

2.4 Future change in accounting policies

The Corporation has not yet complied with the Philippine Financial Reporting Standards. It will comply with these standards starting for CY 2008 financial statements to facilitate its consolidation with its parent Corporation.

2.5 Property and equipment

In adherence to the New Government Accounting System, SHFC uses the straight line method of depreciation and a residual value equivalent to ten percent of the cost. Property and equipment are carried at cost less accumulated depreciation. Significant improvements and accessories are capitalized, while the cost of maintenance and repairs is treated as expense.

3. CASH ON HAND AND IN BANKS

The account consists of the following:

	2007	2006
Cash in bank - time deposit	416,598,552	340,288,339
Cash in bank - current account	62,853,369	77,678,447
Cash collecting officers	6,235,121	1,948,765
Revolving fund	375,000	150,000
	486,062,042	420,065,551

4. RECEIVABLES

Included under this account are the following:

	2007	2006
Due from NHMFC	55,436,346	84,180,418
Due from AKPF	5,886,339	1,459,089
Accounts receivable – investment	3,451,827	-
Due from HUDCC	1,404,752	28,319
Due from officers and employees	162,085	540,878
Due from SSS	1,075	-
Accounts receivable – others	96,298	-
	66,438,722	86,208,704

- 4.1 Due from NHMFC pertains to management fee computed pursuant to section VI of the Trust Agreement entered into by and between NHMFC (Trustor) and SHFC (Trustee) which provides the Trustee a compensation consisting of: 1) ten percent of total collection on a monthly basis; 2) actual cost of pre and take-out operations plus 15 percent. This also includes CMP amortizations payments and other nature of collections collected by NHMFC already reported to SHFC however, the turn-over of cash shall be done at a later date when billed.
- 4.2 Due from AKPF refers to Personal Services (PS) and other operating cost of the fund advanced by SHFC during the year.
- 4.3 Due from HUDCC represents the total advances made by SHFC for the account of Housing and Urban Coordinating Council (HUDCC) office pertaining to special assessments and other administrative costs. This also includes charges pertaining to office improvements.

5. OTHER CURRENT ASSETS

This account consists of the following:

	2007	2006
Construction in progress	6,453,848	4,164,989
Other supplies inventory	777,008	-
Prepaid insurance	201,613	78,934
Guaranty deposits	84,160	-
Advances to contractors	-	1,102,430
	7,516,629	5,346,353

- 5.1 Construction in progress represents the total payments made to contractor as of close of the year. This account shall be closed to appropriate agency asset account upon completion of the project and after the turn-over.
- 5.2 Advances to contractors represents 10 percent mobilization fee paid in advance to contractor for the renovation last year of the newly acquired office spaces. This is deductible from progress payments.

6. ASSETS HELD IN TRUST

This represents the balances of CMP related general ledger accounts transferred from NHMFC to SHFC pertaining to projects taken-out from 1994 to September 30, 2005 including the AKPF which are administered by the SHFC by virtue of Executive Order No. 272, details as follows:

	2007	2006
NHMFC		
Loan installment receivables	3,163,572,932	2,515,555,526
Past due loan installment receivables	2,750,042,775	2,750,042,775
Notes receivable - National Housing Authority (NHA)	200,000,000	200,000,000
Insurance receivables	103,704,734	88,183,772
Items in litigation	50,925,357	47,549,080
Unamortized mortgage origination cost	15,404,490	10,330,535
Interest receivables	433,095	433,095
	6,284,083,383	5,612,094,783
AKPF (Fund Balance)	557,420,483	547,134,938
	6,841,503,866	6,159,229,721

- 6.1 Loan installment receivables includes the amount transferred and the amount of CMP taken-out projects at the time of conveyance up to December 31, 2007. This account is reduced whenever there is reclassification of accounts to past due, application of principal portion upon distribution of collections and application of two or six months advance deposits to community association's account whose Collection Efficiency Ratio (CER) falls below the required 80 percent.
- 6.2 Past due loan installment receivables represents the past due portion of the loan. This is original figure transferred from NHMFC. The non-movement of this account in terms of the total amount is perhaps due to lack of policy as to when the account is to be considered past due.
- 6.3 Notes receivable – NHA refers to Bridge Financing Facility for the Northrail Development Project, Valenzuela Segment granted to NHA by NHMFC at an

interest rate of 6 percent per annum payable quarterly. Said receivable was transferred and assumed by SHFC being the trustee of the CMP funds and by virtue of the Trust Agreement executed by and between NHMFC and SHFC.

- 6.4 Insurance receivables consists of the GL balances transferred from NHMFC as of September 30, 2005. This is increased whenever there is renewal of the MRI coverage and advance payment by SHFC of the MRI premiums of qualified Community Association's (CAs) on a yearly basis and reduced upon collection of insurance repayments from member-beneficiaries which can be determined only upon reversal/distribution of collections temporarily lodged at Undistributed Collections or UC account.
- 6.5 Items in litigation are the outstanding balance of delinquent CAs which has been transferred to the Legal Department for foreclosure and with petitions already filed in court. Outstanding balance of this account represents the original amount transferred from NHMFC.
- 6.6 Unamortized mortgage origination cost refers to the unamortized portion of the Origination and Appraisal Cost. It is the policy of the Corporation to capitalize the origination cost and amortized it over the term of the loan which is 25 years or 300 months.

7. PROPERTY AND EQUIPMENT – NET

Presented under this account are the following:

	Leasehold Improvements, Land, Buildings and Structures	Office Equipment, Furniture, Fixtures and Transportation Equipment	Computer Hardware and Software/ Others	Total
Cost				
January 1, 2007	163,574,000	801,313	7,850,459	172,225,772
Adjustments	-	4,420,776	(4,455,118)	(34,342)
Additions	7,132,229	2,315,566	6,957,992	16,405,787
December 31, 2007	170,706,229	7,537,655	10,353,333	188,597,217
Accumulated depreciation				
January 1, 2007	454,372	27,753	355,828	837,953
Restatement	-	(209)	-	(209)
January 1, 2007 (as restated)	454,372	27,544	355,828	837,744
Depreciation	5,961,500	817,323	1,328,937	8,107,760
Adjustments	(27,046)	94,148	(95,786)	(28,684)
Additions	25,312	1,944	1,427	28,683
December 31, 2007	6,414,138	940,959	1,590,406	8,945,503
Net Book Value				
December 31, 2007	164,292,091	6,596,696	8,762,927	179,651,714
Net Book Value				
December 31, 2006 (as restated)	163,119,628	773,769	7,494,631	171,388,028

8. OTHER ASSETS - NET

This account includes the following:

	2007	2006
Data build up	3,706,751	-
Deferred debits	789,704	-
	4,496,455	-

9. PAYABLES

This account consists of the following:

	2007	2006
Accounts payable - MCR	342,177,457	224,300,428
Due to officers and employees	36,570	8,632
Performance/bidders bonds payable	25,800	11,200
	342,239,827	224,320,260

9.1 Accounts payable Mortgage Contract Receivables (MCR) represents the remaining 50 percent CMP loan proceeds subject for release upon compliance of the requirements. The 50 percent partial release of loan proceeds is implemented based on NHMFC Board approved Resolution No. 3149, series of 2001.

10. INTER - AGENCY PAYABLES

This account consists of:

	2007	2006
Due to BIR	16,195,112	16,891,485
Due to NHMFC	6,159,130	35,676,658
Due to provident fund	410,070	-
Due to SSS	74,334	13,734
Due to PhilHealth	40,687	5,500
Due to Pag-IBIG	34,964	2,750
	22,914,297	52,590,127

10.1 Due to BIR represents the taxes withheld from payment of origination fees, purchase of goods and services and honoraria.

- 10.2 Due to NHMFC includes expenses for personal services, administrative and operating expenses and renewal/enrollment of CMP accounts at Pag-IBIG Mortgage Redemption Insurance (MRI) Pool advanced by NHMFC as provided for in the Trust Agreement.

11. OTHER CURRENT LIABILITIES

This account consists of the following:

	2007	2006
Accrued expenses payable	4,193,854	2,171,374
Other payables		38,611,185
Guaranty deposits payable	37,743,535	-
Deferred credits	12,898,534	(5,676,785)
Insurance payable	5,720,856	594,576
Advances from borrowers	4,236,197	9,621,207
Undistributed collections	3,153,589	677,260
Origination fee payable	1,749,837	-
Tax refund payable	928,405	-
Other payable - others	18,999	-
Other liabilities	29,084	-
	70,672,890	45,998,817

- 11.1 Other Payables include the balances of CMP related general ledger (GL) accounts transferred from NHMFC to SHFC pertaining to projects taken-out from 1994 to September 30, 2005 and, thereafter, transactions affecting every account as a result of its operation.

11.1.1 Guaranty deposits payable refers to two months and six months advance deposits required for old and new originators respectively, pursuant to Corporate Circular CMP No. 003, calculated based on the total monthly amortization payment plus one year MRI premiums. However, these deposits shall be applied to community association's account once the CER falls below 80 percent but in no case such application be made earlier than six months from take-out date.

11.1.2 Deferred credits refers to the principal portion of amortization payments pertaining to office spaces acquired under capital lease and the total cost incurred for the renovation of office space advanced by SHFC, all for the account of HUDCC. Once the Memorandum of Agreement (MOA) is approved, this account shall be adjusted accordingly.

11.1.3 Insurance payable refers to one year insurance premium paid in advance to SHFC by member-beneficiaries through CAs and accordingly remitted upon enrollment to MRI Pool.

11.1.4 Advances from borrowers refers to, upon distribution of amortization collections, amortization payments made by member-beneficiaries which are in excess of the amount due for the current period but are not deducted from the principal balance.

11.1.5 Undistributed collections (UC) in the absence of any other account to which they can be properly classified, the payments of the borrowers for their loan amortization are temporarily recorded under this account. The reason for this is that the distribution as to the proper accounts to be credited for these payments cannot be determined at the time of payment. The application of these amounts to the corresponding borrowers' loan accounts is done at a later date, thus the UC always carries a balance at the end of any given period. However, the Corporation adopts a policy to reverse temporarily the amount of UC pertaining to August to December 2006 amortization collections in line with the approval of amendment of the Trust Agreement that beginning August 2006, income recognition shall be left entirely with SHFC. Total amortization collections accounted from August to December 2006 were reversed using ratio as of year-end and shall be reversed at the beginning of the ensuing year.

11.1.6 Origination fee payable refers to the 50 percent origination fee retained by SHFC pending completion of some requirements, especially the CER.

12. OTHER LONG -TERM LIABILITIES

This account represents the total long-term payable set up pertaining to office building and other structures acquired under financing/capital lease by SHFC from Bangko Sentral ng Pilipinas amounting to P141,919,972 and P147,216,600 in 2007 and 2006, respectively. The amount represents the acquisition cost net of the ten percent down payment. The amortization commenced in January 2007.

13. TRUST LIABILITIES – NHMFC

The transfer of the CMP accounts to the SHFC was initially implemented through the transfer of the cash balance as of September 30, 2005 of P532 million on November 10, 2005 and the turn over of the outstanding principal loan balance of the mortgages taken-out from 1994 onwards. The said conveyance correspondingly requires the transfer of the General Ledger (GL) balances of certain accounts related to the program. In addition, the transfer also took into consideration the determination of that portion of the GL balances pertaining to mortgages turned over to SHFC and to those retained by NHMFC. Details of this account are as follows:

	2007	2006
Cash	395,200,770	403,482,117
Past due loan installment receivables	2,750,042,775	2,750,042,775
Loan installment receivable	3,163,572,932	2,515,555,526
Notes receivable – National Housing Authority	200,000,000	200,000,000
Insurance receivables	103,704,734	88,183,772
Items in litigation	50,925,357	47,549,080
Unamortized mortgage origination cost	15,404,490	10,330,535
Interest receivables	433,095	433,095
Accounts payable-MCR	(342,177,457)	(224,300,428)
Guaranty deposits payable	(37,743,535)	(38,611,185)
Insurance payable	(5,720,856)	5,676,785
Advances from borrowers	(4,236,197)	(600,176)
Origination fee payable	(1,749,837)	(677,260)
	6,287,656,271	5,757,064,636

14. TRUST LIABILITIES - AKPF

The AKPF was previously under the administration of the NHMFC. Due to the passage of Executive Order No. 272, the management of the Amortization Support and Developmental Financing Programs of AKPF is transferred to SHFC.

This trust account is treated in the books of SHFC in a manner and procedure it was previously treated in the books of NHMFC wherein periodic increment and reduction in said account as a result of operations are taken up as credit and debit to Trust Liabilities account. Details of this account are as follows:

	2007	2006
Cash in bank	8,378,345	3,231,178
Investment in BSP - SSD	201,000,700	186,557,080
Acquired assets	173,176,492	172,957,454
Past due loan receivable- developmental loan	104,722,659	96,224,642
Items in litigation	39,383,712	39,383,712
Interest receivable-developmental loan	19,227,495	19,665,746
Developmental loan receivable	19,000,000	22,481,950
Accounts receivable-others	1,904,074	1,904,074
Interest receivable-special savings deposit (SSD)	1,711,397	1,913,205
Advances to officers and employees	45,500	1,591
Office equipment-net	25,235	24,870
Investment in government securities	-	8,290,821
Interest receivable-government securities	-	189,485
Prepaid income tax	-	3,939
Due to SHFC	(5,886,339)	(1,459,089)
Gross receipts tax payable	(2,657,604)	(2,615,241)
Accrued expense payable	(1,170,866)	-
Due to NHMFC	(636,744)	(774,183)
Accounts payable	(461,175)	(463,095)
Accrued income tax payable-SSD	(342,279)	(382,641)
Expanded value added tax payable	(119)	(560)
	557,420,483	547,134,938

15. RETAINED EARNINGS

In consonance with Philippine Accounting Standards (PAS) 8, Retained earnings account at beginning of year 2006 is restated as follows:

	2007	2006
Balance at beginning of year	57,912,979	4,920,848
Adjustment of prior years' errors	-	86,500
As restated	57,912,979	5,007,348
Net income	94,932,709	52,905,631
Balance at end of year	152,845,688	57,912,979

16. MAIN SOURCES OF INCOME

The proposed amendment of Section VI of the Trust Agreement between NHMFC and SHFC has been approved in July 2006 giving the latter full authority to recognize and record in its books, interest income on loan repayments which commenced on August 2006. The approval was made in view of the need to avoid the double layer of taxes being paid by the two Corporations under the old agreement. Prior to the amended provision of the Agreement, management fee was SHFC's main source of income, however, on the basis of the approval, it is now replaced with Interest Income.

17. CUSTODIANSHIP FEES

The safekeeping of Loan/Mortgage documents pertaining to CMP transferred accounts were already taken out from the custody of NHMFC in the early part of CY 2007, hence, said expense item has been substantially reduced to P211,128 from P1,504,160 last year. Beginning 2008, this expense item shall no longer be incurred since the safekeeping of Loan/Mortgage documents is now with SHFC.

PART II

Status of Implementation of Prior Year's Audit Recommendations

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

The audit recommendations for 2006 totaled four (4). Out of these, one (1) was fully implemented; two (2) were partially implemented and one (1) was not implemented. Presented below are the details of the status of implementation of audit recommendations:

<u>COMMENTS AND OBSERVATIONS</u>	<u>RECOMMENDATIONS</u>	<u>ACTIONS TAKEN/COMMENTS</u>
1. The general ledger (GL) balances of some major accounts not reconciled with the respective subsidiary ledgers (SL).	For Management to expedite the reconciliation of the GLs maintained by the Finance and Controllershship Department (FCD) with the SLs maintained by the Accounts Management Department (AMD) to ensure the validity and correctness of the accounts and the reliability of accounting records and reports to achieve fair financial statement presentation. We also recommended that AMD and FCD coordinate with each other in the maintenance of the GLs and SLs.	Partially implemented. Data build-up project with the AMD is ongoing and expected to be completed in September this year. Accuracy and reliability of balances of involved accounts may only be determined once the database down to member-beneficiaries (MBs) level is updated.
2. The year-end balances of Due from NHMFC and Due to NHMFC accounts not reconciled by P43,723,058 and P5,671,300, respectively, with the books of NHMFC.	For Management to reconcile both accounts and effect the necessary adjustments, if any, to bring the two records in agreement as of December 31, 2006.	Partially implemented. Management adopted certain procedures and guidelines in the reconciliation and maintenance of balances of reciprocal accounts of NHMFC and SHFC. The agreement was reached in a meeting held at NHMFC last June 12, 2008.

<u>COMMENTS AND OBSERVATIONS</u>	<u>RECOMMENDATIONS</u>	<u>ACTIONS TAKEN/COMMENTS</u>
3. The account Trust Liabilities – NHMFC not reconciled by P31,743,213 with the Investments in SHFC account maintained in the NHMFC books.	For Management to reconcile both accounts and record the reconciling items to bring the two accounts in agreement as of December 31, 2006.	Not implemented. This was reiterated under Comments and Observation no. 2 of this Report.
4. Abnormal balance of the Insurance Payable account amounting to P5,676,785	For Management to adjust the accounts affected in order to achieve reliability of records/reports and fairness of financial statements presentation. Record to Insurance Receivable account the insurance premiums paid in advance by SHFC for the account of the borrowers instead of charging the Insurance Payable account.	Fully implemented. The abnormal balance of this account was adjusted by various Journal Entry Vouchers taking up various reversals of undistributed collections during the year.

ABOT- KAYA PABAHAY FUND

SOCIAL HOUSING FINANCE CORPORATION
 ABOT-KAYA PABAHAY FUND
 AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
 BALANCE SHEET
 December 31, 2007
 (In Philippine Peso)

	Notes	2007	2006 (As Restated)
ASSETS			
CURRENT ASSETS			
Cash on hand and in bank	3	8,378,345	3,231,178
Short-term investments	4	201,000,700	194,847,902
Receivables - net	5	3,660,971	4,643,047
Prepayments		-	3,939
Total Current Assets		213,040,016	202,726,066
NON-CURRENT ASSETS			
Long-term receivables - net	6	182,333,867	177,121,357
Acquired assets	7	173,176,492	172,957,454
Property and equipment - net		25,235	24,870
Total Non-current Assets		355,535,594	350,103,681
TOTAL ASSETS		568,575,610	552,829,747
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Payable accounts	8	1,632,041	463,095
Due to SHFC		5,886,339	1,459,089
Due to BIR		3,000,003	2,998,442
Due to NHMFC		636,744	774,183
		11,155,127	5,694,809
FUND BALANCE		557,420,483	547,134,938
TOTAL LIABILITIES & FUND BALANCE		568,575,610	552,829,747

The notes on pages 24 to 27 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
ABOT-KAYA PABAHAY FUND
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENT OF INCOME
For the year ended December 31, 2007
(In Philippine Peso)

	2007	2006 (As Restated)
INCOME FROM OPERATIONS		
Interest income - special savings	8,518,956	8,351,316
Interest income - developmental loan	6,528,823	2,177,764
Interest income - regular savings	79,033	204,468
Interest income - government securities	19,694	270,415
Other income - penalty	2,512,905	324,645
Miscellaneous income	20,000	20,003
	17,679,411	11,348,611
ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and wages	2,931,742	2,980,788
Other personal services	1,797,544	1,839,155
Security and janitorial services	360,000	111,313
Rent	137,702	990,812
Water, illumination and power	84,742	276,759
Communication expenses	82,332	18,278
Trustee fee	76,114	-
Office supplies	49,193	39,229
Honoraria	44,470	177,880
Association dues	44,094	-
Travelling expenses	33,147	30,446
Depreciation	15,635	12,435
Training expenses	9,000	-
Amortization support subsidy	1,814	82,472
Bad debts	-	52,392,725
Gasoline, oil and lubricants	-	7,549
Miscellaneous expenses	2,800	10,145
	5,670,329	58,969,986
Income (loss) before tax	12,009,082	(47,621,375)
Income taxes		
Final income tax - special savings	1,703,791	1,670,263
Final income tax - regular savings	15,807	40,894
Final income tax - government securities	3,939	(397,939)
	1,723,537	1,313,218
NET INCOME (LOSS) AFTER TAX	10,285,545	(48,934,593)

The notes on pages 24 to 27 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
ABOT-KAYA PABAHAY FUND
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENT OF CHANGES IN FUND BALANCE
For the year ended December 31, 2007
(In Philippine Peso)

	Note	2007	2006 (As Restated)
Fund balance at beginning of year		547,134,938	596,069,531
Net income (loss)		10,285,545	(48,934,593)
Fund Balance at end of year	9	557,420,483	547,134,938

The notes on pages 24 to 27 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
ABOT-KAYA PABAHAY FUND
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
CASH FLOW STATEMENT
For the year ended December 31, 2007
(In Philippine Peso)

	Note	2007	2006 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from borrowers		14,647,726	183,924,861
Collection of income		9,319,158	5,926,012
Cash paid to suppliers and employees		(2,751,686)	(18,149,454)
Taxes paid		(2,413,419)	(1,704,318)
Cash flow before other items		18,801,779	169,997,101
Other items			
Developmental loans		(7,500,000)	(9,000,000)
Amortization support		(1,814)	(194,972)
Net cash provided by operating activities		11,299,965	160,802,129
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from investments		1,140,385,667	603,575,543
Investments in government securities		(1,146,538,465)	(798,331,612)
Net cash used in investing activities		(6,152,798)	(194,756,069)
NET INCREASE/(DECREASE) IN CASH ON HAND AND IN BANK		5,147,167	(33,953,940)
CASH ON HAND AND IN BANK AT BEGINNING OF YEAR		3,231,178	37,185,118
CASH ON HAND AND IN BANK AT END OF YEAR	3	8,378,345	3,231,178

The notes on pages 24 to 27 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION
ABOT-KAYA PABAHAY FUND
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
NOTES TO FINANCIAL STATEMENTS**

1. GENERAL INFORMATION

The Abot-Kaya Pabahay Fund (AKPF) was created under Republic Act (RA) No. 6846 under the trusteeship of the National Home Mortgage Finance Corporation (NHMFC) and was amended under R.A. 7835. The fund shall be used exclusively for the objectives of enhancing affordability of low-cost housing by low income families through the amortization support component and by providing developmental financing for low-cost housing projects.

In October 2005, the Abot-Kaya Pabahay Fund was transferred to the newly created Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation by virtue of Executive Order 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund uses the commercial accounting system wherein the recording of financial transactions is centralized in the Finance Department. The Fund submits monthly summary of transactions duly reviewed, certified and approved by its responsible officers to the Finance Department for journal entry voucher (JEV) preparation and recording in the books of accounts.

2.1 Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Significant improvements and accessories are capitalized while cost of maintenance and repairs is treated as expense.

In adherence to the New Government Accounting System (NGAS), AKPF uses the straight-line method of depreciation with a residual value equivalent to ten percent of the total cost recognized. Straight-line depreciation results in constant charge over the useful life if the asset's residual value does not change. This method is applied consistently from period to period. Depreciation of an asset begins when it is available for use.

2.2 Income and expense recognition

The Fund uses the accrual basis of accounting. All expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Accrual of income on developmental loans is computed up to the term of the loan.

3. CASH ON HAND AND IN BANK

The account consists of the following:

	2007	2006
Cash in bank – current account		
LBP 1 (new account – SHFC)	2,806,680	276,662
LBP 2 (new account – SHFC)	5,571,665	2,919,890
LBP 2 (NHMFC - AKPF)	-	34,626
	8,378,345	3,231,178

The balance of P1.67 million under the NHMFC-AKPF account was transferred to the LBP 2 account of the SHFC-AKPF on December 28, 2007.

4. SHORT - TERM INVESTMENTS

This represents short term investments at Bangko Sentral ng Pilipinas – Special Deposit Account and at Land Bank of the Philippines and Bureau of Treasury.

5. RECEIVABLES - NET

Included under this account are the following:

	2007	2006
Accounts receivables	2,538,765	2,538,765
Less: Allowance for doubtful accounts	634,691	-
	1,904,074	2,538,765
BSP – special deposit account	1,711,397	-
Advances to officers and employees	45,500	1,592
LBP – special savings account	-	1,913,205
Government securities	-	189,485
	3,660,971	4,643,047

6. LONG - TERM RECEIVABLES - NET

The account consists of the following:

	2007	2006
Past due receivables - developmental loans	136,797,540	128,299,523
Items in litigation	52,511,616	52,511,616
Interest receivables - developmental loans	25,782,744	26,220,994
	215,091,900	207,032,133
Less: Allowance for doubtful accounts	51,758,033	52,392,725
	163,333,867	154,639,408
Developmental loans receivables	19,000,000	22,481,949
	182,333,867	177,121,357

6.1 Past due receivables-developmental loans

The past due loans are loans granted to developers with outstanding balance after the 24 months drawdown.

6.2 Items in litigation

The account represents developmental loans granted to developers which were endorsed for legal action.

6.3 Developmental loans receivables

This account represents developmental loans granted to developers with projects qualified under Level A amortization support.

7. ACQUIRED ASSETS

This account pertains to properties acquired from settlement of accounts through "dacion en pago."

8. PAYABLES

This account is composed of the following:

	2007	2006
Accrued expense payable	1,170,866	-
Accounts payables	461,175	463,095
	1,632,041	463,095

9. FUND BALANCE

This represents the fund balance of the AKPF for amortization support and developmental financing components. In consonance with Philippine Accounting Standards (PAS) 8, the fund balance is restated as follows:

	2007	2006
Fund balance at beginning of year	547,134,938	596,069,531
Net income (loss)	10,285,545	(49,413,585)
Correction of prior year's error	-	478,992
	10,285,545	(48,934,593)
Fund balance at end of year	557,420,483	547,134,938