



*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, 2013**



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

**CORPORATE GOVERNMENT SECTOR**  
Cluster 2 – Social Security Services and Housing

August 26, 2014

**THE BOARD OF DIRECTORS**  
Social Housing Finance Corporation  
BDO Plaza, 8737 Paseo de Roxas  
Makati City

SHFC  
OFFICE OF THE GENERAL SECRETARY  
RECEIVED  
BY MELBERT PUNAS  
DATE 8/29/2014 1:39 PM

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Housing Finance Corporation (SHFC) and the Community Mortgage Program (CMP) and Amortization Support and Developmental Financing Components of the Abot-Kaya Pabahay Fund (AKPF) for the year ended December 31, 2013.

The report consists of the Independent Auditor's Report, the Audited Financial Statements of the SHFC and the AKPF, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of the Social Housing Finance Corporation and the Abot-Kaya Pabahay Fund because of the following:

**A. SHFC**

1. The variance of P999.70 million between the balances of Assets held in trust-NHMF and Trust liabilities – NHMF contrary to Section 111 of PD 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting, thus, casting doubt on the reliability of the account balances.

2. The undistributed collections (UC) in the total amount of P384.14 million were not regularly recorded to Loan installment receivable (LIR) account and other related accounts due to absence of policy on the proper and timely allocation of UC, thereby, resulting in overstatement of LIR and understatement of the related accounts by P384.14 million.

For the above-mentioned audit observations, which caused the issuance of a qualified opinion, we recommended that Management to:

1.1 Require the Accounting Department to review and reconcile the P999.70 million and to prepare the necessary adjusting entries to correct the variance noted.

2.1 Formulate the guidelines for the proper and timely allocation of undistributed collections to the appropriate accounts;

2.2 Conduct continuous reconciliation of accounts to minimize the accumulation of undistributed collections; and

2.3 Fast track the completion of the Restructured Loan Module to address the timely allocation of UC account.

**B. AKPF**

3. Acquired assets account still included the 31 Transfer Certificate of Titles (TCTs) valued at P27,598 million already covered by the Comprehensive Agrarian Reform Program (CARP).

3.1 We recommended that Management to require the Legal Department to follow up status report on the appeal filed dated 21 January 2014 on the reconsideration of the 31 TCTs covered by CARP.

Other significant observations and recommendations that need immediate actions are as follows:

**A. SHFC**

1. The inability of Management to initiate/undertake measure to recover the assets in the total amount of P3.422 billion transferred from National Home Mortgage Finance Corporation (NHMFC) in 2005 and the absence of policy and/or guidelines on the effective administration of collection/recovery strategies on the said accounts exposes Social Housing and Finance Corporation (SHFC) to non-recovery of the corporate exposures. Payments are not posted to the respective member beneficiaries (MBs) loan ledger rendering the balance of individual account inaccurate.

1.1. We recommended that Management, through the Accounting and Legal Departments, formulate policy and/or guidelines on the effective administration of collection/recovery strategies for past due and items in litigation accounts for approval of the Board and accelerate the immediate implementation of the System to determine the actual outstanding principal balance based on the member beneficiaries (MBs) loan ledgers.

2. CMP loans amounting to P1.328 million were granted twice to 24 same beneficiaries with take-out dates from 2007 to 2012 contrary to Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011, thus constitutes irregular transaction as defined under COA Circular 2012-003 (3.1) dated October 29, 2012.

2.1 We recommended that Management:

a. Require the Accreditation Department to exercise due care in the evaluation of eligibility requirements of applicant and in the processing of the CMP loan applications to ensure attainment of the objective of the Program and compliance with its implementing rules and regulation;

b. Instruct the Information System Department, in close coordination with the Asset Management Department, to immediately design, develop and install an Inquiry or Screening Application Program;

c. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double

CMP loans to member-beneficiaries. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and

d. Immediately demand the full payment of the second loans granted to subject beneficiaries and rescind the second lease purchase agreement for violation of the terms and conditions of the contract.

3. Property and equipment worth P1.658 million were still unaccounted, thereby casting doubt on the accuracy and validity of the account balance as at December 31, 2013. Unserviceable property totalling P1.980 million were not yet disposed contrary to Section 79 of Presidential Decree No. 1445 and paragraph 67 of Philippine Accounting Standard (PAS) 16.

3.1 We recommended that Management:

a. Conduct an investigation to determine the officers and employees responsible/liable for the unaccounted property and equipment and issue demand letter to account the missing property and equipment.

b. Immediately dispose all unserviceable property pursuant to Section 79 of PD No. 1445 to prevent further deterioration and generate possible income.

#### **B. AKPF**

4. The NHMFC/SHFC did not act on the Notice of Delinquent Real Property Taxes issued by the Office of the Provincial Treasurer of a concerned Local Government Unit on a property valued at P22 million mortgaged as collateral for a loan and impose the sanctions on the borrower/accountable officials as prescribed under the Loan Agreement. Thus, the recovery of the Corporate exposure is remote, doubtful and uncertain.

4.1 We recommended that Management:

a. Submit status of the actions taken by Management for the recovery of the property.

b. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for failure to act on on the Notice of Delinquent Real Property Taxes, leading to the failure of the Corporation to recover its exposures.

c. Require all the persons liable to pay for the amount of loan plus interest and penalties due thereon and all the expenses incurred for the recovery of the subject property.

5. A total of 1,409 TCTs of the acquired assets AKPF valued at P89.653 million are not yet transferred/registered in its name notwithstanding the lapse of one to 14 years resulting in the delay on the disposition of the properties and non-recovery of the loan exposures.

5.1 We recommended that Management to prioritize the transfer/registration of the 1,409 TCTs in the name AKPF to facilitate disposal in the event of sale because the properties cannot be disposed unless the TCTs are under the name of AKPF-SHFC.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on April 24, 2014 and June 5, 2014 on SHFC and AKPF, respectively, are discussed in detail in Part II of the report.

In a letter of even date, we respectfully requested the President, Social Housing Finance Corporation, that the recommendation contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

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

Very truly yours,

Commission on Audit

By:

  
**MARY S. ADELINO**  
Director IV

**Copy furnished:**

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned and Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library

Social Housing Finance Corporation  
Makati City

**AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION**  
Audit Observations and Recommendations  
For the Calendar Year 2013

As of \_\_\_\_\_

Reference	Audit Observations	Audit Recommendations	Agency Action Plan			Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date From      To			

Agency sign-off:

\_\_\_\_\_  
Name and Position of Agency Officer      Date

Note: Status of Implementation may either be (a) Fully Implemented (FI), (b) Ongoing (O), (c) Not Implemented (NI), (d) Partially Implemented (PI), or (e) Delayed (D)

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## EXECUTIVE SUMMARY

### INTRODUCTION

The Social Housing Finance Corporation (SHFC) was organized and established by virtue of Executive Order (EO) No. 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

As a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (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 Developmental Financing Programs of the Abot-Kaya Pabahay Fund (AKPF).

Presently, SHFC is merely a trustee of the transferred CMP funds and assets while NHMFC remains as the administrator of these 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.

The governing board of SHFC which exercises corporate powers and determines its policies is composed of the following: (a) the Chairman of Housing Urban Development Coordinating Council; (b) the President of SHFC; (c) the Secretary of Department of Budget and Management; (d) the Undersecretary of Department of Finance; (e) the Assistant Governor of Bangko Sentral ng Pilipinas; (f) the President of National Home Mortgage Finance Corporation; (g) the Undersecretary of Department of Interior and Local Government; and (h) three private sector representatives.

The President is assisted in the management of the Corporation by the Executive Vice-President, five Vice-Presidents, two Officer-in-Charge and 17 Department Managers. The personnel complement for current year 2013 is 336, with 206 regular and 130 agency-hired employees. To date, the SHFC has 10 Satellite Offices.

The registered office of the Corporation is located at BDO Plaza, 8737 Paseo de Roxas, Makati City.

The SHFC Corporate Operating Budget (COB) for CY 2013 per Board Resolution No. 325 dated April 24, 2013 amounted to P440.73 million, which included among others, the following:

	<b>Budget</b>	<b>Utilization</b>	<b>Variance</b>
		<b>(In thousands)</b>	
Personal services	187,425	154,017	33,408
Maintenance and other operating expenses	185,028	141,216	43,812
Capital outlay	38,452	17,012	21,440
Financial expenses	29,826	31,105	(1,279)
	<b>440,731</b>	<b>343,350</b>	<b>97,381</b>



## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. Comparative Financial Position

Particulars	2013	2012 (As restated)	Increase (Decrease)
Assets	13,095,018,090	11,965,261,026	1,129,757,064
Liabilities	12,882,622,412	11,719,743,561	1,162,878,851
Equity	212,395,678	245,517,465	(33,121,787)

### II. Comparative Results of Operations

	2013	2012 (As restated)	Increase (Decrease)
Gross income	367,579,835	419,892,461	(52,312,626)
Personal services	154,016,921	149,817,482	4,199,439
Maintenance and other operating expenses	161,656,641	192,149,542	(30,492,901)
Financial expenses	10,664,271	10,171,070	493,201
Total expenses	326,337,833	352,138,094	(25,800,261)
Net income before tax	41,242,002	67,754,367	(26,512,365)
Provision for income tax	6,446,113	19,222,842	(12,776,729)
Net income	34,795,889	48,531,525	(13,735,636)
Subsidy from National Government	11,300,710	-	11,300,710
Net income and subsidy	46,096,599	48,531,525	(2,434,926)

### SCOPE OF AUDIT

The audit covered the examination on a test basis, the accounts and financial transactions of the SHFC-CMP and the AKPF-Amortization Support and Developmental Financing Programs for the year ended December 31, 2013 to determine the fairness of presentation of the financial statements and the propriety of the financial transactions in accordance with the generally accepted standards in auditing. The Team was not able to conduct a 100 per cent inventory of the Transfer of Certificate of Titles (TCTs) as collateral/mortgage for the Community Mortgage Program take outs.

### INDEPENDENT AUDITOR'S OPINION

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements for CY 2013 due to the following:

#### A. SHFC

1. The variance of P999.70 million between the balances of Assets held in Trust-NHMFC and Trust liabilities – NHMFC casts doubt on the reliability of the account balances and contrary to Section 111 of PD 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting.

2. The undistributed collections (UC) in the total amount of P384.14 million were not regularly recorded to Loan installment receivable (LIR) account and other related accounts due to absence of policy on the proper and timely allocation of UC, thereby, resulting in overstatement of LIR and understatement of the related accounts by P384.14 million.

For the above-mentioned audit observations, which caused the issuance of a qualified opinion, we recommended that Management to:

1.1 Require the Accounting Department to review and reconcile the P999.70 million and to prepare the necessary adjusting entries to correct the variance noted.

2.1 Formulate the guidelines for the proper and timely allocation of undistributed collections to the appropriate accounts;

2.2 Conduct continuous reconciliation of accounts to minimize the accumulation of undistributed collections; and

2.3 Fast track the completion of the Restructured Loan Module to address the timely allocation of UC account.

#### **B. AKPF**

3. Acquired assets account still included the 31 Transfer Certificate of Titles (TCTs) valued at P27.598 million already covered by the Comprehensive Agrarian Reform Program (CARP).

3.1 We recommended that Management to require the Legal Department to follow up status report on the appeal filed dated 21 January 2014 on the reconsideration of the 31 TCTs covered by CARP.

### **OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **A. SHFC**

1. The absence of policy and/or guidelines on the effective administration of collection/recovery strategies on the said accounts and the insufficiency of measures initiated/undertaken by Management to recover the assets in the total amount of P3.422 billion transferred from the NHMFC in 2005 expose the SHFC to non-recovery of the corporate funds. Payments are not posted to the respective member beneficiaries (MBs) loan ledger rendering the balance of individual account inaccurate.

1.1 We recommended that Management, through the Accounting and Legal Departments, formulate policy and/or guidelines on the effective administration of collection/recovery strategies for past due and items in litigation accounts for approval of the Board and accelerate the immediate implementation of the System to determine the actual outstanding principal balance based on the member beneficiaries (MBs) loan ledgers.

2. CMP loans amounting to P1.328 million were granted twice to 24 same beneficiaries with take-out dates from 2007 to 2012 contrary to Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011, thus constitutes irregular transaction as defined under COA Circular 2012-003 (3.1) dated October 29, 2012.

2.1 We recommended that Management:

a. Require the Accreditation Department to exercise due care in the evaluation of eligibility requirements of applicant and in the processing of the CMP loan applications to ensure attainment of the objective of the Program and compliance with its implementing rules and regulation;

b. Instruct the Information System Department, in close coordination with the Asset Management Department, to immediately design, develop and install an Inquiry or Screening Application Program;

c. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double CMP loans to member-beneficiaries. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and

d. Immediately demand the full payment of the second loans granted to subject beneficiaries and rescind the second lease purchase agreement for violation of the terms and conditions of the contract.

3. Property and equipment worth P1.658 million were still unaccounted, thereby, casting doubt on the accuracy and validity of the account balance as at December 31, 2013. Unserviceable property totalling P1.980 million were not yet disposed contrary to Section 79 of Presidential Decree No. 1445 and paragraph 67 of Philippine Accounting Standard (PAS) 16.

3.1 We recommended that Management:

a. Conduct an investigation to determine the officers and employees responsible/liable for the unaccounted property and equipment and issue demand letter to account the missing property and equipment.

b. Immediately dispose all unserviceable property pursuant to Section 79 of PD No. 1445 to prevent further deterioration and generate possible income.

4. Absence of supporting documents to substantiate the Guaranty deposits payable in the amount of P702,888 received from the NHMFC in 2005 casts doubt on the accuracy and validity of the account balance.

4.1 We recommended that Management to require the Accounting Department to submit the documents that will substantiate the Guaranty deposits payable of P702,888 and prepare adjusting entries, where necessary.

5. SHFC did not implement the gender and development related activities, notwithstanding the P3.8 million budget allocation for CY 2013, as required by Executive Order No. 273 and the DBM, NEDA and NCRFW Joint Circular No. 2004- 1 dated April 5, 2004.

5.1 We recommended that Management:

- a. Comply strictly with the requirements of Executive Order No 273 and Joint Circular 2004-1 in the formulation and submission of GAD Plan, Program and Budget.
- b. Incorporate in the Annual Work Plan and target the GAD related activities to promote the gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment.

**B. AKPF**

6. The NHMFC/SHFC did not act on the Notice of Delinquent Real Property Taxes issued by the Office of the Provincial Treasurer of a concerned Local Government Unit on a property valued at P22 million mortgaged as collateral for a loan and impose the sanctions on the borrower/accountable officials as prescribed under the Loan Agreement. Thus, the recovery of the Corporate exposure is remote, doubtful and uncertain.

6.1 We recommended that Management:

- a. Submit status of the actions taken by Management for the recovery of the property.
- b. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for failure to act on the Notice of Delinquent Real Property Taxes, leading to the failure of the Corporation to recover its exposures.
- c. Require all the persons liable to pay for the amount of loan plus interest and penalties due thereon and all the expenses incurred for the recovery of the subject property.

7. A total of 1,409 TCTs of the acquired assets AKPF valued at P89.653 million are not yet transferred/registered in its name notwithstanding the lapse of one to 14 years resulting in the delay on the disposition of the properties and non-recovery of the loan exposures.

7.1 We recommended that Management to prioritize the transfer/registration of the 1,409 TCTs in the name AKPF to facilitate disposal in the event of sale because the properties cannot be disposed unless the TCTs are under the name of AKPF-SHFC.

**STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Out of 11 audit recommendations (one in 2009, one in 2010, one in 2011 and eight in 2012) embodied in the CY 2012 AAR, one was fully implemented, eight were partially implemented and two were not implemented.



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City  
CORPORATE GOVERNMENT SECTOR  
CLUSTER 2 – SOCIAL SECURITY AND HOUSING

**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 the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), which comprise the balance sheet as at December 31, 2013, and the statement of income and expenses, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles, 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 generally accepted standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Bases for Qualified Opinion**

The variance of P999.70 million between the balances of Assets held in Trust- NHMFC and Trust liabilities – NHMFC casts doubt on the reliability of the account balances and contrary to Section 111 of PD 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting.

The undistributed collections (UC) were not regularly recorded in the Loan installment receivable (LIR) account due to absence of policy on the proper and timely allocation of UC, thereby, resulting in the overstatement of LIR and understatement of the related accounts by P384.14 million.

Acquired assets account still included the 31 Transfer Certificate of Titles (TCTs) for lots valued at P27.598 million already covered by the Comprehensive Agrarian Reform Program (CARP).

### **Opinion**

In our opinion, except for the possible effects of the matters described in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Social Housing Finance Corporation as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles.

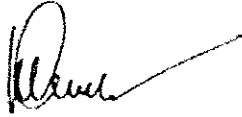
Without further qualifying our opinion, we invite attention to Note 5.2 to financial statements of the Abot-Kaya Pabahay Fund (AKPF). Long term loans receivable-Items in litigation included the long outstanding loans receivable for developmental projects, which were endorsed to Legal Department for legal action due to default of both borrowers. The collateral for the loan for the development of a Subdivision was attached by the local government unit due to non-payment of realty tax and was already bought by the Province on November 29, 2007 pursuant to Sec. 75 of PD 464. Thus, the recovery of the Corporate exposure is remote, doubtful and uncertain.

### **Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, except for the effects of the necessary adjustments for the

matters discussed in the preceding paragraphs, the information is fairly stated, in all material respects, in the basic financial statements taken as a whole.

**COMMISSION ON AUDIT**

A handwritten signature in black ink, appearing to read 'Quieta', with a long, sweeping horizontal line extending to the right.

**ATTY. RESURRECION C. QUIETA**  
Supervising Auditor

May 12, 2014




## **SOCIAL HOUSING FINANCE CORPORATION**

### **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2013 and the related Statements of Income and Expenses and Cash Flow for the year then ended. The Financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

  
**EDUARDO T. MANICIO**  
Executive Vice President

  
**MA. ANA R. OLIVEROS**  
President



**PART I**

**AUDITED FINANCIAL STATEMENTS**

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**BALANCE SHEET**  
December 31, 2013  
(In Philippine Peso)

	Note	2013	2012 (As restated)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash on hand and in banks	3	2,731,209,362	2,136,275,531
Receivables	4	64,987,345	64,531,724
Other current assets	5	5,396,041	5,392,913
		<b>2,801,592,748</b>	<b>2,206,200,168</b>
<b>Assets held in trust</b>			
National Home Mortgage Finance Corporation	6	9,533,082,744	8,983,144,762
Abot-Kaya Pabahay Fund	6	545,629,144	547,761,311
		<b>10,078,711,888</b>	<b>9,530,906,073</b>
<b>Non-current assets</b>			
Long-term loan receivables	7	26,991,095	30,468,402
Property and equipment-net	8	185,979,955	197,686,383
Intangible assets	9	1,742,404	-
		<b>214,713,454</b>	<b>228,154,785</b>
<b>TOTAL ASSETS</b>		<b>13,095,018,090</b>	<b>11,965,261,026</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Payables	10	984,842,868	683,778,926
Inter-agency payables	11	25,687,785	34,826,104
Other current liabilities	12	608,695,519	474,434,761
		<b>1,619,226,172</b>	<b>1,193,039,791</b>
<b>Long-term liabilities</b>			
Other long-term liabilities	13	124,697,982	135,873,345
<b>Trust liabilities</b>			
National Home Mortgage Finance Corporation	14	10,593,069,114	9,843,069,114
Abot-Kaya Pabahay Fund	15	545,629,144	547,761,311
		<b>11,138,698,258</b>	<b>10,390,830,425</b>
<b>TOTAL LIABILITIES</b>		<b>12,882,622,412</b>	<b>11,719,743,561</b>
<b>EQUITY</b>		<b>212,395,678</b>	<b>245,517,465</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>13,095,018,090</b>	<b>11,965,261,026</b>

The notes on pages 9 to 21 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENT OF INCOME AND EXPENSES**  
For the year ended December 31, 2013  
(In Philippine Peso)

	Note	2013	2012 (As restated)
<b>INCOME</b>			
Interest income on loans		214,363,648	238,212,490
Interest on savings deposits		49,415,878	67,972,682
Interest income on notes		3,466,667	12,000,000
Service fees		9,382,933	8,948,943
Miscellaneous income		90,950,709	92,758,346
		<b>367,579,835</b>	<b>419,892,461</b>
<b>EXPENSES</b>			
<b>Personal Services</b>			
Salaries and wages		79,223,427	68,397,063
Other personnel benefits		6,072,971	43,194,087
Other compensation		53,740,644	35,342,573
Personnel benefit contribution		14,979,879	2,883,759
		<b>154,016,921</b>	<b>149,817,482</b>
<b>Maintenance and Other Operating Expenses</b>			
Professional services		34,627,657	40,351,819
Origination & appraisal cost		22,139,485	11,203,273
Taxes, insurance premiums and other fees		19,618,270	25,051,646
Depreciation/Amortization		13,927,743	13,934,177
Representation		9,860,833	5,993,464
Utility		7,538,594	7,183,197
Supplies and materials		6,502,785	7,358,151
Loan loss	2.7	4,385,180	55,904,368
Travelling		4,245,546	4,062,998
Rent		3,473,750	3,319,861
Building Assoc. contribution to organization		3,129,149	3,126,599
Communication		3,117,479	3,092,173
Confidential, extraordinary and miscellaneous		2,872,015	3,321,889
Subsidies and donations		2,262,655	365,144
Training and seminar		2,015,038	3,437,604
Repairs and maintenance		1,478,476	904,453
Advertising		1,094,425	730,862
Printing and binding		862,406	803,310
Subscription		117,056	133,170
Transportation and delivery		17,883	44,453
Miscellaneous expense		18,370,216	1,826,931
		<b>161,656,641</b>	<b>192,149,542</b>
<b>Financial Expenses</b>			
Interest expenses		8,423,728	8,376,900
Bank charges		81,751	77,526
Other financial charges		2,158,792	1,716,644
		<b>10,664,271</b>	<b>10,171,070</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>41,242,002</b>	<b>67,754,367</b>
Provision for income tax		6,446,113	19,222,842
<b>NET INCOME AFTER INCOME TAX</b>		<b>34,795,889</b>	<b>48,531,525</b>
Subsidy from National Government	18	11,300,710	-
<b>NET INCOME AND SUBSIDIES</b>		<b>46,096,599</b>	<b>48,531,525</b>

The notes on pages 9 to 21 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned subsidiary of National Home Mortgage Finance Corporation)**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended December 31, 2013  
(In Philippine Peso)

	<b>Paid in Capital (Note 17)</b>	<b>Retained Earnings (Note 20)</b>	<b>Total Equity</b>
Balance at December 31, 2011	10,000,000	312,071,709	322,071,709
Dividends paid	-	(74,174,928)	(74,174,928)
Net income, as restated	-	48,531,525	48,531,525
Prior period adjustments	-	(50,910,841)	(50,910,841)
Balance at December 31, 2012, as restated	10,000,000	235,517,465	245,517,465
Balance at December 31, 2012, as restated	10,000,000	235,517,465	245,517,465
Dividends paid	-	(49,615,722)	(49,615,722)
Net income, as restated	-	46,096,599	46,096,599
Prior period adjustments	-	(29,602,664)	(29,602,664)
<b>Balance at December 31, 2013</b>	<b>10,000,000</b>	<b>202,395,678</b>	<b>212,395,678</b>

The notes on pages 9 to 21 form part of these financial statements.

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

**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2013  
(In Philippine Peso)

	Note	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Amortization collections from borrowers		622,727,824	582,967,647
Subsidy from National Government		11,300,710	-
Receipt of CMP Fund transferred from NHMFC		750,000,000	1,250,000,000
Receipts of interests from deposits		45,961,970	65,256,827
Receipts of interest on Notes		3,466,667	12,000,000
Service fee Income		9,224,448	8,948,943
Insurance prepayments		3,966,453	2,936,650
Receipts of interest on receivable-investments		2,096,791	2,033,764
Other receipts		236,484,716	46,260,496
Miscellaneous income		1,387,034	2,085,225
Cash paid for loan take-outs, employees and suppliers		(1,080,825,134)	(865,146,740)
Net cash provided by operating activities		605,791,479	1,107,342,812
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Leasehold Improvements		-	(703,544)
Purchase/construction of buildings/furnitures & fixtures		(823,594)	(451,633)
Purchase of office, IT, communication equipment		(1,623,449)	(5,667,897)
Purchase of transportation equipment		-	(6,921,450)
Payment of amortization of office building		(8,410,605)	(7,144,537)
Net cash used in investing activities		(10,857,648)	(20,889,061)
Net increase in cash		594,933,831	1,086,453,751
Cash at beginning of year		2,136,275,531	1,049,821,780
<b>CASH AT END OF YEAR</b>	3	<b>2,731,209,362</b>	<b>2,136,275,531</b>

The notes on pages 9 to 21 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**  
(All amounts in Philippine Peso unless otherwise stated)

**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). SHFC has been formally organized and established on June 21, 2005 with the issuance of the Certificate of Incorporation under SEC No. CS 200510702.

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 Developmental Financing Programs of the Abot-Kaya Pabahay Fund (AKPF) as well as other social housing programs of the NHMFC, to allow the NHMFC to focus on its primary mandates that is, developing the secondary market for home mortgages.

SHFC is merely a trustee of the transferred CMP funds and assets. 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 control over the subject funds.

Aside from the CMP and AKPF, the SHFC has been implementing the Localized Community Mortgage Program (LCMP) since July 2010. LCMP is a derivative of CMP that would assist and empower the local government units (LGUs) in achieving their housing programs for the informal sector in their respective areas.

During the same year 2010, the President of the Philippines issued a directive in line with the Ten-Point covenant with the Urban Poor, to ensure a safe and a flood resilient permanent housing solutions for Informal Settler Families (ISF) residing in the danger areas in the National Capital Region (NCR). The directive falls squarely within the mandate of SHFC, thus, in furtherance to its mandate and primary purpose, the High Density Housing (HDH) Program was created and promulgated to extend financing assistance to organized communities for the construction of high density housing projects and for acquisition of lots for near-site, in city and near city relocations.

The financial statements of the SHFC and the AKPF for the year ended December 31, 2013 were authorized for issue by the SHFC Management represented by the President and the Executive Vice-President on April 14, 2014 and by the Executive Vice-President and the Manager, Trust Administration Department on June 5, 2014, respectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of financial statements preparation**

The accompanying financial reports and statements are prepared in accordance with the generally accepted accounting principles and standards.

### **2.2 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 Corporate chart of accounts is prepared to conform to the accounts prescribed under COA Circular No. 2004-002 dated April 29, 2004.

### **2.3 Accounting basis**

The Corporation uses the accrual basis of accounting. The effects of transactions and events on assets and liabilities are recognized and reported in the financial statements in the period to which they relate.

### **2.4 Property and equipment**

In adherence to the New Government Accounting System, SHFC uses the straight line method of depreciation wherein a residual value equivalent to 10 per cent of the cost is applied. 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.

### **2.5 Inventories**

Supplies and materials purchased for inventory purposes are recorded using the Perpetual Inventory System. The costs of ending inventory of office supplies and materials and other inventory items are computed using the moving average method. Inventories are reclassified to expense upon issuance thereof and recorded based on the Report of Supplies and Materials Issued.

### **2.6 Loan installment receivables (LIR) – Held in trust**

Loan installment receivables are carried at book value less provision for uncollectible, if any. They are classified into current, past due and items in litigation.

### **2.7 Allowance for probable loss**

Allowance for probable loss is set up to absorb potentially uncollectible receivables associated with the CMP portfolio.

The Board of Directors, in its Resolution No. 329, Series of 2013, approved the policy Entitled "Adoption of the Policy on Loan Loss Provisioning, With Prescribed Rates, Reserve, Write-off and Accounting Thereof."

- For Loan Installment Receivable (LIR), loan loss provisioning rates are:

<b>Loan Classification</b>	<b>Loan Loss Rates</b>
Current	0.25%
Current – Restructured	0.25%
Past Due	
>3 – 12 months	0.50%
>1 year – 3 years	0.75%
Over 3 years	1.00%

- For Items in litigation (IL), provision for losses is at five per cent (5%).

### **3. CASH ON HAND AND IN BANKS**

This account consists of the following:

	<b>2013</b>	<b>2012</b>
Cash in bank – time deposit	<b>2,567,969,251</b>	2,055,683,287
Cash in bank – current account	<b>150,925,731</b>	73,176,536
Cash collecting officers	<b>11,640,314</b>	6,741,642
Petty cash fund	<b>674,066</b>	674,066
	<b>2,731,209,362</b>	2,136,275,531

#### **3.1 Cash on hand**

Cash on hand represents collection of cash collecting officers and supervising tellers, cash advances granted to cash disbursing officers, and petty cash fund established at the Head and Regional/Satellite Offices to defray immediate or emergency petty expenses.

#### **3.2 Cash in bank**

This account consists of the following:

- Funds deposited with government banks for payroll, corporate operating funds and Take-Out Funds.
- Cash in banks earn interest at prevailing interest rates of 0.25 percent per annum for savings account and 1.00000 per cent to 3.65625 per cent per annum for time deposit.

#### **3.3 Cash collecting officer-Supervising teller**

The outstanding balance of this account amounting to P91,631.97 represents the collection lost due to theft as alleged by the concerned employee. A request for relief from accountability was filed with the Commission on Audit (COA) on December 2010. To date, no reply from COA has been received yet.



#### 4. RECEIVABLES

Included under this account are the following:

	2013	2012
Due from NHMFC	59,293,436	59,342,196
Interest receivable-Investment	2,525,303	2,096,791
Due from AKPF	1,863,941	2,219,613
Due from Housing and Urban Development Coordinating Council (HUDCC)	933,583	452,945
Due from SSS	157,009	191,359
Due from officers and employees	92,007	16,845
Advances to officers and employees	25,764	-
AR – Others	96,302	211,975
	64,987,345	64,531,724

4.1 Due from NHMFC includes CMP amortization payments and other collections of NHMFC for the account of SHFC. This account also comprises 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) 10 per cent of total collection; 2) actual cost of pre take-out operations plus 15 per cent from October 2005 to July 2006 only.

4.2 Due from AKPF refers to accumulated Personal Services (PS) and Other administrative expenses 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 HUDCC pertaining to office building special assessments and other administrative expenses.

4.4 Due from SSS represents the total advance payments made by SHFC on account of sickness and maternity benefit claims of employees.

#### 5. OTHER CURRENT ASSETS

This account consists of the following:

	2013	2012
INVENTORIES		
Office supplies inventory	1,973,686	2,770,768
Accountable forms inventory	1,081,011	760,691
Other supplies inventory	38,586	38,586
	3,093,283	3,570,045
PREPAYMENTS		
Prepaid insurance	1,013,165	808,935
Prepaid rent	272,003	240,800
Prepaid IT license	215,857	-

	2013	2012
Prepaid subscription	78,650	50,050
Prepaid income tax	52,722	52,722
	1,632,397	1,152,507
Guaranty deposits	670,361	670,361
	5,396,041	5,392,913

## 6. ASSETS HELD IN TRUST

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

	2013	2012
<b>NHMFC</b>		
Loan installment receivable-current	5,907,791,198	5,174,241,061
Loan installment receivable-past due	3,371,051,300	3,371,051,300
Insurance receivables	230,276,233	207,803,742
Items in litigation	50,925,357	50,925,357
Unamortized mortgage origination cost	32,895,109	34,594,575
Interest receivables	433,095	433,095
Loan loss reserve	(60,289,548)	(55,904,368)
Notes receivables – NHA	-	200,000,000
	9,533,082,744	8,983,144,762
<b>AKPF (Fund Balance)</b>	545,629,144	547,761,311
	10,078,711,888	9,530,906,073

6.1 Loan installment receivables (LIR)—Current includes the amount transferred and the amount of CMP taken-out projects from the time of conveyance up to December 31, 2013.

6.2 Past due loan installment receivables or PDLIR represents the past due portion of the loan at the time of transfer and the amount was based on Community Association's (CAs) ledger outstanding balances as of cut-off dated September 30, 2005. This also includes CMP projects taken-out from 1989 to 1993, reclassified from current to past due, which were retained by NHMFC but eventually transferred to SHFC with a monetary consideration amounting to P621 million representing outstanding principal loan balances as of December 31, 2009. The transferred loan balances are based on the Community Association's ledger subject to adjustments upon the determination of the actual outstanding principal balance based on the member beneficiaries (MBs) loan ledgers.

6.3 Insurance receivables consist of the general ledger balances transferred from NHMFC as of September 30, 2005. The balance of this account increased whenever there is renewal of the MRI coverage advanced by SHFC for qualified CAs on a yearly basis. The balance reduced upon collection of insurance repayments from member-

beneficiaries, which can be determined only upon reversal/distribution of collections temporarily lodged in the Undistributed collections (UC) account.

6.4 Items in litigation represent the outstanding balance of receivables from 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.

6.5 Unamortized mortgage origination cost stands for the unamortized portion of the Origination and Appraisal Cost. It is the policy of the Corporation to capitalize the origination cost and amortized over the term of the loan which is 25 years or 300 months. Beginning year 2011, however, the origination fee was treated as an outright expense.

6.6 A separate set of books is maintained and separate financial statements are prepared by the SHFC for AKPF as presented in Part IV-Annexes of this report.

## 7. LONG-TERM LOAN RECEIVABLES

The balance of P26.99 million for this account represents the car and calamity loan availed by SHFC officers and employees in the amount of P22.83 million and P4.16 million, respectively.

## 8. PROPERTY AND EQUIPMENT- NET

This account includes the following:

	Leasehold Improve- ments	Office, Communi- cation and Other Equipment	Furniture and Fixtures	Transpor- tation Equipment	IT Equipment and Software	Library Mate- rials	Office Buildings/ Structures	Total
<b>Cost</b>								
January 1, 2013	14,453,519	6,932,737	8,151,542	16,715,918	21,950,353	95,818	201,330,000	269,629,887
Additions	-	309,182	917,277	-	3,448,446	9,800	-	4,684,705
Adjustment	-	(500,000)	(99,000)	-	(4,449,434)	-	-	(5,048,434)
December 31, 2013	14,453,519	6,741,919	8,969,819	16,715,918	20,949,365	105,618	201,330,000	269,266,158
<b>Accumulated Depreciation</b>								
January 1, 2013	5,751,453	5,135,516	2,827,783	6,516,253	12,355,653	24,969	39,331,877	71,943,504
Adjustments	-	(90,000)	(8,910)	-	-	-	-	(98,910)
Depreciation	1,300,816	406,529	803,063	2,053,404	77,587	18,342	6,781,868	11,441,609
December 31, 2013	7,052,269	5,452,045	3,621,936	8,569,657	12,433,240	43,311	46,113,745	83,286,203
<b>Book Value</b>								
December 31, 2013	7,401,250	1,289,874	5,347,883	8,146,261	8,516,125	62,307	155,216,255	185,979,955
<b>Book Value</b>								
December 31, 2012	8,702,066	1,797,221	5,323,759	10,199,665	9,594,700	70,849	161,998,123	197,686,383

## 9. INTANGIBLE ASSETS

	Computer Software
Cost, January 1, 2013	
Adjustment	3,951,374
December 31, 2013	3,951,374
Accumulated amortization, January 1, 2013	
Adjustments	(1,552,412)
Amortization	(656,558)
December 31, 2013	(2,208,970)
<b>Net Book Value, December 31, 2013</b>	<b>1,742,404</b>
Net Book Value, December 31, 2012	-

## 10. PAYABLE ACCOUNTS

This account consists of the following:

	2013	2012
Accounts payable – MCR/Supplier	<b>983,338,325</b>	683,113,513
Performance warranty payable	<b>1,335,057</b>	286,273
Performance/bidders bond payable	<b>132,060</b>	341,714
Due to officers and employees	<b>37,426</b>	37,426
	<b>984,842,868</b>	683,778,926

10.1 Accounts payable - Mortgage contract receivables (MCR) represents the remaining fifty per cent (50%) of CMP loan proceeds and origination fees retained by SHFC pending compliance to requirements. The fifty per cent (50%) partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of Year 2001. This account also includes perfected contracts with suppliers amounting to P9,960,113.

## 11. INTER-AGENCY PAYABLES

This account consists of:

	2013	2012
Due to NHMFC	<b>18,867,978</b>	18,867,978
Due to BIR	<b>2,658,968</b>	11,846,300
Due to HUDCC	<b>2,500,000</b>	2,500,000
Due to Provident Fund	<b>1,232,301</b>	1,230,895
Due to SSS	<b>186,807</b>	157,814
Due to Pag-IBIG	<b>156,069</b>	147,317

	2013	2012
Due to PhilHealth	85,462	75,800
Due to AKPF	200	-
	<b>25,687,785</b>	<b>34,826,104</b>

11.1 Due to BIR represents the taxes withheld from payment of employees' compensation, origination fees, honoraria, taxes withheld at source and on government money payments including the provision for corporate income tax for CY 2013.

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

## 12. OTHER CURRENT LIABILITIES

This account consists of the following:

	2013	2012 (As restated)
Accrued expenses payable	12,239,908	10,909,897
Other payables:		
Undistributed collections	384,136,007	206,397,241
Guaranty deposits payable	82,782,039	76,196,636
Advances from borrowers	76,273,953	59,985,786
Deferred credits	19,348,514	16,583,756
Origination fee payable	18,747,360	13,672,901
Insurance payable	12,784,410	14,572,278
Tax refunds payable	1,524,561	1,334,988
Other payable – others	525,212	294,167
Dividends payable	-	74,174,928
Other liabilities	333,555	312,183
	<b>608,695,519</b>	<b>474,434,761</b>

12.1 Undistributed collections (UC) refers to the un-posted/unapplied amortization payments covering CYs 2008 to 2013 due to the following reasons:

- a. Payments without Abstract of Collections (AOC)
- b. Payments of MBs not in master list
- c. Un-posted amortization payments from restructured and remedial accounts due to lack of computer program
- d. Non-transmittal of collection documents by NHMFC
- e. Unaccounted amortization payments

12.2 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. These deposits, however, shall be applied to community

association's account once the CER falls below 80 per cent but in no case, such application be made earlier than six months from take-out date.

12.3 Deferred credits refer to the principal portion of amortization payments paid by SHFC pertaining to office spaces occupied by HUDCC.

12.4 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.

12.5 Advances from borrowers refer to amortization payments in excess of the amount due for the current period but are not deducted from the principal balance, upon distribution of amortization collections.

12.6 Origination fee payable refers to the 50 per cent origination fee retained by SHFC pending originators' compliance to requirements.

### **13. OTHER LONG-TERM LIABILITIES**

This account represents set up of long-term payable for the acquisition cost less the principal portion of the amortization payments for the office building and other structures acquired by SHFC from the Bangko Sentral ng Pilipinas (BSP).

### **14. TRUST LIABILITIES– NHMFC**

The transfer of the CMP accounts to the SHFC was initially implemented through the transfer of the cash balance of P532 million as of September 30, 2005 on November 10, 2005 and the turnover 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 considered the portion of the GL balances pertaining to mortgages turned-over to SHFC and to those retained by NHMFC.

CMP Mortgages from 1989 to 1993 with a total outstanding principal loan balance (Community Association's Ledger level) of P621 million as of December 31, 2009, which were retained by NHMFC, was eventually transferred to SHFC. This amount is temporarily lodged to LIR – Current account but was reclassified to LIR-Past due account in compliance to COA recommendations. Details of the account are as follows:

	<b>2013</b>	<b>2012</b>
Cash	<b>749,047,142</b>	589,337,544
Loan installment receivables	<b>7,502,373,099</b>	6,720,378,326
Past due loan installment receivables	<b>2,750,042,775</b>	2,750,042,775
Notes receivable – National Housing Authority	<b>200,000,000</b>	200,000,000
Insurance receivables	<b>119,762,108</b>	119,762,108
Items in litigation	<b>50,925,357</b>	50,925,357
Unamortized mortgage origination cost	<b>49,799,990</b>	49,800,535
Origination and appraisal cost	<b>40,558,201</b>	20,117,638

	2013	2012
Interest receivables	72,873,957	72,873,957
Performance warranty payable	(826,837)	(252,429)
Advances from borrowers	(1,598,646)	(1,598,646)
Insurance payable	(3,843,072)	(3,716,833)
Guaranty deposits payable	(49,454,917)	(48,886,140)
Origination fee payable	(17,004,403)	(10,646,431)
Undistributed collections	(151,175,963)	(151,175,963)
Accounts payable – MCR	(884,087,805)	(679,570,812)
Interest income	165,678,128	165,678,128
	<b>10,593,069,114</b>	<b>9,843,069,114</b>

#### 15. 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 Development Financing Programs of AKPF were transferred to SHFC in 2005.

This 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 of said account as a result of its operations are taken up as credit and debit to Trust Liabilities account. Details of this account are as follows:

	2013	2012
Cash in bank	280,132,344	268,207,052
Acquired assets	117,250,544	117,237,505
Past due receivable – DL (net)	77,789,350	73,894,974
Installment sales receivable - current	11,107,284	6,466,074
Items in litigation (net)	39,383,712	39,383,712
Installment sales receivable, long-term	29,263,749	40,665,674
Office equipment, IT equip & software, furniture & fixtures, net of Accumulated depreciation	43,468	48,293
Interest receivable – special deposit account	291,070	530,461
Accounts receivable	-	5,280,000
Advances to officers and employees	-	7,600
Developmental loan receivable	-	6,000,000
Gross receipts tax payable	-	-
Due to LGUs	(7,710,222)	(7,634,330)
Due to SHFC	(1,863,941)	(2,219,613)
Accrued income tax payable – SSD	(58,214)	(106,091)
<b>Fund Balance</b>	<b>545,629,144</b>	<b>547,761,311</b>

#### 16. CAPITAL STOCK

The Corporation has an authorized capital stock of One Hundred Million Pesos (P100,000,000), divided into One Hundred Thousand shares (100,000) with a par value

of One Thousand Pesos (P1,000) each, Twenty Five Million Pesos (P25,000,000) of which had been actually subscribed by the NHMFC.

#### **17. PAID IN CAPITAL**

The paid in portion of authorized capital stock is Ten Million Pesos (P10,000,000) and transferable pursuant to the distribution mandated by Executive Order No. 272, dated 20 January 2004, Nine Million Nine Hundred Eighty Nine Thousand (P9,989,000) of which is paid up by NHMFC and the remaining by various stockholders for and in behalf of the GOP.

#### **18. SUBSIDY FROM THE NATIONAL GOVERNMENT**

The High Density Housing (HDH) program window is a new program to enable SHFC to extend financing assistance to organized communities in danger areas for the implementation of multi-storey projects in National Capital Region.

SHFC, along with National Housing Authority, Department of Social Welfare and Development and the Local Government Units was identified as an implementing agency of the P50 billion Informal settler families (ISF) Housing Program Fund.

The Department of Budget and Management issued Notice of Allocation (NCA) No. NCA-BMB-F-13-0012993 in the amount of P11,300,710 to partially cover the cash requirement of Special Allotment Release Order (SARO) No. F-13-00927 dated March 25, 2013 representing National Government subsidy for the acquisition of the lot for the housing project for the ISF of the Ernest Ville Homeowners' Association. The P11.301 million was disbursed in three tranches:

Disbursement Voucher Number	Check Number	Date of Check	Amount
2013-102834	48201	10/31/13	5,650,355
2014-041101	48204	04/30/14	4,150,355
2014-041102	48205	04/30/14	1,500,000
			11,300,710

Additional P8.427 million was released under NCA No. BMB-F-13-0023069 dated December 9, 2013 received by SHFC on January 2, 2014 for the construction of two buildings for the housing project for the ISF of the Ernest Ville Homeowners' Association.

#### **19. PRIOR PERIOD ADJUSTMENT**

The account consists of interest income, including penalty, as a result of temporary debit balance of Undistributed Collections (UC) distribution account in the amount of P51.00 million. This account was recorded when the temporary distribution of the UC in 2012 was reverted back to UC in 2013.

This account also includes collections for CYs 2006 and 2007 from NHMFC in the amount of P11.28 million and prior period income recognized in 2013, including the



recovery of advances amounting to P5.05 million for the rehabilitation of power supply of the building.

## 20. RETAINED EARNINGS

	2013	2012 (As restated)
Balance, 12/31/2013	202,395,678	235,517,465
Less: Transfer to Retained earnings-appropriated for program expansion and special reserve for probable contingencies *	172,805,143	175,901,743
Unappropriated Retained earnings, end of year *	29,590,535	59,615,722

*\*In compliance to SEC Memorandum Circular No. 11*

## 21. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth in Revenue Regulation No. 15-2010, hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year.

### A. National

	2013	2012
BIR Registration	500	500

### B. Withholding taxes paid/accrued for the year

	2013	2012 (As restated)
On compensation	20,602,112	18,045,860
Percentage tax	6,242,910	7,819,318
Final tax paid on income	9,883,176	13,594,536
Real property tax	1,235,041	1,235,041
Corporate income tax	6,446,112	19,222,842
	44,409,351	59,917,597

## 22. FINANCIAL RISK MANAGEMENT

### a. Mortgage Contract Receivables/MCR (CMP Loans)

Community Mortgage Loans Receivables are 25-Year, six per cent interest loans secured by mortgage on the land subject of the loan. The Loans are given to qualified Community Associations (CAs) made up mostly of poor and underprivileged families to assist them to purchase the private land where they are informally settled or to buy a relocation site.

The property, subject of loan and mortgage, is registered under the name of the Community Association. The property is covered by a subdivision plan and each lot in

the subdivision plan is assigned to a member under a lease purchase agreement (LPA) with the association. The LPAs of the associations are assigned to SHFC as additional security for the community loan.

**b. Credit Policy for MCRs (CMP Loans)**

The CMP Loan Program follows the legal mandate of the Urban Development and Housing Act and is therefore not in conformity with the credit standards prescribed by the Bangko Sentral for financial institutions under its supervision. In lieu of the normal credit standards, the program requires CA members to deposit in advance savings equivalent to three (3) months amortization as proof of capacity and willingness to pay.

**c. Insurance**

For the duration of the loan, there shall be a Mortgage Insurance on the lives of the principal borrowers as identified in the Master List of Members on a yearly renewable term basis. The insurance premiums shall be included in the monthly amortizations of the members. An equivalent of one year Mortgage Insurance premium shall be required from the CA in the form of cash deposit prior to release of the loan proceeds.

**d. Security**

The SHFC follows an appraisal procedure and policy that is market based and allows maximum loan to value ratio of 100 per cent.

**e. Collection**

The MCR (CMP Loans) are covered by a collection agreement with the CA. The CA collects the monthly amortizations from its members and remits these to SHFC. The quality of collection is highly influenced by how well the CA is organized and governed and the quality and character of its officers.

**PART II**

**OBSERVATIONS AND RECOMMENDATIONS**

## OBSERVATIONS AND RECOMMENDATIONS

### A. SOCIAL HOUSING FINANCE CORPORATION

1. The absence of policy and/or guidelines on the effective administration of collection/recovery strategies on the said accounts and the insufficiency of measures initiated/undertaken by Management to recover the assets in the total amount of P3.422 billion transferred from National Home Mortgage Finance Corporation (NHMFC) in 2005 expose the Social Housing Finance Corporation (SHFC) to non-recovery of the corporate funds. Payments are not posted to the respective member beneficiaries (MBs) loan ledger rendering the balance of individual account inaccurate.

1.1 As discussed in Note 6.2 to financial statements, the Past due – loan installment receivable (PDLIR) represents the past due portion of loans at the time of transfer of CMP accounts from NHMFC based on the outstanding balances of the community association's (CAs) ledgers as at September 30, 2005. Said PDLIR also includes the P621 million outstanding receivables on principal loan balances as of December 31, 2009 on CMP projects taken out from 1989 to 1993 and reclassified from current to past due. NHMFC initially retained said receivables but eventually transferred them to SHFC for the same amount of monetary considerations. The transferred loan balances are subject to adjustments upon the determination of the actual outstanding principal balance based on the member beneficiaries (MBs) loan ledgers.

1.2 Note 6.4 to financial statements also disclosed that the Items in litigation account represents the outstanding balance of delinquent accounts of CAs which have been transferred to the Legal Department for foreclosure proceedings and petitions already filed in court. Outstanding balance of this account represents the original amount transferred from NHMFC.

1.3 Details of the Asset held in trust – NHMFC - LIR-Past due and Items in litigation accounts are as follows:

Take-out date/year	Number of CA's	Past Due Amount	Number of CAs	Items in Litigation
1994	60	206,068,206.27	5	278,729.09
1995	56	227,145,827.73	6	3,687,866.73
1996	68	251,996,647.81	3	10,134,693.51
1997	86	403,272,927.87	6	15,442,676.93
1998	76	343,958,869.21	3	21,285,839.58
1999	26	147,373,751.76	-	-
2000	29	182,440,428.85	-	-
2001	53	273,684,268.51	-	-
2002	48	308,082,837.98	-	-
2003	47	278,145,244.66	-	-
2004	19	127,873,764.15	4	95,551.50
2005	269	620,560,442.35	-	-
Regular accounts	5	448,083.22	-	-
<b>Total</b>	<b>842</b>	<b>P3,371,051,300.37</b>	<b>27</b>	<b>P50,925,357.34</b>

1.4 We noted that Management was not able to initiate/undertake sufficient measures to recover the assets in the total amount of P3,421,976,658 transferred from NHMFC in 2005. The absence of policy and/or guidelines on the effective administration of collection/recovery strategies on the said accounts exposes SHFC to non-recovery of the corporate funds.

**1.5 We recommended that Management, through the Accounting and Legal Departments, formulate policy and/or guidelines on the effective administration of collection/recovery strategies for past due and items in litigation accounts for approval of the Board and accelerate the immediate implementation of the System to determine the actual outstanding principal balance based on the member beneficiaries (MBs) loan ledgers.**

1.6 Management commented that:

a. Said observation is similar to what have been issued in CY 2009 (Trust Liabilities –amounting to P2.75 billion), hence, they entirely reiterate the actions they have undertaken.

b. Though classified as past due/delinquent accounts, the Accounting Department has accounted for P488.56 million payments on Past due – loan installment receivable from the time of transfer up to end of CY 2013.

c. Due to the deficiencies and limitations noted in the existing Collection System and in order not to complicate the impending reconciliation of accounts, the accounting department opted to just use Loan installment receivable- current (LIR-Current) account for all applied payments regardless of its classification; hence, the evident non-movement of Past Due accounts balance despite recorded recoveries.

d. The Accounting Department will use appropriate accounts in the adjusting entry to record application of payments once the new collection/ledgery system is fully implemented which will also be the starting point in the one-time reconciliation of CMP-related GL-SL balances.

1.7 While Management has accounted the payments for the subject accounts, the use of the LIR-Current for all applied payments regardless of its classification is contrary to PFRS Framework, as stated in Paragraph 3.1 hereof.

1.8 We noted, however, that said payments are not posted to individual accounts, thus, the respective receivable accounts of MBs are still included in the past due accounts.

**2. The variance of P999.70 million between the balances of Assets held in Trust- NHMFC and Trust liabilities – NHMFC casts doubt on the reliability of the account balances and contrary to Section 111 of PD 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting.**

**2.1 Section 111 of PD 145 – Keeping of accounts provides:**

*(1) The accounts of an agency shall be kept in such details as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*

*(2) The highest standards of honesty, objectivity and consistency should be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

**2.2** In accordance with the Conceptual Framework for Financial Reporting, if financial information is to be useful, it must be relevant and faithfully represents what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

**2.3** Verification of accounting records and review and analysis of account balances as at December 31,2013 disclosed a variance of P999,696,822 between the balance of the Assets held in trust – NHMFC and the Trust liabilities – NHMFC contrary to Section 111 of PD 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting, computed as follows:

<b>Assets held in trust - NHMFC</b>		<b>Trust liabilities – NHMFC</b>	
<b>Account</b>	<b>2013 Balance DR(CR)</b>	<b>Account</b>	<b>2013 Balance DR(CR)</b>
Loan installment receivable – Current	5,907,791,198	Cash	749,047,142
Loans installment receivable – Past Due	3,371,051,300	Loan installment receivable	2,750,042,775
Notes receivable – NHA	-	Past due loan instalment receivables	7,502,373,099
Insurance receivable	230,276,233	Notes receivable – NHA	200,000,000
Items in litigation	50,925,357	Insurance receivable	119,762,108
Interest receivable	433,095	Items in litigation	50,925,357
Unamortized mortgage origination cost	32,895,109	Interest receivable	72,873,957
		Unamortized mortgage origination cost	49,799,990
		Origination and appraisal cost	40,558,201
		Accounts payable – MCR	(884,087,806)
		Guaranty deposit payable	(49,454,917)
		Insurance payable	(3,843,072)
		Advances from borrowers	(1,598,846)
		Interest income	165,678,128
		Undistributed collections	(151,175,963)
		Origination fee payable	(17,004,403)
		Performance warranty payable	(826,837)
<b>TOTALS</b>	<b>9,593,372,292</b>		<b>10,593,069,114</b>
Loan loss reserve	(60,289,548)		
	<b>9,533,082,744</b>		<b>10,593,069,114</b>

Asset held in trust - NHMFC	9,593,372,292
Trust liabilities - NHMFC	10,593,069,114
Variance	<b>999,696,822</b>

**2.4 We recommended that Management require the Accounting Department to review and reconcile the difference of P999.70 million between the Assets held in trust – NHMFC and the Trust liabilities – NHMFC and to prepare the necessary adjusting entries to correct the variance noted.**

**2.5 Management commented that :**

a. The variance noted between the balances of Assets held in trust-NHMFC and the Trust liabilities-NHMFC is basically the “Cash” element as this is presented separately in the financial statements. The Accounting department already began working on the cash to show that the variance is indeed coming from this account, though this is going to be strenuous and will surely take time for reason that there is a mix-up in the cash accounts.

b. They also recognized that there might have some missing accounting activities in so far as recording of trust transactions are concerned (or probably there is a need to review the legal tenor of the original contractual relationship between the SHFC and NHMFC warranting the necessity to dispense with the current practice as this may not be the proper accounting treatment).

c. They suggest for a focus group discussion to be held between and among the COA Audit Team, NHMFC and SHFC representatives to look into the matter and come up with the recommendation/s on the proper booking of transactions in order to conform to the original tenor of the contractual relationship between SHFC and NHMFC, e.g. Management Contract versus Trust Agreement, because the matter of accurate booking of “trust account/liabilities: is a 2014 target contained in SHFC-GCG Performance Agreement.

**3. The undistributed collections (UC) were not regularly recorded in the Loan installment receivable (LIR) account due to the absence of policy on the proper and timely allocation of UC, thereby, resulting in the overstatement of LIR and understatement of the related accounts by P384.14 million.**

**3.1 The PFRS Framework provides that:**

*General purpose financial reports represent economic phenomena in words and in numbers. To be useful, financial information must not only be relevant, it must also present faithfully the phenomena it purports to represent. This fundamental characteristic seeks to maximize the underlying characteristics of completeness, neutrality and freedom from error. Information must be both relevant and faithfully presented if it is to be useful.*

3.2 Note 12.1 to financial statements stated that Undistributed collections (UC) refers to the un-posted/unapplied amortization payments covering CYs 2008 to 2013 due to the following reasons:

- Payments without abstract of collections (AOC)
- Payments of MBs not in master list
- Un-posted amortization payments from restructured and remedial accounts due to lack of computer program
- Non-transmittal of collection documents by NHMFC
- Unaccounted amortization payments

3.3 Validation disclosed that UC in the total amount of P384.14 million has not been regularly recorded to Loan installment receivable (LIR) account and other related accounts due to absence of policy on its proper and timely allocation.

3.4 The Manager of the Finance and Controllershship Department averred that the development of the Restructuring Loan Module is not yet completed. Comparison of the UC balance for CYs 2013 and 2012 showed a significant increase of 308.28 per cent in 2013 in the balance of the account, as shown below:

Sub-accounts	Amount (in million)		Increase (Decrease)	
	2013	2012	Amount	%
No Abstract of Collections	23.90	20.00	3.90	19.46%
Not in master list	4.17	3.06	1.11	36.34%
1-yr Updating RA9507/PD1445	18.17	-	18.17	100.00%
APL/FUT	1.86	1.39	0.47	33.44%
Collections from NHMFC	14.87	29.24	(14.37)	-49.15%
Advance payment	0.36	0.20	0.16	81.94%
<b>Collections from restructured accounts</b>	<b>167.01</b>	<b>40.91</b>	<b>126.10</b>	<b>308.28%</b>
Excluded accounts	0.13	-	0.13	100.00%
With Site development	28.08	16.85	11.23	66.70%
Unaccounted	78.77	79.31	(0.54)	-0.68%
Collections from remedial accounts	45.86	15.44	30.42	197.03%
Cancelled payment/late recording	0.61	-	0.61	100.00%
Encoding errors	0.14	-	0.14	100.00%
Classification errors	0.21	-	0.21	100.00%
	<b>384.14</b>	<b>206.40</b>	<b>177.74</b>	<b>86.11%</b>

3.5 The delay in the allocation of the UC resulted in the overstatement of LIR and understatement related of accounts by P384.14 million, contrary to the PFRS framework on the fairness of financial reporting as stated in paragraph 3.1. Also, the subsidiary ledgers of the individual borrowers do not reflect their actual outstanding loan obligation.

3.6 **We reiterated our prior years' audit recommendations that Management:**

- a. **Formulate the guidelines for the proper and timely allocation of undistributed collections to the appropriate accounts;**
- b. **Conduct continuous reconciliation of accounts to minimize the accumulation of undistributed collections; and**



**c. Fast track the completion of the Restructured Loan Module to address the timely allocation of UC account.**

3.7 Management commented that:

a. The Finance and Controllership Department in coordination with the Collection Group shall formulate guidelines on the proper and timely allocation of UCs to the appropriate accounts;

b. Continuous reconciliation of accounts is observed to contain unaccounted amortization payments; and

c. The upgrading of the computer program for ledgering system that incorporates the capability to handle restructured accounts was already completed and is now in the final stage of pilot testing. Full implementation of the upgraded system will start before the end of the 3rd quarter of 2014.

**4. CMP loans amounting to P1.328 million were granted twice to 24 same beneficiaries with take-out dates from 2007 to 2012 contrary to Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011, thus constitutes irregular transaction as defined under COA Circular 2012-003 (3.1) dated October 29, 2012.**

4.1 Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011 states that *the member has certified under oath that he/she has not been a recipient of any CMP loan or other government housing program, does not own or co-own a real property and is not a professional squatter as defined in Republic Act (RA) No. 7279.*

4.2 COA Circular 2012-003 (3.1) dated October 29, 2012 defines "*irregular expenditure*" as *expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. xxx. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular.*

4.3 We discussed in Audit Observation No.4 and in the 2012 Annual Audit Report, that there are member-beneficiaries who were granted double or multiple CMP loans with take-out dates from 1989 to 2012. Validation during the year also disclosed that CMP loans were granted twice to 24 beneficiaries with take-out dates from 2007 to 2012 in the aggregate amount of P2,999,308.96, the first loans totalling to P1,670,891.64 and second loans totalling to P1,328,417.32, contrary to Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011.

4.4 The double grant of CMP loans also resulted in the concentration of the grant of housing loans to a number of beneficiaries who are no longer homeless because of the earlier CMP loan granted to them, thereby adversely effecting the attainment of the objective of CMP of providing financial support to the homeless and underprivileged citizens only.

**4.5 We recommended that Management:**

- a. Require the Accreditation Department to exercise due care in the evaluation of eligibility requirements of applicant and in the processing of the CMP loan applications to ensure attainment of the objective of the Program and compliance with its implementing rules and regulation;**
- b. Instruct the Information System Department, in close coordination with the Asset Management Department, to immediately design, develop and install an Inquiry or Screening Application Program;**
- c. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double CMP loans to member-beneficiaries. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and**
- d. Immediately demand the full payment of the second loans granted to subject beneficiaries and rescind the second lease purchase agreement for violation of the terms and conditions of the contract.**

4.6 Management commented that they will direct the Internal Audit Department to conduct an investigation to identify the causes for the double availment and if reasons are justifiable, appropriate policy reforms will be recommended to the Board.

4.7 A Notice of Disallowance will be issued for the second loan in the total amount of P1.328 million granted to the same 24 beneficiaries for being irregular transactions as defined under Section 3.1 of COA Circular No. 2012-003 dated October 29, 2012.

**5. Property and equipment worth P1.658 million were still unaccounted, thereby casting doubt on the accuracy and validity of the account balance as at December 31, 2013. Unserviceable property totalling P1.980 million were not yet disposed contrary to Section 79 of Presidential Decree No. 1445 and paragraph 67 of Philippine Accounting Standard (PAS) 16.**

**a. Unaccounted property and equipment amounting to P 1.658 million**

5.1 COA Circular No. 80-124 dated 18 January 1980 provides that:

*Section 1 – Purpose – Physical inventory-taking being an indispensable procedure for checking the integrity of property custodianship has to be regularly enforced.*

5.2 Physical inventory-taking is an indispensable procedure to check the integrity of property maintenance and custodianship. This control strategy is periodically made (e.g. at least annually) to ensure the validity, accuracy, and correctness of the property records.

5.3 Office Order No. 13-0391 dated September 13, 2013 reconstituted the inventory committee for CY 2013 to conduct physical inventory of property both at the head office

and satellites offices to comply with COA Circular No. 80-124 dated January 18, 1980. The inventory team, however, was not able to complete the reconciliation of the result of the inventory count and the accounting record.

5.4 Analysis showed that items of property and equipment valued at P1,657,841 remain unaccounted as follows:

<b>Category of Property</b>	<b>Accounting Record</b>	<b>Property Record</b>	<b>Variance</b>
Furniture and fixture	8,826,338.67	8,608,000.19	218,338.48
Office equipment	2,739,581.73	2,106,997.66	632,584.07
IT equipment, software & contracts	23,791,398.71	24,366,413.34	575,014.63
Communication equipment	3,588,704.15	3,611,444.03	22,739.88
Motor vehicles	16,715,917.90	16,715,917.90	-
Library books	105,618.40	105,618.40	-
Other assets	183,805.00	392,969.40	209,164.40
	<b>55,951,364.56</b>	<b>55,907,360.92</b>	<b>1,657,841.46</b>

**b. Unserviceable Property totalling P1.980 million.**

5.5 Section 79 of Presidential Decree No. 1445 requires "the disposal of government property that has become unserviceable for any cause or is no longer needed, upon application of officer accountable therefore; inspection by the head of the agency or his duly authorized representative in the presence of the auditor concerned. Said property, if valuable, may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the authorized representative of the Commission, xxx."

5.6 Paragraph 67 of the Philippine Accounting Standard provides that the carrying amount of an item of property, plant and equipment shall be derecognized: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal.

5.7 Contrary to the said provisions, unserviceable property in the amount of P1.980 million is still included in the property and equipment account and has not been disposed as of December 31, 2013.

**5.8 We recommended that Management:**

**a. Conduct an investigation to determine the officers and employees responsible/liable for the unaccounted property and equipment and issue demand letter to account the missing property and equipment.**

**b. Immediately dispose all unserviceable property pursuant to Section 79 of PD No. 1445 to prevent further deterioration and generate possible income.**

**5.9 Management commented that:**

a. Further reconciliation is still to be made on the remaining balance of the unaccounted variance.

b. All unserviceable property were accounted and a memorandum dated April 10, 2014 was sent to Technical Services Department with the request for the immediate appraisal of the subject property, as a basis for the minimum bid price on the disposal to avoid further deterioration and generate possible income.

**6. Absence of supporting documents to substantiate the Guaranty deposits payable in the amount of P702,888 received from the NHMFC in 2005 casts doubt on the accuracy and validity of the account balance.**

6.1 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 premium. Said deposits shall be applied to the account of the community association once the collection efficiency rate falls below 80 per cent but in no case such application be made earlier than six months from take-out date.

6.2 The transfer of the CMP accounts of NHMFC to SHFC in 2005 included Guaranty deposits payable in the amount of P3,425,448. The amount of P702,888 could not be validated due to absence of supporting documents.

**6.3 We recommended that Management require the Accounting Department to submit the documents that will substantiate the Guaranty deposits payable of P702,888.36 and prepare adjusting entries, where necessary.**

6.4 Management commented that:

a. The unaccounted balance was part of the entry on the account per Journal Entry Voucher (JEV) No. 2006-0078 dated June 30, 2006 for the collection remitted by NHMFC on June 22, 2006 without supporting documents;

b. Partial adjustment was made as at December 31, 2013 and the remaining unaccounted balance is P147,246.85; and

c. Finance and Controllershship Department (FCD) will coordinate with NHMFC for the submission of the lacking documents to support the schedule and prepare the necessary adjustment.

6.5 The adjustments made by Management as at December 31, 2013 shall be subjected to verification in our 2014 audit of transactions of the SHFC.

**7. Total variance of P222,103 between the Inter-agency payable accounts and the amount remitted in 2014 casts doubt on the accuracy and reliability of the account as at December 31, 2013 and contrary to PFRS Conceptual Framework.**

7.1 The PFRS Framework provides that for the financial reports to be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent and must be complete and free from error.

7.2 Contrary to the said framework, validation of the January 2014 remittances to BIR, SSS, Pag-IBIG and Philhealth disclosed a remaining balance of P222,103.42 for the Inter-agency payable accounts, including the unaccounted variance of P188,510 between the account balance per books and the amount remitted to the BIR in January 2014, as follows:

Particulars	Account Balance 12/31/13	Amount Remitted- 2014	Variance
<b>Due to BIR</b>	<b>2,658,968.04</b>	<b>2,470,458.32</b>	<b>188,509.72</b>
Due to SSS	186,806.62	183,142.92	3,663.70
Due to Pag-ibig	156,069.19	136,439.19	19,630.00
Due to Philhealth	85,462.50	75,162.50	10,300.00
	<b>3,087,306.35</b>	<b>2,865,202.93</b>	<b>222,103.42</b>

7.3 Considering that there is a prescribed period within which the remittances to the foregoing agencies has to made, the unaccounted outstanding balance of the Inter-agency payables account could be the result of error or non-remittance of amount withheld, which are subject to interest and penalties as prescribed by the pertinent rules and regulations issued by the above agencies, chargeable against the persons who failed to remit the same within the prescribed period.

**7.4 We recommended that Management require the Accounting Department to:**

- a. Exert extra effort to reconcile the accounts to identify the causes of the variance and prepare adjusting entries, if necessary.**
- b. Regularly monitor the amount withheld and the remittances to avoid discrepancy.**
- c. In case of failure to remit within the prescribed period, require the persons responsible/accountable to pay the corresponding interest and penalties required by the concerned government agency/corporations.**

7.5 Management commented that a journal entry shall be drawn once the reconciliation is completed to adjust the balance to conform to the PFRS Framework on the completeness, neutrality, relevance and freedom from error of the accounts as presented in the financial statements.

**8. SHFC did not implement the gender and development related activities, notwithstanding the P3.8 million budget allocation for CY 2013, as required by Executive Order No. 273 and the DBM, NEDA and NCRFW Joint Circular No. 2004-1 dated April 5, 2004.**

8.1 Executive Order (EO) No. 273 (Approving and Adopting the Philippine Plan for Gender-Responsive Development, 1995-2025), mandated the agencies to institutionalize Gender and Development (GAD) in government, by incorporating GAD concerns spelled out in the Philippine Plan on Gender-Responsive Development (PPGRD) in their planning, programming and budgeting process. Agencies are to

incorporate and reflect GAD concerns in their agency performance commitment contracts, annual budget proposals and work and financial plans.

8.2 Section 2.4 of Joint Circular No. 2004-1 states that *pursuant to the annual General Appropriations Act, agencies are tasked to formulate a GAD plan and to implement the same by utilizing at least five per cent (5%) of their total budget appropriations.* Section 3.2h identified the specific activities the agency shall address in connection with the gender issues of its client and/or organization: women-focused (WID), gender-oriented (GAD) and mainstreaming.

8.3 SHFC allocated P3.80 million in its 2013 Corporate Operating Budget (COB) for GAD related activities but its 2013 work plan and target did not include/identify any GAD plans and programs as required by EO No. 273 and Joint Circular No. 2004-1. Thus, no GAD related activity was implemented to promote a gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment.

**8.4 We recommended that Management:**

a. **Comply strictly with the requirements of Executive Order No. 273 and Joint Circular 2004-1 in the formulation and submission of GAD Plan, Program and Budget.**

b. **Incorporate in the Annual Work Plan and target the GAD related activities to promote the gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment.**

8.5 Management commented that they will revisit their Office Order No. 11-0275 on the Gender and Development (GAD) and designate the responsibility for the identification of activities to promote GAD to the Human Resource Division for the internal personnel, as well as to the Community Support Unit for partners.

**9. The 2013 SHFC Corporate Operating Budget amounting to P1.897 billion was not submitted to the Department of Budget and Management (DBM) for review and evaluation contrary to Items 3.1 and 3.2 of COA-DBM Joint Circular No. 87-1 dated March 17, 1987.**

9.1 Items 3.1 and 3.2 of COA-DBM Joint Circular No. 87-1 provide that:

*3.1 The COBs of government corporations shall be submitted to the Department of Budget and Management (DBM) one month before the onset of a new calendar year. Said budget shall be recommended by the respective Governing Boards for consideration and final approval by the President.*

*3.2 Government Corporations shall not incur obligations or make payments for current operating or capital expenditures after the beginning of each calendar year unless the COB for said year is submitted to DBM, copy furnished the COA.*

9.3 The yearly preparation of the budget is in consonance with the principle requiring all government spending to be justified anew each year. This principle ensures that government entities continuously evaluate and review the allocation of resources to project/activities for cost efficiency and effectiveness.

9.4 The Board of Directors (BOD) approved the 2013 COB under Board Resolution No. 325 dated April 24, 2013, as follows:

<b>Particulars</b>	<b>Approved Budget for CY 2013 (in thousands)</b>
Personal Services	187,425
Maintenance and Other Operating Expenses	185,028
Financial Expenses	29,826
Contingent Fund	8,594
	410,873
Capital Outlay	38,452
CMP Loans	1,447,500
<b>Total</b>	<b>1,896,825</b>

9.5 The COB amounting to P1.897 billion was not submitted to DBM for review and evaluation contrary to Items 3.1 and 3.2 of COA-DBM Joint Circular No. 87-1. The approval by the BOD is a basic requirement in the budget preparation and execution but not the sole condition before funds of the Corporation could be disbursed. The total expenses incurred for CY 2013 follows:

<b>Particulars</b>	<b>Amount</b>
Personal Services	154,016,921.13
Maintenance and Other Operating Expenses	141,216,077.68
Financial Expenses	31,104,834.86
	326,337,833.67
Capital Outlay	17,012,384.88
CMP Loans	791,134,626.96
<b>Total</b>	<b>1,134,484,845.51</b>

9.6 We recommended that Management comply with the requirements of Items 3.1 and 3.2 of COA-DBM Joint Circular No. 87-1 dated March 17, 1987 and other laws, rules and regulations for the submission of its Corporate Operating Budget to the DBM for review and evaluation and copy furnished this Commission.

9.7 Management commented that:

- a. With the repeal of COA-DBM Joint Circular by the Revised Administrative Code, Item 3.1 and 3.2 of COA-DBM Joint Circular 87-1 can no longer be invoked as legal basis of the instant COA observation.
- b. SHFC clarified that since they became operational in 2006 up to 2013, their budget was only approved by their Board of Directors, which explains the lack of direct approval from DBM for the 2013 COB.

c. The SHFC, however, submitted the 2014 COB to DBM due to the recent change of funding circumstances, i.e. inclusion of P3.6 billion appropriation for the Informal Settlers Families (ISF) High Density Housing (HDH) Program, in the General Appropriations Act. The submission is in accordance with Book VI, Chapter 3, Section 19(b) of the Revised Administrative Code, thus, such budget shall be subject to DBM review and approval, as part of the budget process.

d. Management also claimed that unlike in the previous years, only the first portion of Book VI, Chapter 3, Section 19 of the Revised Administrative Code applies to SHFC, stating that the internal operating budgets of government-owned and controlled corporations and of chartered institutions shall be approved by their governing boards.

9.8 We maintain our position that the COB of SHFC is subject to the review and approval of the Office of the President, through the DBM. The provisions of EO No. 292 and all other implementing rules and regulations on the submission of the COBs of all GOCCs and GFIs to the DBM for review and evaluation are reiterated in Paragraph 3 of the Special Provisions of Item XXXV of the 2013 General Appropriations Act and in the GAA of every year, and we quote:

Submission of Corporate Operating Budget and Other Related Financial Statements. All GOCCs, including GFIs, shall prepare their FY 2013 Corporate Operating Budgets (COBs) in accordance with E.O No. 518, s. 1979 and the procedures and guidelines prescribed by the DBM. Said COBs together their supporting financial statements shall be approved by their governing boards, and submitted to the Secretary of Budget and Management for review and evaluation as part of the budget process pursuant to E. O. No. 518 and E. O. No. 292. Xxx (underscoring ours)

## **B. ABOT-KAYA PABAHAY FUND (AKPF)**

**10. The NHMFC/SHFC did not act on the Notice of Delinquent Real Property Taxes issued by the Office of the Provincial Treasurer of a concerned Local Government Unit on a property valued at P22 million mortgaged as collateral for a loan and impose the sanctions on the borrower/accountable officials as prescribed under the Loan Agreement. Thus, the recovery of the Corporate exposure is remote, doubtful and uncertain.**

10.1 A Real Mortgage Agreement was entered into by the NHMFC and a private corporation/developer in January 1998 to avail of a loan amounting to P27.50 million under the Developmental Loan Program for its project in a Subdivision. Its subdivided titles are registered in the name of the landowner. These titles were mortgaged to NHMFC for the security of the loan. Only P22.0 million was, however, approved and released to the proponent.

10.2 The said developer failed to deliver the complete individualized titles to NHMFC and defaulted in the payments of its loans, hence, the amount of loan included in the Long term receivables-Items in litigation-developmental loans. The said loan, including the corresponding collateral/TCT was transferred from NHMFC to SHFC in 2005.



10.3 Under Sections 6.02 and 6.04 of the Loan Agreement dated 1997 between the National Home Mortgage Finance Corporation and the borrower, provides that:

*6.02 If an Event of Default occurs under this Agreement, the NHMFC may, by written notice to the BORROWER, (i) declare the Loan specific to the project to be terminated, whereupon the obligation of the NHMFC to make or maintain the loan hereunder shall forthwith terminate, and (ii) declare the entire Loan, together with the accrued interest and any other sum payable, and the Loan, and the interest thereon shall thereupon become due and payable without presentment, demand protest or notice of any kind, other than the notice specifically required herein, all of which are expressly waived by the BORROWER. Xxx*

*6.04 Should the BORROWER fail to pay the outstanding obligations declared due and demandable, NMHFC may foreclose the mortgage or avail itself of the right granted to it under this Agreement or the law to enforce payment.*

10.4 Records further show that a Notice of Delinquent Real Property Taxes was sent by the Office of the Provincial Treasurer of a concerned Local Government Unit on August 13, 2004 to the landowner, copy furnished the NHMFC due to non-payment of real property taxes amounting to P1.436 million as of July 30, 2004.

10.5 In view of the non-action/reply from both the landowner and NHMFC/SHFC, the Subdivision was offered at public auction. Thus, on November 29, 2007, the concerned Province acquired the property pursuant to Sec. 75 of PD 464, which provides that "in case there is no bidder at the public auction of the delinquent real property, or if the highest bid is for an amount not sufficient to pay the taxes, penalties or costs of sale, the provincial or city treasurer may, in his discretion, buy the delinquent real property in the name of the province or the city for the amount of taxes, penalties due thereon, and the costs of sale."

10.6 Interview with the Department Manager of the AKPF/SHFC disclosed that as of December 31, 2013 they are negotiating with the Provincial Governor of LGU for the recovery of the said property.

10.7 In view of the failure of the NHMFC/SHFC to act on the Notice of Delinquent Real Property Taxes and impose the sanctions on the borrower pursuant to the provisions of the loan agreement, the recovery of the SHFC exposure on the subject loans is remote, doubtful and uncertain.

**10.8 We recommended that Management:**

- a. Submit status of the actions taken by Management for the recovery of the property.**
- b. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for failure to act on on the Notice of Delinquent Real Property Taxes, leading to the failure of the Corporation to recover its exposures.**

- c. **Require all the persons liable to pay for the amount of loan plus interest and penalties due thereon and all the expenses incurred for the recovery of the subject property.**

10.9 Management made the full disclosure of the problems/issues affecting each project in the Notes to financial statements and they informed that, continuously, they are negotiating with Office of the Governor of the concerned Province to recover the subject property by paying the unpaid taxes.

**11. Acquired assets account still included the 31 Transfer Certificate of Titles (TCTs) valued at P27.598 million already covered by the Comprehensive Agrarian Reform Program (CARP). A total of 1,409 TCTs of the acquired assets AKPF valued at P89.653 million are not yet transferred/registered in its name notwithstanding the lapse of one to 14 years resulting in the delay on the disposition of the properties and non-recovery of the loan exposures.**

11.1 Acquired assets account pertains to properties acquired from settlement of accounts through "dacion en pago" for four projects and foreclosure for three projects, namely La Vista Cruz Subdivision, Villa Haniya Subdivision and Evergreen Subdivision.

11.2 Title is a legal term for a bundle of rights in a piece of property which a party may own either a legal interest or an equitable interest. The rights in the bundle may be separated and held by different parties. It may also refer to a formal document that serves as evidence of ownership. Conveyance of the document is required in order to vest ownership to another person.

11.3 TCTs are being kept by the Documentation Control and Custodianship Department. Details of the Acquired assets account as at December 31, 2013 are as follows:

	<b>Project</b>	<b>Location</b>	<b>No. of TCTs</b>	<b>Amount</b>
1.	Juel Country Homes Juel Estate Land	Brgy. San Fernando, Bambang, Nueva Vizcaya	338	17,382,383.49
2.	UPLB-ONAPUP Village San Marco Realty & Development	Brgy. Masaya, Bay, Laguna	173	9,334,750.54
3.	Olympia Village St. Raphael Construction	Brgy. Caballero, Palayan City, Nueva Ecija	54	3,732,977.00
4.	Villa Aguila Subdivision J.B. Lagman Construction	Brgy. Maliwalo, Tarlac, Tarlac	497	27,774,321.55
5.	Villa Felipe Heights Subd. LMK Trading & Gen. Construction	Brgy. San Roque, Guimba, Nueva Ecija	140	12,400,134.28

	<b>Project</b>	<b>Location</b>	<b>No. of TCTs</b>	<b>Amount</b>
6.	Villa Haniya Subdivision Bluejay Builders & Supplies	Brgy. Mabul, Malabang, Lanao del Sur	129	11,500,827.00
7.	Evergreen Subdivision BM Maglaqui Construction	Brgy. Pinulot, Dinalupihan, Bataan	78	7,527,448.73
8.	La Vista Cruz Subd. PS Enterprises	Brgy. San Rafael, Tarlac, Tarlac	31	27,597,701.04
			<b>1,440</b>	<b>117,250,543.63</b>

11.4 Further validation revealed that 1,409 TCTS of the acquired assets of the AKPF valued at P89.653 million are not yet transferred/registered in its name notwithstanding the lapse of one to 14 years, while the 31 TCTS with a total area of 102.699 square meters were placed under CARP by the Department of Agrarian Reform (DAR), Regional Office III on 27 September 2013.

**11.5 We recommended that Management :**

a. **Prioritize the transfer/registration of the 1,409 TCTS in the name AKPF to facilitate disposal in the event of sale because the properties cannot be disposed unless the TCTS are under the name of AKPF-SHFC; and**

b. **Require the Legal Department to follow up status report on the appeal filed dated 21 January 2014 on the reconsideration of the 31 TCTS covered by CARP.**

11.6 Management commented that they will pursue the following in the interest of AKPF's assets:

a. Continue updating the real estate taxes payments due on the assets and compute the cost of registration of dacion-en pago, certificate of sales and transfer of titles in favour of SHFC;

b. Subject to Management/Board approval and budgeting considerations, pursue the activities in CY 2014; and

c. The Appeal filed by the Legal Department is still pending before the office of Department of Agrarian Reform.

**12. The 25 per cent provision for the Allowance for doubtful accounts (ADA) as at December 31, 2013 is not adequate and has no approval, thus, casting doubt on the accuracy and reliability of the account and contrary to the generally accepted accounting principles and to the IFRS Conceptual Framework for Financial Reporting.**

12.1 Generally accepted accounting principles require that receivables be valued at their recoverable amounts. As such, allowance for doubtful accounts should be provided at a level considered adequate to provide potential losses on receivables. This would require an evaluation of such factors as the age of the accounts, collection experience of the Agency and other factors that may affect collectability.

12.2 The IFRS Framework provides that "the general purpose financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent. xxx"

12.3 An Allowance for doubtful accounts is a contra-asset that records the portion of a company's receivable, which it expects may not be collected. The balance of the ADA as at December 31, 2013 follows:

Allowance for doubtful accounts – Past due receivable	25,929,783.47
Allowance for doubtful accounts – Items in litigation	13,127,904.00
	<u>39,057,687.47</u>

12.4 Per inquiry with the Management, computation of the Allowance for doubtful account is based only on the 25 per cent of the outstanding past due - Receivable and Items in litigation.

12.5 Audit revealed that the 25 per cent basis is not adequate and has no approval from the Board of Directors. The outstanding Past due – Receivable (considered past due accounts after 3 years from the date of release) and Items in litigation accounts remains non-performing from three years to 18 years, as follows:

Project	Loan Releases	Date Released	Balance as at December 31, 2013	Aging as of December 31, 2013	
				Years	Months
<b>Past Due - Receivable</b>					
Plainville Homes – Heritage Homes Daet Realty Dev't Corp.	2,500,000.00	02-15-07		3	10
	2,500,000.00	09-25-07		3	3
	5,000,000.00		5,000,000.00		
Cristina Homes – Truman Builders	1,500,000.00	06-16-97		13	6
	2,000,000.00	10-16-97		13	2
	2,000,000.00	01-07-98		12	11
	5,500,000.00		5,500,000.00		

Project	Loan Releases	Date Released	Balance as at December 31, 2013	Aging as of December 31, 2013	
				Years	Months

Palao Country Homes – Palao Construction	20,000,000.00	05-12-98		With payments	
	4,000,000.00	08-07-06		4	4
	5,000,000.00	12-08-06		4	0
	5,000,000.00	01-03-07		3	11
	6,000,000.00	06-29-10			6
	6,000,000.00	2013			
	40,000,000.00		29,791,949.89		
Catbalogan City Homes – FHL Realty	4,000,000.00	10-23-96		With payments	
	6,000,000.00	12-12-96		14	0
	4,000,000.00	05-21-97		13	7
	4,000,000.00	12-16-97		13	0
	5,000,000.00	08-03-98		12	4
	23,000,000.00		20,712,364.08		
Villarita Subdivision- RDM Enterprises	4,000,000.00	12-19-97		13	0
	3,500,000.00	02-26-98		13	2
	4,000,000.00	04-16-98		12	8
	3,500,000.00	07-08-98		12	5
	15,000,000.00		15,000,000.00		
Cristina Homes II – F.D. Magbitang	6,000,000.00	07-04-03		7	5
	4,000,000.00	03-08-04		6	9
	4,000,000.00	05-28-04		6	7
	4,000,000.00	02-01-05		5	10
	18,000,000.00		17,124,968.74		
Eureka Housing (Coryville Subd.) – Assumpta Foundation	7,500,000.00	05-21-92		18	7
	3,200,000.00	10-22-92		18	8
	2,300,000.00	12-07-92		17	0
	13,000,000.00		10,589,851.18		
			103,719,133.89		

#### Items in litigation

Project	Amount	Date of Endorsement to Legal	Aging as of December 31, 2013
Legal case 1	22,011,616	December 2004	9 years
Legal case 2	30,500,000	December 2004	9 years
	52,511,616		

**12.6 We recommended that Management revisit the existing policy/basis in computing the provision for the Allowance for doubtful account to provide an adequate allowance on the Past due – receivable and Items in litigation accounts and submit the same for approval of the Board.**

12.7 Management commented that they will revisit the provisioning rate on the Allowance for doubtful accounts (ADA) on Past due receivable – Developmental loan and Items in litigation to arrive at more realistic levels in view of substantial time elapsed since the adoption of the 25 per cent provision. Among the factors to be considered are as follows:

- a. Ageing of accounts;
- b. History of payments made;
- c. Location of the projects and prevailing conditions of the real estate market; and
- d. AKPF's past experiences on its six sold acquired asset accounts.

**PART III -**

**STATUS OF IMPLEMENTATION OF PRIOR  
YEARS' AUDIT RECOMMENDATIONS**

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 11 audit recommendations (one in 2009, one in 2010, one in 2011 and eight in 2012) embodied in the CY 2012 AAR, one was fully implemented, eight were partially implemented and two were not implemented.

Observations and Recommendations	Actions Taken
<b><u>2012</u></b>	
<p>1. The general ledger balances of Loan Installment Receivable and Items in Litigation accounts differ by P414.283 million with the total balance of member-beneficiaries subsidiary ledgers' aggregate balance consisting of a total positive variance of P2.65 billion and a total negative balance of P1.65 billion thus creating doubt on the validity of the account balance as at year-end.</p>	Not implemented.
A reiteration of 2006 audit observation.	
<p>Expedite the reconciliation of the general ledger and the member-beneficiaries subsidiary ledgers balances to ensure the validity of the account balances and the reliability of the accounting records and reports to achieve fair financial statement presentation.</p>	<p>a. Awaiting completion and full implementation of the ISD developed collection system.</p> <p>b. FCD's estimated time to finish reconciliation will be from two (2) to three (3) months.</p>
<p>2. The temporary distribution of the current year's balance of the Undistributed Collections account at year-end and derecognition of the distribution made at the beginning of the following year in the amount of P94.460 million cast doubt on the accuracy of the balance of Loans Installment Receivable and the other accounts affected. On the other hand, there was no movement in 2012 of the undistributed collections for 2008, 2009, 2010 and 2011 totaling P206.397 million and remained not posted in the member-beneficiaries subsidiary ledgers in CY 2012.</p>	
A reiteration of 2011 audit observation.	Partially implemented.
<p>Revisit the present policy adopted temporarily reversing/distributing the amount of</p>	<p>a. Commitments/action plans by all departments involved are currently</p>



Observations and Recommendations	Actions Taken
undistributed collections as at year-end using the average historical percentages of the actual distribution of collections made during the year;	implemented except for those that require completion of the new billing and collection system.
Establish guidelines on the proper and timely allocation of undistributed collections to the appropriate accounts by concerned departments.	b. As recommended, temporary reversal of UC balance shall already be discontinued effective end of December 2013.
Conduct continuous reconciliation of accounts to minimize the accumulation of undistributed collections and to identify the reasons for the abnormal balances.	c. Aggregate UC balance for the years 2008, 2009, 2010 & 2011 were reduced by P23.6 million or 11.43 percent of outstanding UC of given periods.
Evaluate the collection system currently utilized to address its limitation in the capture of collections of restructured and remedial accounts.	
3. The absence of restructured loans module resulted in the continuous build-up of Undistributed Collections and non-posting of loan amortization payments to the CMP member-beneficiary subsidiary ledger.	
The Information Systems and Finance and Controllership Departments undertake the following set of activities to ensure that the developed program procedures on restructured loan processing would reduce the amount of "Undistributed Collections" and the proper posting and recording of loan amortization payments to the member-beneficiaries subsidiary ledger:	
I. Information Systems Department  a. Build and review implementation plans; b. Define and review a test strategy (entry and exit criteria) and an operational test plan methodology; c. Build and maintain a business and technical requirements repository and test cases for accredited systems; d. Perform system conversion and integration tests on test environment; e. Establish a test methodology that ensures sufficient acceptance testing prior to go-live.	Partially implemented.  The program was pilot tested already using St. Hannibal accounts, after which the following activities/development pursued:  a. FCD encoded the loan data of 11,000 accounts or about 50 percent of the total restructured accounts into the new program;

Observations and Recommendations	Actions Taken
<p>II. Finance and Controllershship Department</p> <p>f. Lead the systems evaluation results and approval of the Users Acceptance Test in coordination with the Internal Audit Department;</p> <p>g. Conduct final acceptance tests; and</p> <p>h. Recommend promotion to production based on agreed-upon accreditation criteria.</p>	<p>b. ISD is fine-tuning different modules necessary for generating management reports; and</p> <p>c. By 1<sup>st</sup> quarter of 2014, partial reversal or application of payments will be made which may significantly reduce UC balance.</p>
<p>4. A total of 2,453 member-beneficiaries and 3,357 substitute member-beneficiaries were granted with double or multiple CMP loans in an aggregate amount of P94.413 million and undetermined amount for substitute member-beneficiaries, respectively, as at December 31, 2012 due to absence of an Inquiry or Screening Application Program on the eligibility requirements/qualifications of CMP member-beneficiaries and detect the substitute members who have already been recipients of CMP loan from SHFC.</p>	
<p>The Information System Department in close coordination with the Asset Management Department and Accreditation Department to immediately design, develop and install an Inquiry or Screening Application Program for the evaluation of CA member-beneficiaries eligibility requirements prior to the grant of CMP loan to Member-Beneficiaries and Substituted Member-Beneficiaries;</p>	<p>Partially implemented.</p> <p>Action plans of the different departments/units concerned:</p>
<p>Impose sanctions under Section 15.3 of SHFC Corporate Circular No. 11-017 series of 2011</p>	<p>PAEMD/LED:</p> <p>1. Reviewed MBs files and validated that out of 2,453 accounts allegedly granted with double or multiple loans, only 456 were granted after CY2007 when the data build up for MBs was completed.</p>
<p>Exercise due care in the processing of CMP loan applications and evaluation of the eligibility requirements of applicants to ensure the attainment of the objective of the program of providing financial support to the homeless and underprivileged citizens only; and</p>	<p>2. Reviewed and strengthened the due diligence process to identify gaps and lapses that make double and multiple availments possible:</p>
<p>Conduct an investigation to determine the officers and employees responsible/liable for the grant of double or multiple CMP loans to individual member-beneficiaries. In case they are found negligent in the performance of their duties then appropriate administrative sanctions has to be imposed upon them.</p>	<p>a. Designed a program/system of checking and monitoring to avoid the multiple availment of housing loan programs;</p> <p>b. Individually check the names of the borrowers of communities applying for CMP against the Masterlist of</p>

Observations and Recommendations	Actions Taken
	<p data-bbox="945 261 1464 358">Borrowers of all CMP taken-out projects since 2007 before conducting the Background Investigation;</p> <p data-bbox="945 393 1464 526">c. Individually check the names of the borrowers of loans for take-out against the Masterlist of Borrowers of all CMP taken-out projects since 2007;</p> <p data-bbox="945 561 1464 756">d. Coordinate with the ISD to widen and develop a fast and easy process for the cross-checking and validation of CMP borrowers against beneficiaries of all government housing programs using the database developed by HUDCC;</p> <p data-bbox="945 791 1464 955">e. Remind the applicant CMP-MBs of their responsibility and accountability when they certify upon application that their projects are compliant with CMP guidelines; and</p> <p data-bbox="945 990 1464 1154">f. Validation of member-borrowers of all CMP projects taken-out since 2007 (for recommendation of issuance of demand letters to borrowers and sanction to CMP-MBs).</p> <p data-bbox="945 1190 1464 1782">A joint Task Force constituted by COA with SHFC's Internal Audit Department (IAD) as member and tasked to investigate on the matter, has submitted its initial report directly to COA on January 30, 2014. The management was not furnished a copy of said report. However, during initial conference with COA team last February 25, 2014 relative to 2013 financial audit, the team averred that SHFC management will be provided a copy of the reports only upon approval by the joint Task Force headed by COA. This was clarified during the exit conference held last April 11, 2014 that the IAD will submit their report directly to the Audit Committee and a copy will be provided to COA.</p> <p data-bbox="945 1818 1464 1875">For substitute members, PID/ISD is developing a program to screen out</p>

Observations and Recommendations	Actions Taken
<p>5. The corporation does not have policies and procedures on Business Disaster and Recovery Plan which could result in major information technology service interruption on key business functions and processes.</p>	<p>candidate substitute for possible double availment. A new Circular requiring additional requirement is drafted.</p>
<p>Formulate policies and procedures for Business Disaster and Recovery Plan and provide an off-site backup for storing the data and computer programs to minimize the probability of information technology service interruption.</p>	<p>Not implemented.</p> <p>To minimize the probability of information technology service interruption, hereunder are the courses of action:</p> <p><u>LONG TERM APPROACH</u> Currently, the corporation is in the initial implementation of Information System Strategic Plan (ISSP) with the objective to create IT strategy that covers definition of Business Disaster and Recovery Plan</p> <p><u>INTERIM APPROACH</u></p> <ol style="list-style-type: none"> <li>1. Implement and practice off-site backup.</li> <li>2. Create a detailed manual for disaster and recovery.</li> <li>3. Identify and assign key person who will be responsible for the execution of the procedures defined.</li> </ol>
<p>6. The absence of validation procedures between the Abstract of Collections prepared by the Community Associations and the actual money on hand prior to receipt of collections resulted in discrepancies and delay in the posting of collections to the member-beneficiaries subsidiary ledgers.</p>	<p>Partially implemented.</p> <p>a. Validation procedure is already being done by our in-house collection units both in the main and regional</p>
<p>Transfer the input data process or data encoding of the CA's Abstract of Collections (AOCs) from the Finance and Controllershship Department to AMDs to ensure the data accuracy, completeness and validity of the</p>	

Observations and Recommendations	Actions Taken
Abstract of Collections and prevent erroneous or invalid AOCs. Provide a module at the regional/satellite offices with sufficient control features for automatic or real-time posting of collections to the member-subsiidiary ledgers.	<p>offices. While LBP, being our accredited collecting arm, was reminded already to comply with the collection agreement.</p> <p>b. Part of our decentralization plan is to decentralize accounting and encoding functions hence the automatic posting of payments to MBs subsidiary/loan ledgers.</p> <p>c. In the interim and while waiting for the operationalization of the new collection system, the encoding function will remain with FCD.</p>

### **Abot-Kaya Pabahay Fund**

7. Abot-Kaya Pabahay Fund developmental loans totaling P97.719 million remained non-performing from 2 years to 18 years but no foreclosure action was initiated or more aggressive collection measures adopted that could affect the recovery of corporate exposure.

Initiate foreclosure action or adopt more aggressive collection measures, if warranted, on long outstanding receivables in order to quickly recover corporate exposure. Also, establish guidelines on the disposition of non-performing assets to prevent accumulation thereof.

Partially implemented.

The SHFC budget for CY 2014 included P6.8 million for AKPF's foreclosure activities.

Petition for extra judicial foreclosures of four (4) accounts valued at P25.2 million shall be filed during the first quarter of this year. Subsequently, these accounts shall be published for bidding.

Reply made on 02 September 2013 included related enclosures of board resolutions and duly approved policies and guidelines.

### **2011**

8. Ocular inspection on selected CMP take-out projects revealed non-compliance by the borrowers and community associations on significant provisions of the guidelines for on-site land acquisition.

Observations and Recommendations	Actions Taken
<p>Exercise due care in the processing of CMP loan applications and evaluation of the eligibility requirements of applicants to ensure the attainment of the objective of the program of providing financial support to the homeless and underprivileged citizens only.</p>	<p>Partially implemented.</p> <p>Management has instructed AMD, Remedial Unit and Regional offices to include in their onsite collection campaigns validation of actual occupancy of units in the community. If sublease arrangements are discovered, such will be a ground for termination of the LPA to be initiated by SHFC itself.</p>
<p>Require the member-beneficiaries of the CA to terminate the sub-lease agreements to conform to the terms and conditions of the lease purchase agreement entered into by the CA and the member beneficiaries.</p>	<p>The Collection Agreement between SHFC and CA requires the CA to issue its own official receipts from all amounts received from its MBs.</p>
<p>Require the CA to issue official receipts in the acceptance of payments from member-beneficiaries and keep up-to-date the subsidiary ledgers of member-beneficiaries.</p>	<p>The provision of the Collection Agreement (Section 1.1.4) is part of the agenda items being discussed by AMD account officers during collection orientations given to CA/ MBs. AMD sends Statement of Account and list of payments to MBs to keep the CA's subsidiary ledgers updated.</p>
<p>Impose sanctions provided under Section 10.2 of SHFC Circular No. 11-017 series of 2011 on member-beneficiaries who are considered in default for violating the terms and conditions of the purchase agreement.</p>	<p>AMD endorses to PID all delinquent accounts that are candidates for substitution.</p>
	<p>AMD endorses Task Force on Remedial Management of Accounts (TFRMA) all past due accounts above 60 months whose CA Boards and officialdom are no longer existing or inactive. AMD/ TFRMA endorses to Legal Department all accounts which remain unpaid despite all collection efforts.</p>

## **2010**

9. The remaining 50 per cent of loan proceeds payable to 167 landowners had been long outstanding ranging from one to 19 years due to the delay in the transfer of title in the name of the community associations thus, real estate mortgage agreements and the deed of assignments could not be annotated in the Transfer Certificate of Titles. It exposes the

Observations and Recommendations	Actions Taken
<p>Corporation to the risk that subject properties may be alienated to third parties who are not properly notified of the lien or encumbrance on the real property with an aggregate amount of P232.120 million.</p>	
<p>Enforce strictly the present policy of the Corporation to undertake the remaining documentation including the transfer of title in the name of the community association and annotation of real estate mortgage in favor of SHFC in case transfer of title is not made within the 90 days maximum period for transfer. The related expenses to be incurred are to be charged against the remaining balance of the loan proceeds. Also, there must be rigid review of the documents submitted before approval of the initial release.</p>	<p>Partially implemented.</p> <p>Since 2012, SHFC has transferred titles in the name of the Community Association for 123 CMP projects.</p> <p>The rest are at various stages of transfer. These projects are being processed for BIR Ruling on the Capital Gains Tax Exemption at the Bureau of Internal Revenue-Main Office, for issuance of the Certificate Authorizing Registration (CAR) at the Bureau of Internal Revenue-Revenue District Office (RDO) and for issuance of the title in the Community Association's name at the respective Registries of Deeds.</p>
<p>Revisit, review and if necessary, amend the present policy allowing only the partial release/payment of the loan proceeds. No release of loan proceeds is to be made prior to the transfer of the title to the CA to protect the interest of the Corporation.</p>	<p>These activities are all being facilitated and monitored by the CMP-Unit of SHFC.</p> <p>In addition, SHFC releases request for initial release only upon submission of all the requirements for payment, including but not limited to the submission of the Owner's Duplicate Copy of the Title (<i>Owner's copy</i>), Deed of Absolute Sale, Real Estate Mortgage, Loan Agreement, and Promissory Note, as security for the loan. This ensures that no other alienation, lien or encumbrance against the property will be established as against the right of SHFC.</p> <p>As a form of revision / review of the SHFC policy only allowing partial release/payment of the loan proceeds, SHFC issued Corporate Circular No. 13-022, series of 2013, which, for purposes of the Express Lane, gives the option for</p>

Observations and Recommendations	Actions Taken
	the execution of an Accommodation Mortgage, where the landowners executes and annotates in his title an accommodation mortgage in favor of SHFC and SHFC in turn releases the loan proceeds. In this way, SHFC's mortgage/security is annotated to the title even prior to its transfer in the Community Association's name. This same principle is being reviewed for application to the CMP regular lane.
<b><u>2009</u></b>	
10. No collection or foreclosure action has been initiated on Loan Installment Receivables – Past due accounts amounting to P2.750 billion since its transfer from NHMFC in 2005 up to the present, resulting in the non-recovery of corporate exposure on these accounts.	<p data-bbox="926 953 1208 984">Partially implemented.</p> <p data-bbox="926 1019 1448 1181">The legal department regularly sends demand letters, as requested by and through AMD and ROD, to delinquent MBs to avail of the 1 year updating scheme.</p> <p data-bbox="926 1216 1448 1313">The legal department already endorsed to the VP for Legal the draft of the guidelines for foreclosure.</p> <p data-bbox="926 1349 1339 1378">Reiterated in Observation No. 1.</p>



## **PART IV - ANNEXES**




**Social Housing Finance Corporation**  
a subsidiary of National Home Mortgage Finance Corporation

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2013 and the related Statements of Income and Expenses and Cash Flow for the year then ended. The Financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

  
**ENGR. FELMAR R. GILBANG**  
Manager, Trust Admin. Dept.

  
**EDUARDO T. MANICIO**  
Executive Vice-President

**SOCIAL HOUSING FINANCE CORPORATION (SHFC)**  
BDO Plaza, 8737 Paseo de Roxas, Makati City, 1226 Philippines  
Trucklines: (632) 750-6346/47/55 and 750-6337 Fax: (632) 894-4921  
<http://www/shfcph.com>

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**BALANCE SHEET**  
December 31, 2013  
(In Philippine Peso)

	Note	2013	2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	3	280,132,344	268,207,052
Receivables	4	11,398,354	12,284,135
		<b>291,530,698</b>	<b>280,491,187</b>
<b>Non-current Assets</b>			
Long-term receivables, net	5	146,436,812	159,944,361
Acquired assets	6	117,250,544	117,237,505
Property and equipment		43,467	48,293
		<b>263,730,823</b>	<b>277,230,159</b>
<b>TOTAL ASSETS</b>		<b>555,261,521</b>	<b>557,721,346</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Inter-agency payables	7	9,574,163	9,853,943
Other current liabilities	8	58,214	106,092
<b>TOTAL LIABILITIES</b>		<b>9,632,377</b>	<b>9,960,035</b>
<b>FUND BALANCE</b>		<b>545,629,144</b>	<b>547,761,311</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>		<b>555,261,521</b>	<b>557,721,346</b>

The Notes on pages 55 to 58 form part of these financial statements.

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENT OF INCOME AND EXPENSES**  
For the year ended December 31, 2013  
(In Philippine Peso)

	2013	2012
<b>INCOME</b>		
Interest income - special savings	6,312,794	10,863,404
Interest income - sale of acquired assets	1,883,400	1,114,811
Interest income - regular savings	9,241	9,441
Interest income - developmental loan	52,162	-
Other income - penalty	8,694	-
Other income - overpayment	1	-
Miscellaneous income	4,082	2,000
	<b>8,270,372</b>	<b>11,989,656</b>
<b>ADMINISTRATIVE AND OPERATING EXPENSES</b>		
Salaries and wages	4,395,971	4,347,505
Bad debts expense	1,500,000	-
Taxes, licenses and fees	1,281,423	1,274,677
Other personnel benefits	284,314	350,000
Trustee fee	262,314	286,951
Rent expenses	233,325	233,325
Utility expenses	112,373	132,022
Business development expense	134,546	132,000
Professional services	112,456	118,294
Supplies and materials expenses	76,590	38,089
Communication expenses	54,203	63,830
Travelling expenses	26,642	26,929
Printing/binding/reproduction	26,012	27,046
Depreciation	8,626	6,863
Fidelity bond premium	7,500	7,500
Other personnel services	1,250	39,000
Postage and deliveries	220	145
Miscellaneous expense	14,743	24,549
	<b>8,532,508</b>	<b>7,108,725</b>
<b>INCOME BEFORE TAX</b>	<b>(262,136)</b>	<b>4,880,931</b>
<b>INCOME TAXES</b>		
Final income tax - special savings	1,262,559	2,172,681
Final income tax - regular savings	1,848	1,888
	<b>1,264,407</b>	<b>2,174,569</b>
<b>NET INCOME (LOSS)</b>	<b>(1,526,543)</b>	<b>2,706,362</b>

The Notes on pages 55 to 58 form part of these financial statements.

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENT OF CHANGES IN FUND BALANCE**  
For the year ended December 31, 2013  
(In Philippine Peso)

	Note	Total
Balance at December 31, 2011, as restated		554,440,660
Net income		2,706,362
Prior period adjustments		(9,385,711)
<b>Balance at December 31, 2012</b>		<b>547,761,311</b>
Balance at December 31, 2012		547,761,311
Net loss		(1,526,543)
Prior period adjustments	9	(605,624)
<b>Balance at December 31, 2013</b>		<b>545,629,144</b>

The Notes on pages 55 to 58 form part of these financial statements.

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2013  
(In Philippine Peso)

	Note	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest income received		6,613,586	12,393,263
Installment sales receivable, current		6,184,049	3,567,424
Accounts receivable		5,280,000	-
Installment sales receivable, longterm		576,667	-
Miscellaneous income		4,082	2,000
Other income		8,696	-
Refund of cash advance		10,241	6,792
Payment of personal services		(5,724,435)	(4,276,533)
Payment of taxes		(1,314,426)	(2,277,120)
Payment of trustee fee		(262,314)	(286,951)
Payment of operating expenses		(1,334,254)	(1,575,805)
Payment of cash advance		-	(28,600)
Other expenses		-	(98,847)
Net cash provided by operating activities		10,041,892	7,425,623
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of acquired assets		1,883,400	2,052,000
Net cash provided by investing activities		1,883,400	2,052,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>11,925,292</b>	<b>9,477,623</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING</b>		<b>268,207,052</b>	<b>258,729,429</b>
<b>CASH AND CASH EQUIVALENTS, END</b>	<b>3</b>	<b>280,132,344</b>	<b>268,207,052</b>

The Notes on pages 55 to 58 form part of these financial statements.

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
(All amounts in Philippine Peso unless otherwise stated)

**1. GENERAL INFORMATION**

The Abot-Kaya Pabahay Fund (AKPF) was created under Republic Act (R.A.) No. 6846 as amended by R.A. 7835 under the trusteeship of the National Home Mortgage Finance Corporation. The Fund shall be used exclusively for 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 AKPF 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 (E.O.) 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 monthly summary of transactions is prepared duly reviewed, certified and approved by its responsible officers to the Finance and Controllership Department for journal entry voucher 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.

The straight line method of depreciation is adopted with a residual value equivalent to ten per cent of the total cost recognized. Straight line depreciation results in constant charge over the useful life of the asset. 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 AND CASH EQUIVALENTS

This account consists of:

	2013	2012
Cash in bank – LBP 1	643,973	1,708,709
– LBP 2	1,487,671	1,497,643
Investment in BSP – Special Deposit Account (SDA)	278,000,700	265,000,700
	<b>280,132,344</b>	<b>268,207,052</b>

### 4. RECEIVABLES

This account consists of the following:

	2013	2012
Installment sales receivable – current	11,107,284	6,466,074
Interest receivable – BSP-SDA	291,070	530,461
Accounts receivable	-	5,280,000
Advances to officers and employees	-	7,600
	<b>11,398,354</b>	<b>12,284,135</b>

This Installment sales receivable – current account represents the amortization due for the current year from the sale of acquired assets.

### 5. LONG – TERM RECEIVABLES

This account consists of the following:

	2013	2012
Past due receivables–developmental loans <sup>5.1/</sup>	103,719,133	98,526,633
Items in litigation – developmental loans <sup>5.2/</sup>	52,511,616	52,511,616
	156,230,749	151,038,249
Less : Allowance for doubtful accounts	39,057,687	37,759,562
	117,173,062	113,278,687
Developmental loan receivables <sup>5.3/</sup>	-	6,000,000
Installment sales receivable, long term	29,263,750	40,665,674
	<b>146,436,812</b>	<b>159,944,361</b>

#### 5.1 Past due receivables-developmentals loans

This account represents loan granted to developers with outstanding balance after the 24 and 36 months drawdown.



## 5.2 Items in litigation-developmental loans

This account represents long outstanding receivable on two developmental, which were endorsed to Legal Department for legal action due to defaults of the borrowers.

The collateral for the loan intended for the development of one Subdivision was attached by a local government unit due to non-payment of realty tax and was already bought by the Province November 29, 2007 pursuant to Sec. 75 of PD 464. On the other hand, the developed/constructed property by the developer of another Subdivision submitted TCT No. 284306 as substitute/additional collateral for missing titles.

## 5.3 Developmental loan receivables

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

# 6. ACQUIRED ASSETS

This account pertains to property acquired from settlement of accounts through "dacion en pago" for four projects and foreclosure for three projects, namely La Vista Cruz Subdivision, Villa Haniya Subdivision and Evergreen Subdivision. However La Vista project was declared by Department of Agrarian Reform (DAR) as not exempted from CARP Coverage. Our Legal Department filed an appeal for reconsideration of the Order dated 21 January 2014.

Project		2013	2012
1.	Juel Country Homes Juel Estate Land	17,382,383	17,382,383
2.	UPLB-ONAPUP Village San Marco Realty & Development	9,334,750	9,334,750
3.	Olympia Village St. Raphael Construction	3,732,977	3,732,977
4.	Villa Aguila Subdivision J.B. Lagman Construction	27,774,322	27,762,226
5.	Villa Felipe Heights Subd. LMK Trading & Gen. Construction	12,400,134	12,400,134
6.	Villa Haniya Subdivision Bluejay Builders & Supplies	11,500,827	11,500,827
7.	La Vista Cruz Subd. PS Enterprises	27,597,702	27,596,759
8.	Evergreen Subdivision BM Maglaqui Construction	7,527,449	7,527,449
		<b>117,250,544</b>	<b>117,237,505</b>

## **7. INTER-AGENCY PAYABLE**

This account consists of the following:

	<b>2013</b>	<b>2012</b>
Due to SHFC <sup>7.1/</sup>	1,863,941	2,219,613
Due to LGUs <sup>7.2/</sup>	7,710,222	7,634,330
	<b>9,574,163</b>	<b>9,853,943</b>

### **7.1 Due to SHFC**

Due to SHFC represents personal services and other administrative expenses advanced by SHFC.

### **7.2 Due to LGUs**

Due to LGUs represents unpaid real property taxes on the AKPF projects.

## **8. OTHER CURRENT LIABILITIES**

This account consists of tax withheld on interest income earned on investment in special savings deposit in the amount of P58,214 and P106,092 for CY 2013 and 2012 respectively.

## **9. PRIOR PERIOD ADJUSTMENTS**

This account represents payment of prior years' real property tax.