



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
**Corporate Government Sector**  
Cluster 2 – Social Security Services and Housing  
Office of the Cluster Director

May 3, 2021

**THE BOARD OF DIRECTORS**

Social Housing Finance Corporation  
BDO Plaza, 8737 Paseo de Roxas  
Makati City

**SHFC**  
**OFFICE OF THE BOARD SECRETARY**  
**RECEIVED**

BY: Kiana Corpuz  
DATE: May 5, 2021

**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) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, Status of Implementation of Prior Years' Audit Recommendations, and the Audited Financial Statements of the Abot-Kaya Pabahay Fund.

The Auditor expressed an adverse opinion on the fairness of the presentation of the financial statements of the SHFC for the years ended December 31, 2020 and 2019 due to the following:

- a. The Undistributed Collections (UC) under Other Payables account pertaining to payments of member-borrowers remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P452.252 million and P394.076 million as at December 31, 2020 and 2019, respectively;
- b. The account balances of the Investments in Treasury Bills of P940.233 million in 2020 and P1.604 billion in 2019; Receivables, current of P121.785 million in 2020 and P106.459 million in 2019; Other Current Assets of P701.326 million in 2020 and P518.260 million in 2019; Receivables, non-current of P18.864 billion in 2020 and P18.331 billion in 2019; and Other Non-Current Assets of P551.704 million in 2020 and P552.560 million in 2019 or a total of P21.179 billion and P21.112 billion as at December 31, 2020 and 2019, respectively, are misstated by undetermined amounts due to non-compliance to the provisions of PFRS 9 Financial Instruments requiring classification, measurement and impairment of the above-enumerated financial assets; and
- c. The present value of expected payments to cover future retirement benefits of SHFC's employees are not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to the requirement of PAS 19 Employee Benefits, resulting in the understatement of both the Retirement Expense and Retirement Gratuity Payable accounts by undetermined amounts as of December 31, 2020 and 2019.

For the above observations, we reiterated the prior years' audit recommendations that Management:

*For undistributed collections*

- a. Submit work breakdown schedule to post and allocate UC by at least:
  - i. 50 percent by end of CY 2021
  - ii. 50 percent by end of CY 2022; and
- b. Require the Information and Communication Technology Department to facilitate the enhancement of the database to include the HDH Projects and all other accounts not yet in the database.

*For noncompliance with the requirements of PFRS 9 on Financial Instruments*

Formulate an accounting policy on financial instruments which is aligned/compliant with the requirements of PFRS 9 and accordingly apply this policy in the classification, measurement and impairment of the financial instruments of SHFC.

*For noncompliance with PAS 19 on Employee Benefits*

- a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;
- b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and
- c. Seek assistance from a qualified actuary service in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.

**OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. Trust fund amounting to P10.360 million received from the Department of Social Welfare and Development (DSWD) for the shelter needs of families whose houses were damaged by Typhoon Sendong remained unutilized for almost five years, contrary to the Memorandum of Agreement (MOA) between DSWD and SHFC and Section 4(3) of PD 1445, resulting in the failure to address the immediate needs for decent housing of family-victims affected by disaster. Thus, defeating the purpose of the trust fund and depriving the National Government (NG) the use of these cash reserves to finance other vital programs related to housing.

We recommended that Management:

- a. Immediately liquidate with DSWD the trust fund amounting to P10.360 million including all interest earned so that these can be appropriated to the more important and urgent projects of the government; and
- b. Moving forward, intensify and strengthen mobilization efforts to ensure that Funds received are utilized accordingly.



2. A High Density Housing (HDH) project of a Community Association (CA) costing P352.304 million was not completed within the scheduled date of completion despite two approved extension periods or a total of two years, contrary to the provisions of the Building Construction and Site Development Agreement and Corporate Circular HDH No. 14-002, series of 2014, thus, depriving the intended 720 Informal Settler Families (ISF)- beneficiaries of the immediate use of the decent housing, resulting in the non-attainment of the objectives of the HDH Program and the risk of non-recovery of SHFC's investment in housing projects.

We recommended that Management:

- a. Require or make a representation with the CA to impose the liquidated damages against the contractor for each day of delay and initiate termination or rescission of the Agreement as a result of the contractor's fault or negligence pursuant to Article XI of the Building Construction and Site Development Agreement;
  - b. Ensure a full coordination with the Local Government Unit (LGU), the CA and Meralco for the dismantling of the post which encroaches on the project site;
  - c. Moving forward, require the Department of Engineering to perform due diligence on future projects and to ensure that the assessment of the contractor/developer hired by the association is based on financial capacity, managerial capability, organizational structure, technical expertise, delivery capability and experience pursuant to Corporate Circular HDH No. 14-002 dated March 31, 2014; and
  - d. Require the Department of Engineering to strictly monitor and validate the construction projects undertaken by the CA.
3. Non-withholding of tax on the monetized leave credits in excess of the allowable number of days considered as de minimis benefit of 41 employees totaling P1.918 million is contrary to Section 1 of Revenue Regulation (RR) No. 5-2011 and Section 7 of RR No. 11-2018 and may expose SHFC to the risk of possible assessment on deficiency tax on wages.

We recommended that Management:

- a. Secure clarification from the BIR whether the monetized leave credits in excess of the threshold is exempt from tax considering that SHFC employees are covered by the Labor Code; and
- b. Ensure that the provisions of RR No. 5-2011 and RR No. 11-2018 are strictly applied to all other allowances and benefits granted to employees in order to avoid possible assessment by the BIR on deficiency tax on wages.

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 March 4, 2021, are presented in detail in Part II of the report.

In a letter of even date, we requested the President of SHFC to take appropriate actions on the recommendations contained in Parts II and III of the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

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:

*ma. lisa p. inguillo*

**MA. LISA P. INGUILLO**  
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





*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 Years Ended December 31, 2020 and 2019**

## EXECUTIVE SUMMARY

### INTRODUCTION

The Social Housing Finance Corporation (SHFC) was organized and established on June 21, 2005 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 as the lead agency in undertaking social housing programs that will cater to the formal and informal sectors in the low-income bracket and in taking charge of the development and administration of 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.

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

The governing board of SHFC, which exercises its corporate powers and determines its policies, is composed of the following: (a) the Chairman of Department of Human Settlement and Urban Development (DHSUD); (b) the President of SHFC; (c) the Secretary of Department of Budget and Management (DBM); (d) the Undersecretary of Department of Finance (DOF); (e) the President of NHMFC; (f) the Undersecretary of Department of the Interior and Local Government (DILG); and (g) four private sector representatives.

The President is assisted in the management of SHFC by the Executive Vice-President, two Vice-Presidents, three Officer-in-Charge (OIC) Senior Vice-Presidents, 19 OIC Vice-President, three Department Managers and 42 OIC Department Managers. The personnel complement for calendar year 2020 is 614, with 225 regular, one probationary and 388 agency-hired employees. To date, the SHFC has 24 Satellite/Regional Offices located in Bacoor Cavite, Isabela, Naga City, Puerto Princesa City in Palawan, Bacolod City, Iloilo City, Cebu City, Davao City, General Santos City, Cagayan de Oro City, Zamboanga City, Roxas City, Calamba City, Tubigon Bohol, Pampanga, Lucena, San Carlos Negros Occidental, Daet, Albay, Tagum, Dapitan, Iligan, Butuan and Caraga.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2020 and 2019 amounted to P6.634 billion and P3.303 billion, respectively, which were utilized as follows:

Particulars	2020		2019	
	Budget	Utilization*	Budget	Utilization
		(In Thousand Pesos)		
Personnel services	333,049	276,281	307,678	288,103
Maintenance and other operating expenses	972,411	316,760	401,331	373,058
Capital outlay	62,527	52,914	84,308	52,809
Loan outlay	2,394,745	2,045,006	2,509,340	2,560,302
North-South Luzon Railway Project	2,607,128	70,170	0	0
Marawi Recovery, Rehabilitation and Reconstruction Program	134,464	55,490	0	0
AKPF	129,571	14,864	0	0
	<b>6,633,895</b>	<b>2,831,485</b>	<b>3,302,657</b>	<b>3,274,272</b>

\*The amounts of utilization presented are on cash basis.



The registered office of SHFC is at Banco de Oro Plaza, 8737 Paseo de Roxas, Makati City.

## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. Comparative Financial Position

Particulars	2020	2019	Increase (Decrease)
Assets	28,348,431,601	28,197,893,054	150,538,547
Liabilities	21,585,061,967	21,738,246,540	(153,184,573)
Equity	6,763,369,634	6,459,646,514	303,723,120

### II. Comparative Results of Operations

Particulars	2020	2019	Increase (Decrease)
Total income	483,329,833	846,008,932	(362,679,099)
Total expenses	614,250,871	621,804,910	(7,554,039)
Profit before tax	(197,591,180)	39,053,717	(236,644,897)
Income tax expense	(54,703,975)	22,711,857	(77,415,832)
Profit after tax	(76,217,063)	201,492,165	(277,709,228)
Subsidy from National Government	427,766,158	727,506,829	(299,740,671)
Comprehensive income	351,549,095	928,998,994	(577,449,899)

## OPERATIONAL HIGHLIGHTS

Performance Indicators	2020		
	Targets	Accomplishments	Wt.
<b>Social Impact</b>			
Increase number of ISFs provided with Housing Financial Assistance.	35,000	20,617	35%
<ul style="list-style-type: none"> <li>20,617 ISFs for the 63 community associations, with total amount released of P1.609 billion</li> </ul>			
<b>Stakeholders</b>			
Percentage of Satisfied Customers (Pre-Takeout and Post-Takeout)	90%	SHFC consistently achieve satisfactory ratings for its pre-takeout and post-takeout activities on a commissioned Client Satisfaction Survey.	5%
<ul style="list-style-type: none"> <li>Number of Stakeholders who give a rating of at least Satisfactory - 90%</li> </ul>			
<b>Financial</b>			
Improve Collection Efficiency Rate	73%	97.07%	10%
<ul style="list-style-type: none"> <li>Collection Efficiency Rating – 73%</li> </ul>			
Increase Net Operating Income (Before Tax and Subsidy)	P165 million	P44.007 million	10%
<ul style="list-style-type: none"> <li>P165 million Net Operation Income</li> </ul>			
Improve Budget Utilization Rate	Utilize not less than 90% but not more than 100% of the GAA Allocation for SHFC Programs	90%	10%
<ul style="list-style-type: none"> <li>SHFC's community-driven programs, CMP and HDH, were allocated with P500 million and P896.92 million respectively.</li> </ul>			
<b>Internal Process</b>			
Percentage of Loan Applications Processed within prescribed period	100% loan application processed within prescribed period	100%	10%
<ul style="list-style-type: none"> <li>100% loan applications processed prescribed period</li> </ul>			

Performance Indicators	2020		
	Targets	Accomplishments	Wt.
<i>Improve Support Systems for Effective and Efficient Processes</i> <ul style="list-style-type: none"> <li>100% attainment of the 2020 deliverables based on SHFC's DICT-Approved ISSP 2018-2020</li> </ul>	Continuously developed the automation of system processes to cover information for operational and management activities and further promote ease of doing business.	SHFC implementing four out of the seven systems identified under the Phase III and its DICT-Approved Information Systems Strategies Plan (ISSP) from 2018-2020	5%
<b>Learning and Growth</b>			
<i>Attain Quality Management Certification</i> <ul style="list-style-type: none"> <li>Pass ISO Surveillance Audit for the Head Office and ISO 9001:2015 Certification for one Regional Branch</li> </ul>	SHFC ensure that the ISO 9001:2015 certification is maintained during its Surveillance audit at the Head Office. (all or nothing)	SHFC ISO 9001:2015 Re Certification from SOCOTEC Certification Philippines Inc for ISO 9001 on December 19, 2019	5%
<i>Improvement of the Competency of the Organization</i> <ul style="list-style-type: none"> <li>Improvement in the Competency Baseline of the Organization</li> </ul>	SHFC strives for the continual development of its human resource management by continuously implementing the Competency Based System. (all or nothing)	SHFC Completed 208 webinars and online trainings	5%

## SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC and the AKPF–Amortization Support and Developmental Financing Program for the years ended December 31, 2020 and 2019 and were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Our audit was aimed to determine the fairness of presentation of the financial statements in accordance with Philippine Financial Reporting Standards and to assess the propriety of the financial transactions and compliance of SHFC with government laws, rules and regulations.

## INDEPENDENT AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the SFHC for the years ended December 31, 2020 and 2019 due to the Undistributed Collections (UC) under Other Payables account pertaining to payments of member-borrowers which remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P452.252 million and P394.076 million as at December 31, 2020 and 2019, respectively.

Moreover, the account balances of the Investments in Treasury Bills of P940.233 million in 2020 and P1.604 billion in 2019; Receivables, current of P121.785 million in 2020 and P106.459 million in 2019; Other Current Assets of P701.326 million in 2020 and P518.260 million in 2019; Receivables, non-current of P18.864 billion in 2020 and P18.331 billion in 2019; and Other Non-Current Assets of P551.704 million in 2020 and P552.560 million in 2019 or a total of P21.179 billion and P21.112 billion as at December 31, 2020 and 2019, respectively, are misstated by undetermined amounts due to non-compliance to the



provisions of PFRS 9 *Financial Instruments* requiring classification, measurement and impairment of the above-enumerated financial assets.

Further, the present value of expected payments to cover future retirement benefits of SHFC's employees are not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to the requirement of PAS 19 *Employee Benefits*, resulting in the understatement of both the Retirement Expense and Retirement Gratuity Payable accounts by undetermined amounts as of December 31, 2020 and 2019.

For the above observations, we reiterated the prior years' audit recommendations that Management:

*For undistributed collections*

- a. Submit work breakdown schedule to post and allocate UC by at least:
  - i. 50 per cent by end of CY 2021
  - ii. 50 per cent by end of CY 2022; and
- b. Require the Information and Communication Technology Department to facilitate the enhancement of the database to include the HDH Projects and all other accounts not yet in the database.

*For noncompliance with the requirements of PFRS 9 on Financial Instruments*

Formulate an accounting policy on financial instruments which is aligned/compliant with the requirements of PFRS 9 and accordingly apply this policy in the classification, measurement and impairment of the financial instruments of SHFC.

*For noncompliance with PAS 19 on Employee Benefits*

- a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;
- b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and
- c. Seek assistance from a qualified actuary service in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.

**OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. Trust fund amounting to P10.360 million received from the Department of Social Welfare and Development (DSWD) for the shelter needs of families whose houses were damaged by Typhoon Sendong remained unutilized for almost five years, contrary to the Memorandum of Agreement (MOA) between DSWD and SHFC and Section 4(3) of PD 1445, resulting in the failure to address the immediate needs for decent housing of family-victims affected by disaster. Thus, defeating the purpose of the trust fund and depriving the National Government (NG) the use of these cash reserves to finance other vital programs related to housing.

We recommended that Management:

- a. Immediately liquidate with DSWD the trust fund amounting to P10.360 million including all interest earned so that these can be appropriated to the more important and urgent projects of the government; and
  - b. Moving forward, intensify and strengthen mobilization efforts to ensure that Funds received are utilized accordingly.
2. A High Density Housing (HDH) project of a Community Association (CA) costing P352.304 million was not completed within the scheduled date of completion despite two approved extension periods or a total of two years, contrary to the provisions of the Building Construction and Site Development Agreement and Corporate Circular HDH No. 14-002, series of 2014, thus, depriving the intended 720 Informal Settler Families (ISF)- beneficiaries of the immediate use of the decent housing, resulting in the non-attainment of the objectives of the HDH Program and the risk of non-recovery of SHFC's investment in housing projects.

We recommended that Management:

- a. Require or make a representation with the CA to impose the liquidated damages against the contractor for each day of delay and initiate termination or rescission of the Agreement as a result of the contractor's fault or negligence pursuant to Article XI of the Building Construction and Site Development Agreement;
  - b. Ensure a full coordination with the Local Government Unit (LGU), the CA and Meralco for the dismantling of the post which encroaches on the project site;
  - c. Moving forward, require the Department of Engineering to perform due diligence on future projects and to ensure that the assessment of the contractor/developer hired by the association is based on financial capacity, managerial capability, organizational structure, technical expertise, delivery capability and experience pursuant to Corporate Circular HDH No. 14-002 dated March 31, 2014; and
  - d. Require the Department of Engineering to strictly monitor and validate the construction projects undertaken by the CA.
3. Non-withholding of tax on the monetized leave credits in excess of the allowable number of days considered as de minimis benefit of 41 employees totaling P1.918 million is contrary to Section 1 of Revenue Regulation (RR) No. 5-2011 and Section 7 of RR No. 11-2018 and may expose SHFC to the risk of possible assessment on deficiency tax on wages.

We recommended that Management:

- a. Secure clarification from the BIR whether the monetized leave credits in excess of the threshold is exempt from tax considering that SHFC employees are covered by the Labor Code; and



- b. Ensure that the provisions of RR No. 5-2011 and RR No. 11-2018 are strictly applied to all other allowances and benefits granted to employees in order to avoid possible assessment by the BIR on deficiency tax on wages.

#### **SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES, AND CHARGES**

The balance of disallowances amounting to P76,629,312 consists of the balances of (a) ND No. 2019-01(2018) amounting to P5,482,500, (b) ND No. 2017-01-CIB-TD amounting to P71,030,479, and (c) ND 2016-01 (2014) and ND 2015-04 (2014) amounting to P116,333 as of December 31, 2020. There were no Notices of Suspension and Charge issued during the year.

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

Out of 57 audit recommendations for both SHFC and AKPF embodied in the CY 2019 Annual Audit Report, 25 were fully implemented, 28 were partially implemented of which six were reiterated in Part II of this Report, and four were reconsidered. The details are presented in Part III of the Report.

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## LIST OF ACRONYMS

AHT	Asset Held in Trust
AKPF	Abot-Kaya Pabahay Fund
AO	Administrative Order
AOC	Abstract of Collections
ASDFP	Amortization Support and Developmental Financing Programs
BIR	Bureau of Internal Revenue
BOD	Board of Directors
BTr	Bureau of the Treasury
CAs	Community Associations
ConAg	Contract Agreement
CAD	Corporate Accounts Division
CAIS	Community Association Information System
CGT	Capital Gains Tax
CMP	Community Mortgage Program
COA	Commission on Audit
CPSE	Commercial Public Sector Entity
CREATE Act	Corporate Recovery and Tax Incentives for Enterprises Act
DBM	Department of Budget and Management
DBPSC	Development Bank of the Philippines Service Corporation
DBPSCSSI	DBPSC Security Services Incorporated
DCRs	Daily Collection Reports
DoE	Department of Engineering
DOTr	Department of Transportation
DHSUD	Department of Human Settlement and Urban Development
DSWD	Department of Social Welfare and Development
DV	Disbursement Voucher
ECL	Expected Credit Losses
ECQ	Enhanced Community Quarantine
EJS	Extra Judicial Settlements
EO	Executive Order
FCD	Finance and Comptrollership Department
FMS	Fund Management Sector
FS	Financial Statements
FVPL	Fair Value Through Profit and Loss
FVTOCI	Fair Value Through Other Comprehensive Income
GAD	Gender and Development
GBE	Government Business Enterprise
GL	General Ledger
GMMA	Greater Metro Manila Area
GOCC	Government Owned and Controlled Corporation
GSIS	Government Service Insurance System
HDHP	High Density Housing Program
HOA	Home Owners Association
HOAI	Home Owners Association Incorporated
HOPE	Head of Procuring Entity
HRD	Human Resource Department
HUDCC	Housing and Urban Development Coordinating Council

IASB	International Accounting Standards Board
ICOS	Institutional Contract of Service
ICTD	Information and Communication Technology Department
IP	Investment Property
ISF	Informal Settler Families
JO	Job Order
LBP	Land Bank of the Philippines
LCMP	Localized Community Mortgage Program
LGU	Local Government Unit
LOA	Letter of Guaranty
MBs	Member Borrowers
MC	Memorandum Circular
MCR	Mortgage Contract Receivable
MMRB	Micro Medium Rise Building
MOA	Memorandum of Agreement
MRI	Mortgage Redemption Insurance
MRRRP	Marawi Recovery, Rehabilitation and Reconstruction Program
NASA	Neighborhood Association for Shelter Assistance
NDRRM	National Disaster Risk Reduction and Management
NGAs	National Government Agencies
NHMFC	National Home Mortgage Finance Corporation
PAS	Philippine Accounting Standards
PCAB	Philippine Contractors Accreditation Board
PCW	Philippine Commission for Women
PD	Presidential Decree
PFRS	Philippine Financial Reporting Standards
RA	Republic Act
RCA	Revised Chart of Accounts
RD	Register of Deeds
REM	Real Estate Mortgage
RPT	Real Property Tax
RR	Revenue Regulation
SEC	Security and Exchange Commission
SHFC	Social Housing Finance Corporation
SL	Subsidiary Ledger
SCI	Statement of Comprehensive Income
SSS	Social Security System
SWA	Statement of Work Accomplishment
TCT	Transfer Certificate of Title
TOF	Take out Fund
TOR	Terms of Reference
TUAAMD	Title Unitization and Asset Management Department
UC	Undistributed Collections



**PART I**

**AUDITED FINANCIAL STATEMENTS**



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

Social Housing Finance Corporation  
Banco de Oro Plaza  
8737 Paseo de Roxas  
Makati City

### **Report on the Audit of the Financial Statements**

#### *Adverse Opinion*

We have audited the financial statements of the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity, statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the *Bases for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly the financial position of SHFC as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### *Bases for Adverse Opinion*

The Undistributed Collections (UC) under Other Payables account pertaining to payments of member-borrowers remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P452.252 million and P394.076 million as at December 31, 2020 and 2019, respectively. Moreover, the account balances of the Investments in Treasury Bills of P940.233 million in 2020 and P1.604 billion in 2019; Receivables, current of P121.785 million in 2020 and P106.459 million in 2019; Other Current Assets of P701.326 million in 2020 and P518.260 million in 2019; Receivables, non-current of P18.864 billion in 2020 and P18.331 billion in 2019; and Other Non-Current Assets of P551.704 million in 2020 and P552.560 million in 2019 or a total of P21.179 billion and P21.112 billion as at December 31, 2020 and 2019, respectively, are misstated by undetermined amounts due to non-compliance to the provisions of PFRS 9 *Financial Instruments* requiring classification, measurement and impairment of the above-enumerated financial assets. Further, the present value of expected payments to cover future retirement benefits of SHFC's employees are not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to the requirement of PAS 19 *Employee Benefits*, resulting in the understatement of both the Retirement Expense and Retirement Gratuity Payable accounts by undetermined amounts as at December 31, 2020 and 2019.



We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the SHFC in accordance with the Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing SHFC's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate SHFC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing SHFC's financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 SHFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SHFC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of our auditor's report. However, future events or conditions may cause SHFC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 33 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of SHFC. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. Because of the significance of the matters described in the Bases for Adverse Opinion paragraph, it is inappropriate to, and we do not express an opinion on the supplementary information referred to above.

### **COMMISSION ON AUDIT**

*Celia L. Nazareno*  
**CELIA L. NAZARENO**  
 Officer-in-Charge

March 31, 2021



**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2020 and 2019  
(In Philippine Peso)

	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	4,792,548,883	5,139,064,906
Financial assets	5	1,060,232,808	1,603,895,203
Receivables	6	121,784,607	106,459,049
Inventories	7	7,199,202	5,653,906
Other current assets	8	701,326,088	518,259,530
		<b>6,683,091,588</b>	<b>7,373,332,594</b>
<b>Non-Current Assets</b>			
Receivables, net	6	18,776,658,357	18,248,888,810
Investment property	9	2,023,426,873	1,789,693,558
Property and equipment	10	194,182,337	186,337,682
Intangible assets	11	10,525,542	1,275,024
Deferred tax assets	25	108,842,450	45,805,281
Other non-current assets	12	551,704,454	552,560,105
		<b>21,665,340,013</b>	<b>20,824,560,460</b>
<b>TOTAL ASSETS</b>		<b>28,348,431,601</b>	<b>28,197,893,054</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Financial liabilities	13	1,106,776,267	1,288,209,456
Inter-agency payables	14	31,211,491	26,492,012
Income tax payable	25	2,741,973	1,427,233
Trust liabilities	15	4,715,710	4,715,710
Deferred credits/unearned income	16	225,135,120	238,141,935
Other payables	17	1,540,010,887	1,485,754,782
		<b>2,910,591,448</b>	<b>3,044,741,128</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	13	5,583,910	23,763,152
Trust liabilities	15	18,668,886,609	18,669,742,260
		<b>18,674,470,519</b>	<b>18,693,505,412</b>
<b>TOTAL LIABILITIES</b>		<b>21,585,061,967</b>	<b>21,738,246,540</b>
Capital Stock	18	10,000,000	10,000,000
Retained earnings	18	6,753,369,634	6,449,646,514
<b>TOTAL EQUITY</b>		<b>6,763,369,634</b>	<b>6,459,646,514</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>28,348,431,601</b>	<b>28,197,893,054</b>

The Notes on pages 9 to 50 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	Note	2020	2019
<b>INCOME</b>			
Service and business income	19	<b>416,659,691</b>	660,858,627
		<b>416,659,691</b>	660,858,627
<b>EXPENSES</b>			
Personnel services	20	<b>280,443,669</b>	282,643,330
Maintenance and other operating expenses	21	<b>303,611,843</b>	312,369,967
Non-cash expenses	22	<b>27,033,572</b>	22,043,308
Financial expenses	23	<b>3,161,787</b>	4,748,305
		<b>614,250,871</b>	621,804,910
<b>INCOME/(LOSS) FROM OPERATIONS</b>		<b>(197,591,180)</b>	39,053,717
Other non-operating income	24	<b>66,670,142</b>	185,150,305
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>(130,921,038)</b>	224,204,022
<b>INCOME TAX EXPENSE/(BENEFIT)</b>			
Current	25.1	<b>8,333,194</b>	23,482,191
Deferred tax	25.2	<b>(63,037,169)</b>	(770,334)
		<b>(54,703,975)</b>	22,711,857
<b>PROFIT/(LOSS) AFTER TAX</b>		<b>(76,217,063)</b>	201,492,165
Net assistance/subsidy income from National Government	26	<b>427,766,158</b>	727,506,829
<b>NET INCOME/COMPREHENSIVE INCOME</b>		<b>351,549,095</b>	928,998,994

The Notes on pages 9 to 50 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF CHANGES IN EQUITY**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	Capital Stock 18.1	Retained Earnings 18.2	Total Equity
Balance as at January 1, 2019	10,000,000	6,099,642,175	6,109,642,175
Prior period adjustments	0	(372,737,327)	(372,737,327)
Restated balance as at January 1, 2019	10,000,000	5,726,904,848	5,736,904,848
Comprehensive income for the year	0	928,998,994	928,998,994
Dividends paid CY 2018	0	(95,960,626)	(95,960,626)
Dividends payable CY 2019	0	(110,296,702)	(110,296,702)
Balance as at December 31, 2019	10,000,000	6,449,646,514	6,459,646,514
Balance as at January 1, 2020	10,000,000	6,449,646,514	6,459,646,514
Prior period adjustments	0	(47,825,975)	(47,825,975)
Restated balance as at January 1, 2020	10,000,000	6,401,820,539	6,411,820,539
Comprehensive income for the year	0	351,549,095	351,549,095
<b>Balance as at December 31, 2020</b>	<b>10,000,000</b>	<b>6,753,369,634</b>	<b>6,763,369,634</b>
Appropriated Retained Earnings			
Funds appropriated for HDH Project		6,384,479,898	
Retained Earnings for transfer to NHMFC		60,505,380	
Un-appropriated Retained Earnings		308,384,356	

The Notes on pages 9 to 50 form part of these financial statements.



**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash inflows</b>		
Collection of income/revenue	757,255,848	1,102,825,825
Receipt of assistance/subsidy	430,525,526	752,827,898
Trust receipts	6,153,199	51,862,733
Collection of receivables	3,888,818	7,585,309
Receipt of inter-agency fund transfers	2,191,204	5,152,209
Other receipts	19,041,540	10,703,941
Total cash inflows	1,219,056,135	1,930,957,915
<b>Cash outflows</b>		
Release of funds for mortgage contracts	(1,186,803,718)	(2,284,253,471)
Payment of expenses	(407,823,062)	(218,747,816)
Refund of deposits	(838,444)	(178,479,328)
Remittance of personnel benefit contributions and mandatory deductions	(61,164,543)	(99,918,900)
Payment for prepaid expenses	(84,664,788)	(73,477,661)
Purchase of inventories	(7,729,273)	(15,583,983)
Grant of cash advances	(7,245,255)	(13,508,589)
Release of inter-agency fund transfers	(47,040,470)	(10,014,353)
Other disbursements	(1,268,853)	(2,315,233)
Total cash outflows	(1,804,578,406)	(2,896,299,334)
<b>Net cash used in operating activities</b>	(585,522,271)	(965,341,419)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Cash inflows</b>		
Proceeds from matured investments/redemption of long-term investments/return on investments	5,126,744,209	9,660,189,249
Receipt of interest earned	67,878,692	192,483,337
Total cash inflows	5,194,622,901	9,852,672,586
<b>Cash outflows</b>		
Purchase of investments	(4,583,081,814)	(7,184,321,141)
Purchase of land as investment property	(233,733,315)	(451,696,047)
Purchase/construction of property and equipment	(7,780,508)	(8,936,672)
Purchase of intangible assets	(1,787,000)	(882,944)
Grant of loans	(500,000)	(7,700,000)
Total cash outflows	(4,826,882,637)	(7,653,536,804)
<b>Net cash provided by investing activities</b>	367,740,264	2,199,135,782
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Cash outflows</b>		
Payment of cash dividends	(109,629,708)	(95,960,626)
Payment of financial expenses for technical assistance	(3,336,107)	(26,318,585)
Payment of long-term liabilities	(13,610,868)	(12,567,751)
Payment of interest on loans and other financial charges	(2,157,333)	(3,187,010)
Total cash outflows	(128,734,016)	(138,033,972)
<b>Net cash used in financing activities</b>	(128,734,016)	(138,033,972)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(346,516,023)	1,095,760,391
Cash and cash equivalents at beginning of the year	5,139,064,906	4,043,304,515
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 4)</b>	4,792,548,883	5,139,064,906

The Notes on pages 9 to 50 form part of these financial statements.

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


The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and December 31, 2019 in accordance with the prescribed financial reporting framework indicated therein, 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.

In preparing the financial statements, management is responsible for assessing the SOCIAL HOUSING FINANCE CORPORATION's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the SOCIAL HOUSING FINANCE CORPORATION or to cease operations, or has no realistic alternative to do so.


The Board of Directors or Trustees is responsible for overseeing the SOCIAL HOUSING FINANCE CORPORATION's financial reporting process.

The Board of Directors or Trustees reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.


The Commission on Audit, through its authorized representative, has examined the financial statements of the company pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with International Standards of Supreme Audit Institutions and the auditor, in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



**ATTY. ARNOLFO RICARDO B. CABLING**  
Vice Chairperson of the Board



**RUBEN C. LASET**  
OIC - Senior Vice President  
Corporate and Governance Group



**DANTE M. ANABE**  
OIC - Vice President  
Finance and Comptrollership Department

Signed this 31<sup>st</sup> day of March 2021



**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2020 and 2019  
(In Philippine Peso)

	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	4,792,548,883	5,139,064,906
Financial assets	5	1,060,232,808	1,603,895,203
Receivables	6	121,784,607	106,459,049
Inventories	7	7,199,202	5,653,906
Other current assets	8	701,326,088	518,259,530
		<b>6,683,091,588</b>	<b>7,373,332,594</b>
<b>Non-Current Assets</b>			
Receivables, net	6	18,776,658,357	18,248,888,810
Investment property	9	2,023,426,873	1,789,693,558
Property and equipment	10	194,182,337	186,337,682
Intangible assets	11	10,525,542	1,275,024
Deferred tax assets	25	108,842,450	45,805,281
Other non-current assets	12	551,704,454	552,560,105
		<b>21,665,340,013</b>	<b>20,824,560,460</b>
<b>TOTAL ASSETS</b>		<b>28,348,431,601</b>	<b>28,197,893,054</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Financial liabilities	13	1,106,776,267	1,288,209,456
Inter-agency payables	14	31,211,491	26,492,012
Income tax payable	25	2,741,973	1,427,233
Trust liabilities	15	4,715,710	4,715,710
Deferred credits/unearned income	16	225,135,120	238,141,935
Other payables	17	1,540,010,887	1,485,754,782
		<b>2,910,591,448</b>	<b>3,044,741,128</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	13	5,583,910	23,763,152
Trust liabilities	15	18,668,886,609	18,669,742,260
		<b>18,674,470,519</b>	<b>18,693,505,412</b>
<b>TOTAL LIABILITIES</b>		<b>21,585,061,967</b>	<b>21,738,246,540</b>
Capital Stock	18	10,000,000	10,000,000
Retained earnings	18	6,753,369,634	6,449,646,514
<b>TOTAL EQUITY</b>		<b>6,763,369,634</b>	<b>6,459,646,514</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>28,348,431,601</b>	<b>28,197,893,054</b>

The Notes on pages 9 to 50 form part of these financial statements.



**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	Note	2020	2019
<b>INCOME</b>			
Service and business income	19	416,659,691	660,858,627
		<b>416,659,691</b>	<b>660,858,627</b>
<b>EXPENSES</b>			
Personnel services	20	280,443,669	282,643,330
Maintenance and other operating expenses	21	303,611,843	312,369,967
Non-cash expenses	22	27,033,572	22,043,308
Financial expenses	23	3,161,787	4,748,305
		<b>614,250,871</b>	<b>621,804,910</b>
<b>INCOME/(LOSS) FROM OPERATIONS</b>			
Other non-operating income	24	(197,591,180)	39,053,717
		<b>66,670,142</b>	<b>185,150,305</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>			
		<b>(130,921,038)</b>	<b>224,204,022</b>
<b>INCOME TAX EXPENSE/(BENEFIT)</b>			
Current	25.1	8,333,194	23,482,191
Deferred tax	25.2	(63,037,169)	(770,334)
		<b>(54,703,975)</b>	<b>22,711,857</b>
<b>PROFIT/(LOSS) AFTER TAX</b>			
Net assistance/subsidy income from National Government	26	(76,217,063)	201,492,165
		<b>427,766,158</b>	<b>727,506,829</b>
<b>NET INCOME/COMPREHENSIVE INCOME</b>			
		<b>351,549,095</b>	<b>928,998,994</b>

The Notes on pages 9 to 50 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF CHANGES IN EQUITY**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	<b>Capital Stock</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
	18.1	18.2	
Balance as at January 1, 2019	10,000,000	6,099,642,175	6,109,642,175
Prior period adjustments	0	(372,737,327)	(372,737,327)
Restated balance as at January 1, 2019	10,000,000	5,726,904,848	5,736,904,848
Comprehensive income for the year	0	928,998,994	928,998,994
Dividends paid CY 2018	0	(95,960,626)	(95,960,626)
Dividends payable CY 2019	0	(110,296,702)	(110,296,702)
<b>Balance as at December 31, 2019</b>	<b>10,000,000</b>	<b>6,449,646,514</b>	<b>6,459,646,514</b>
Balance as at January 1, 2020	10,000,000	6,449,646,514	6,459,646,514
Prior period adjustments	0	(47,825,975)	(47,825,975)
Restated balance as at January 1, 2020	10,000,000	6,401,820,539	6,411,820,539
Comprehensive income for the year	0	351,549,095	351,549,095
<b>Balance as at December 31, 2020</b>	<b>10,000,000</b>	<b>6,753,369,634</b>	<b>6,763,369,634</b>
Appropriated Retained Earnings			
Funds appropriated for HDH Project		6,384,479,898	
Retained Earnings for transfer to NHMFC		60,505,380	
Un-appropriated Retained Earnings		308,384,356	

The Notes on pages 9 to 50 form part of these financial statements.

**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash inflows</b>		
Collection of income/revenue	757,255,848	1,102,825,825
Receipt of assistance/subsidy	430,525,526	752,827,898
Trust receipts	6,153,199	51,862,733
Collection of receivables	3,888,818	7,585,309
Receipt of inter-agency fund transfers	2,191,204	5,152,209
Other receipts	19,041,540	10,703,941
Total cash inflows	1,219,056,135	1,930,957,915
<b>Cash outflows</b>		
Release of funds for mortgage contracts	(1,186,803,718)	(2,284,253,471)
Payment of expenses	(407,823,062)	(218,747,816)
Refund of deposits	(838,444)	(178,479,328)
Remittance of personnel benefit contributions and mandatory deductions	(61,164,543)	(99,918,900)
Payment for prepaid expenses	(84,664,788)	(73,477,661)
Purchase of inventories	(7,729,273)	(15,583,983)
Grant of cash advances	(7,245,255)	(13,508,589)
Release of inter-agency fund transfers	(47,040,470)	(10,014,353)
Other disbursements	(1,268,853)	(2,315,233)
Total cash outflows	(1,804,578,406)	(2,896,299,334)
<b>Net cash used in operating activities</b>	(585,522,271)	(965,341,419)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Cash inflows</b>		
Proceeds from matured investments/redemption of long-term investments/return on investments	5,126,744,209	9,660,189,249
Receipt of interest earned	67,878,692	192,483,337
Total cash inflows	5,194,622,901	9,852,672,586
<b>Cash outflows</b>		
Purchase of investments	(4,583,081,814)	(7,184,321,141)
Purchase of land as investment property	(233,733,315)	(451,696,047)
Purchase/construction of property and equipment	(7,780,508)	(8,936,672)
Purchase of intangible assets	(1,787,000)	(882,944)
Grant of loans	(500,000)	(7,700,000)
Total cash outflows	(4,826,882,637)	(7,653,536,804)
<b>Net cash provided by investing activities</b>	367,740,264	2,199,135,782
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Cash outflows</b>		
Payment of cash dividends	(109,629,708)	(95,960,626)
Payment of financial expenses for technical assistance	(3,336,107)	(26,318,585)
Payment of long-term liabilities	(13,610,868)	(12,567,751)
Payment of interest on loans and other financial charges	(2,157,333)	(3,187,010)
Total cash outflows	(128,734,016)	(138,033,972)
<b>Net cash used in financing activities</b>	(128,734,016)	(138,033,972)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(346,516,023)	1,095,760,391
Cash and cash equivalents at beginning of the year	5,139,064,906	4,043,304,515
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 4)</b>	4,792,548,883	5,139,064,906

The Notes on pages 9 to 50 form part of these financial statements.



**SOCIAL HOUSING FINANCE CORPORATION**  
**(A Wholly-Owned Subsidiary of National Home Mortgage Finance Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
*(Amounts in Philippine Peso)*

**1. CORPORATE INFORMATION**

On January 20, 2004, Executive Order (EO) 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 wholly-owned 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 mandate that is, developing the secondary market for home mortgages.

Presently, 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, 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.

In 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 solution for Informal Settler Families (ISFs) residing in 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 HDH projects and for acquisition of lots for near-site, in city and near city relocations.

On December 7, 2017 a Trust Agreement was entered into by and between the Department of Transportation (DOTr) and SHFC for the construction of Micro Medium Rise Building (MMRB)/CMP Vertical, regular CMP, and other community driven housing programs and shelter solutions that will primarily benefit the ISFs living along the Tutuban-Los Baños segment and Calamba-Batangas branchline (Philippine National Railways South Commuter Project). An initial amount of P3 billion pesos (First Tranche) was transferred to SHFC on February 20, 2018 to finance the resettlement program for

the said PNR Project. For the entirety of the North-South Railway Project Phase II, SHFC will receive the total amount of P14 billion pesos.

SHFC's registered office, which is also its principal place of business, is located at No. 8737 Paseo de Roxas, Makati City. The registered office of NHMFC is located at Filomena Building III, 104 Amorsolo Street, Legaspi Village, Makati City.

The accompanying financial statements were approved and authorized for issue by SHFC's Board of Directors (BOD) on March 31, 2021.

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

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of Preparation of Financial Statements**

#### ***a. Statement of Compliance with Philippine Financial Reporting Standards***

The financial statements of SHFC have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) applicable to Commercial Public Sector Entity (CPSE), issued by the Philippine Financial Reporting Standards Council, pursuant to the requirement under Commission on Audit Circular No. 2015-003. PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

SHFC has deferred the adoption of PFRS 16 on Leases as it intends to hire a consultant to guide its Finance and Comptrollership Department in formulating policies/guidelines for the assessment, classification, measurement and recognition of "right of use" asset and a lease liability.

The accompanying financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### ***b. Adoption of the Commission on Audit (COA) of the Revised Chart of Accounts (RCA)***

In compliance with COA Circular No. 2020-002 dated January 28, 2020, SHFC adopted the RCA in its trial balance for CY 2020 and 2019. General Ledger and Subsidiary Ledger accounts were diligently analyzed and manually mapped to the RCA. SHFCs accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRSs.



c. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. SHFC has not yet adopted PFRS 9 to its financial instruments and PAS 19 to its retirement benefit plan thus, cannot disclose the impact to its financial statements.

d. *Functional and Presentation Currency*

These financial statements are presented in Philippine peso, SHFC's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of SHFC are measured using its functional currency. Functional currency is the currency of the primary economic environment in which SHFC operates.

2.2 Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. SHFC has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

a. *Effective in 2020 that are relevant to SHFC:*

(i) Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.

(ii) Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

(iii) Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*



The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

(iv) Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

(v) Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

*b. New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2020*

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, SHFC does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. SHFC intends to adopt the following pronouncements when they become effective.

*(i) Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

*(ii) Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*
- Annual Improvements to PFRSs 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 percent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

*(iii) Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

*c. Deferred effectivity:*

PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely)*. The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding



amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

Under the prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Corporation.

### 2.3 Financial Assets

A financial asset is any asset that is:

- a. Cash;
- b. An equity instrument of another agency;
- c. A contractual right to receive cash or another financial asset;
- d. A contractual right to exchange financial assets or liabilities with another entity on potentially favorable terms; or
- e. A contract that will or may be settled in the Corporation's own equity instruments and is a non-derivative for which the Corporation is or may be obliged to receive a variable number of the Corporation's own equity instrument; a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Corporation's own equity instruments. For this purpose, the Corporation's own equity instruments do not include puttable financial instruments classified as equity instruments.

#### *Recognition and Measurement*

Financial assets are recognized in the Statement of Financial Position when, and only when, SHFC becomes a party to the contractual provisions of the instrument. At initial recognition, the Corporation measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. After initial recognition, the Corporation measures its financial assets at fair value or amortized cost in accordance with PFRS rules on financial instruments.

#### *Classification*

A more detailed description of the categories of financial assets relevant to the authority are as follows:

Cash and cash equivalents are carried in the Statement of Financial Position at cost. Cash includes cash on hand and in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and or at a very near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash is measured at face value.



Accounts receivables are open accounts arising from the sale of service in the ordinary course of business and not supported by promissory notes.

Non-trade receivables, i.e. loans receivable, represent claims arising from sources other than the sale of service in the ordinary course of business.

Loans and receivables are none derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as or financial assets at Fair Value Through Other Comprehensive Income (FVTOCI) or financial assets at Fair Value Through Profit and Loss (FVPL).

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less impairment in value, if any. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the Statement of Comprehensive Income. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of interest income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Allowance for impairment is maintained at a level considered adequate for potentially uncollectible receivables. The level of allowance is based on historical collection, current economic trends, and changes in the customer payment terms, age status of receivables and other factors that may affect collectability. The allowance is established by charges to income in the form of provision of doubtful accounts (now referred to as impairment).

## 2.4 Inventories

### a. *Inventory Held for Consumption*

Supplies and materials purchased for inventory purposes are recorded using the Perpetual Inventory System. In compliance with PAS 2, SHFC's inventory held for consumption is valued at lower of cost or net realizable value. Inventories are reclassified to expense upon issuance thereof and recorded based on the Report of Supplies and Materials Issued.

### b. *Semi-expendable Property*

These are tangible items below the capitalization threshold of P15,000 as prescribed under Paragraph 5.4 of COA Circular No. 2016-006 on Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per COA Circular No. 2004-008, as amended, to the RCA for GCs under COA Circular No. 2015-010, new, revised and deleted accounts, and relevant accounting policies and

guidelines in the implementation thereof. Semi expendable properties are recognized as expense upon issuance thereof.

## 2.5 Prepayments and Other Current Assets

Prepayments and other current assets pertain to other resources controlled by SHFC as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to SHFC and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to SHFC beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

## 2.6 Property and Equipment

An item of Property and Equipment (PE) is initially recognized at cost. The cost of an asset comprises its purchase price and costs directly attributable to bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

After initial recognition, PE are carried at acquisition cost or construction cost less subsequent depreciation and amortization and impairment in value, if any.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

	Years
Building and improvements	30 to 50
Machinery and equipment	5 to 15
Office furniture and equipment	5 to 15
Transportation equipment	5 to 15
Furniture, fixtures and books	2 to 15
Leased assets improvements	Over the useful life of the improvement or the lease term whichever is shorter

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

## 2.7 Investment Property

An investment property is a property held to earn rental income and/or for capital appreciation potential, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially carried at acquisition



cost plus costs incurred for site development and home building. Subsequent to initial recognition, investment property is consistently measured using the cost model which is cost less accumulated depreciation and impairment, if any, in accordance with PAS 16's requirements. However, SHFC's investment property only represents land which is valued at cost with no accumulated depreciation.

Investment property which is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

## 2.8 Intangible Assets

Intangible assets are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives ranging from three to five years as the lives of these intangible assets are considered finite.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

## 2.9 Financial Liabilities

Financial liabilities are contractual obligations to deliver cash or another financial asset or to exchange financial instruments with another agency on potentially unfavorable terms. Financial liabilities are recognized when the Corporation becomes a party to the contractual terms of the instrument. All interest related charges are recognized as an expense in profit or loss under the caption Financial Expenses in the Statement of Comprehensive Income.

Trade and other payables, due to related parties and other non-current liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or SHFC does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.



Financial liabilities are derecognized from the Statement of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

#### 2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation as a result of a past event.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to SHFC that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that SHFC can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

#### 2.11 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by SHFC for services rendered.

Revenue is recognized to the extent that the revenue can be measured reliably; it is probable that future economic benefits will flow to SHFC; and the costs incurred or to be incurred can be measured reliably. In effect, the recognition of an income occurs simultaneously with the recognition of a decrease in liabilities or an increase in assets. In addition, the specific recognition criteria must also be met before revenue is recognized:

- (i) Interest income on loan receivables is recognized using the effective interest method that is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (ii) Interest income on regular and time deposits is accrued on a time proportion basis, by reference to the principal amount outstanding and at the interest rates applicable.

Cost and expenses are recognized in the Statement of Comprehensive Income when decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

When economic benefits are expected to arise over several accounting periods and the association with income can only be indirectly determined, expenses are recognized in the income statement on the basis of rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets. These allocation procedures are intended to recognize expenses in the accounting periods in which the accounting benefits associated with these items are consumed.

An expense is recognized immediately in the Statement of Comprehensive Income when expenditure produces no future economic benefits or when future economic benefits do not qualify or cease to qualify for recognition in the Statement of Financial Position as an asset.

Cost and expenses are also recognized upon utilization of services or at the date they are incurred. All costs are reported in the Statement of Comprehensive Income on an accrual basis.

#### **2.12 Employee Benefits**

The employees of SHFC are members of the Social Security System (SSS) which provides life and retirement insurance coverage.

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

The Corporation recognizes expenses for accumulating earned leaves. Non-accumulating compensated absences, like special leave privileges, are not recognized.



## 2.13 Leases

*SHFC as Lessee:*

### *a. Finance Lease*

Leases which transfer to SHFC substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in the Statement of Comprehensive Income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

### *b. Operating lease*

Leases which do not transfer to SHFC substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

SHFC determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## 2.14 Related Parties

Related party transactions are transfers of resources, services or obligations between SHFC and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. For SHFC, these are individuals owning, directly or indirectly, an interest in the voting power of SHFC that gives them significant influence over SHFC and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.



## 2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is recognized for the future tax consequences and is provided or accounted for using the liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and deferred tax liabilities are offset if SHFC has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

SHFC's deferred tax asset is computed based on the temporary difference on the provisioning at the end of the reporting period.

## 2.16 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about SHFC's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of SHFC's financial statements in accordance with PFRS requires Management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### 3.1 *Distinction Between Operating and Finance Leases*

SHFC has entered into various lease agreements. Critical judgment was exercised by Management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

#### 3.2 *Recognition of Provisions and Contingencies*

Judgment is exercised by Management to distinguish between provisions and contingencies.

#### 3.3 *Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

##### *a. Impairment of Trade and Other Receivables*

An adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. SHFC evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of SHFC's relationship with the customers, the customers' current credit status, the average age of accounts, collection experience and historical loss experience. At present, the Corporation submitted to the Board of Directors a revised policy on the Loan Loss Provisioning for its approval before its implementation.

##### *b. Estimation of Useful Lives of Property and Equipment and Intangible Assets*

SHFC estimates the useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.



The carrying amounts of property and equipment and intangible assets are analyzed in Notes 10 and 11, respectively. Based on Management's assessment as at December 31, 2020 and 2019, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

c. *Determination of Realizable Amount of Deferred Tax Assets*

SHFC reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2020 and 2019 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 25.

#### 4. CASH AND CASH EQUIVALENTS

This account consists of:

	2020	2019
Cash on hand		
Cash – collecting officers and supervising tellers	5,285,271	13,155,159
Petty cash	1,317,994	549,109
Cash in bank	4,635,945,618	4,766,266,072
Short-term placements		
Treasury bills	0	258,724,566
Time deposits – local currency	150,000,000	100,370,000
	<b>4,792,548,883</b>	<b>5,139,064,906</b>

- 4.1 *Cash collecting officers/supervising tellers* pertains to cash collections by the collecting officers and supervising tellers on the last working day of the year and were deposited only on the first working day of the succeeding year.
- 4.2 *Petty cash* pertains to fund established to defray immediate or emergency petty expenses at the Head and Regional/Satellite Offices.
- 4.3 *Cash in bank* consists of funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds, High Density Housing (HDH) Program, for the PNR South Commuter Project (DOTr Project) and National Disaster Risk Reduction and Management (NDRRM) Funds for Marawi Shelter Projects. Cash in bank earns interest at prevailing interest rates of 1.40 to 1.85 percent per annum for the time deposit and 0.10 percent for the current account.
- 4.4 *Short-term placements* consist of: (a) treasury bills which are short term, highly liquid investments that are readily convertible to known amounts of



cash with original maturities of three (3) months or less from dates of placement and that are *subject* to an insignificant risk of change in value; and (b) time deposit – local currency which represents investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than three months from date of placements.

## 5. FINANCIAL ASSETS

This account consists of:

	2020	2019
Investment in Treasury Bills	940,232,808	1,603,895,203
Investment in Time Deposits	120,000,000	0
	<b>1,060,232,808</b>	<b>1,603,895,203</b>

5.1 *Investment in Treasury Bills* consists long-term highly liquid investments with average prevailing interest rates of 1.85 percent per annum maturing from 91 days up from the date of placements.

5.2 *Investment in Time Deposits* represents time deposits in local currency which are highly liquid investments with maturity of more than 91 days from date of placements.

## 6. RECEIVABLES

This account consists of:

	2020	2019
<b>Current:</b>		
Due from parent corporation	59,447,575	59,447,575
Due from other funds – AKPF	24,467,305	19,527,643
Interest receivable	11,177,329	15,180,211
Due from government corporations	10,074,025	4,314,542
Due from NGAs	8,181,113	1,521,704
Loans receivable	7,766,485	4,248,061
Due from officers and employees	546,082	2,151,939
Due from provident fund	124,693	0
Receivables – disallowances/charges	0	67,374
	<b>121,784,607</b>	<b>106,459,049</b>
<b>Non-current:</b>		
Mortgage contract receivable	18,439,499,918	17,942,873,611
Assets held in trust (AHT) – insurance receivables	390,468,431	345,592,162
Unamortized mortgage origination cost	21,002,547	22,701,469
Loans receivable	12,175,557	19,308,657
Assets held in trust (AHT) – interest receivables	433,095	433,095
	<b>18,863,579,548</b>	<b>18,330,908,994</b>
Less: Allowance for impairment	86,921,191	82,020,184
	<b>18,776,658,357</b>	<b>18,248,888,810</b>
	<b>18,898,442,964</b>	<b>18,355,347,859</b>

6.1 Due from Parent Corporation

This account includes CMP amortization payments and other collections made by NHMFC for the account of SHFC. This account also comprises Management fee computed pursuant to the provision under Section VI of the Trust Agreement entered into by and between NHMFC and SHFC.

6.2 Due from Other Funds (AKPF)

This account refers to accumulated Personnel Services (PS) and other Administrative expenses of the Fund paid in advance by SHFC during the year.

6.3 Interest Receivable

This refers to the interest accrued on various money placements at end of the year with various dates of maturity.

6.4 Due from Government Corporations

Housing and Urban Development Coordinating Council (HUDCC) – This account represents the total advances made by SHFC for the account of HUDCC, now Department of Human Settlements and Urban Development (DHSUD), pertaining to office building special assessments and other administrative expenses.

Social Security System – This represents the total advance payments made by SHFC on account of sickness and maternity benefit claims of employees.

6.5 Due from National Government Agencies (NGAs)

This account represents purchases of supplies from Department of Budget and Management – Procurement Service (DBM-PS) which are not yet delivered.

6.6 Receivables – Disallowances/Charges

This account consists of receivables from Officers and Employees set up in compliance to the Notice of Finality of Decision dated June 29, 2016 and October 26, 2016 issued by COA, for the disallowed P5,000 cash gift as part of the 13th month pay and the P20,000 additional Grocery Subsidy granted to SHFC employees in CY 2014, respectively.

6.7 Due from Provident Fund

This refers to the receivables from resigned/retired employees due to their negative last pay that will be deducted on the proceeds of their provident fund contributions.



#### 6.8 Mortgage Contract Receivable (MCR)

- a. Current accounts – The account amounting to P10.030 billion and P9.139 billion as at December 31, 2020 and 2019, respectively, includes CMP taken-out projects from the time of transfer up to the end of each year .
- b. High Density Housing (HDH) – The amount of P4.751 billion and P5.098 billion as at December 31, 2020 and 2019, respectively, represents loan granted to the beneficiaries of High Density Housing Program (HDHP) payable in 30 years. This account also represents draw down releases to various projects intended for HDHP beneficiaries.
- c. Past due accounts – The account amounting to P2.812 billion and P2.812 billion as at December 31, 2020 and 2019, respectively, represents the past due portion of the loan at the time of transfer up to December 31, 2020. This also includes CMP projects taken-out from 1989 to 1993, which were retained by NHMFC but eventually transferred to SHFC with a monetary value of P621 million representing outstanding principal loan balances as at December 31, 2009. The transferred loan balances were based on the Community Association's ledger subject to adjustments upon the determination of the actual outstanding principal balance that should be based on the member beneficiaries (MBs) loan ledgers.
- d. Restructured interest – bearing principal – This account amounting to P615.005 million and P644.080 million as at December 31, 2020 and 2019, respectively, refers to the accounts of delinquent borrowers who availed of the Restructuring Program offered by SHFC, in accordance with Republic Act (RA) No. 9507, otherwise known as the 2008 Socialized and Low Cost Housing Loan Restructuring Act of 2008, a rescue package for housing loan borrowers.
- e. Restructured – noninterest – bearing principal – This account amounting to P180.958 million and P198.439 million as at December 31, 2020 and 2019, respectively, refers to loans with unpaid interests availed by delinquent borrowers who also availed the Restructuring Program offered by SHFC.
- f. Items in litigation – This represent the outstanding balance of receivables from delinquent Community Associations transferred to the Legal Department for foreclosure and with petitions already filed in court. Said outstanding balance is the original amount transferred from NHMFC.

#### 6.9 Assets held in trust (AHT) – Insurance Receivables

This consists of the general ledger account balances transferred from NHMFC as at September 30, 2005. The balance of this account increases whenever there is renewal of the Mortgage Redemption Insurance (MRI) coverage advanced by SHFC for qualified Community Associations. The balance reduces upon collection of insurance repayments from MBs which can be determined only upon proper posting of amortization payments to MBs' ledgers.

#### 6.10 Unamortized Mortgage Origination Cost

This stands for the unamortized portion of the Origination and Appraisal Cost which is treated as outright expense.

#### 6.11 Loans Receivable

This represents the car and calamity loans availed by SHFC officers and employees in the amounts of P19.309 million and P0.633 million as at December 31, 2020 and P22.918 million and P0.638 million as at December 31, 2019, respectively, which are payable in 10 years.

#### 6.12 Assets held in trust (AHT) – Interest Receivables

This consists of interest receivable earned from AHT – insurance receivables.

#### 6.13 Allowance for Impairment

Movements in the allowance for impairment of mortgage contract receivable are as follows:

	Balance, January 1, 2020	Additional Provision	Recovery/ Reversal	Balance, December 31, 2020
Mortgage contracts receivable				
Current accounts	8,012,426		(1,734,189)	<b>6,278,237</b>
Past due accounts				
Over 3 months – 12 months	6,844,908	1,744,819	0	<b>8,589,727</b>
Over 12 months – 3 years	9,834,490	2,237,870	0	<b>12,072,360</b>
Over 3 years	52,633,196	2,652,507	0	<b>55,285,703</b>
Items in litigation	4,695,164	0	0	<b>4,695,164</b>
	<b>82,020,184</b>	<b>6,635,196</b>	<b>(1,734,189)</b>	<b>86,921,191</b>

### 7. INVENTORIES

This account consists of:

	2020	2019
Inventory held for consumption		
Office supplies inventory	<b>1,224,642</b>	1,496,487
Accountable forms, plates and stickers	<b>340,105</b>	203,738
Drugs and medicines inventory	<b>19,052</b>	22,271
Other supplies and materials inventory	<b>121,298</b>	11,497
Semi-expendable furniture and fixtures	<b>1,984,766</b>	1,669,955
Semi-expendable office equipment	<b>1,216,327</b>	1,193,157
Semi-expendable IT equipment	<b>716,172</b>	666,342
Semi-expendable other machinery and equipment	<b>1,408,297</b>	230,916
Semi-expendable communication equipment	<b>161,961</b>	152,961
Semi-expendable books	<b>6,582</b>	6,582
	<b>7,199,202</b>	<b>5,653,906</b>



## 8. OTHER CURRENT ASSETS

The account consists of:

	2020	2019
Advances to contractors	613,009,860	431,437,863
Guaranty deposits	3,409,233	3,041,833
Advances to special disbursing officer	1,304,782	1,572,740
Prepayments	1,096,648	956,803
Advances to officers and employees	0	268,168
Other deposits	82,505,565	80,982,123
	701,326,088	518,259,530

### 8.1 Advances to Contractors

This refers to amount paid in advance as mobilization fee to contractors for HDH projects which shall be deducted from the progress billing based on the percentage of completion of the project.

### 8.2 Guaranty Deposits

This account represents guaranty fees for SHFC's rental of Regional Offices and warehouse amounting to P3.409 million and P3.042 million as at December 31, 2020 and 2019, respectively.

### 8.3 Advances to Special Disbursing Officer

This account is used to recognize the amount granted to SHFC's accountable officers and employees for special purpose/time-bound undertakings to be liquidated within a specified period.

### 8.4 Prepayments

This includes payments in advance consisting of rent and insurance to be amortized for one year.

### 8.5 Advances to Officers and Employees

This account is used to recognize amount advanced to officers and employees for official travel.

### 8.6 Other Deposits

This account includes amount paid in advance or 20 percent down payment for the properties to be acquired from the Bangko Sentral ng Pilipinas amounting to P79 million and also includes amount paid in advance to suppliers for acquisitions with cash on delivery terms of payment amounting to P1.879 million and P0.355 million as at December 31, 2020 and 2019, respectively.

## 9. INVESTMENT PROPERTY

The account balances amounting to P2.023 billion and P1.790 billion as at December 31, 2020 and 2019, respectively, represent land acquired for building construction and site development for use of ISFs under usufruct arrangement with HDHP beneficiaries. These are carried at acquisition cost plus costs incurred for site development and home building. Disclosure for the fair value of the investment property is not possible due to lack of appraiser to date. However, SHFC is intending to engage the services of external appraisers for fair value measurements in the following year.

SHFC Corporate Circular No. 13-026 on HDH guidelines provides for the implementation framework of SHFC's participation in the priority P50 billion Informal Settler Families (ISF) Housing Program for the relocation of ISF residing in danger areas and waterways in Metro Manila. To further strengthen said corporate objective, Corporate Circular HDH No.14-005 Series of 2014 pertaining to the acquisition of property by SHFC and usufruct under the HDH Program was issued. Through these circulars, as affirmed in Board Resolution No. 391, series of 2014, and under its Articles of Incorporation and by-laws, SHFC is fully empowered to pursue the acquisition of property in its own name and for the eventual disposition to the CAs, or entering into a usufruct arrangement, for the implementation of the HDHP.

## 10. PROPERTY AND EQUIPMENT

The details of the account are shown below:

	Buildings and Other Structures	Leased Assets Improvements, Buildings	Furniture, Fixtures & Books	Machinery and Equipment	Construction in Progress-Buildings and Other Structures	Motor Vehicles	Total
<b>Cost</b>							
January 1, 2020	201,330,000	27,356,904	3,995,230	71,629,507	15,996,144	27,503,788	347,811,573
Adjustments	0	0	(97,989)	(31,999)	0	0	(129,988)
Additions	0	1,204,955	32,750	6,932,155	5,870,574	12,968,800	27,009,234
<b>December 31, 2020</b>	<b>201,330,000</b>	<b>28,561,859</b>	<b>3,929,991</b>	<b>78,529,663</b>	<b>21,866,718</b>	<b>40,472,588</b>	<b>374,690,819</b>
<b>Accumulated Depreciation</b>							
January 1, 2020	(86,804,951)	(15,302,640)	(1,855,072)	(38,667,117)	0	(18,844,111)	(161,473,891)
Adjustments	0	0	88,190	28,012	0	0	116,202
Depreciation	(6,781,868)	(1,620,298)	(235,664)	(7,597,486)	0	(2,915,477)	(19,150,793)
<b>December 31, 2020</b>	<b>(93,586,819)</b>	<b>(16,922,938)</b>	<b>(2,002,546)</b>	<b>(46,236,591)</b>	<b>0</b>	<b>(21,759,588)</b>	<b>(180,508,482)</b>
<b>Net Book Value</b>							
<b>December 31, 2020</b>	<b>107,743,181</b>	<b>11,638,921</b>	<b>1,927,445</b>	<b>32,293,072</b>	<b>21,866,718</b>	<b>18,713,000</b>	<b>194,182,337</b>
<b>Cost</b>							
January 1, 2019	201,330,000	26,683,004	3,627,253	68,200,683	0	27,503,788	327,344,728
Adjustments	0	(1,166,821)	0	0	0	0	(1,166,821)
Additions	0	1,840,721	367,977	3,428,824	15,996,144	0	21,633,666
<b>December 31, 2019</b>	<b>201,330,000</b>	<b>27,356,904</b>	<b>3,995,230</b>	<b>71,629,507</b>	<b>15,996,144</b>	<b>27,503,788</b>	<b>347,811,573</b>
<b>Accumulated Depreciation</b>							
January 1, 2019	(80,023,083)	(13,796,021)	(1,642,126)	(32,499,567)	0	(17,045,107)	(145,005,904)
Depreciation	(6,781,868)	(1,506,619)	(212,946)	(6,167,550)	0	(1,799,004)	(16,467,987)
<b>December 31, 2019</b>	<b>(86,804,951)</b>	<b>(15,302,640)</b>	<b>(1,855,072)</b>	<b>(38,667,117)</b>	<b>0</b>	<b>(18,844,111)</b>	<b>(161,473,891)</b>
<b>Net Book Value</b>							
<b>December 31, 2019</b>	<b>114,525,049</b>	<b>12,054,264</b>	<b>2,140,158</b>	<b>32,962,390</b>	<b>15,996,144</b>	<b>8,659,677</b>	<b>186,337,682</b>



## 11. INTANGIBLE ASSETS

The details of this account are shown below:

	2020	2019
Cost		
Balances at beginning of year	8,149,129	6,917,129
Additions	10,533,368	1,232,000
Balances at end of year	<b>18,682,497</b>	8,149,129
Accumulated amortization		
Balances at beginning of year	(6,874,105)	(5,565,487)
Amortization	(1,282,850)	(1,308,618)
Balances at end of year	<b>(8,156,955)</b>	(6,874,105)
<b>Net book value at end of year</b>	<b>10,525,542</b>	1,275,024

This includes capitalized cost of operating systems, anti-virus programs, etc., recorded as computer software programs for use in government operation.

## 12. OTHER NON-CURRENT ASSETS

This account refers to assets held in trust on AKPF. The AKPF was previously under the administration of the NHMFC. Due to the passage of EO No. 272, the management of the Amortization Support and Developmental Financing Programs of AKPF was transferred to SHFC in 2005.

This account is treated in the books of SHFC in the same 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. (See Note 15)

The details of the Fund balance amounting to P551.704 million and P552.560 million as at December 31, 2020 and 2019, respectively, are as follows:

	2020	2019
Cash and cash equivalents	<b>315,220,410</b>	315,638,020
Receivable – current	<b>2,690,442</b>	4,770,478
Receivable – non – current	<b>67,441,124</b>	67,441,124
Property and equipment, net	<b>129,261</b>	153,437
Other non-current assets	<b>196,142,840</b>	189,838,167
Intra-agency payables	<b>(23,255,262)</b>	(19,527,643)
Inter-agency payables	<b>(6,221,823)</b>	(5,003,469)
Other payables	<b>(442,538)</b>	(750,009)
	<b>551,704,454</b>	552,560,105

### 13. FINANCIAL LIABILITIES

This account consists of:

	2020	2019
<b>Current:</b>		
Accounts payable	1,030,341,916	1,216,168,542
Insurance/reinsurance premium payable	58,167,755	53,878,380
Loans payable - domestic	18,179,242	18,085,071
Due to officers and employees	87,354	77,463
	1,106,776,267	1,288,209,456
<b>Non-current:</b>		
Loans payable – domestic	5,583,910	23,763,152
	1,112,360,177	1,311,972,608

#### 13.1 Accounts Payable

This refers to the remaining 50 percent of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements amounting to P1.008 billion and P1.193 billion as at December 31, 2020 and 2019, respectively. The 50 percent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of 2001. This account also includes perfected contracts with suppliers amounting to P2.506 million and P3.422 million as at December 31, 2020 and 2019, respectively.

#### 13.2 Insurance/Reinsurance Premium Payable

This account refers to one-year insurance premium paid in advance to SHFC by MBs through Community Associations (CAs) and accordingly remitted upon enrollment to MRI Pool.

#### 13.3 Loans Payable – Domestic

This account amounting to P23.763 million and P41.848 million for the years 2020 and 2019 represents the cost of the office building, parking space and other structures acquired from Bangko Sentral ng Pilipinas (BSP).

### 14. INTER-AGENCY PAYABLES

This account consists of:

	2020	2019
Due to parent corporation (NHMFC)	18,867,978	18,867,978
Due to BIR	9,167,417	4,366,667
Due to Treasurer of the Philippines	2,445,329	2,688,072
Due to Pag-IBIG	389,610	255,262
Due to SSS	189,797	194,877
Due to Philhealth	151,360	119,156
	31,211,491	26,492,012



**14.1 Due to Parent Corporation (NHMFC)**

This account includes expenses for personal services, administrative and operating expenses, retirement benefits, and renewal/enrollment of CMP accounts at Pag-IBIG MRI Pool advanced by NHMFC as provided for in the Trust Agreement.

**14.2 Due to BIR**

This account represents the taxes withheld from payment of employees' compensation, origination fees, honoraria, taxes withheld at source and on government money payments.

**14.3 Due to Treasurer of the Philippines**

This account represents the Interest Income on deposits (net of tax) earned from the DOTr Fund and DILG Fund to be remitted to the Bureau of the Treasury as provided in the Memorandum of Agreement between SHFC and DOTr/DILG on the first quarter of the following year.

**15. TRUST LIABILITIES**

The account consists of:

	2020	2019
<b>Current:</b>		
Performance warranty	4,212,314	4,212,314
Bidders' bonds	503,396	503,396
	<b>4,715,710</b>	<b>4,715,710</b>
<b>Non-current:</b>		
NHMFC	14,756,822,155	14,756,822,155
DOTr	3,000,000,000	3,000,000,000
AKPF (See Note 12)	551,704,454	552,560,105
Other trust liabilities	360,360,000	360,360,000
	<b>18,668,886,609</b>	<b>18,669,742,260</b>
	<b>18,673,602,319</b>	<b>18,674,457,970</b>

**15.1 National Home Mortgage Finance Corporation (NHMFC)**

The transfer of the CMP accounts to SHFC was initially implemented through the transfer of the cash balance as at September 30, 2005 of P532 million on November 10, 2005 and the turnover of the outstanding principal loan balance of the mortgages taken-out from 1994 onwards. Said conveyance correspondingly required 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.

The CMP Mortgages from 1989 to 1993 with a total outstanding principal loan balance of P621 million as at December 31, 2009, which were retained by NHMFC, were eventually transferred to SHFC. This amount is temporarily lodged under the Loans Installment Receivable (LIR) – current account but was later reclassified to MCR – past due account. Details of this account as at December 31, 2020 are as follows:

Cash	(1,840,366,795)
Loan installment receivable	12,828,411,881
Past due loan installment receivables	2,750,042,775
Retained earnings balance for transfer to NHMFC	428,010,179
Land	512,268,433
Notes receivable – National Housing Authority	200,000,000
Interest income	165,678,128
Advances to contractors	305,003,064
Origination and appraisal cost	160,811,609
Insurance receivable	119,762,108
Interest receivables	72,873,957
Items in litigation	50,925,357
Unamortized mortgage origination cost	50,479,961
Origination fee payable	19,549,403
Service fee incentives	5,648,600
Technical subsidy	1,475,422
Other professional fees	3,500
Accounts payable – MCR	(805,459,977)
Undistributed collections	(150,012,482)
Guaranty deposits payable	(106,525,601)
Insurance payable	(5,118,474)
Real estate taxes	11,109
Due to BIR (Withholding tax payable)	(3,958,787)
Advances from borrowers	(1,598,646)
Performance warranty payable	(1,092,569)
	<b>14,756,822,155</b>

#### 15.2 Department of Transportation (DOTr)

The Trust Agreement was entered into by and between the DOTr and SHFC with an initial amount of P3 billion pesos (First Tranche) transferred to SHFC on February 20, 2018 to finance the resettlement program for the Philippine National Railways South Commuter Project.

#### 15.3 Other Trust Liabilities

This account pertains to the funds granted by Department of Social Welfare and Development (DSWD) and Department of the Interior and Local Government (DILG) and released to SHFC amounting to P10.36 million and P350 million, respectively. On October 05, 2015, a Trust Agreement was entered into by and between the DSWD and SHFC. The P10.36 million was received on July 01, 2016 and the fund from the Emergency Assistance Program of DSWD was earmarked for the 148 ISF victims of typhoon



Sendong in Cagayan de Oro City to be used solely for the purchase of housing materials. SHFC will still pursue the renewal of the Trust Agreement. Also, on June 27, 2016, a Trust Agreement was entered into by and between the DILG and SHFC, of which the P350 million fund was intended for HDHP projects and was deposited and maintained in a separate fund account (HDHP II) in order not to co-mingle with other funds.

## 16. DEFERRED CREDITS/UNEARNED INCOME

This account consists of:

	2020	2019
Deferred income	<b>180,816,576</b>	198,297,594
Deferred credits	<b>44,318,544</b>	39,844,341
	<b>225,135,120</b>	238,141,935

### 16.1 Deferred Income

This is temporary account for the unpaid interest as of date of application for restructuring of loans payable within 30 years. Deferred Income is debited and Interest Income is recognized (credit) upon collection.

### 16.2 Deferred Credits

This account pertains to the principal portion of amortization payments of SHFC for the office spaces occupied and already paid by HUDCC in advance. Upon full payment of the loan the account will be closed and corresponding asset will be transferred to HUDCC.

## 17. OTHER PAYABLES

This account consists of:

	2020	2019
Undistributed collections	<b>452,251,959</b>	394,075,873
Other payables	<b>1,021,428,438</b>	1,091,678,909
Leave benefits payable	<b>44,899,849</b>	0
Retirement gratuity payable	<b>21,430,641</b>	0
	<b>1,540,010,887</b>	1,485,754,782

### 17.1 Undistributed Collections

This account refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related concerns. It consists of accounts for clearing under the following categories:

	2020	2019
Un-posted amortization payments from remedial accounts	<b>130,574,304</b>	149,290,757
Un-posted amortization payments from HDH projects	<b>85,826,129</b>	97,815,571
Un-categorized amortization payments	<b>63,490,271</b>	63,490,271
No abstract of collections	<b>83,782,423</b>	40,617,287
Not in the database	<b>45,711,809</b>	7,170,819
Non-transmittal of collection documents by NHMFC	<b>14,878,645</b>	14,878,645
Collections from MBs who availed of the 1-year updating scheme	<b>14,404,455</b>	12,930,463
Not in the master list	<b>3,876,084</b>	3,876,084
Un-posted amortization payments from restructured accounts	<b>58,398</b>	2,392,626
Others	<b>9,649,441</b>	1,613,350
	<b>452,251,959</b>	394,075,873

The approval of in-house restructuring program will serve as guidelines for remedial accounts to begin the process of documentation up to posting and reversal of amortization payments. Payments categorized under *No abstract of collections* and *Not in the master list* need compliances before collections can be cleared and posted.

## 17.2 Other Payables

This account consists of:

### a. Guaranty Deposits Payable

This account refers to three months and six months cash deposits required for old and new originators respectively, pursuant to Corporate Circular CMP No. 003, which is calculated based on the total monthly amortization payment plus one-year MRI premiums.

Without prejudice to the first amortization to be paid by the CAs/MBs a month after the date of take out, this deposit shall be treated as a regular advance payment on the same date.

Said advance payment shall be regularly credited as monthly amortization payment in cases of deficient or no payments for the month.

### b. Advances from Borrowers

This account pertains to the amortization payments in excess of the amount due for the current period but is not deducted from the principal balance upon distribution of amortization collections.



c. Origination Fee Payable

This account refers to the 50 percent origination fee retained by SHFC pending originators' full compliance with requirements.

d. Insurance Payable

This account refers to the one-year insurance premium paid in advance to SHFC by MBs through CAs and accordingly remitted upon enrollment to MRI Pool.

e. Due to Provident Fund

This account refers to deductions made from the salaries of the employees representing 3 percent of their basic salaries. Upon remittance, the SHFC contributes 15 percent of the basic salary of each employee.

17.3 Leave benefits payable

This account pertains to accrual of money value of the earned leave credits of regular employees.

17.4 Retirement gratuity payable

This account pertains to retirement gratuity benefits due to employees. SHFC is using RA No. 7641 for the computation of retirement gratuity.

## 18. EQUITY

18.1 Capital Stock

SHFC has an authorized capital stock of P100 million divided into 100,000 shares with a par value of P1,000 each. A total of 25,000 shares were subscribed by the NHMFC, of which, 10,000 shares were paid for P10 million and the balance of P15 million remains unpaid.

The paid-in portion of authorized capital stock is P10 million and transferable pursuant to the distribution mandated by EO No. 272. Of this amount, P9.989 million was paid up by the NHMFC and the remaining amount by various stockholders for and in behalf of the Government of the Philippines.

18.2 Retained Earnings

Appropriated retained earnings include (a) retained earnings due for transfer to NHMFC as addition to Trust Liability pursuant to the amended Trust Agreement and (b) Funds appropriated for HDH Project.

Dividends declared for 2019 was P109.630 million which was approved by the board on August 28, 2020. Initial remittance to the BTr of P100 million was made on April 8, 2020 and the balance was remitted on August 18,

2020. No dividends were declared for the year 2020 due to the negative Net Earnings.

## 19. SERVICE AND BUSINESS INCOME

This account consists of:

	2020	2019
Service Income		
Interest income – loans and receivables	275,162,720	387,330,032
Fines and penalties – business income	118,701,747	254,860,227
Business income		
Other business income		
<i>Service Fee</i>	18,612,711	18,146,153
<i>Miscellaneous income</i>	4,182,513	522,215
	<b>416,659,691</b>	<b>660,858,627</b>

*Other business income account represents:*

*Service Fee* which represents 20 percent service fee earned by SHFC from enrollment of the MBs to the MRI Pool particularly interest income from loans and receivables, other business income and its fines and penalties.

*Miscellaneous income* account amounting to P4.182 million and P0.522 million for the years 2020 and 2019 includes:

- income from penalty on late amortization payments of the MBs;
- other miscellaneous income derived from processing fee of the application for penalty condonation and substitution;
- photocopy and recovery of VAT payments made previously on deferred income;
- interest from calamity loans granted to officers and employees affected by then typhoon Ondoy;
- surcharges from suppliers on late deliveries; and
- recognition of refund of excess payments amounting to P500 and below as miscellaneous income per Office Order No. 07-0075, series of 2007, dated May 10, 2007.

## 20. PERSONNEL SERVICES

This account consists of:

	2020	2019
Salaries and wages - regular	134,805,678	136,822,717
Other compensation		
Year-end bonus	11,318,110	11,692,378
Personnel economic relief allowance	5,404,046	5,474,748
Transportation allowance	4,037,418	4,762,876
Representation allowance	3,841,000	4,767,500
(Forward)		



	2020	2019
Clothing/uniform allowance	1,356,000	1,386,189
Cash gift	1,139,000	1,165,250
Overtime and night pay	836,607	4,644,006
Honoraria	365,500	199,833
Hazard pay	48,000	0
Other bonuses and allowances	67,320,175	69,537,119
	<b>95,665,856</b>	<b>103,629,899</b>
Personnel benefit contributions		
Provident/welfare fund contributions	20,189,830	20,616,338
Retirement and life insurance premiums	4,302,560	4,101,409
PhilHealth contributions	1,752,493	1,372,910
Pag-IBIG contributions	317,500	254,400
Employees compensation insurance premiums	88,100	82,803
	<b>26,650,483</b>	<b>26,427,860</b>
Other personnel benefits		
Retirement gratuity	1,440,247	3,456,000
Terminal leave benefits	21,881,405	12,306,854
	<b>23,321,652</b>	<b>15,762,854</b>
	<b>280,443,669</b>	<b>282,643,330</b>

## 21. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2020	2019
Traveling expenses		
Traveling expenses – local	9,855,270	21,492,352
Traveling expenses – foreign	1,628,775	385,266
	<b>11,484,045</b>	<b>21,877,618</b>
Training and scholarship expenses		
Training expenses	2,094,761	15,337,906
	<b>2,094,761</b>	<b>15,337,906</b>
Supplies and materials expenses		
Office supplies expenses	3,945,984	7,736,110
Fuel, oil and lubricants expenses	2,047,591	2,619,183
Accountable forms expenses	230,993	353,855
Medical, dental, and laboratory supplies expenses	184,820	7,009
Drugs and medicines expenses	83,027	78,057
Semi-expendable furniture, fixtures and books expenses	6,955	188,800
Other supplies and materials expenses	1,315,152	351,592
	<b>7,814,522</b>	<b>11,334,606</b>
Utility expenses		
Electricity expenses	5,721,978	7,301,662
(Forward)		

	2020	2019
Water expenses	650,778	741,089
	<b>6,372,756</b>	8,042,751
Communication expenses		
Telephone expenses	2,000,825	1,997,354
Internet subscription expenses	2,136,743	1,587,319
Postage and courier services	1,778,639	1,521,967
Cable, satellite, telegraph and radio expenses	9,900	39,600
	<b>5,926,107</b>	5,146,240
Confidential, intelligence and extraordinary expenses		
Discretionary expenses	198,000	2,990,135
Extraordinary and miscellaneous expenses	659,237	505,488
	<b>857,237</b>	3,495,623
Professional services		
Consultancy services	4,086,552	7,899,760
Legal services	0	132,720
Auditing services	0	22,249
Other professional services	463,923	1,446,862
	<b>4,550,475</b>	9,501,591
General services		
Clerical services	125,507,559	103,028,819
Security services	54,895,354	9,928,957
Janitorial services	3,000,096	2,673,364
Other general services	7,375,394	4,964,909
	<b>190,778,403</b>	120,596,049
Repairs and maintenance		
Repairs and maintenance – transportation equipment	1,592,239	3,109,536
Repairs and maintenance – leased assets improvements	296,259	218,626
Repairs and maintenance – machinery and equipment	55,675	491,943
Repairs and maintenance – furniture and fixtures	10,530	0
Repairs and maintenance – buildings and other structures	8,000	52,000
Repairs and maintenance – semi-expendable furniture and fixtures	0	5,100
	<b>1,962,703</b>	3,877,205
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	23,156,619	46,590,257
Insurance expenses	827,380	869,299
Fidelity bond premiums	145,201	169,703
	<b>24,129,200</b>	47,629,259
Other maintenance and operating expenses		
Rent/lease expenses	11,253,252	10,226,696
Financial assistance/subsidy/contribution	3,999,750	174,172
Representation expenses	3,300,864	8,023,938
Litigation/acquired assets expenses	0	6,750,323
Major events and conventions expenses	3,236,523	6,504,578

(Forward)



	2020	2019
Donations	2,880,374	2,459,884
Directors and committee members' fees	2,727,000	2,277,000
Advertising, promotional and marketing expenses	2,402,759	3,630,316
Printing and publication expenses	404,515	743,930
Subscription expenses	96,244	121,578
Transportation and delivery expenses	2,000	31,149
Membership dues and contributions to organizations	1,800	15,420
Other maintenance and operating expenses	17,336,553	24,572,135
	47,641,634	65,531,119
	303,611,843	312,369,967

## 22. NON-CASH EXPENSES

This account consists of:

	2020	2019
Depreciation		
Depreciation – buildings and other structures	6,781,868	6,781,868
Depreciation – machinery and equipment	7,597,486	6,167,550
Depreciation – transportation equipment	2,915,477	1,799,004
Depreciation – leased assets improvements	1,620,298	1,506,619
Depreciation – furniture, fixtures and books	235,664	212,946
	19,150,793	16,467,987
Amortization		
Origination and appraisal cost	1,698,922	1,698,922
Amortization – intangible assets	1,282,850	1,308,618
	2,981,772	3,007,540
Impairment loss		
Impairment loss – loans and receivables	4,901,007	2,567,781
	4,901,007	2,567,781
	27,033,572	22,043,308

## 23. FINANCIAL EXPENSES

This account consists of:

	2020	2019
Interest expenses	1,910,569	2,953,686
Bank charges	1,251,218	1,794,619
	3,161,787	4,748,305

## 24. OTHER NON-OPERATING INCOME

This account consists of:

	2020	2019
Interest income – notes	64,190,862	181,868,285
(Forward)		

	2020	2019
Interest income – bank deposits	2,479,280	3,282,020
	<b>66,670,142</b>	185,150,305

#### 24.1 Interest Income – Notes

This account represents interest earned at an average prevailing interest rates of 3.340 percent per annum for Investments in Treasury Bills.

#### 24.2 Interest Income – Bank Deposits

This account represents interest earned at prevailing interest rates of 1.40 to 1.85 percent per annum for the time deposit and 0.10 percent for the current account.

### 25. INCOME TAXES

The major components of provisions for income for the years ended December 31, 2020 and 2019 follow:

	2020	2019
Current	8,333,194	23,482,191
Deferred	(63,037,169)	(770,334)
	<b>(54,703,975)</b>	22,711,857

SHFC applied the minimum corporate income tax (MCIT) rate of 2 percent on taxable gross income for CY 2020 since it has net operating loss during said year while it applied 30 percent RCIT rate on taxable net income for CY 2019. Also, SHFC claimed itemized deductions in computing for its income tax due for both CYs 2020 and 2019.

#### 25.1 Current Tax Expense

The components of Regular Corporate Income Tax (RCIT) are as follows:

	2020	2019
Net income (loss) before income tax	(130,921,038)	224,204,022
Non-deductible expense	15,244,597	36,652,473
Interest income on investment/bank deposits	(66,670,142)	(185,150,305)
Accounting income (loss) subject to tax	(182,346,583)	75,706,190
Loan loss provision	4,901,007	2,567,781
Net taxable income (loss)	(177,445,576)	78,273,971
Tax rate	30%	30%
RCIT	0	23,482,191

Excess Minimum Corporate Income Tax (MCIT) over RCIT:

	2020	2019
Gross income	416,659,691	660,858,627
Tax rate	2%	2%
MCIT	8,333,194	13,217,172



	2020	2019
RCIT	0	23,482,191
Current tax expense	8,333,194	23,482,191

## 25.2 Deferred Tax Asset and Expense

The components of SHFC's deferred tax assets follow:

	2020	2019
Deferred tax asset – beginning	45,805,281	45,034,947
Temporary differences:		
Loan loss provision	4,901,007	2,567,781
Net operating loss	177,445,576	0
Tax rate	30%	30%
	54,703,975	770,334
Excess MCIT over RCIT	8,333,194	0
Deferred tax benefit	63,037,169	770,334
Deferred tax asset – ending	108,842,450	45,805,281

Details of the SHFC's NOLCO and MCIT, which is available for offsetting against the future taxable income follow:

*NOLCO:*

Inception Year	Amount	Applied	Balance	Expiry Year
2020	177,445,576	0	177,445,576	2023
	177,445,576	0	177,445,576	

*MCIT:*

Inception Year	Amount	Applied	Balance	Expiry Year
2020	8,333,194	0	8,333,194	2023
	8,333,194	0	8,333,194	

On the other hand, changes in tax laws and rates may affect the recorded deferred tax assets and the effective tax rate of SHFC in the future (See Note 31).

## 26. NET ASSISTANCE/SUBSIDY INCOME FROM NATIONAL GOVERNMENT

This account consists of the total approved funding allocation and releases from the Department of Budget and Management amounting to P430.525 million and P752.828 million for the CYs 2020 and 2019, respectively. The financial assistance to Non-Government Organizations and People's Organizations, for technical assistance and service, amounted to P2.759 million and P25.321 million for the CYs 2020 and 2019, respectively.

This is apart from the CMP funding received from NHMFC, and from the fund totaling P155.751 million received for the Marawi Shelter Projects (See Note 4.3).

## 27. LEASES

This pertains to related rent expense recognized in profit or loss amounting to P11.253 million and P10.227 million for the years ended December 31, 2020 and 2019, respectively (See Note 21).

### *Operating Lease*

SHFC is a lessee of office spaces for Regional Extension Units (REUs) staff. The lease term is for a period of three years and renewable thereafter.

The minimum rentals payable under these non-cancellable operating lease as at December 31, 2020 are as follows:

	2020
Within one year	7,242,800
Beyond one year but not later than three years	3,918,711
	<b>11,161,511</b>

### *Finance Lease*

SHFC is a lessee with lease term of 15 years, the leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognized in the Statement of Financial Position as property and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognized in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

The minimum rentals payable under these non-cancellable finance lease as at December 31, 2020 are as follows:

	2020
Within one year	20,779,355
Beyond one year but not later than five years	23,269,289
	<b>44,048,644</b>

## 28. RELATED PARTY DISCLOSURE

As at December 31, 2020, the composition of the Board of Directors of SHFC is as follows:

Board Position	Name	Position from Other Agencies
1. Chairman	Eduardo D. Del Rosario	Chairman, Department of Human Settlement and Urban Development
2. Vice-Chairman	Atty. Arnolfo Ricardo B. Cabling	President, SHFC
3. Member (Forward)	Usec. Epimaco V. Densing III	Under Secretary, DILG



<b>Board Position</b>	<b>Name</b>	<b>Position from Other Agencies</b>
4. Member	Usec. Bayani Hidalgo Agabin	Under Secretary, Department of Finance
5. Member	Dr. Felixberto Bustos, Jr.	President, NHMFC
6. Member	Atty. Ryan S. Lita	Director, DBM
7. Member	Lyndon B. Catulong, Sr.	Private Sector
8. Member	Atty. Emiliano C. Reyes	Private Sector
9. Member	Ronald R. Barcena	Private Sector
10. Member	George Jt D. Aliño, II	Private Sector

### **Key Management Personnel Remuneration and Compensation**

The key Management personnel of SHFC are the President, Executive Vice-President, five Vice-Presidents, the various Managers and Division Chiefs of the operating and support groups.

Meanwhile, the total remuneration (per diem) received by the members of the Board of Directors amounted to P2,727,000 and P2,277,000 for CY 2020 and CY 2019, respectively.

## **29. COMMITMENTS AND CONTINGENCIES**

### **Legal Claims**

SHFC is a respondent to a labor case docketed as AC-973-RCMB-NCR-LVA-024-01-09-2014 titled SOHEAI vs. SHFC in CY 2015 wherein the Office of the Panel Voluntary Arbitrator ruled in favor of SOHEAI directing the garnishment of SHFC's time deposit at DBP amounting to P70.931 million for the release of discontinued benefits under the Collective Bargaining Agreement and State of the Nation Bonus to its members. The case is currently under appeal with Supreme Court awaiting for its final resolution.

## **30. RISK MANAGEMENT OBJECTIVES AND POLICIES**

SHFC's principal financial instruments comprise cash, receivables, due from a related party, investment in securities, accounts payable and accrued expenses, and due to related parties. The main purpose of these financial instruments is to raise working capital for SHFC's operations.

### **Financial Risk Management**

#### Credit Risk

##### *Mortgage Contracts Receivable (Community Mortgage Program Loans)*

CMP loans receivable are 25-year, six percent interest loans secured by mortgage on the land subject of the loan. The loans are given to qualified CAs made up mostly of poor and underprivileged families to assist them in purchasing the private land where they are informally settled or buying a relocation site.

The property, subject of loan and mortgage, is registered under the name of the CA. 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.

#### *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 BSP 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 months amortization as proof of capacity and willingness to pay.

The exposure to credit risk on SHFC's receivables relates primarily to the inability of customers to fully settle the unpaid balance of accounts receivables and other claims owed to SHFC.

SHFC generally ascertains credit standing of counterparties before entering into a business transaction. The examination of credit standing includes the following: (1) financial resources (2) ownership structure; and (3) quality of Management.

SHFC does not have any significant concentration of credit risk. Its maximum exposure to credit risk is equivalent to the carrying value of its financial assets.

#### *Insurance*

For the duration of the loan, there shall be a mortgage insurance on the lives of the principal borrowers as identified in the masterlist 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 CAs in the form of cash deposit prior to the release of the loan proceeds.

#### *Security*

SHFC follows an appraisal procedure and policy that is market-based and allows a maximum loan to value ratio of 100 percent.

#### *Collection*

The Mortgage Contract Receivable (Community Mortgage Program Loans) are covered by a collection agreement with the CAs. The CAs collect the monthly amortizations from its members and remit them to SHFC.

The credit quality by class of MCR based on SHFC's aging of provisions are detailed in the following table.

	Balance, January 1, 2020	Additional Provision	Recovery/ Reversal	Balance, December 31, 2020
Mortgage contracts receivable				
Current accounts	8,012,426		1,734,189	<b>6,278,237</b>
(Forward)				



	Balance, January 1, 2020	Additional Provision	Recovery/ Reversal	Balance, December 31, 2020
Past due accounts				
Over 3 months – 12 months	6,844,908	1,744,819	0	<b>8,589,727</b>
Over 12 months – 3 years	9,834,490	2,237,870	0	<b>12,072,360</b>
Over 3 years	52,633,196	2,652,507	0	<b>55,285,703</b>
Items in litigation	4,695,164	0	0	<b>4,695,164</b>
	<b>82,020,184</b>	<b>6,635,196</b>	<b>1,734,189</b>	<b>86,921,191</b>

### Liquidity Risk

Liquidity risk pertains to the risk that SHFC will encounter difficulty in meeting obligations associated with maturing obligations that are settled by delivering cash or another financial asset.

The total financial liabilities of SHFC excluding the statutory obligations such as tax liabilities as at December 31, 2020 and 2019 are as follows:

	2020	2019
Financial liabilities	<b>1,088,597,025</b>	1,270,124,385
Deferred credits/unearned income	<b>225,135,120</b>	238,141,935
Other payables	<b>23,763,152</b>	41,848,223
	<b>1,337,495,297</b>	1,550,114,543

SHFC monitors its risk to a shortage of fund by analyzing the maturity date of its financial assets, including financial investments and amount of cash flow provided or used in operations.

### *Regulatory Framework*

The operation of SHFC is also subject to the regulatory requirements of the Securities and Exchange Commission (SEC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

## **31. EVENTS AFTER THE END OF THE REPORTING PERIOD**

On March 26, 2021, the Republic Act No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, was signed into law by the President and took effect on April 12, 2021, 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation. The law contains several amendments to the Tax Code, as amended that focus primarily on the interim reduction in RCIT from 30 percent to 25 percent, effective July 1, 2020 and reduction in MCIT from 2 percent to 1 percent, starting July 1, 2020 until June 30, 2023.

The comparative annual tax computations using the old and new tax rates are presented below:

	Based on old tax rate	Based on new tax rate
Net loss before income tax	(130,921,038)	(130,921,038)
(Forward)		

	Based on old tax rate	Based on new tax rate
Non-deductible expense	15,244,597	15,244,597
Interest income on investment/bank deposits	(66,670,142)	(66,670,142)
Accounting income subject to tax	(182,346,583)	(182,346,583)
Loan loss provision	4,901,007	4,901,007
Net taxable income (loss)	(177,445,576)	(177,445,576)
Tax rate	30%	27.5%*
RCIT	0	0
Gross income	416,659,691	416,659,691
Tax rate	2%	1.5%**
MCIT	8,333,194	6,249,895
Income tax due (whichever is higher between RCIT and MCIT)	8,333,194	6,249,895
Less: Income tax paid in previous quarters	5,591,221	5,591,221
Income tax payable	2,741,973	658,674

\* Average rate of 30% and 25%

\*\*Average rate of 2% and 1%

The financial impact of changes in enacted tax rates to the accounts are as follows:

	Balances as at 12/30/2020	Balances using new tax rate	Difference/ Overstatement
Current tax expense	8,333,194	6,249,895	2,083,299
Income tax payable	(2,741,973)	(658,674)	(2,083,299)
Deferred tax benefit	(63,037,169)	(56,395,053)	(6,642,116)
Deferred tax asset	108,842,450	102,200,334	6,642,116

The Act has retroactive effect starting July 1, 2020 and SHFC has evaluated the financial impact on said changes in enacted tax rates. Per assessment, the retroactive effect of the said law has no material impact in the financial statements as at the end of the reporting period, thus, there is no need for adjustment since the financial statements were authorized for issue after the promulgation of the law. As clarified by the Philippine Financial Reporting Standards Council in its Interpretations Committee Q&A No. 2020-07, the CREATE Act is not considered substantially enacted as at December 31, 2020 even though some of the provisions have retroactive effect on July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as non-adjusting event. Accordingly, current and deferred taxes as at and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as at December 31, 2020 for financial reporting purposes.

On the other hand, the overpayment of income tax due amounting to P2.083 million as a result of filing of amendment tax return will be used as tax credit against subsequent years' income tax liabilities.



### 32. IMPACT OF COVID-19

The government's strict imposition of mobility restriction, quarantine measures, and other health related protocols have materially and adversely affected the SHFC's operation, in the following manner:

- Downsizing operation due to quarantine measures strictly imposed by the government.
- Shortened work hours with a lean skeleton workforce.
- Limited collection from clientele due to travel restrictions.
- Additional costs for the maintenance of a safe and COVID-19 free environment for all the stakeholders.
- CY 2020 overall net impact of 158 percent decrease in the SHFC's net income before tax, as compared to CY 2019.

The following actions were taken by the SHFC in order to mitigate the adverse impact of the COVID-19 pandemic.

#### *Efforts made to sustain Project Take out:*

- Use of electronic/online platforms (e.g., messenger, email, text messaging, zoom, Facebook, SHFC website among others) to communicate and coordinate with the HOA/Cas, LGUs and other stakeholders.
- Site visits and other activities which needs physical interaction while adhering to the DOH Minimum Health Standards and Safety Protocols.
- Orientation, MOA signing and other collaborations with the LGU and other stakeholders.

#### *Efforts made to maintain the loan amortization Collections:*

- Use of online communication channels.
- Assistance to HOA/CAs through giving of directions on where to conduct payment.
- Reviewed the list of all payment centers within the scope area for easier transaction of payment for HOA/Cas.
- Different Digital Payment options were explored by the Corporation in order to further assist the partner homeowners.
- Beneficiaries who have the capacity to pay their amortization can pay through:
  - Landbank
  - ECPay outlets (7/11, Petron etc.)
- Granted Financial and Livelihood Assistance to beneficiaries of taken out projects to help them augment their monthly amortization.

#### *COVID 19 and Disaster Response:*

##### 1. Livelihood and Financial Assistance

- 544 Partner Homeowners were provided with Emergency Cash (Financial) assistance amounting to P545,939 from the P2 million overall budget and the remaining balance is for release early this year to more beneficiaries.

- 112 Partner Homeowners were provided with Livelihood assistance amounting to P1,271,357.
2. Implementation of Moratorium and Grace Period
    - SHFC implemented a three-month moratorium (March 16 June 15) and a two-month grace period (September 16 November 16) on the payment of loan amortization of its partner homeowners.
  3. Donation of Medical Supplies
    - Over P40,000 worth of medical supplies which consists of surgical and N95 masks as well as ethyl alcohol were donated to the Philippine General Hospital (PGH) in Manila to help ensure the protection of frontliners who are battling the COVID 19 pandemic.
  4. Additional Systems/Program Development
 

SHFC developed and prioritized the implementation of three (3) additional programs in response to the COVID 19 pandemic.

    - A. Online Appointment System will enable SHFC to manage the scheduling appointments of the Stakeholders efficiently.
    - B. Community Needs Assessment (CNA) allows the online accomplishment and submission of CNA Forms; will segregate who can avail the socialized interest rates based on the declared household income
    - C. Electronic Signature System will allow SHFC authorized officers and employees to electronically sign documents and reports in digital format

*Operational Efforts:*

- Operated at lean skeleton workforce to accommodate collections from Community Associations (CA) and Member Beneficiaries (MB).
- Opened several satellite offices in order to accommodate more collections from regional and local clientele.
- Implemented the guidelines on occupational safety and health standard to ensure the safety of all the stakeholders.

### **33. COMPLIANCE WITH TAX LAWS**

Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 amending certain provisions of RR No. 21-2002, as amended and implementing Section 6(H) of the Tax Code of 1997 which authorize the Commissioner of Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. These regulations require that additional disclosures in the notes to financial statements shall be made to include information on taxes and licenses fees paid or accrued during the taxable year.



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

	<b>2020</b>	<b>2019</b>
Final tax paid on income	<b>13,334,028</b>	36,652,473
Percentage tax	<b>5,492,019</b>	6,536,509
Real property tax	<b>2,645,218</b>	1,896,777
Business permits	<b>1,684,854</b>	1,503,998
BIR registration	<b>500</b>	500
	<b>23,156,619</b>	46,590,257

The amount of withholding taxes paid/accrued for the taxable years amounted to:

	<b>2020</b>	<b>2019</b>
Income taxes withheld on compensation and final withholding taxes (1604-CF)	<b>25,973,738</b>	30,061,858
Creditable income taxes withheld (expanded)/income payments exempt from withholding tax (1604-E)	<b>7,269,105</b>	16,863,742
	<b>33,242,843</b>	46,925,600

#### Tax Contingencies

SHFC did not receive any final tax assessments in 2020, nor did it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of the BIR.

## **PART II**

# **OBSERVATIONS AND RECOMMENDATIONS**



## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AUDIT

#### 1. **Undistributed Collections (UC) totaling P452.252 million remained un-posted to the Mortgage Contracts Receivable (MCR) account overstating both the Other Payables and the MCR accounts by the same amount as at December 31, 2020.**

##### 1.1 Paragraph 15 of PAS 1 – Presentation of Financial Statements states that:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

##### 1.2 The UC account refers to the amortization payments of Member-Borrowers (MBs) from 2008 to 2020 not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related reasons, such as:

- Payments with no abstract of collections.
- Payments of MBs not in master list;
- Payments of MBs not yet in the database;
- Collections from MBs who availed of the one-year updating scheme;
- Un-posted amortization payments from remedial accounts;
- Non-transmittal of collection documents by NHMFC; and
- Un-categorized amortization payments.

##### 1.3 Payments categorized under no abstract of collections should be verified first in the Community Association Information System (CAIS) Kiosk in order to ascertain the correct amount of amortization to be paid by the MBs, while those not in the master list need to comply with the substitution process before collections can be cleared and posted.

##### 1.4 The one-year updating scheme is based on Republic Act (RA) No. 9507 on Socialized and Low-Cost Housing Loan Restructuring Act of 2008 which provides that collections will be posted upon completion of the billing and posting modules of the newly developed program. The approval of in-house restructuring program will serve as guidelines for remedial accounts to begin the process of documentation up to posting and reversal of amortization payments. The scheme was approved by the Board on May 24, 2013 and implemented through Corporate Circular No. 13-027 series of 2013, under RA No. 9507.

- 1.5 Review of the general ledger of the UC under the Other Payables account as at December 31, 2020 disclosed an increase of P58,176,087 or 15 percent from the UC balance as at December 31, 2019. Details are shown below:

Particulars	December 31		Increase/(Decrease)	
	2020	2019	Amount	Percent
Un- posted amortization payments from remedial accounts	P130,574,304	P149,290,757	P(18,716,453)	(12.54)
Un-posted amortization payments from HDH projects	85,826,129	97,815,571	(11,989,442)	(12.26)
Un-categorized amortization payments	63,490,271	63,490,271	0	0
No abstract of collections	83,782,423	40,617,287	43,165,136	106.27
Not in the database	45,711,809	7,170,819	38,540,990	537.47
Non-transmittal of collections documents by NHMFC	14,878,645	14,878,645	0	0
Collections from MBs who availed of the 1-year updating scheme	14,404,455	12,930,463	1,473,992	11.40
Not in the master list	3,876,084	3,876,084	0	0
Un-posted amortization payments	58,398	2,392,626	(2,334,228)	(97.56)
Others	9,649,441	1,613,350	8,036,091	498.10
<b>Total</b>	<b>P 452,251,959</b>	<b>P394,075,873</b>	<b>P 58,176,087</b>	<b>14.76</b>

- 1.6 As shown in the table above, the increase is primarily due to the payments that are not supported with the Abstract of Collection reflecting the individual monthly payment by the MBs, which is contrary to the Collection Agreement entered into by the Community Associations (CAs) and SHFC, and payments made by MBs who are not yet in the database.
- 1.7 Further, collections from the National Home Mortgage Finance Corporation (NHMFC) amounting to P14,878,645 remained unposted to the individual ledgers of the MBs due to the absence of data/ledger from the parent agency, the NHMFC, upon the transfer of its Community Mortgage Program (CMP) accounts to SHFC. Moreover, the un-categorized amortization payments amounting to P63,490,271 pertains to the unposted accounts transferred by NHMFC to SHFC with no MB database, hence, there is no reference in the distribution or posting of payments to the individual MB ledgers.
- 1.8 Management created the Corporate Accounts Division (CAD) under the Corporate Governance Cluster, to do the reconciliation activity in order that these UCs, especially the old accounts, will be reduced and posted accordingly to the proper accounts. Continuous coordination with NHMFC is also being undertaken for the possibility of submission of electronic or photocopies of the Daily Collection Reports (DCRs).
- 1.9 Inquiry with Management also revealed that the SHFC President approved the use of the Interim Collection and Ledgering Program that will cater the HDH projects while the Information and Communication Technology



Department (ICTD) is still in the process of developing a computer system that will cater the High Density Housing Program (HDHP) accounts. The function of the Ledgering Program is to generate ledger for the billing and application of payments of the individual MBs while the Collection Program function is to create and manage collections database for the HDH project beneficiaries.

- 1.10 Moreover, SHFC has approved Office Order No. 21-1178, series of 2020, dated January 5, 2021 containing the policy on implementing the distribution/posting of amortization collections to prevent the accumulation of UC. However, this only took effect in January 2021.
- 1.11 Thus, the non-posting of the UC accounts amounting to P452.252 million to the MCR account resulted in the overstatement of both Payable and Receivable accounts by the same amount, thereby affecting the fair presentation of the account balances in the financial statements.
- 1.12 **We reiterated our prior years' recommendations that Management:**
  - a. **Submit a work breakdown schedule to post and allocate UC by at least:**
    - i. **50 percent by end of CY 2021**
    - ii. **50 percent by end of CY 2022; and**
  - b. **Require the ICTD to facilitate the enhancement of the database to include the HDH Projects and all other accounts not yet in the database.**
- 1.13 Management commented that the CAD was created to be responsible in the reconciliation of the accounts, to liaison with NHMFC and to undertake other related activities to address the audit observation. Specifically, the CAD will be in charge in carrying out the activities enumerated in the hereunder SHFC action plan:
  - For the NHMFC accounts, coordinate with NHMFC on the appropriate reconciliation previously done and require submission of electronic or photocopy of Daily Collection Report (DCR) which will be used in the reconciliation activity;
  - For remedial accounts, apply the newly approved restructuring loan scheme for 2020 under RA No. 9507 to those paying MBs;
  - For UC under HDH, Finance and Comptrollership Department (FCD) has already initiated piloting the posting of billing and payments using the advanced interim ledgering worksheet and outsourced the development of the system for HDH accounts; and
  - For other related UCs, prepare periodic reversal; send out list of names and receipts to branches/collection units, and inform branches/collection

unit to advise CAs or would-be-substitute to use MBs original account number.

- 1.14 Also, Management mentioned that the ICTD implemented the CAIS Kiosk and SHFC Portal facilities to generate Statement of Account and Abstract of Collections online which make available all relevant and necessary information of the Home Owners Associations (HOAs) and MBs, thus, avoid accumulation of un-posted/undistributed collections. CAIS Kiosk is now already installed in SHFC head office and all regional offices except Palawan, Naga, Iloilo and Isabela.
- 1.15 As a rejoinder, we reiterate that Management expedite the reconciliation and posting of UCs to the individual ledger of MBs in order to meet the target of 50 percent posting by end of CY 2021 and the remaining by end of CY 2022 and for the fair presentation of the affected accounts in the financial statements.

**2. The requirements of PFRS 9 on Financial Instruments were not complied with, thus, the balances of various financial asset accounts totaling P21.179 billion as at December 31, 2020 are misstated by undetermined amounts.**

- 2.1 The following are the pertinent provisions of PFRS 9 – Financial Instruments, to wit:

*4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:*

- (a) the entity's business model for managing the financial assets*  
*and*
- (b) the contractual cash flow characteristics of the financial asset.*

*5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.*

*5.1.2 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at:*

- (a) amortised cost;*
- (b) fair value through other comprehensive income; or*
- (c) fair value through profit or loss.*



- 5.5.1 *An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).*
- 5.5.3 *Xxx, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.*
- 5.5.5 *Xxx, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.*
- 5.5.16 *An entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.*
- 5.5.17 *An entity shall measure expected credit losses of a financial instrument in a way that reflects:*
  - (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
  - (b) the time value of money; and*
  - (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.*
- 2.2 SHFC, a government corporation classified as a Commercial Public Sector Entity (CPSE), is required to apply the PFRS as its financial reporting framework in the preparation of its general-purpose financial statements, pursuant to Section 3.1 of COA Circular No. 2015-003 dated April 16, 2015.
- 2.3 Moreover, paragraphs 15, 16, 17 and 18 of PAS 1 state that:
  - 15. *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework). The application of PFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

16. Xxx. An entity shall not describe financial statements as complying with PFRSs unless they comply with all the requirements of PFRSs.
17. In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable PFRSs. A fair presentation also requires an entity:
- (a) to select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a PFRS that specifically applies to an item.
  - (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
  - (c) to provide additional disclosures when compliance with the specific requirements in PFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
18. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.
- 2.4 The Commission on Audit resolved, under COA Resolution No. 2019 – 006 dated March 27, 2019, that all Government Corporations classified as GBEs, now CPSEs, that have not taken into consideration the early application of the provisions of PFRS 9 shall mandatorily apply the provisions of the PFRS 9 effective January 1, 2019.
- 2.5 As stated in Paragraph 1.1 of PFRS 9, the objective of this standard is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for the assessment of the amounts, timing and uncertainty of an entity's future cash flows.
- 2.6 As at December 31, 2020, the Corporation reported the following financial assets which are recorded at amortized cost:

Particulars	Amount	% over Total Assets	Remarks
Receivables, current (net of mandatory accounts)	121,784,607	0.43	A
Other current assets	701,326,088	2.47	A
Receivable, non-current	18,863,579,548	66.54	B
Other non-current assets	551,704,454	1.95	A
Investments in treasury bills	940,232,808	3.32	A*
	<b>21,178,627,505</b>	<b>74.71</b>	



Particulars	Amount	% over Total Assets	Remarks
Investment in time deposits	120,000,000	0.42	
<b>Total Financial Assets</b>	<b>21,298,627,525</b>	<b>75.13</b>	
<b>Total Assets</b>	<b>28,348,431,601</b>	<b>100.00</b>	

A – Under 5.5.16 of PFRS 9, an entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other and under 5.5.1 xxx shall recognize a loss allowance for expected credit losses

B – Under 5.5.1 of the same standards, an entity shall also recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.2.1 (amortized cost) Xxx.

A\* – For Investment in Treasury Bills, Management failed to classify and provide disclosure requirements in the Notes to Financial Statements.

- 2.7 The composition and nature of the above accounts, as defined in the Notes to Financial Statements, are as follows:

Account	Nature
Investments in Treasury Bills	represents short term highly liquid investments maturing from 91 days up from date of placements measured at cost
Investments in Time Deposits	represents time deposits in local currency which are highly liquid investments with maturity of more than 91 days from date of placements
Receivables-current	comprise the following: <ul style="list-style-type: none"> <li>i. Interest Receivables accrued on various money placements</li> <li>ii. Due from National Government</li> <li>iii. Due from Government Corporations</li> <li>iv. Due from Parent Corporation - CMP amortization payments and other collections of NHMFC for the account of SHFC</li> <li>v. Due from Other Funds-Personnel Services and other Administrative expenses of the fund paid in advance by SHFC during the year</li> <li>vi. Receivables – Disallowances/Charges</li> </ul>
Other Current Assets	consist of the following: <ul style="list-style-type: none"> <li>i. Advances to Special Disbursing Officer and Advances to Officers and Employees</li> <li>ii. Advances to Contractors representing mobilization fees</li> <li>iii. Guaranty Deposits, Prepayments and other current assets</li> </ul>
Mortgage Contracts Receivable	includes Current - CMP taken-out projects from the time of transfer up to December 31, 2018. <ul style="list-style-type: none"> <li>i. Restructured - past due accounts who availed of the Restructuring Program</li> <li>ii. Past due - transferred loan balances based on the CAs' ledger</li> <li>iii. MCR Past due (HDH) - loans granted to the beneficiaries of HDH program payable in 30 years</li> <li>iv. Items in Litigation - outstanding balance of receivables from delinquent CAs transferred to the Legal Department for foreclosure and with petitions already filed in court</li> </ul>
Assets held in trust (AHT) – Insurance receivables	consists of balances transferred from NHMFC as at September 30, 2005 pertaining to renewal of the Mortgage Redemption Insurance (MRI) coverage advanced by SHFC for qualified Community Associations
Loans receivable	represents car and calamity loans availed by SHFC officers and employees
Unamortized	stands for the unamortized portion of the Origination and

Account	Nature
origination cost	Appraisal Costs
Assets held in trust (AHT) – Interest receivables	consists of interest receivable earned from AHT – insurance receivables
Other Non-current Assets	refers to the Abot Kaya Pabahay Fund transferred to SHFC by NHMFC in 2005 for the management of its Amortization Support and Developmental Financing Programs

2.8 Review of the SHFC's Statement of Financial Position as at December 31, 2020 showed that its financial assets totaling P21,178,627,505 representing 74.71 percent of its total assets amounting to P28,348,431,601 are not compliant with PFRS 9. We noted that the following were not considered in the classification and measurement of these financial assets as required in PFRS 9 nor does SHFC has an existing accounting policy for the application of the these requirements:

- the business model at the level of a portfolio;
- classification or designation of financial instruments;
- their initial and subsequent measurements;
- application of ECL (Expected Credit Losses) and credit loss allowances, generally, in three stages; and
- any relevant tainting provisions or derecognitions.

2.9 It must be emphasized that Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with Management's assertions embodied in the financial statements.

2.10 Further review of the accounts disclosed that SHFC assesses and computes impairment only for Mortgage Contracts Receivable through Loan Loss provisioning which was approved under Board Resolution No. 329 dated May 24, 2013. Salient features are as follows:

Loan Classification	Loan Loss Rate (%)
Current Accounts	0.25
Current Accounts – Restructured	0.25
Past Due	
>3-12 months	0.50
>1-3years	0.75
Over 3 years	1.00
Items in Litigation	5.00

2.11 The aforementioned rates were applied in the actual computation of impairment loss and allowance for impairment loss only for the Mortgage Contracts Receivable as at December 31, 2020:



### Impairment Loss

Loan Classification	Additional Provision	Recovery/ Reversal	Total
Current Accounts	0	P(1,734,189)	P(1,734,189)
Past Due Accounts			
>3-12 Months	P 1,744,819	0	1,744,819
>1-3 Years	2,237,870	0	2,237,870
Over 3 Years	2,652,507	0	2,652,507
			<b>P4,901,007</b>

### Allowance for Impairment Loss

Loan Classification	Outstanding Principal Balance	Loan Loss Rate (%)	Loan Loss Provision
Current Accounts	P2,511,294,875	0.25	P 6,278,237
Past Due Accounts			
>3-12 Months	1,717,945,337	0.50	8,589,727
>1-3 Years	1,609,647,986	0.75	12,072,360
Over 3 Years	5,528,570,297	1.00	55,285,703
Items in Litigation	93,903,289	5.00	4,695,164
			<b>P86,921,191</b>

- 2.12 There were no expected credit losses recognized in the books on the abovementioned financial assets. The ECL should be recognized, generally, in three stages depending on the magnitude and extent of credit risks and should no longer be based on occurrence of loss which has been the continuing practice of SHFC.
- 2.13 Likewise, ECL should be calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. ECL calculation model should calculate an unbiased and probability weighted amount to be presented as impairment to the book value of financial assets in the Statement of Financial Position. Since most entities would have to start from scratch and probably will find as very acceptable and convenient, the aforementioned calculation is presented as:

$ECL = EAD \times LGD \times PD$ <p>ECL – Expected Credit Losses; EAD – Exposure at Default; LGD – Loss Given Default; and PD – Probability of Default</p>
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- 2.14 For the financial assets, SHFC may select its accounting policy for impairment depending on the embedded credit risks and the significance of its increases as mentioned in paragraphs 5.5.3 and 5.5.5 of the same Standard. Further, a provision for a loss allowance and expected credit loss should be made in accordance with paragraph 5.5.17.
- 2.15 Also, review of the Notes to the FS showed that the disclosure requirements provided under PFRS 7 on *Financial Instruments: Disclosures* relating to the

recognized financial instruments within the scope of PFRS 9 were not complied with by Management.

- 2.16 According to Management, they have no existing policy/guidelines yet to consider the provisions of PFRS 9. The Terms of Reference (TOR) for the hiring of consultants to aid the FCD in the formulation of policy was signed by the Head of Procuring Entity on November 15, 2019 and the contract is still under review by the Legal Department. Consequently, the said request was already included in the Amended Annual Procurement Plan for FY 2020 dated July 07, 2020, with a total estimated budget of P1,000,000 under the Maintenance and Other Operating Expenses.
  - 2.17 The non-compliance with the requirements of PFRS 9 on *Financial Instruments* resulted in the misstatement of the balances of various financial asset accounts totaling P21.179 billion as at December 31, 2020 by undetermined amounts, thus affecting the fairness of presentation of these accounts in the financial statements.
  - 2.18 **We reiterated our prior year's recommendation that Management formulate an accounting policy on financial instruments which is aligned/compliant with the requirements of PFRS 9.**
  - 2.19 **We further recommended that Management accordingly apply said policy in the classification, measurement and impairment of the financial instruments of SHFC.**
  - 2.20 Management commented that they are still in the process of hiring a consultant who will guide them in the formulation of policies and/or guidelines for the proper implementation of PFRS 9, and on the assessment and recording of impairment losses.
  - 2.21 As a rejoinder, we further recommend that Management expedite the hiring of consultant who will guide them in the formulation of accounting policies and guidelines on the implementation of the standard.
3. **The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits, resulting in the understatement of both the expense and liability accounts. This defeats the purpose of spreading out the expense over years in service so that the benefit expense recognized in the financial statements does not differ materially with the benefit expense at the reporting/availment period and which has likewise an adverse impact on cash flows.**
    - 3.1 PAS 19 on Employee Benefits provides the recognition, measurement and disclosure of post-employment benefits, specifically the defined benefits plan under the following paragraphs:



58. *An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.*
120. *An entity shall recognize the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:*
  - (a) *service cost in profit or loss;*
  - (b) *net interest on the net defined benefit liability (asset) in profit or loss; and*
  - (c) *remeasurements of the net defined benefit liability (asset) in other comprehensive income.*
122. *Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognized in other comprehensive income within equity.*
135. *An entity shall disclose information that:*
  - (a) *explains the characteristics of its defined benefit plans and risks associated with them;*
  - (b) *identifies and explains the amounts in its financial statements arising from its defined benefits plan; and*
  - (c) *describes how its defined benefits plans may affect the amount, timing and uncertainty of the entity's future cash flows.*
- 3.2 The same accounting standard defines retirement benefit obligation as the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
- 3.3 Records show that SHFC employees are not registered members of the Government Service Insurance System (GSIS) but of the Social Security System (SSS) with different type of social insurance and retirement benefits. SHFC is a non-chartered Government Owned and/or Controlled Corporation (GOCC) that was organized and created under Batas Pambansa Bilang 68, or The Corporation Code of the Philippines, wherein its primary franchise is disclosed under its Articles of Incorporation. This translates that SHFC shall take the form of a private corporation whose personnel are covered by the Labor Laws thus, entitled to retirement pay granted to private employees.
- 3.4 A total of 226 regular and permanent employees with plantilla positions are existing as at December 31, 2020, of which two employees retired in 2020, thus entitling them to retirement gratuity. Due to the absence of established retirement plan or agreement, SHFC granted the minimum retirement benefits set forth in the Republic Act (RA) No. 7641, otherwise known as The Retirement Pay Law to its eligible employees, to wit:

Section 1. xxx In the absence of a retirement plan or agreement providing for retirement benefits of employees in the establishment, an employee upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years which is hereby declared the compulsory retirement age, who has served at least five (5) years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction at least (6) months being considered as one whole year.

Unless the parties provide for broader inclusions, the term one-half (1/2) month salary shall mean fifteen (15) days plus one-twelfth (1/12) of the 13<sup>th</sup> moth pay and the cash equivalent of not more than five (5) days of service incentive leaves. xxx

- 3.5 Retirement benefits granted by SHFC to all its eligible employees under RA No. 7641 fall under the category of Defined Benefit Plans, pursuant to PAS 19, on Employee Benefits. The plans that define the benefits that the employees will receive at the time of retirement computed based on a formula are called defined benefit plans. Under these plans, it is necessary for the employer to determine what the contribution should be to meet the future benefit requirements.
- 3.6 Consequently, there is an obligation on the part of SHFC to estimate the periodic accrual for the benefits of its employees to ensure availability of resources come retirement period.
- 3.7 Verification of documents supporting the recognition of accrued retirement benefits amounting to P21,430,641 recorded under Retirement Gratuity Payable as at December 31, 2020, revealed that the approved amount is only for 22 employees. Details are presented below:

No.	Employee	Birthday	Date Hired	Retirement Date**	Age upon Retirement	Years of Service	Retirement Pay
1	A	01/15/1961	03/01/2007	12/31/2021	61	14.8333	720,248
2	B	02/03/1960	01/02/2007	12/31/2021	61	14.9972	728,206
3	C	02/10/1960	03/26/2007	12/31/2021	61	14.7639	1,560,174
4	D	02/21/1956	12/01/2008	12/31/2021	65	13.0833	1,462,339
5	E	04/19/1960	12/07/2006	12/31/2021	61	15.0667	563,903
6	F	04/27/1961	03/26/2007	12/31/2021	60	14.7639	1,560,174
7	G	05/06/1960	01/01/2007	12/31/2021	61	15	664,953
8	H	05/09/1956	01/02/2007	12/31/2021	65	14.9972	975,468
9	I	05/12/1959	01/08/2007	12/31/2021	62	14.9806	695,095
10	J	06/03/1958	01/01/2007	12/31/2021	63	15	706,695
11	K	06/05/1958	01/01/2007	12/31/2021	63	15	1,585,388
12	L*	06/16/1955	01/02/2007	12/16/2020	65	14.9972	1,654,410
13	M	06/18/1958	01/01/2007	12/31/2021	63	15	1,003,631
14	N	06/19/1961	04/02/2007	12/31/2021	60	14.7472	1,558,671
15	O	06/29/1957	01/02/2007	12/31/2021	64	14.9972	252,549
16	P	07/12/1958	02/01/2007	12/31/2021	63	14.9167	943,298
17	Q	07/20/1959	01/08/2007	12/31/2021	62	14.9806	1,002,330
18	R	10/03/1956	01/08/2007	12/31/2021	65	14.9806	694,833
19	S	10/18/1957	12/01/2006	12/31/2021	64	15.0833	981,069
20	T	10/19/1959	06/01/2011	12/31/2021	62	10.5833	1,289,512
21	U	10/27/1958	01/01/2007	12/31/2021	63	15	574,649
22	V*	11/22/1959	12/27/2006	12/31/2020	61	15.0111	253,046
<b>TOTAL</b>							<b>21,430,641</b>

\* Retired during CY2020

\*\* Assumed retirement date



- 3.8 It can be gleaned from the table above that SHFC recognized a retirement benefit obligation for the 22 officers and employees who will reach the compulsory retirement age of 65 and those who wish to avail early retirement upon reaching the age of 60, and have served at least five (5) years with SHFC as at December 31, 2020 and 2021. However, the measurement of the accrued retirement benefits of the remaining 204 employees who are not yet qualified to said long term employee benefit as at December 31, 2020 was not made.
- 3.9 Accordingly, the Retirement Gratuity in the amount of P21,430,641 reported under the Non-Current Liabilities portion in the Statement of Financial Position is understated by an undetermined amount of retirement expense of the 204 employees. Moreover, its Statement of Comprehensive Income (SCI) shows non-measurement of defined benefit costs which should include service cost attributable to the current and past periods, interest on defined benefit liability and actuarial gains and losses, if necessary. Lastly, its Statement of Changes in Equity is also understated/(overstated) for the undetermined cumulative balance of remeasurement gains/(loss) on retirement plan on actuarial gains and losses under other comprehensive income.
- 3.10 The accounting for defined benefit plan is complex because of the actuarial assumptions which are required to measure the obligation and expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because settlement may take several years, that is, after the employees have rendered the related years of service. Likewise, the said accounting standards provide, among others, the use of actuarial valuation method, through the assistance of a qualified actuary service, in order to properly measure the cost of defined benefit plan that may be influenced by many variables, such as final salaries, employee turnover and mortality as of reporting period.
- 3.11 Thus, the non-recognition of the present value of expected payments to cover future retirement benefits of SHFC's employees is contrary to the provisions of PAS 19, resulting in the understatement of liabilities as well as defined benefit cost (retirement expense) to be recognized in profit or loss and other comprehensive income. Moreover, the outright recording of retirement gratuity and lump sum payout upon availment will have an adverse impact on cash flows.
- 3.12 **We reiterated our prior year's recommendations and Management agreed to:**
- a. **Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;**
  - b. **Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and**

- c. **Seek assistance from a qualified actuary service in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.**

3.13 Management commented that they are in the process of procuring the services of a qualified actuary services due to the inherent highly technical skills required in the measurement of all material post-employment benefit obligations. They are already in the process of formulating their TOR for the procurement of a Consultant-Actuary, through the Human Resource Services and Benefits (HRSB) Department of SHFC in order to recognize the correct present value of expected payments to cover future retirement benefit.

## **B. OTHERS**

4. **Trust fund amounting to P10.360 million received from the Department of Social Welfare and Development (DSWD) for the shelter needs of families whose houses were damaged by Typhoon Sendong remained unutilized for almost five years, contrary to the Memorandum of Agreement (MOA) between DSWD and SHFC and Section 4(3) of PD 1445, resulting in the failure to address the immediate needs for decent housing of family-victims affected by disaster. Thus, defeating the purpose of the trust fund and depriving the National Government (NG) the use of these cash reserves to finance other vital programs related to housing.**

- 4.1 Articles III and IV of the Memorandum of Agreement (MOA) between the DSWD and SHFC dated October 5, 2015 provides the duties and responsibilities of DSWD and SHFC, to wit:

### *Article III - 1. Duties and Responsibilities of the DSWD*

- 1.1 *Within fifteen (15) working days from receipt of written request from SHFC for release of funds, transfer to SHFC the amount of TEN MILLION THREE HUNDRED SIXTY THOUSAND PESOS (P10,360,000.00) for the shelter assistance of 148 Informal Settler Families (ISF) victim of Typhoon Sendong in Cagayan De Oro City in the amount of Seventy Thousand Pesos (P70,000.00) per ISF (See list of identified MBs attached as Annex "A"). Provided however, that the list may be amended with the consent of the Parties.*

### *Article III - 2. Duties and Responsibilities of SHFC:*

- 2.1 *Approve the lot acquisition of the Neighborhood Association for Shelter Assistance (NASA) or Community Mortgage Program Homeowners Association prior to the release of funds for housing assistance;*



- 2.2 *Issue Official Receipt for funds transferred by DSWD;*
- 2.3 *Deposit the amount with its authorized depository bank;*
- 2.4 *Ensure the completion of the housing units within six (6) months from release of funds;*
- 2.5 *Refund the DSWD any unused balance or savings generated after the project completion*

#### *Article IV – EFFECTIVITY AND PERIOD OF AGREEMENT*

*This Memorandum of Agreement shall take effect upon signing hereof by the parties and shall remain valid and effective for the period July 2015 to July 2016 subject for renewal or upon completion of the project, whichever comes first, unless otherwise revoked earlier by both parties.*

- 4.2 In addition, Section 4(3) of PD 1445 states that trust funds shall be available and may be spent only for the specific purpose for which the trust fund was created or the funds received.
- 4.3 Review of the MOA between DSWD and SHFC dated October 5, 2015 revealed that SHFC as mandated by law will be the lead government agency to implement the DSWD Emergency Shelter Assistance program which provides support to the victims of natural or man-made calamities by extending financial grant for the purchase of construction materials.
- 4.4 Article III of the MOA also provides that the DSWD shall transfer/release the funds to SHFC after 15 working days from receipt of written request with the list of identified MBs from the latter.
- 4.5 However, verification of the bank statement and general ledger for the Cash in Bank account as at December 31, 2020 revealed that the amount of P10,360,000 was transferred and received by SHFC only on July 1, 2016. The transfer was acknowledged through SHFC Official Receipt No. 96489624 on July 04, 2016 and recorded as Trust Liability in the books on July 31, 2016. As such, the transfer was received 10 months after the date of MOA and only 30 days before the end of its effectivity.
- 4.6 On September 17, 2020, SHFC received a letter dated September 8, 2020 from DSWD requesting for the immediate refund of the unutilized fund transfer amounting to P10,360,000 to avoid the progress of DSWD filing a case with the Office of Solicitor General. On September 21, 2020, SHFC's President requested the Director, DSWD Fund Management Sector, that the amount be retained by SHFC as it will go a long way in partially unburdening the 148 beneficiary families as they start paying for the housing loan amortizations with SHFC and finally rebuilding their lives.

- 4.7 On January 21, 2021, the Manager of Corporate Accounting Finance and Comptrollership issued a certification stating that the Fund remains intact and did not incur any transactions/movements as at December 31, 2020.
- 4.8 The funds were transferred to SHFC for the specific purpose to assist the 148 Informal Settler Families (ISF) who were affected by Typhoon Sendong in Cagayan de Oro to relocate themselves and build homes in safe and livable areas through grant of shelter assistance in the amount of P70,000 per ISF. The appropriated amount will be solely for the purchase of housing materials and SHFC will ensure the completion of the housing units within six months from the release of funds. Management's inaction in utilizing the funds for its intended purpose for more than 5 years is an indication that the funds are no longer needed.
- 4.9 The non-utilization of the trust fund in accordance with the MOA resulted in the failure to address the immediate needs for decent housing of family-victims affected by disaster, thus, defeating the purpose of the trust fund and depriving the NG of the use of these cash reserves to finance other vital programs or projects.
- 4.10 **We recommended that Management:**
  - a. **Immediately liquidate with DSWD the trust fund amounting to P10.360 million including all interest earned so that these can be appropriated to the more important and urgent projects of the government; and**
  - b. **Moving forward, intensify and strengthen mobilization efforts to ensure that Funds received are utilized accordingly.**
- 4.11 Management commented that out of the total DSWD Fund amounting to P10,360,000, only the amount of P7,700,000 housing financial assistance for the 110 Typhoon Sendong Survivor Families have been utilized. The remaining unutilized fund in the amount of P2,660,000 is for immediate refund to /liquidation with DSWD.
- 4.12 As a rejoinder, we maintain our recommendation to immediately liquidate the trust fund received. Consequently, furnish the Audit Team of the liquidation reports duly approved by the DSWD.
5. **A High Density Housing (HDH) project of a Community Association (CA) costing P352.304 million was not completed within the scheduled date of completion despite two approved extension periods or a total of two years, contrary to the provisions of the Building Construction and Site Development Agreement and Corporate Circular HDH No. 14-002, series of 2014, thus, depriving the intended 720 Informal Settler Families (ISF)-beneficiaries of the immediate use of the decent housing, resulting in the non-attainment of the objectives of the HDH Program and the risk of non-recovery of SHFC's investment in housing projects.**



- 5.1 Building Construction and Site Development Agreement executed by and between the Contractor A, known as the First Party, and Community Associations – Association A, Phases 1 to 4, known as the Second Party, states that:

*WHEREAS, SECOND PARTY desires to engage the services of the FIRST PARTY for the construction of buildings and site development for its member-beneficiaries;*

*WHEREAS, the FIRST PARTY warrants that it is licensed in the Republic of the Philippines to develop the property, and represents itself to be skilled, competent, capable, and qualified to undertake and complete the works herein provided;*

- 5.2 The following Articles of the same Agreement provide that:

**Article III** -*The scope of work to be performed under this Agreement shall be fully completed within one (1) year from the release of the mobilization fund from the government financing institution, the Social Housing Finance Corporation (SHFC).*

**Article XI**- *It is understood that time is essential feature of the Contract and upon failure of the FIRST PARTY to complete Scope of Work of the Project on the scheduled completion date, or any extension thereof mutually agreed upon in writing prior to the targeted completion date, the FIRST PARTY shall pay the SECOND PARTY liquidated damages equivalent to one-tenth of one percent (1/10 of 1%) of the value of unfinished scope of work per day of delay until completion. SHFC is authorized to deduct from any sum due or will become due to the FIRST PARTY all sums accruing as liquidated damages in accordance with this paragraph. The payment of deduction of such damages shall not relieve the FIRST PARTY from its obligation and liabilities under this Contract.*

**Article XIII**-*In the event that the FIRST PARTY shall in any manner neglect or fail to perform any agreement herein (including but not limited to delay), the SECOND PARTY shall give written notice to the FIRST PARTY to proceed with such work and to perform such agreement, and if the FIRST PARTY SHALL FAIL TO DO SO ACCORDINGLY within seven (7) days from receipt thereof, the SECOND PARTY and SHFC shall have the option to proceed against the bond and enter the premises and to employ any other contractor to complete the work at the expense of the FIRST PARTY.*

- 5.3 Corporate Circular HDH No. 14-002, series of 2014, dated March 31, 2014 on the Implementing Rules and Regulations (IRRs) for Building Construction and Site Development Loans for HDH Program states that:

**Section 9. Loan Release for Building Construction and Site Development**

*Upon review/assessment of the credentials of the Contractor/Developer and the required documents and permits as contained in Annex "B" hereof, Management shall endorse the project for Board approval. Upon approval, a Notice to Proceed shall be issued and the community association shall request for the mobilization fund equivalent to fifteen percent (15%) of the site development or building construction loan.*

*Release of the loan shall be made in progress billing and in accordance with the approved work schedule. Releases shall be made up to a maximum of four (4) tranches (exclusive of the 15% mobilization fund.) For every payment of loan release, submission of the following requirements shall be made:*

- a. Statement of Work Accomplishments (SWA) indicating the percentage of work progress signed by the developer/ contractor, the Community Association, Construction Project Management and SHFC Inspection Team;*
- b. Pictures of the projects (showing actual progress);*
- c. Billing requirements; and*
- d. Certificate of Completion and Acceptance (for completed building)*

*Prior to the release of each drawdown, SHFC shall determine if the collateral value of the land, including its improvement is sufficient to cover the loans based on the reports submitted by the HDH Team.*

- 5.4 Association A has a project located at Zone 15 - Barangay 175, Camarin, Caloocan City. This is a near-city relocation for its 720 family members coming from Quezon City and Caloocan City, particularly Barangays Fairview, Bagbag, Gulod, San Bartolome and Sta. Lucia who are living along Tullahan River and its tributaries and along the tributary of Marilao River.
- 5.5 Association A secured a loan amounting to P352,303,635 from SHFC under the HDH Program for the acquisition of lot, site development and house construction. The tenurial agreement entered into by and between the Association A and SHFC is through usufruct. Details of the loan are as follows:

<b>Type of Loan</b>	<b>Amount</b>	<b>Board Resolution</b>	<b>Date Approved</b>
Lot Acquisition	73,732,500	407 series of 2014	9/30/2014
Site Development and House Construction	278,571,135	542 series of 2016	12/13/2016
<b>Total</b>	<b>352,303,635</b>		



5.6 Details of the loan and share per MB are accounted for as follows:

<b>Cost</b>	<b>Amount</b>	<b>Share per MB</b>
<b>Phase I</b>		
Lot	66,937,500	92,969
Indirect Cost		
CSO Service fees, taxes and other related transfer fees	5,355,000	
Administrative Cost (2,000/ISF)	1,440,000	
	<b>73,732,500</b>	
<b>Phase II</b>		
Site Development	26,662,500	37,031
Building Cost	230,400,000	320,000
Indirect Cost	21,508,635	
	<b>278,571,135</b>	
	<b>352,303,635</b>	<b>450,000</b>

- 5.7 On April 24, 2015, the amount of P53,550,000, or 80 percent of the total lot acquisition cost (Phase I) of P66,937,500 was paid to the landowners, while the remaining 20 percent was paid on November 10, 2016. The deed of absolute sale was executed on December 14, 2015 between SHFC and the landowners. The lots are covered by the following Transfer Certificates of Title (TCTs).

<b>TCT No.</b>	<b>Land Area (sq. meters)</b>	<b>Total Cost</b>
TCT No. C-402899	9,754.5	
TCT No. C-402898	9,754.5	66,937,500
	<b>19,509.0</b>	<b>66,937,500</b>

- 5.8 On the other hand, Phase II consists of site development, building construction and indirect costs amounting to P26,662,500, P230,400,000, and P21,508,635, respectively, or a total cost of P278,571,135.
- 5.9 The project started on October 26, 2017 and under the Building Construction and Site Development Agreement dated May 19, 2017 between the contractor and the Association, the scope of work to be performed shall be fully completed within one year upon the release of the mobilization fee. On October 20, 2017, the contractor received the mobilization fee amounting to P68,559,375 or 15 percent of the contract price for Phase II of the project.
- 5.10 As at October 26, 2018, the project has not been completed yet, contrary to the scope of work provided in the agreement. As a result, the contractor requested extensions for the construction period. The 1<sup>st</sup> extension was approved by the CA through Resolution No. 03-10-10-18, or until December 17, 2019, citing the reasons enumerated below:
- Heavy monsoon rains and typhoons;
  - Additional works; and
  - Delay in the construction of outfall and installation of off-site drainage

5.11 However, inspection of the projects by the Department of Engineering and HDH Engineer of the SHFC revealed that after the end of the first extension only 28.61 percent has been completed. In view thereof, a second extension, was again approved by the CA, through Resolution No. 06-10-10-19, or until October 17, 2020, citing the following reasons:

- a. Weather conditions;
- b. HOA's request for roof insulation; and
- c. Delay in the release of payment of billing

5.12 On October 17, 2020, inspection by the HDH Team and Department of Engineering revealed that the project was only 62.43 percent completed. Further, as at March 31, 2021 the actual accomplishment on the project is 75.08 percent as validated by the Department of Engineering and HDH Engineer.

5.13 Verification of records showed that the request of the contractor for the two extensions on construction period have no approval from the Board of Directors. As of report date, the project remained unfinished despite the two extensions which lasted for two years and two months. Details are shown below:

<b>Date</b>	<b>Particulars</b>	<b>% of completion</b>
October 20, 2017	Receipt by the Contractor of the mobilization fee	
October 26, 2017	Start of the project	
October 26, 2018	Should be date of completion per Building Construction and Site Development Agreement	
December 17, 2019	Should be date of completion per 1 <sup>st</sup> extension dated October 10, 2018	28.61
October 17, 2020	Should be completion date per 2 <sup>nd</sup> extension dated October 15, 2019	62.43
March 16 to June 2020 (106 days)	No operation due to Pandemic (ECQ - March 16 to June 30, 2020)	
July 2020	Resumption of construction activity	
January 30, 2021	Should be the adjusted date of completion due to pandemic	
<b>March 31, 2021</b>	<b>Actual accomplishment as validated by DOE and HDH Engineer</b>	<b>75.08</b>

5.14 The Division Chief of HDH informed the Audit Team through their Status Report that the actual accomplishment as at March 31, 2021 is only 75.08 percent despite the two-extension period for two years.

5.15 Review of the disbursement vouchers disclosed that the total amount of drawdowns to date amounted to P160,492,776, representing 62.43 percent of the project cost. The corresponding payment for the additional accomplishment as at March 31, 2021 is still in process. Details of the payment of the site development and building structures as follows:



Drawdown	Check Number	Date	Amount		% of Completion
			Net of Mobilization and Retention Fees	Gross Running	
1 <sup>st</sup>	74451	11/23/2018	25,927,602	34,570,136	13.45
2 <sup>nd</sup>	74489	03/28/2019	33,128,609	73,544,970	28.61
3 <sup>rd</sup>	74496	06/17/2019	28,630,100	107,227,440	41.71
4 <sup>th</sup>	79530	09/26/2019	25,205,805	136,881,328	53.25
5 <sup>th</sup>	MC23829	07/13/2020	20,069,730	<b>160,492,776</b>	62.43
			<b>132,961,846</b>		

- 5.16 Evaluation report by the HDH-NCR during the release of the 4<sup>th</sup> drawdown dated July 31, 2019 disclosed that there is an existing Meralco post with a meter base adjacent to a Subdivision which encroached the boundaries of the project particularly the septic tank area intended for Building 9. Management communicated the matter with Meralco through a series of letters dated September 5, 2018, July 23, 2019 and September 16, 2020 requesting for the relocation of the post as this affects the excavation of Buildings 9 and 10 of the projects.
- 5.17 Inquiry with the Account Officer disclosed that the project resumed its construction in July 2020 after the lockdown, but despite the resumption, the Contractor was not able to meet the target completion date of October 17, 2020. We were also informed that another request for extension presumably until October 2021, is for approval by the Home Owners Association Incorporated (HOAI).
- 5.18 To address the issues, Management disclosed that the Department of Engineering has crafted the SHFC Construction Manual which was approved by the Board on December 2020. The Manual, under Section 3.3.2.6 (Time Extension) provides guidelines on extensions of construction project, and under Section 2.2.2 and Section 2.2.3 requires contractors to have a valid Philippine Contractors Accreditation Board (PCAB) license and registration as part of accreditation and performance evaluation criteria. In addition, the Manual provides that the HDH Unit shall remain the primary monitoring unit that will closely monitor the projects together with SHFC Regional Engineering Department who shall visit the project site at least once a week to monitor the progress as well as the project issues, while the SHFC's independent inspectorate team under the Internal Audit Group shall independently monitor the projects' progress and submit a project status report to the Executive Committee and Board of Directors to ensure that there will be a check and balance.
- 5.19 The continuous delay in the completion of the project deprives the intended 720 MBs of the immediate use of decent housing units. This condition may result in the non-attainment of the objectives of the Program, and even non-recovery of the SHFC's investment in housing.
- 5.20 **We recommended and Management agreed to:**

- a. **Require or make a representation with the CA to impose the liquidated damages against the contractor for each day of delay and initiate termination or rescission of the Agreement as a result of the contractor's fault or negligence pursuant to Article XI of the Building Construction and Site Development Agreement;**
  - b. **Ensure a full coordination with the Local Government Unit (LGU), the CA and Meralco for the dismantling of the post which encroaches on the project site;**
  - c. **Moving forward, require the Department of Engineering to perform due diligence on future projects and to ensure that the assessment of the contractor/developer hired by the association is based on financial capacity, managerial capability, organizational structure, technical expertise, delivery capability and experience pursuant to Corporate Circular HDH No. 14-002 dated March 31, 2014; and**
  - d. **Require the Department of Engineering to strictly monitor and validate the construction projects undertaken by the CA.**
- 5.21 Management commented that they shall make a representation to the CA to impose the liquidated damages against the contractor as provided in the Building Construction and Site Development Agreement.
- 5.22 On the other hand, Management mentioned that they will seek further assistance from the LGU of Caloocan in the dismantling of MERALCO post that encroached on the project site and shall send out communication on the first half of March 2021 and target to conduct a meeting with the LGU not later than April 2021.
6. **Accounts Payable – MCR amounting to P988.844 million payable to 490 CAs for the 50 percent balance of the cost of lot, remained outstanding for a period of two years or more due to the inability of the CAs to complete the documentation required under SHFC Corporate Circular No. 024, series of 2013. This may result in the non/poor recovery of funds invested in housing and deprives SHFC the use of the fund for other housing projects intended for low income families.**
- 6.1 Corporate Circular No. 024, series of 2013, dated March 11, 2013 on the Modes of payment for the purchase of land under the SHFC social programs has the following salient features:
1. *Upon issuance of the Letter of Guaranty (LOG), the landowner with its conformity, may be paid the first 50% of the purchase price provided the following requirements are complied with:*
- Regular site and off-site projects:*
1. *Delivery to SHFC of the owner's duplicate copy of the Title under its name.*



2. *Execution and submission of a notarized deed of absolute sale by the landowner in favor of the Community Association (CA); and*
  3. *Compliance with the Board conditions and other technical, loan and mortgage examination findings.*
11. *The landowner shall be entitled to the final 50% of the purchase price upon compliance of the following:*
- a.) *Regular on site, off site and LCMP projects*
1. *For onsite and LCMP projects, the final 50% shall be released upon the transfer of title in the name of the CA with the mortgage lien annotated at the back thereof, submission of the owner's duplicate copy of title/s, compliance with Board conditions and other technical, loan and mortgage documents.*
  2. *For offsite projects, the final 50% of the loan shall be released on a staggered basis at a rate proportionate to the occupancy performance of the CA until such occupancy rates reached the required 85% level compliance with Board conditions and other technical, loan and mortgage requirements. Title in CA's name shall also be required and such other requirements/compliances with SHFC deems necessary.*
  3. *In the absence of agreement between the parties, transfer taxes, registration fees and documentary stamp taxes shall be for the account of the landowner.*
- 6.2 The Community Mortgage Program (CMP) project is one program of the SHFC wherein the CA looks for a lot fit for housing. The cost of lot, site development and house construction will be financed by SHFC in the form of loan, payable in 30 years. Upon receipt and validation of the completeness of the documents, the Board will approve the loan and accordingly issue a Letter of Guaranty (LOG) as a basis in the release of 50 percent of the cost of lot.
- 6.3 Accounts Payable - Mortgage Contract Receivable (MCR) is the account used to record the 50 percent balance of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements such as the transfer of Transfer Certificate of Title (TCT) in the name of CA and other technical and loan documents required in the Board Resolution approving the CMP Project.
- 6.4 Review of the subsidiary ledgers of the account disclosed that as at December 31, 2020, the Accounts Payable - MCR account has a balance of P1,008,394,356, of which P988,844,278 have been outstanding for a period ranging from two to over five years, as shown below:

- a. Follow up with the CAs the documentary requirements needed for the payment of the remaining 50 percent cost of lot to the landowner;
  - b. Devise control mechanisms in the review process of the documents submitted by the CAs to ensure that all the documentary requirements are complied with before the release of the 50 percent final payment; and
  - c. Include in the Schedule of AP-MCR the information on the approval of the Letter of Guaranty, cost of lots and name of the landowner/seller to facilitate the validation and monitoring of the accounts.
- 6.11 Management commented that a continuous follow up with the CAs on the submission of the documentary requirements for the payment of the remaining 50 percent cost of the lot is being undertaken. Also, the Title Unitization and Asset Management Department (TUAAMD) was created to review and monitor the accounts especially those aged three years or more to devise a control mechanism for a thorough review of the submitted documents by the CAs before release of the final 50 percent payment. The TUAAMD committed to complete the review process so that payment of the remaining 50 percent cost of the lot under accounts payable account covered by Corporate Circular No. 24 can be made.
- 6.12 In addition, the policy on making 50 percent partial payment had been discontinued. The new policy is to pay the cost of lot in full through accommodation mortgage or usufruct.
- 6.13 Lastly, Management commented that based on their initial assessment, the remaining balances have not been released to the landowners because of their financial difficulties in the payment of transfer taxes, securing Capital Gains Tax Exemption from BIR, segregation of TCTs with the ROD and other legal and technical issues.
7. **The grant of one-time gratuity pay amounting to P955,500 to 346 DBP Service Corporation and DBPSC Security Services Incorporated employees hired by the SHFC through Institutional Contract of Service (ICOS) is not in accordance with the provisions of Administrative Order (AO) No. 20, series of 2020, and CSC, COA and DBM Joint Circular No. 1, series of 2017.**
- 7.1 Administrative Order No. 20 dated January 10, 2020, authorizing the grant of Gratuity Pay for the fiscal year 2019 to Job Order (JOs) and Contract of Service (COS), provides the following:
- a. The granting of year-end Gratuity Pay to JO and COS workers is a well-deserved recognition of their hard work;



- b. All workers whose services are engaged through JO and COS, who have rendered a total or an aggregate of at least four (4) months of satisfactory performance of service;
  - c. This Order shall cover workers whose services are engaged through JO and COS by national government agencies (NGAs), state universities and colleges (SUCs), government owned or controlled corporations (GOCCs) and local water districts (LWDs);
  - d. For GOCCs and LWDs, funding sources are against their respective approved corporate operating budgets.
- 7.2 On the other hand, Section 5 of the Civil Service Commission (CSC), Commission on Audit (COA) and the Department of Budget and Management (DBM) Joint Circular No. 1, series of 2017, dated June 15, 2017 defines the following:
- a. Contract of Service refers to the engagement of the services of an individual, private firm, other government agency, non-governmental agency or international organization as consultant, learning service provider or technical expert to undertake special project or job within a specific period.
  - b. Contract or Service provider refers to an individual, a government agency private or non-government entity, duly registered and recognized by authorized government agencies to provide consultancy services in their respective field of expertise.
  - c. Institutional contract refers to the agreement between the government agency and contractor or service provider duly registered and recognized by authorized government agencies to provide services such as janitorial, security, consultancy, and other support services.
  - d. Job Order refers to piece work (pakyaw) or intermittent or emergency jobs such as clearing of debris on the roads, canals, waterways, etc after natural man-made disasters/occurrences and other manual/trades and crafts services such as carpentry, plumbing, electrical and the like. These jobs are of short duration and for a specific piece of work.
  - e. Support services may include janitorial, security, driving, data encoding, equipment and grounds maintenance and other services that support the day-to-day operations of the agency.
- 7.3 In addition, Section 6, provides that generally, the government agencies may avail of outsourced services through ICOS for a maximum period of one year subject to the provisions of Republic Act (RA) No. 9184.
- 7.4 On April 16, 2019, SHFC entered into a Contract Agreement (ConAg) with the DBP Service Corporation Inc. (DBPSC) for the supply of manpower and general services and with the DBPSC Security Services Incorporated (DBPSSI) for the provision of security services. These were procured in

accordance with the provisions of RA No. 9184. The ConAg provides the following terms and conditions:

- a. *The relationship of the parties in the Contract Agreement is that of Principal-Independent Contractor. There shall be no employer-employee relationship between SHFC and the personnel of the DBPSC and DBPSCSSI. It is expressly understood and agreed that the personnel to be assigned by the DBPSC and DBPSCSSI to perform the service remain the employees of the DBPSC and DBPSSSI for the duration of the Agreement.*
- b. *In the fulfillment of its obligation to SHFC, the DBPSC and DBPSCSSI shall select and hire the employee/personnel assigned to the SHFC. The DBPSC and DBPSCSSI alone shall be responsible for the payment of their wages and other employment benefits and for the safeguarding of their health and safety in accordance with existing laws and regulations*

7.5 It is worth mentioning that the service contract of SHFC with DBP service providers falls under ICOS as defined in Section 5 of the CSC, COA and DBM Joint Circular No. 1, series of 2017, dated June 15, 2017, since the contract agreement covers lump sum work or services to perform janitorial, security, consultancy and other support functions for a maximum period of one year and the acquisition was done in accordance with the provisions of RA No. 9184.

7.6 Review of disbursement voucher for the cash advance and the journal entry voucher for the liquidation disclosed that the SHFC paid on January 2020 a one-time gratuity pay totaling P955,500 for CY 2019 to the 346 DBP Service providers personnel assigned at the SHFC, to wit:

<b>Type of Service</b>	<b>No. of Personnel</b>	<b>Amount</b>
Clerical Services	272	748,000
General Services	30	83,000
Janitorial Services	14	40,500
Security Services	30	84,000
	<b>346</b>	<b>955,500</b>

7.7 This runs counter to the provisions of Administrative Order No. 20 which authorizes the grant of gratuity pay for fiscal year 2019 to JO and COS only.

7.8 Further validation of the liquidation vouchers disclosed that payment of the gratuity pay was made through a cash advance by the OIC-VP, Treasury Department, and deposited to the bank accounts of the service providers' employees despite the fact that there is no employer-employee relationship between the SHFC and the employees of the service providers. Details as shown below:

<b>DV/JEV</b>	<b>Date</b>	<b>Payee</b>	<b>Particulars</b>	<b>Amount</b>
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						Cash Advance	Liquidation
2020010226	1/24/2020	Jason Yap	Cash Advance for payment of gratuity Pay for JOs and COS for FY 2019			953,500	
2020120011	2/21/2020		Liquidation of Cash Advance Refund			(12,000)	941,500
2020030910	3/5/2020	Jason Yap	Cash Advance for the additional 9 JOS and COS			17,000	
2020080004	8/14/2020		Liquidation Refund			(3,000)	14,000
<b>Total</b>						<b>955,500</b>	<b>955,500</b>

7.9 Thus, the payment of Gratuity Pay to the employees hired through ICOS is without legal basis and contrary to the provisions of Administrative Order (AO) No. 20, series of 2020, and CSC, COA and DBM Joint Circular No. 1, series of 2017.

7.10 **We recommended that Management:**

- a. **Seek clarification from the DBM or the Office of the President whether the personnel of institutional contract of service provider rendering services to SHFC are entitled to the gratuity pay authorized under AO No. 20;**
- b. **Otherwise, in the absence of an express authority or clarification that the gratuity pay includes those hired through ICOS, require the employees of the DBPSC and DBPSCSSI to refund the gratuity pay received from SHFC in the amount of P955,500; and**
- c. **Adhere strictly to the provisions of the Contract Agreement entered into by SHFC and the service provider, and to the CSC, COA and DBM Joint Circular No. 1, particularly the provision on the no employer-employee relationship and that the service provider alone shall be responsible for the payment of the wages and other employment benefits of their employees.**

7.11 Management clarified that SHFC granted the gratuity pay in January 2020 with the same basis, Administrative Order No. 20, series of 2020, which supports the welfare of workers who are engaged by various government agencies under JO and COS schemes. Relative thereto, SHFC believed that it has been the intention of the said Order to recognize the workers' services without the thought of implying any discrimination between Individual COS and Institutional COS since the said statute did not specify that only those individual COS workers will be covered by the gratuity pay.

7.12 Management mentioned that they will seek clarification from the DBM whether the gratuity paid to ICOS is in accordance with AO No. 20. Also, an initial communication with the service provider has been made regarding the

COS workers' refund of the gratuity pay if an express authority or clarification is not obtained from the DBM.

7.13 Lastly, Management commented that it was never SHFC's intention to deviate from the provisions of the agreement and joint circular.

**8. The grant of financial assistance totaling P1.526 million to 454 DBP Service Corporation and DBPSC Security Services Incorporated employees hired through Institutional Contract of Service (ICOS) has no legal basis and is not in accordance with the provisions of Section 5 of the CSC, COA and DBM Joint Circular No. 1, series of 2017, and Section 4(7) on the Fundamental principles of Presidential Decree (PD) No 1445.**

8.1 Section 5 of the Civil Service Commission (CSC), Commission on Audit (COA) and the Department of Budget and Management (DBM) Joint Circular No. 1, series of 2017, dated June 15, 2017 defined the following:

- a. Contract of Service refers to the engagement of the services of an individual, private firm, other government agency, non-governmental agency or international organization as consultant, learning service provider or technical expert to undertake special project or job within a specific period.
- b. Contract or Service provider refers to an individual, a government agency private or non-government entity, duly registered or recognized by authorized government agencies to provide consultancy services in their respective field of expertise.
- c. Institutional contract refers to the agreement between the government agency and contractor or service provider duly registered and recognized by authorized government agencies to provide services such as janitorial, security, consultancy, and other support services.
- d. Job Order refers to piece work (pakyaw) or intermittent or emergency jobs such as cleaning of debris on the roads, canals, waterways, etc. after natural man-made disasters/occurrences and other manual/trades and crafts services such as carpentry, plumbing, electrical and the like. These jobs are of short duration and for a specific piece of work.

8.2 In addition, Section 6, provides that generally, the government agencies may avail of outsourced services through ICOS for a maximum period of one year subject to the provisions of RA No. 9184.

8.3 Moreover, Section 4(7) of PD 1445 on the Fundamental principles provides that all laws and regulations applicable to financial transactions shall be faithfully adhered to.

8.4 The ConAg of SHFC with DBP Service Corporation falls under ICOS as defined in Section 5 of the CSC, COA and DBM Joint Circular No. 1, series of 2017, dated June 15, 2017, since the contract agreement covers lump



sum work or services to perform janitorial, security, consultancy and other support functions for a maximum period of one year and the acquisition was done in accordance to the provisions of RA No. 9184.

- 8.5 The ConAg also provides the following terms and conditions:

*The relationship of the parties in the Agreement is that of Principal-Independent Contractor. There shall be no employer-employee relationship between SHFC and the personnel of the DBPSC and DBPSCSSI. It is expressly understood and agreed that the personnel to be assigned by the DBPSC and DBPSCSSI to perform the service remain the employees of the DBPSC and DBPSCSSI for the duration of the Agreement.*

*In the fulfillment of its obligation to SHFC, the DBPSC and DBPSCSSI shall select and hire the employee/personnel assigned to the SHFC. The DBPSC and DBPSCSSI alone shall be responsible for the payment of their wages and other employment benefits and for the safeguarding of their health and safety in accordance with existing laws and regulations.*

- 8.6 In the Minutes of the Board Meeting No. 03-2020 dated March 31, 2020, the Management Committee and Advisory Council justified the grant of financial assistance quoted as follows:

*Because of the financial difficulty resulting from COVID 19 pandemic, our contractual employees need to be financially prepared to enable them to buy enough food and other supplies such as disinfectant, etc. for their families during this state of calamity.*

*The Bayanihan Act recognized that the poorest among us are the most affected by the pandemic: thus, the national government intends to grant income subsidy to these vulnerable families.*

- 8.7 The Management Committee and Advisory Council recommended to the Board the grant of financial assistance taking into consideration the following:

- a. The financial hardships to the contractual employees whose safety, health and income are tested during the difficult time; and
- b. The said assistance is consistent with the government's directive affecting the poorest that are most vulnerable.

- 8.8 Further review of the Minutes of the Board Meeting disclosed that one of the members of the Board of Directors commented that Management should give concrete basis to grant the financial assistance as it is not within the boundaries set by the DBM guidelines. Thus, the Board declined to ratify the actions of the Executive Committee and SHFC Management on the grant of financial assistance to ICOS employees of the SHFC. The approval was left to the discretion of Management as long as it is within the authority of the

President. Despite the actions of the Board, Management proceeded with the grant of financial assistance to ICOS employees.

- 8.9 Review of Disbursement Voucher (DV) No. 2020-031210 amounting to P1,526,000 revealed that this amount was for the payment of financial assistance to the 454 ICOS personnel, details of which are as follows:

Categories	No. of Personnel	Amount
Below TS 1	191	764,000
TS 1 –TS3	171	547,200
TS 4 to TS 5	77	184,800
TS 6 to TS 7	15	30,000
<b>Total</b>	<b>454</b>	<b>1,526,000</b>

- 8.10 Further, the payment was made directly to the ICOS employees despite the fact that there is no employer-employee relationship between SHFC and the personnel of the DBPSC and DBPSCSSI. The DV is in the name of Land Bank of the Philippines, and the bank directly credited the payment to the individual account of the personnel of the ICOS.
- 8.11 Since the Board left to the Management the discretion to approve the grant of financial assistance, the approval in writing should have been attached to the DV. According to the HR Department, the only available documents to support the claim are the list of ICOS employees, Executive Committee Report No. 2020-03 (Agenda on Board Meeting 03-2020), and the Minutes of the Board Meeting 03-2020.
- 8.12 Further, during the Enhanced Community Quarantine when the Work from Home and Skeletal Workforce arrangement is being implemented by Management, these employees have received their salaries in full.
- 8.13 The grant of financial assistance to ICOS employees is without legal basis and not in accordance with CSC, COA, DBM Joint Circular No. 1, series of 2017, and Section 4(7) of PD 1445.
- 8.14 **We recommended that Management:**
- Submit legal basis on the grant of financial assistance to personnel of ICOS rendering services to SHFC otherwise, refund the financial assistance granted to them in the absence of legal authority; and**
  - Adhere strictly to the provisions of CSC, COA, DBM Joint Circular No. 1, series of 2017, and Section 4(7) of PD 1445.**
- 8.15 Management commented that it is deemed justifiable to grant financial assistance to its agency-hired personnel, which is consistent with the government's current policy directives to contain the adverse impact of the COVID-19 pandemic. It was clarified by the Management during its Board



Meeting on March 31, 2020 that the financial support will be considered as a donation and approval is within the SHFC President's authority.

- 8.16 Management further commented that as a response to the government's call for all agencies to render cooperation and support in view of the threat and impact of the pandemic, one meaningful and significant way that they conceived of in doing their share was to aid those low-income earners, in particular, the agency hired personnel who lack protection and who do not enjoy benefits accorded to government employees.
  - 8.17 Management further commented that the Board of Directors left to the Management the discretion to approve said matter as long it is within the authority of the SHFC President. Therefore, Management prays that the exercise of its discretion regarding the grant of financial assistance to its agency-hired personnel be considered as valid.
  - 8.18 As a rejoinder, we reiterate that Management submit legal basis to support the grant of financial assistance to ICOS employees.
9. **The grant of financial assistance totaling P1.508 million to 887 vulnerable Member Beneficiaries (MBs) during the ECQ is without legal basis and runs counter to the mandate of the SHFC as well as to the Philippine Commission for Women (PCW) Memorandum Circular (MC) No. 2020-03 dated April 27, 2020, resulting in the overlapping of functions with other government agencies tasked to respond to the crisis under the Bayanihan to Heal as One Act and Bayanihan to Recover as One Act.**
- 9.1 Executive Order No. 272 dated January 4, 2004 provides that SHFC shall be the lead government 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 Abot-Kaya Pabahay Fund (AKPF) Program (amortization support program and developmental financing program).
  - 9.2 In line with its mandate is the mission of SHFC to empower and uplift the living conditions of underprivileged communities by Building Adequate Livable Affordable and Inclusive (BALAI) Filipino Communities through provision of FAIR shelter solutions in strong partnerships with the national and local government, as well as the civil society organizations and the private sector to support the underprivileged communities.
  - 9.3 The PCW MC No. 2020-03 dated April 27, 2020 provides the guidelines in the review and revision, as necessary, of the FY 2020 Gender and Development (GAD) Plan and Budget to implement measures to address gender issues and concerns arising from the unequal status of women and men stakeholders due to COVID-19 situation. Such measures should be in line with the agency's mandates, Republic Act No. 9710 or Magna Carta of Women and Bayanihan to Heal and to Recover as One Acts.

- 9.4 Review of various liquidation of cash advances pertaining to the donations and cash assistance disclosed that the SHFC disbursed a total amount of P1,508,000 to assist 887 Member Beneficiaries (MBs), of which only the amount of P1,408,953 was liquidated as at December 31, 2020, to wit:

<b>Expense account</b>	<b>Particulars/Association</b>	<b>No. of MB</b>	<b>Amount</b>
Donations	Cash Assistance to HOAs	818	818,000
Capacity Building	Livelihood Assistance	69	690,000
		<b>887</b>	<b>1,508,000</b>

- 9.5 Further review showed that the President of SHFC approved the Memorandum of SHFC GAD officer dated April 24, 2020 on the proposal for the EMERGENCY RELIEF OPERATIONS PARA SAYO KA-SHFC under PDE CE GAD 2020-12. It was stated therein that SHFC will set aside P2 million from its GAD funds to cover the cash assistance amounting to P1,000 per household from the vulnerable men and women beneficiaries in CMP communities during the COVID-19 pandemic, with the following objectives:
- To cushion the impact brought about by the temporary loss of earning capacity because of the ECQ; and
  - To supplement the food pack aid provided by the barangay and local government units for the underprivileged, poor and vulnerable men and women of CMP communities.
- 9.6 On July 6, 2020, a Memorandum from the Insurance and Community Enhancement Department of the Programs and Development Group, PDECELP-2020-013 also proposed to give livelihood financial assistance of P10,000 each to MBs of the CA who lost their jobs during the COVID-19 pandemic to be used as capital for their small business. The amount of P978,000 budget for this activity was earmarked for the Capacity Building/Livelihood Program.
- 9.7 It is worthy to mention that the MBs are the clients/borrowers of the housing loan program of SHFC. Aside from the cash donation and livelihood assistance/capacity building expenses granted to the 887 MBs, the same recipients were also beneficiaries of the three-month housing loan moratorium or deferment of payment from March 16 to June 15, 2020 to all MB borrowers, regardless whether their accounts are active or past due. SHFC has implemented these as a response to the call of the National Government during the pandemic.
- 9.8 The cash donation and livelihood financial assistance/capacity building expenses granted to the MBs have no legal basis and is not in accordance with the mandate of the SHFC.



**9.9 We recommended that Management:**

- a. Submit legal basis for the grant of financial assistance to MBs, otherwise, the transaction is considered irregular in the absence of legal authority;**
- b. Strictly disburse funds in accordance with the SHFC's mandate, vision and mission; and**
- c. Disburse funds from GAD budget in accordance with the FY 2020 GAD plan and budget.**

- 9.10 Management commented that the amount of P1.409 million financial assistance disbursed by SHFC to qualified CMP beneficiaries is part of its capacity building and livelihood program and is mainly premised on the principle that housing is a basic human right by providing not only a physical structure but something that should be responsive, adequate and attainable.
- 9.11 Management mentioned RA No. 7279, Urban Development Housing Act of 1992; RA No. 11291, An Act Providing for a Magna Carta of the Poor; and EO No. 272, Authorizing the Creation of the Social Housing Finance Corporation, as their bases which provides that SHFC has the responsibility not only to provide through CMP but also to provide additional support and assistance for the improvement of the lives of its beneficiaries. Further, one of the strategic measures approved by GCG on its scoreboard is to ensure the Provision of Shelter Security and Improved Housing Quality, and providing financial assistance especially during this pandemic, supports this strategic measure.
- 9.12 Also, Management explained that said disbursement has been identified as a specific corporate strategy in helping underprivileged communities to have better living conditions and is pursuant and aligned to the SHFC's mission and vision and also part of SHFC's continuing efforts at gender mainstreaming as reflected in its GAD Policy under Office Order (OO) No. 19-1059, derived from RA No. 9710, Magna Carta of Women.
- 9.13 Lastly, Management averred that the disbursement for financial assistance for the capacity building is pursuant to and in accordance with submitted FY2020 GAD Plan and Budget line item 3 under Client-focused activities. The emergency relief proposal was intended for the food packs, safe water, and hygiene kits, however, Management has shifted it into cash assistance due to procurement and mobilization constraints.
- 9.14 As an audit rejoinder, we maintain our position that Management submit a legal basis for the grant of financial assistance to MBs, and approval from the PCW on the revision of the GAD program which includes cash donations to MBs.

10. Non-withholding of tax on the monetized leave credits in excess of the allowable number of days considered as de minimis benefit of 41 employees totaling P1.918 million is contrary to Section 1 of Revenue Regulation (RR) No. 5-2011 and Section 7 of RR No. 11-2018 and may expose SHFC to the risk of possible assessment on deficiency tax on wages.

- 10.1 Section 1 of RR No. 5-2011 is hereby amended the Section 2.78.1 of RR No. 2-98, as amended to read as follows:

*Xxx The following shall be considered as "de minimis" benefits not subject to income tax as well as withholding tax on compensation income of both managerial and rank and file employees:*

- a. **Monetized unused vacation leave credits of private employees not exceeding ten (10) days during the year;**
- b. Monetized value of vacation and sick leave credits paid to government officials and employees;
- c. Medical cash allowances to dependents of employees, not exceeding P750 per employee per semester or P125 per month;
- d. Rice subsidy of 1,500 or one (1) sack of 50 kg. rice per month amounting to not more than P1,500;
- e. Uniform and clothing allowance not exceeding P4,000 per annum;
- f. Actual medical assistance, e.g., medical allowance to cover the medical and health care needs, annual medical/executive check-up, maternity assistance, and routine consultations, not exceeding P10,000 per annum;
- g. Laundry allowance not exceeding P300 per month;
- h. Employee achievement awards, e.g., for length of service or safety achievement, which must be in the form of a tangible personal property other than cash or gift certificate, with an annual monetary value not exceeding P10,000 received by the employee under an established written plan which does not discriminate in favor of highly paid employees;
- i. Gifts given during Christmas and major anniversary celebrations not exceeding P5,000 per employee per annum;
- j. Daily meal allowance for overtime work and night/graveyard shifts not exceeding twenty-five (25%) of the basic minimum wage on a per region basis;

*All other benefits given by employer which are not included in the above enumeration shall not be considered as "de minimis" benefits, and hence, shall be subject to income tax as well as withholding tax on compensation income." (Emphasis supplied)*

- 10.2 Section 7 of RR No. 11-2018 further amends Section 2.79 (A) of RR No. 2-98 on the responsibility of employer as withholding agent of compensation income received by its employees, to wit:

**Sec. 2.79. INCOME TAX COLLECTED AT SOURCE ON  
COMPENSATION INCOME**



(A) *Requirement of Withholding – **Every employer must withhold from compensation paid an amount computed in accordance with these Regulations, whether the employee is a citizen or an alien, except non-resident alien not engaged in trade or business.** Provided, that no withholding of tax shall be required on the SMW, including holiday pay, overtime pay, night shift differential and hazard pay of MWEs in the private/public sectors as defined in these Regulations. Provided, further, that an employee who receives additional compensation such as commissions, honoraria, fringe benefits, benefit in excess of the allowable statutory amount of P90,000 taxable allowances and other taxable income other than SMW, holiday pay, overtime pay, hazard pay and night shift differential pay shall not enjoy the privilege of being MWE and, therefore, his/her entire earnings are not exempt from income tax and consequently, shall be taxable only on such additional compensation received.(Emphasis supplied)*

- 10.3 At the outset, records show that SHFC employees are not registered members of the Government Service Insurance System (GSIS) but of the Social Security System (SSS) with a different type of social insurance and retirement benefits. SHFC is a non-chartered Government Owned and/or Controlled Corporation (GOCC) that was organized and created under Batas Pambansa Bilang 68, or The Corporation Code of the Philippines, wherein its primary franchise is disclosed under its Articles of Incorporation.
- 10.4 In the Civil Service Commission (CSC) Opinion No. 168, series of 2004, the CSC ruled that if a government-owned or controlled corporation (GOCC) does not have its own charter, its personnel are outside the scope of Civil Service Law and rules. Since the SHFC is a GOCC that does not have its own charter, it shall take the form of a private corporation whose personnel are covered by the Labor Laws.
- 10.5 On the other hand, the Collective Bargaining Agreement (CBA) between SHFC and Social Housing Employees Associations, Inc. (SOHEAI) provides that SHFC will grant the following leave privileges to its employees:

Type of Leave Credits	Leave Credits Granted	Money Value
a. Vacation Leave (VL)	Fifteen (15) days leave with pay per year, plus one (1) day for every three (3) years of service upon regularization.	All unused leave credits shall be paid their cash equivalent at 100 percent of basic rate at the end of the year of availment.
b. Sick Leave (SL)	Fifteen (15) days leave with pay per year, plus one (1) day for every three (3) years of service upon	All unused leave credits shall be paid their cash equivalent at 100 percent of basic rate at the end of the year of

Type of Leave Credits	Leave Credits Granted	Money Value
	regularization.	availment.
c. Emergency Leave	Five (5) days leave with pay per year.	Non-accumulating and Non-vesting
d. Extra Leave	One (1) travel day-off for every five (5) days official travel and two (2) extra days off for fifteen (15) days of official travel to be availed immediately after travel	Non-accumulating and Non-vesting
e. Study Leave	Four (4) months with pay to be used in instances such as reviewing for bar examinations and any licensure examinations, etc. which can be availed once.	Non-accumulating and Non-vesting
f. Solo Parent Leave (SPL)	Seven (7) days leave with pay per year, plus one (1) day for every three (3) years of service upon regularization.	All unused leave credits shall be paid their cash equivalent at 100 percent of basic rate at the end of the year of availment.

- 10.6 Accordingly, employees are entitled to the monetization of some of the leave credits earned such as sick, vacation and solo parent leave, equivalent to 100 percent of the basic salary rate. These can be accumulated and carried forward to the succeeding years in case the employee opted not to avail of the money value of the unused earned leave during the year.
- 10.7 Validation of disbursement vouchers for the payment of monetized leave credits of 52 employees during the year revealed that 41 employees with total payments of P1,917,511 of monetized leave credits in excess of de minimis limit of 10 days were not subjected to withholding tax on wages after exhausting the tax exemption limit of P90,000 as provided in RR No. 5-2011.
- 10.8 SHFC employees, who are considered as private employees governed by the rules of Labor Code, not the Civil Service Law and registered with SSS, must observe the de minimis benefit limit which is up to 10 days only. Any excess on the 10 VL credits and any SL credits monetized during the year are therefore considered as taxable benefits. However, it is worth mentioning that any amount of de minimis benefit in excess of the threshold provided by the BIR regulation can still be exempt as other benefits together with the employee's 13<sup>th</sup> month pay and other bonuses received during the taxable year, but not to exceed P90,000.



- 10.9 Thus, the non-withholding of tax on monetized leave credits of more than the de minimis benefit threshold is contrary to Section 1 of RR No. 5-2011 and Section 7 of RR No. 11-2018 and may expose SHFC to the risk of possible assessment on deficiency tax on wages.
- 10.10 **We recommended that Management:**
- a. **Secure clarification from the BIR whether the monetized leave credits in excess of the threshold is exempt from tax considering that SHFC employees are covered by the Labor Code; and**
  - b. **Ensure that the provisions of RR No. 5-2011 and RR No. 11-2018 are strictly applied to all other allowances and benefits granted to employees in order to avoid possible assessment by the BIR on deficiency tax on wages.**
- 10.11 Management commented that it is true that SHFC is governed by the Labor Code, but it only covers the terms and conditions of employment, rules on termination or employment, wages, hours of work as well as the right to self-organization. SHFC must still comply with the other government regulations and issuances of the Department of Human Settlements and Urban Development (DHSUD) and Governance Commission for GOCCs specifically on the performance-based evaluation of its employees.
- 10.12 Management mentioned that the concept of de minimis benefit is not a labor law or civil service concept but that of taxation. Under the de minimis principle, the monetization of leave credits shall be subject to tax except for government employees and has been clarified by Executive Order No. 291.
- 10.13 Management also commented that Executive Order No. 291 does not distinguish the kind of government employee whether from chartered or non-chartered government corporations. As such, the exemption of monetized leave credits should be equally applied to SHFC employees. What makes an employee a public officer is not how the agency was created but whether it is performing a public servant function and receives compensation therefrom.
- 10.14 As a rejoinder, we maintain our stand that Management secure a clarification from the BIR if they are covered by RR No. 5-2011 considering that the employees are covered by the Labor Code, and enjoy the benefits/allowances as private employees even if SHFC is under the supervision of DSHUD and the Governance Commission for GOCCs.
11. **The Marawi Shelter Project Fund amounting to P43.036 million, sourced from the 2018 National Disaster Risk Reduction and Management (NDRRM) Fund, was deposited and maintained in a bank account intended for the Community Mortgage Program (CMP) loan take-outs, contrary to Sections 110, 111, 124 of Presidential Decree (PD) No. 1445, defeating the purpose of**

**providing a sound and effective internal control on the receipt and utilization of the Fund solely for its specific purpose.**

- 11.1 PD No. 1445, Ordaining and Instituting A Government Auditing Code of the Philippines, provides the following pertinent sections regarding control on the management of funds:

*Section 110. Objectives of government accounting. Government accounting shall aim to:*

- 1. produce information concerning past operations and present conditions;*
- 2. provide a basis for guidance for future operations;*
- 3. **provide for control of the acts of public bodies and officers in the receipt, disposition and utilization of funds and property; and***
- 4. report on the financial position and the results of operations of government agencies for the information of all persons concerned.*

*(Emphasis supplied)*

*Section 111. Keeping of accounts.*

- 1. The accounts of an agency shall be kept in such detail 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 shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

*Section 124. Installation*

*It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.*

- 11.2 The Marawi Recovery, Rehabilitation and Reconstruction Program (MRRRP) is being implemented through a Memorandum of Understanding between the United Nations Human Settlements Programme (UN-Habitat) and the Government of the Philippines represented by the SHFC wherein both parties have agreed to collaborate in the shelter and community recovery program in response to the Marawi siege of 2017 under the "Project for Rebuilding Marawi through Community Driven Shelter and Livelihood Support" which is being supported by the people of Japan. The specific responsibilities of the Government, among others, shall be to allocate funds for the land acquisition and site development, as necessary, or to provide land or project site, when already available.
- 11.3 Records show that the National Government (NG), through the DBM, issued a letter dated November 25, 2019 on the release of NDRRM Fund through SARO-BMB-19-0021419 in the amount of P43,036,125 that was



sourced from the FY2018 GAA - Continuing Appropriations to cover the government subsidy for the land acquisition for the said shelter project.

- 11.4 Verification of the bank statement and general ledger of Cash in Bank account revealed that SHFC received funds amounting to P43,036,125 through NCA No. BMB-C-19-0024721 from the NG to fund the cash requirement of the mentioned SARO. This was credited to SHFC Land Bank Account (LBP) No. 3432-1006-17 for High Density Housing Program (HDHP) I on December 17, 2019, and a corresponding Official Receipt was issued to the Bureau of the Treasury (BTr) on January 7, 2020. The receipt of NCA was subsequently recorded in the SHFC books on January 31, 2020 as a debit to Cash in Bank-Local Currency (HDHP I), and a credit to Subsidy Income from NG.
- 11.5 On January 20, 2020, the Marawi Fund, however, was transferred to LBP Account No. 1782-1027-41 for Loan Take-Out Fund (TOF), an account where the funds intended for the disbursements/releases of loan proceeds in relation to lot acquisition and site development for CMP projects are recorded. The details of the receipt and utilization of Marawi Fund are as follows:

Date	Reference	Account Name	Particulars	Debit	Credit	Balance
01/11/2019	DV2019-010060	Cash in Bank, LC-TOF	Payment of 20% proceed of lot acquisition Project 1	0	1,131,250	(1,131,250)
01/11/2019	DV2019-010061	Cash in Bank, LC-TOF	Payment of 20% proceed of lot acquisition Project 2	0	7,362,850	(8,494,100)
03/01/2019	DV2019-010061	Cash in Bank, LC-TOF	Additional payment on the 20% proceed of lot acquisition - Project A	0	113,125	(8,607,225)
01/30/2020	JEV202001 0073	Cash in Bank, LC-HDHP I	To record the receipt of Notice of Cash Allocation	43,036,125	0	34,428,900
01/31/2020	JEV202001 0063	Cash in Bank, LC-HDHP I	To record fund transfer from HDHP 1 to TOF	0	43,036,125	(8,607,225)
01/31/2020	JEV202001 0063	Cash in Bank, LC-TOF	To record fund transfer from HDHP 1 to TOF	43,036,125	0	34,428,900
<b>Outstanding Balance as at December 31, 2020</b>						<b>34,428,900</b>

- 11.6 It can be gleaned from the table above that SHFC already made an initial payment of 20 percent for the lot acquisition on the identified and approved project sites on January 2019 that was sourced from loan take-out funds before any allotments from the NG and issuance of NCA to support the Marawi Shelter Project. Accordingly, the funds received from the NG for the land acquisition were all transferred to the Take-Out Funds to recover the utilized portion of the corporate fund, instead of opening a separate depository bank account for the remaining balance of P34.429 million as at

December 31, 2020 to be set-aside solely for the specific purpose provided in the SARO.

- 11.7 Since the fund was earmarked for the Marawi Shelter Project as provided in the SARO, this is categorically considered as a restricted fund, subject to strict monitoring. A restricted fund is any cash balance that is held and has been earmarked for specific or limited use and not for immediate use in the operations. Restricted funds also provide reassurance that money or allotments are used for the intended use.
  - 11.8 As a subsidy fund subject of strict monitoring with periodic reportorial requirements until its full liquidation, the Marawi Shelter Project Fund being deposited and commingled with the CMP Fund intended for loan take-out is contrary to Sections 110, 111, 124 of PD No. 1445, and defeats the purpose of providing a sound and effective internal control on the monitoring of receipt and utilization of funds solely for its specific purpose.
  - 11.9 **We recommended and Management agreed to open a separate depository bank account for the Marawi Shelter Project Fund considering that this is a government subsidy sourced from the NDRRM Fund subject of strict monitoring of its receipts and utilizations through periodic reporting until full liquidation.**
  - 11.10 Management commented that the Board already approved the opening of a separate bank account and waiting for the release of the Board Resolution by the Corporate Secretary.
12. **SHFC was able to attribute and utilize P1.424 billion or 59.16 percent from its Gender and Development (GAD) budget amounting to P2.407 billion which is 36.29 percent of its 2020 DBM approved budget of P6.633 billion. However, the GAD Plan and Budget (GPB) was not submitted to PCW within the prescribed period in accordance with PCW MC No. 2020-003, thus it could not be ascertained whether the PPAs really addressed the gender issues because it is still under review by the PCW. Moreover, of the 19 PPAs amounting to P12.684 million for the client and organization-focused activities, only 11 PPAs amounting to P6.555 million or 51.68 percent were implemented, thus reducing the opportunity of women and other concerned parties to participate and benefit from GAD PPAs.**
- 12.1 Salient features of the PCW Memorandum Circular No. 2020-03 dated April 27, 2020 prescribes the Adjustment and/or Implementation of the FY 2020 GPB in view of the Corona virus Disease 2019 situation as follows:
    - 4.1. *All national government agencies and instrumentalities are enjoined to review, and revise as necessary, their FY 2020 GPB to implement measures to address gender issues and concerns arising from the unequal status of their women and men stakeholders due to COVID 19 situation. Such measures should be in line with their respective agency mandate, Republic Act No. 9710 or Magna Carta for Women and the Bayanihan to Heal as One Act*



*The following measures shall be observed:*

Xxx

*4.1.2 Identify and implement policies and measures to prevent discrimination against women and gender-based violence in the implementation of the program;*

*4.1.3. Ensure that women and men stakeholders are informed of the measure instituted or programs offered by the agency to prevent and respond to the COVID 19- situation;*

*4.1.8. For infrastructure agencies, ensure access to sufficient and affordable water, sanitation and hygiene services for vulnerable groups of women, including in informal settlements, rural areas and temporary shelters*

*4.4 Agencies with FY 2020 GPB that has been endorsed or is still under review by PCW have an option to submit an adjusted GPB until 01 July 2020 for re-endorsement of PCW.*

- 12.2 Review of the timelines on Gender Mainstreaming Monitoring System (GMMS) disclosed that Management submitted their revised GPB only on July 4, 2020 instead of July 1, 2020 as stated in the mentioned Circular. Further review disclosed that as of audit date, the revised GPB is still under review by the PCW, thus the expenses incurred on PPAs cannot be validated and ascertained whether they are in accordance with the PCW MC.
- 12.3 Below is the revised GPB and the utilization of the Fund per Accomplishment Report:

Programs/Projects/Activities	GAD Budget	Utilization/ Attribution/Per Accomplishment	Per- centage
<b>Client-Focused</b>			
Capacity building seminar/training on Gender Development for SHFC community associations and periodic consultations with community leaders of the Associations	700,000	39,375	
DRR training integrated with GAD at community level and provision of health protection gear	480,000	0	
Provision of Emergency Relief Assistance for vulnerable members of the community	2,050,000	687,665	
Entrepreneurship livelihood training for women-headed solo parent men, senior and PWD households	300,000	0	
Upgraded learning facilities and training on Basic Teacher/day care facilities	580,000	580,000	
Capacitate women and men on their rights to housing and gender responsive			

Programs/Projects/Activities	GAD Budget	Utilization/ Attribution/Per Accomplishment	Per- centage
housing designs and spaces	400,000	0	
Information drive on social protection on anti-violence laws, services and protection mechanism	400,000	140,590	
Gender related trainings/seminar/deepening of SHFC communities	440,000	0	
	<b>5,350,000</b>	<b>1,447,630</b>	
<b>Organization-Focused</b>			
Women's Month Celebration	630,471	153,044	
Information dissemination and distribution of information	1,100,000	0	
Training on RA 9710, RA 9262 and RA 10354	660,000	92,272	
Setting up GAD facilities/Breastfeeding	550,000	208,166	
GAD Assessment, Planning and Budgeting	350,000	173,502	
GAD Agenda	150,000	316,430	
GAD related trainings/GAD mainstreaming for leaders and newly hired employees	120,000	1,660,101	
MOVE SHFC (Alyansa ng mga Lalaki na ayaw sa Karahasan)	200,000	0	
Trainings on health crisis response and climate change and provision of health kit for employees	600,000	0	
Training on sex disaggregated data	470,000	0	
Employ agency hired to focus corporate wide to implement, consolidate evaluate GAD	2,503,369	2,503,369	
	<b>7,333,840</b>	<b>5,106,884</b>	
	<b>12,683,840</b>	<b>6,554,514</b>	<b>51.68</b>
<b>Attributions - Programs assessed using HGDG Tool (Loans Outlay based on DBM-approved COB)</b>			
	<b>2,394,745,000</b>	<b>1,417,689,040</b>	<b>59.20</b>
	<b>2,407,428,840</b>	<b>1,424,243,554</b>	<b>59.16</b>

- 12.4 Review of the Accomplishment Report dated January 14, 2021 disclosed that for the client focused activity, the amount of P687,665 from the GPB of P2,050,000 pertains to the cash donations to vulnerable members of the community for emergency relief assistance. This is not among the activities enumerated to address gender issues and concerns as stated under Section 4.1.8 in the PCW MC No. 2020-003 on the access to sufficient and affordable water, sanitation and hygiene services for vulnerable groups of women, including in informal settlements, rural areas, and temporary shelters.
- 12.5 Further review disclosed that for GAD related trainings and mainstreaming for leaders and newly hired employees, the amount utilized amounted to P1,660,101, which exceeded the GAD budget of P120,000 by P1,540,101. According to Management, the utilization was not limited to the newly hired employees, it was also extended to the old employees who have not yet attended GAD seminars/trainings.



- 12.6 In addition, out of the 19 client and organization-focused activities totaling P12,683,840, only 11 activities totaling P6,554,514 or 51.68 percent was implemented.
- 12.7 However, despite the absence of the duly endorsed/approved CY 2020 GPB, the Agency was able to implement GAD related PPAs totaling P1,424,243,554, which is 59.16 percent of its submitted GPB of P2,407,428,840.
- 12.8 The partial implementation of PPAs reduced the opportunity of women and other concerned parties to participate and benefit from GAD PPAs. Moreover, it could not be determined whether the GAD-related expenses/fund utilization really addressed the gender issues of the SHFC clients in the absence of the approved GPB.
- 12.9 **We recommended that Management:**
  - a. **Follow-up with PCW the endorsement of the GPB to ensure that the PPAs identified are fully carried out and really addressed the gender issues of SHFC;**
  - b. **Monitor properly the implementation of the approved GAD PPAs which should be done as scheduled within the budget year; and**
  - c. **Adhere strictly to the provisions of PCW MC No. 2020-03 on the adjustments and implementation of the PPAs.**
- 12.10 Management commented that it is still waiting for the approval of the PCW on their GPB. Also, Management committed to continue and improve its previous year's Harmonized Gender and Development Guidelines (HGDG) PIMME Score Level of 3 (Gender-Sensitive) and its GAD mainstreaming efforts, however, the COVID-19 pandemic has obviously impacted the implementation of PPAs, hence, some planned activities were cancelled and recalibrated to address the urgent situation.
- 12.11 On the other hand, Management clarified that all PPAs and disbursements for the same including the release of financial assistance, capacity building and livelihood support is pursuant to and in accordance with the submitted FY2020 GAD Plan and Budget line item 3 under client-focused activities.
- 12.12 As a rejoinder, we maintain our recommendation that Management follow-up with the PCW the approved GPB to determine whether the implemented activities, particularly the provision of Emergency Relief Assistance in the form of cash assistance for vulnerable members of the community, are approved by the PCW.
13. **Absence of prior approval or consent, through submission of signed consent/agreement form, from the 215 Member Beneficiaries (MBs) who reached the age of 70 years old during the three-month loan term extension period with an outstanding loan balance aggregating P32.694 million as at June 16, 2020 is contrary to Section V of SHFC Corporate Circular No. 054, s.**

2020, thus, SHFC is exposed to risk of non-recovery of its investment in housing in case of MBs death or total permanent disability during the loan term extension.

- 13.1 Section V. Effect of the Moratorium on the Loan Term of SHFC Corporate Circular No. 054, series of 2020, provides that:

*As a result of the grant of moratorium and/or deferment of payments, the loan term shall correspondingly extend three (3) months. For MBs who will reach the age of seventy (70) years old during the extension of the loan term, they will no longer be covered by the Mortgage Redemption Insurance.*

*The consent/agreement/conformity to the extension of the loan term shall be submitted by the HOAs or MBs to the SHFC within the year.*

- 13.2 Following the DHSUD Order on the implementation of housing loan moratorium of its Key Shelter Agencies, SHFC granted a three-month moratorium on the payment of monthly amortizations on housing loan for all its projects nationwide due to the ECQ in Luzon and the declaration of State of Calamity over the entire country amid the COVID-19 pandemic pursuant to SHFC Board Resolution No. 840, series of 2020.

- 13.3 Article V of the Memorandum of Agreement between SHFC and Pag-IBIG MRI Pool, Inc. dated December 16, 2006, provides that the insurance of a borrower shall automatically terminate immediately among others, on the date the borrower has reached the age of 70, to wit:

*Article V – Termination of Coverage*

*The insurance of a borrower shall automatically terminate immediately upon the earliest of the following dates:*

- 1. The date of death; or*
- 2. The date of which term of his mortgage loan expires, or.*
- 3. The date the borrower's indebtedness is completely discharge and/or paid, or;*
- 4. **The date the borrower has reached the age of 70;***
- 5. The date that the title of the property mortgage has been foreclosed or dropped from enrollment as provided for under Sec. 3, Article III;*
- 6. The date SHFC no longer guarantees the premiums due i.e., after 36 months in arrears;*

***(Emphasis supplied)***

- 13.4 The housing loan moratorium program of the SHFC is available to all projects/accounts under the CMP and HDH program nationwide, regardless of project/account status. This means that all projects/accounts, including those that are newly taken out, whether updated or delinquent are qualified to avail of the moratorium. The grant of moratorium is automatic, hence, the MBs are not required to file an application with SHFC in order to qualify



for the suspension of monthly amortization, consisting of principal and interest for three months. In effect, the loan term shall be extended by three-months, however MBs who will reach 70 years old during the extended loan term/period are no longer covered by the Mortgage Redemption Insurance (MRI), hence a consent/agreement form expressing the intention of availing the extension of the loan term shall be submitted to SHFC by the concerned MBs/HOAs.

- 13.5 Accordingly, the housing loans drawn by SHFC shall be covered by MRI since this will answer the risk of non-recovery of remaining loan balance of MBs who will die or be permanently disabled during the loan term. Further, this will ensure the security of the bereaved family from the burden of paying the remaining balance of the loan of the deceased or disabled borrower.
- 13.6 Review of the SL and schedule of outstanding MCR of MBs under HDH and CMP projects revealed that the loan moratorium were automatically applied for 215 MBs accounts with total loan balance of P32,693,894 even if SHFC has not secured the signed agreement form for the extension of the loan term from the HOA or MB. These 215 MBs are composed of 149 CMP MBs with loan balance amounting to P6,786,720 and 66 HDH MBs with loan balance amounting to P25,907,174, to wit:

Audit Attributes/Results:	CMP Accounts		HDH Accounts		Total	
	Number of MBs	Outstanding Loan Balance	Number of MBs	Outstanding Loan Balance	Number of MBs	Outstanding Loan Balance
MBs without DOB Details	1,624	51,232,684	0	0	1,624	51,232,684
MBs who will reach age of 70 years old after the loan term extension	9,304	532,805,768	2,009	769,838,929	11,313	1,302,644,697
MBs who will reach 70 years old before the loan term extension	2,943	172,638,220	1,565	590,030,199	4,508	762,668,419
<b>MBs who will reach 70 years old during the loan term extension</b>	<b>149</b>	<b>6,786,720</b>	<b>66</b>	<b>25,907,174</b>	<b>215</b>	<b>32,693,894</b>
<b>Total Sampled Accounts</b>	<b>14,020</b>	<b>763,463,392</b>	<b>3,640</b>	<b>1,385,776,302</b>	<b>17,660</b>	<b>2,149,239,694</b>

- 13.7 It was also observed that 4,508 MBs reached the age of 70 before the loan term extension, thus, no longer covered by the MRI. Further, there are 1,624 MBs without data on their DOB, precluding the Audit Team in ascertaining whether these MBs are already 70 years old during the loan term extension and no longer qualified for MRI coverage.
- 13.8 We have requested copies of the signed consent/agreement from the MBs/HOAs for the extension of the loan term, however, Management revealed that they have not started the processing or collating copies of said document due to lack of the proforma form and the limited movement caused by COVID-19 pandemic. Management also informed that they have undertaken an awareness/post-program briefing of the officers and processing of consent form from the MBs who will reach the age of 70 during the extension of the loan term.

- 13.9 In the absence of the signed consent form from the MBs, there is a risk of non-settlement of the remaining loan balance which may result to non-recovery by SHFC of its investment in housing.
- 13.10 **We recommended that Management:**
- a. **Secure copies of Certification/Consent Form for the extension of the loan term from HOAs and or MBs and furnish the Audit Team of their certified true copies; and**
  - b. **Conduct an online briefing or orientation to MBs who reached the age of 70 years during the moratorium period through the assistance of the CAs emphasizing the financial impact and implication of non-coverage of MRI.**
- 13.11 Management commented that they already identified the MBs who will reach 70 years old during the loan term extension and released a memorandum to the SHFC's Insurance and Community Enhancement Division containing the list of MBs who are no longer covered by the MRI as a result of the loan term extension due to moratorium.
- 13.12 Lastly, Management has already conducted onsite validation on the three HOAs and completed virtual orientation to the two HOAs. They have also released letters with Certificate/Consent Form to five HOAs with 115 MBs who reached the age of 70 and commit to secure the signed consent forms from other MBs and HOAs within one month or until March 21, 2021.
14. **Total amortization payments amounting to P610,351 collected from 2,891 out of 4,369 sampled past due accounts from March 16, 2020 to June 15, 2020 were not posted immediately and not applied to the arrearages as at March 15, 2020, contrary to Section VII of SHFC Corporate Circular No. 054, s. 2020, resulting in the computation and charging of interest and penalty charges.**
- 14.1 Section VII. Manner of Computation of Accounts of SHFC Corporate Circular No. 054, series of 2020 provides that:
- However, for both type of accounts, the HOAs and MBs will still have the option to pay their monthly amortization during the moratorium period without compromising their health and safety. **For updated accounts, payments shall be treated as deposit to be applied to amortization due after the period of moratorium. For delinquent accounts, payments shall be applied outright to arrearages before the effectivity of the moratorium. (Emphasis supplied)***
- 14.2 As defined in the said corporate circular, the moratorium shall mean the automatic deferment of payment of monthly amortization due on housing loans, consisting of principal and interest, without imposition of penalties. The moratorium program shall be for a period of three (3) months, effective



March 16, 2020 until June 15, 2020 and automatically covers all projects/accounts without filing a request or application with SHFC.

- 14.3 After the loan moratorium period, payment of loan amortization will resume on June 16, 2020 as well as penalty computation on accounts in arrears. The deferred payments covered by the moratorium shall be paid within the three months from the expiration of the loan term or immediately upon pre-termination or pre-payment of the account, however, the MBs can still opt to pay their monthly amortization during the moratorium period.
- 14.4 Treatment of collections during the moratorium or deferment of payments depends on the status or classification of the account whether updated or delinquent. Accordingly, the collections from updated accounts with regular monthly payment shall be treated as deposits to be applied to amortization due after the period of moratorium while collections from delinquent accounts shall be applied outright to arrearages before the effectivity of the moratorium which is March 15, 2020.
- 14.5 Validation of the subsidiary ledger (SL) on the outstanding loan and other charges balance as at June 16, 2020, revealed that out of the 4,369 sampled past due CMP accounts, a discrepancy amounting to P2,347,755 was noted between the arrearages balance per books and per audit as at June 16, 2020. Details are as follows:

*Table 2: Rollforward of Arrearages Balances from March 15 to June 16, 2020*

	Per books	Per audit	Difference/ Over- statement
Beginning Balance of Arrearages March 15, 2020	101,116,570	101,116,570	0
<b>Add: Increase movement in the ff:</b>			
Principal Due, NIBP			
Due and Interest Due	54,751		
Fire and MRI Due	2,096		
Penalty and IUP Due	16,606	73,453	0
			73,453
<b>Less: Decrease movement in the ff:</b>			
Principal Due, NIBP			
Due and Interest Due	(6,049,070)		
Fire and MRI Due	(397,443)		
Penalty and IUP Due	(5,250,230)		
Collections from March 16 to June 15, 2020	(11,696,743)	(13,971,045) *	2,274,302
<b>Ending Balance of Arrearages June 16, 2020</b>	<b>89,493,280</b>	<b>87,145,525</b>	<b>2,347,755</b>

\* Based on the validated total amortization payments of the sampled accounts received during moratorium period from collection schedule

- 14.6 The net overstatement of P2,347,755 is further explained as follows:
  - a. Unposted payments totaling P610,351 collected from March 16, 2020 to June 15, 2020 from 2,891 MBs which must be applied to their arrearages balance as at March 15, 2020 resulted in the overstatement of their outstanding loan balances by the same amount;

- b. Excess charges to arrearages balance of 1,120 MBs over their actual payments resulted in the understatement of their outstanding loan balance totaling P445,246; and
  - c. Excess payments over arrearages balance totaling P2.183 million for the accounts of 358 MBs after deducting their payments from their outstanding balances as at June 16, 2020, were not treated as deposits/advances to be applied in the succeeding monthly amortization billings or refund to be redeemed by borrowers upon full settlement of accounts and release of Transfer Certificate of Titles (TCTs).
- 14.7 The above observation was communicated to Management for them to determine the nature and reconcile the noted difference of P2.348 million, however, Management has only provided the Audit Team with a partial reconciliation during the exit conference, thus leaving an unreconciled balance of P0.610 million.
- 14.8 In addition, Section VII of SHFC Corporate Circular No. 054, s. 2020, provides that the interest and penalty charges computation on accounts in arrears should resume on June 16, 2020. Consequently, the unposted payments which were not applied to the arrearages balance as at June 16, 2020 may result in the unnecessary imposition of penalty charges equivalent to 1/15 of one percent per day of delay on payments of rental/amortization as provided in item no. 5 of the Loan Agreement between SHFC and HOA/MBs. As at June 16, 2020, we observed that a total of 1,003 out of 2,891 past due accounts with unposted payments were subjected to Interest on Unpaid Principal (IUP) and penalty charges amounting to P5,066 and P11,384, respectively.
- 14.9 Accordingly, the late posting and non-application of amortization payments totaling P0.610 million from 2,891 out of 4,369 sampled accounts to the arrearages is contrary to Section VII of SHFC Corporate Circular No. 054, s. 2020, resulting in the unnecessary computation and charging of interest and penalties to the borrowers' accounts.
- 14.10 **We recommended and Management agreed to:**
  - a. **Investigate and reconcile the noted non-application of payment from MBs to their arrearages totaling P0.610 million;**
  - b. **Apply the amortization payments collected from the borrowers to the arrearages before the effectivity of the moratorium in compliance with Section VII of SHFC Corporate Circular No. 054, s. 2020, and adjust the penalties charged to the borrowers, if warranted; and**
  - c. **Ensure the timely posting of payments of borrowers' amortizations to avoid unnecessary imposition of penalty and interest charges.**



- 14.11 Management commented that they have initially reconciled the P2.348 million discrepancy and also discovered total excess payment amounting to P1.805 million consisting of P1.051 million overpayment after full settlement of loan balance and P0.754 million overpayment after deducting the arrearages balance. These were lodged in advances/deposit account for refund after the release of their TCT or for application to the next billing cycle after June 16, 2020, respectively.
- 14.12 On the other hand, Management mentioned that the variance amounting to P487,390 was accounted for 27 accounts with MRI settlement payment which were already applied to arrearages balance before March 15, 2020 and can no longer be applied between March 16, 2020 to June 15, 2020. Meanwhile, the remaining P55,162 variance is the net amount of understatement and overstatement amounting to P445,246 and P500,408, respectively, which will be for further analysis as to their nature and shall effect all the necessary adjustments in the MBs' ledgers, if warranted.
- 14.13 As an audit rejoinder, we stand firm on our recommendation for Management to further investigate the P500,408 unaccounted overstatement that can be attributed to the unposted payments of borrowers to their individual borrower's ledger; to apply and post the payments to the corresponding amortization period in compliance with Section VII of SHFC Corporate Circular No. 054, s. 2020; and adjust the penalty charged to the borrowers, if warranted.
- 14.14 Further, the contention of Management that the variance amounting to P487,390 was already applied to balances as at March 15, 2020 is not consistent with the initial representation they made during the audit that the March 15, 2020 arrearages exclude collections during the moratorium period. The necessary documents to substantiate their explanation were also not provided for verification.

## 15. Status of Suspensions, Disallowances and Charges

- 15.1 The total audit suspensions, disallowances, charges and settlements as at December 31, 2020 are shown below:

Particulars	Balance, 1/1/2020	Issued this period (January to December 2020)	Settlement this period (January to December 2020)	Balance, 12/31/2020
NS	0	0	0	0
ND	76,804,312	0	175,000	76,629,312
NC	0	0	0	0

- a. ND No. 2019-01(2018) amounting to P5,657,500 dated October 17, 2019 pertains to the payment of Collective Bargaining Agreement which is under appeal, per CGS Decision No. 2020-12 dated July 30, 2020. Settlement amounting to P175,000 were deducted from the last salary of retired/resigned employees.

- b. ND No. 2017-01-CIB- TD (2016) dated February 9, 2018 amounting to P71,030,479 pertains to the garnished peso time deposit with DBP, including bank charges enforced by an Urgent Exparte Motion from case AC-973-RCMB-NCR LVA-024-01 titled SOHEAI vs. SHFC which is under appeal with the Commission on Audit.
- c. ND issued for the payment of grocery subsidy and 13<sup>th</sup> month pay is being settled through salary deduction. The balance of P116,333 as at December 31, 2020 refers to the uncollected amount from the resigned/retired employees.



## **PART III**

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

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 57 audit recommendations for both SHFC and AKPF embodied in the CY 2019 Annual Audit Report, 25 were fully implemented, 28 were partially implemented of which six were reiterated in Part II of this Report, and four were reconsidered. Details are presented below:

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
A. Social Housing Finance Corporation			
<u>CY 2019</u>			
Observation No. 1, page 48	1. Undistributed Collections (UC) totaling P394.076 million remained un-posted to the Mortgage Contracts Receivable (MCR) account due to the absence of a policy on the proper and timely distribution of UC to the individual ledgers of the member-borrowers (MBs) concerned. Thus, the UC and the MCR under Other Payables and Receivables accounts, respectively are both overstated by the same amount as at December 31, 2019. Moreover, the General Ledger (GL) or controlling account for UC has a variance of P79.964 million against the Subsidiary Ledger (SL) balances. The misstatements and the variance affect the fair presentation of the account balances in the financial statements, contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1.	a. Submit work breakdown schedule to post and allocate UC for CY 2019 by at least:	Partially Implemented
		i. 50 percent of the UC by CY 2020 and	Reiterated in Observation No. 1, Part II of this Report
		ii. 50 percent of the UC by CY 2021.	Management committed to implement the recommendation in CY 2021.
		b. Reconcile the variance between the SL and GL balances by at least:	Partially implemented
		i. 50 percent of the UC by CY 2020 and	Management committed to reconcile the remaining balance in CY 2021.
	ii. 50 percent of the UC by CY 2021.		
	c. Require the Information and Communication Technology Department (ICTD) to enhance the database to include the HDH Projects and all other accounts not yet in the database; and	Partially implemented	
		Reiterated in Observation No. 1, Part II of this report	
		This Observation was first raised in the AAR for CY 2010 and reiterated in CYs 2011 to 2019.	



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		d. Formulate written policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.	Fully implemented
Observation No. 2, page 52	2. Absence of accounting policy on financial instruments that harmonizes with the provisions of the Philippine Financial Reporting Standard (PFRS) 9 with mandatory implementation effective January 1, 2019, pursuant to COA Resolution No. 2019 – 006 dated March 27, 2019, affects the fair presentation of the financial statements as provided under PAS 1.	Formulate a policy on financial instruments that harmonizes with the provisions of PFRS 9 for the fair presentation of the financial statements as provided under PAS 1.	Partially Implemented  Reiterated under Observation No. 2 Part II of this Report.  This observation was first raised in the AAR for CY 2016 and reiterated in CYs 2017, 2018 and 2019.
Observation No. 3, page 59	3. The variance of P1.077 billion between the balances of the General Ledger (GL) of the Mortgage Contracts Receivable - Community Mortgage Program (MCR-CMP) and Subsidiary Ledger (SL) of the Community Associations (CAs) account as at December 31, 2019, casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) 1445 and Paragraph 15 of PAS 1, affecting the fair presentation of the account balance in the financial statements.	a. Reconcile the variances between SL of CA and SL of MBs, as well as SL and GL balances of P1.077 billion by at least:  i. 65 percent of the variance by CY 2020  ii. 35 percent of the variance by CY 2021; and	Partially Implemented  The system ZEUS is being used by Management to facilitate the reconciliation of the accounts, thereafter, a one-time adjustment will follow. Any adjustment to be made will also be communicated with NHMFC.  Management committed to reconcile the remaining balances in CY 2021.

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		b. Require the Information and Communication Technology Department (ICTD) to assist the Finance and Comptrollership Department (FCD) in enhancing and developing an accurate and updated database.	Fully implemented
Observation No. 4, page 61	4. The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured and recognized regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits and PAS 1 on Presentation of Financial Statements, resulting in the understatement of both the expense and liability accounts. This defeats the purpose of spreading out the expense over years in service so that the benefit expense recognized in the financial statements does not differ materially with the benefit expense at the reporting/avallment period and which likewise has a significant impact on cash flows.	a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;	Partially implemented
		b. Disclose in the Notes to Financial Statements pertinent and necessary information required under Paragraph 135 of PAS 19 on Employee benefits; and	Reiterated in Observation No. 3, Part II of this Report.
		c. Seek assistance from a qualified actuary services in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.	Partially implemented
			Reiterated in Observation No. 3, Part II of this Report.
			This Observation was first raised in the AAR for CY 2019.
	5. The money value of the accumulated unused leave credits amounting to P12.307 million paid to SHFC employees was not recognized regularly in the books as expense and accrued liabilities at	Management agreed to regularly recognize in the books the money value of accumulated unused leave credits at the end of the reporting period when the employees render service, in accordance with PAS 19.	Fully implemented



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	the end of the reporting period when leave credits are earned, contrary to PAS 19 on Employee Benefits, resulting in the overstatement of expenses in current year and the understatement of liabilities in prior years. This defeats the purpose of recognizing the expected cost of employee benefits when services are rendered.		
Observation No. 6, page 67	6. The long outstanding Receivables - Due from Officers and Employees account amounting to P2.294 million aged from one to more than four years as at December 31, 2019 and the negative balance amounting to P144,206 with no receivable set-up in the books due to absence of supporting documents are not in accordance with Section 6.1 of COA Circular No. 2016-005 and Sections 111 and 114 of PD No. 1445, casting doubt on the validity of the account that results in the inability of SHFC to collect the funds which could have been used for its operations.	a. Deduct the amount due from the salary of employees who are still in the active service;	Partially implemented  The Manager of FCD prepared a Memo to HR and Legal for the collection of the receivable through salary deduction and sending demand letters to the resigned/ retired employees.
		b. Check whether the money accountability of former personnel is cleared, and send demand letters to last known address on file, if necessary; and	Partially implemented  A Memorandum is sent to employees as part of their efforts in locating the records and to collect the long outstanding receivables.
		c. Exert effort in locating the records and pertinent supporting documents in order to record and collect the long outstanding receivables and reconcile the abnormal balances in	Partially implemented  A Memorandum is sent to employees as part of their efforts in locating

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		the account.	the records and to collect the long outstanding receivables.
Observation No. 7, page 69	7. The Gumamela Neighborhood Housing Cooperative (GNHC) Project amounting to P551.020 million under the High Density Housing Program (HDHP) was not completed within the scheduled date of completion despite the approved extension period until June 30, 2018, contrary to the provisions of the Building Construction and Site Development Agreement, thus depriving the intended 1,406 Informal Settler Family (ISF)-beneficiaries living in waterways and danger zones of decent and affordable housing and defeating the objectives of the Program including the non-recovery of funds invested in housing.	a. Conduct a re-survey to determine the actual lot area intended for the housing project less any encroachment, if any;	Fully implemented
		b. Require the CA to compute for and demand the liquidated damages from the Contractor, pursuant to Article XI of the Building Construction and Site Development Agreement;	Partially implemented Management is waiting for the final decision of the Board taking into consideration the concomitant legal actions from the project stakeholders which could further delay the project completion.
		c. Require the CA to implement the following remedies against the Contractor as provided in the Agreement: <ul style="list-style-type: none"> <li>• Give written notice to the Contractor to proceed with the work and perform in accordance with the agreement; and</li> <li>• If the Contractor fails to do so within seven days from receipt thereof, the CA and SHFC shall have the option to proceed against the bond,</li> </ul>	Partially implemented Management is waiting for the final decision of the Board.



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		enter the premises and employ other contractor to complete the work at the expense of the original Contractor.	
		d. Submit updated Accomplishment Report from the Contractor duly validated by the Department of Engineering of SHFC;	Fully implemented
		e. As part of due diligence for future projects, ensure that the performance of the contractor/developer is properly evaluated and that loan releases are made only on the basis of duly validated Statement of Work Accomplishment pursuant to Corporate Circular HDH No. 14-002 dated March 31, 2014; and	Fully implemented
		f. Conduct the necessary geo-hazard assessment and evaluation on the lot proposed to be used in the HDH project to determine if it is suitable for housing and safe from hazard before the approval of its acquisition.	Fully implemented
Observation No. 8, page 76	8. The Alyansa ng Mamamayan sa Valenzuela Multi-Purpose Cooperative Project completed at a cost of P704.082 million under the HDHP, is inhabited by 853 occupants or 60 per cent of the 1,440 total Member Beneficiaries (MBs) approved by the	a. Conduct a thorough validation of occupants in the HDH units as against the original masterlist of MBs from DILG, and submit an updated Masterlist of Beneficiaries to the latter for Certification;  b. Require the CA to submit to SHFC the required documents for	Fully implemented  Partially implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	Department of the Interior and Local Government (DILG), without the necessary documentary requirements prescribed under Corporate Circular No. 16-046 and Corporate HDH Circular No. 17-013, thus, casting doubt on the eligibility of the occupants as the intended rightful recipients of the Program. This would deprive the original MBs living along waterways and danger zones of their right to own decent and affordable housing units, failing to achieve the objectives of the Program.	substitution of the actual occupants to avoid eviction and unauthorized substitution of the original MBs; and  c. Abide strictly with the guidelines on substitution of MBs as provided under Corporate Circular No. 16-046 and Corporate Circular HDH No. 17-013 to ensure that the recipients are the rightful beneficiaries of the Program.	Substitution cannot yet take place as the Masterlist of Beneficiaries has not yet been finalized. It was agreed in the IAMC that a masterlist consistent with the SHFC and CDA should be determined, followed by the election of a new set of officers of the Association.  Fully implemented
Observation No. 9, page 84	9. Public bidding was not conducted for the acquisition of insurance provider to manage the Group Mortgage Redemption Insurance (MRI) of loan borrowers of the CMP and other similar home financing programs of SHFC, contrary to RA No. 9184, otherwise known as the Government Procurement Reform Act, thus, defeating the purpose of possibly selecting from among participating insurance brokers a better package for the benefit of the MBs	a. Strictly comply with the provision of RA No. 9184 to conduct public bidding for the provisions of the group MRI to loan borrowers.	Partially implemented  The final version of the Memorandum of Agreement between SHFC and LBP Insurance Brokerage, Inc. (LIBI) for the Mortgage Redemption Insurance Coverage, as reviewed by the Legal Department, was forwarded to LIBI on February



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	who are low income bracket borrowers that SHFC caters.	b. Fast-track the process of procuring the services of an insurance provider through public bidding.	04, 2021.  Fully implemented
Observation No. 10, page 87	10. The granting by SHFC of car loans amounting to P70.831 million to its officers and Board of Directors (BODs) is contrary to the Car Plan approved by the Office of the President (OP) of the Philippines for Government Financial Institutions (GFIs), as the benefit applies only to those that do not receive subsidy from the National Government (NG), thus rendering the car plan irregular. Moreover, loan balance amounting to P1.794 million of BODs who availed of the car plan after the publication of Executive Order (EO) No. 24 on February 10, 2011, as amended by the Governance Commission for Government-Owned or Controlled Corporations (GCG) Memorandum Circular (MC) No. 2016-01, still remain outstanding as at December 31, 2019, but which should have already been due and demandable.	a. Secure a post-facto approval from the OP, through the GCG, of SHFC's Car Plan to its officers;  b. Require the three members of the Board to immediately settle the amount of P1.794 million to comply with the provisions of GCG MC No. 2016-01; and  c. Suspend the granting of car loans until approval from the OP is secured.	Partially implemented  Management requested for legal opinion from Executive Secretary Medialdea on the continuous availment of car plan through a letter dated December 23, 2020 which was received by the latter's Office on December 29, 2020.  Partially Implemented  Management wrote letters on January 18, 2021 to the concerned Board members on the settlement of their accounts.  Partially Implemented  Management is awaiting for the legal opinion from the OP on the SHFC's car plan.

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
Observation No. 11, page 90	11. Extraordinary and Miscellaneous Expenses (EME) amounting to P2.990 million were granted to the President of SHFC through cash advance, contrary to COA Circular No. 2006-001, defeating the purpose of regulating the incurrence of said expenditures.	a. Limit the allocation and disbursement of funds within the rates prescribed under the GAA;	Fully implemented
		b. Disburse funds for EME strictly on a non-commutable or reimbursable basis pursuant to COA Circular No. 2006-001; and	Fully implemented
		c. Exercise prudence in the utilization of funds to ensure that the EME are used only for the purpose for which they are established.	Fully implemented
Observation No.12, page 94	12. Excess retirement benefits amounting to P426,215 were paid to two personnel, due to inclusion in the computation of services rendered during the period of extension upon reaching the compulsory retirement age of 65, contrary to implementing guidelines of RA No. 7641 or the Retirement Pay Law and Section 129 of the 2017 Omnibus Rules on Appointments. Moreover, other personnel allowances were included in the basic salary as retirement pay base, rendering the disbursement excessive pursuant to COA Circular No. 2012-03.	a. Require the retirees concerned to refund the overpayment of retirement gratuity totaling P426,215;	Partially implemented  Management is awaiting reply on the letters sent to the three retirees on January 18, 2021.
		b. Establish a retirement plan and formulate policy guidelines harmonized with the provisions of RA No. 7641 to be approved by the governing Board and submitted to GCG for its review and approval; and	Partially implemented  The HR Department on January 23, 2020 requested for a legal opinion on the basis of payment of retirement pay from the Legal Affairs of the SHFC and the reply will be part of the foundation in establishing a retirement plan guidelines.



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		c. Revisit the composition of the ½ month salary used as factor in the computation of retirement benefits and ensure future retirement pay-outs are in accordance with the criteria set forth in the IRR of RA No. 7641.	Fully implemented
Observation No. 13, page 99	13. Monetization of leave credits was granted at more than the allowable 50 per cent of leave credits without the supporting documents required under Sections 22, 23 and 25 of the Omnibus Rules on Leave and COA Circular No. 2012-001. Moreover, non-deduction of the mandatory five-day forced leave prior to the grant of monetization casts doubt on the reliability of the employee leave records.	a. Ensure that the mandatory five-day forced leave is deducted prior to monetization of leave credits for employees with accumulated vacation leave balance of 15 days or more;	Fully implemented
		b. Require the employees who monetized 50 per cent or more of their leave credits to submit the necessary documents to support their claim in compliance with COA Circular No. 2012-001; and	Fully implemented
		c. Prospectively, ensure that monetization of accumulated earned leave credits by qualified employees is in accordance with the provisions of COA Circular No. 2012-001 and Sections 22, 23, and 25 of the Omnibus Rules on Leave.	Fully implemented
Observation No. 14, page 103	14. The actual amount utilized for the Loans Outlay amounting to P2.560 billion exceeded by P50.962 million or two per cent the CY 2019 DBM approved COB amounting to P2.509 billion, contrary to the provisions of Section 15 of Executive Order (EO)	a. Explain the causes of the excess of the actual expenses over the budget for loans outlay to ensure that factors attributed to variances are considered in the future budget planning; and	Fully implemented
		b. Ensure that expenditures are incurred	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	No. 518, series 1979, and Section 4(1) of PD No. 1445, thus, defeating the purpose of ensuring the proper allocation of funds and that the disbursements and/or accruals are within the authorized amounts.	and paid within the limit provided under the DBM approved COB.	
Observation No. 15 a, page 105	15. Remittance of Dividends to the National Government	a. Compute dividends due the NG strictly in accordance with RA No. 7656 and its RIRR;	Fully implemented
	15.1. Dividends remitted to the National Government (NG), through the Bureau of the Treasury (BTr) were not computed in accordance with the provisions of RA No. 7656 and its Revised Implementing Rules and Regulations (RIRR) dated August 5, 1998 and January 26, 2016, resulting in under-remittance of dividends amounting to P13.607 million for CYs 2014 to 2018.	b. Review the allowable expenses deducted against Net Earnings, in accordance with Section 34 of the Tax Code, as amended, pursuant to the RIRR since this has significant impact on dividends and tax remittances to DOF and BIR, respectively; and	Fully implemented
		c. Communicate and seek clarification with the DOF-CAG the under-remittance of dividends as a result of recomputation in audit based on Section 11 of the CY 2016 RIRR.	Fully implemented
Observation No. 15 b, page 111	15.2. Dividends were not remitted to the NG within the period prescribed under the RIRRs, resulting in possible penalty charges equivalent to the prevailing 364-day regular Treasury Bill rate plus five per cent on the outstanding dividends due, which may cause incurrence of unnecessary expenses.	Strictly monitor and comply with the timely remittance of dividends to the NG as prescribed in the RIRR of RA No. 7656 to avoid penalty charges and unnecessary expenses.	Fully implemented



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
Observation No. 16, page 112	16. SHFC was able to attribute and utilize P1.889 billion, or 75 per cent of its CY 2019 Gender and Development (GAD) Budget of P2.517 billion which is 76 per cent of its DBM approved COB amounting to P3.303 billion, in compliance with the Joint Circular No. 2012-01 of Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and DBM, making SHFC a gender-responsive agency.	We commended Management for being GAD-responsive and for the continuous implementation of its GAD-related activities, including attributions of its projects and programs that are beneficial to its clients and to the Corporation.	Fully implemented
Observation No. 17, page 114	17. Funds amounting to P315.630 million remain idle since CY 2010 with no utilization, except for administrative expenses, resulting in the non-attainment of the objectives for which the Abot-Kaya Pabahay Fund (AKPF) was created, specifically the amortization support and developmental financing component, pursuant to RA No. 6846, as amended, defeating the goal of the National Government (NG) program in addressing the urgency of the housing need that caters to low-income bracket families.	<p>a. Make representation with proper authorities and recommend the transfer of the AKPF funds which have been idle for several years, to other housing programs of SHFC, such as the CMP and HDH, to provide more decent and affordable housing units to the intended beneficiaries who are the ISFs;</p> <p>b. Fast-track the transfer of the TCTs of the foreclosed and dacioned properties in the name of SHFC; and</p>	<p>Fully implemented</p> <p>Partially implemented</p> <p>Management is in a regular coordination with the different RDs and BIR branches to follow up the status of the projects through phone calls and emails only due to limitations caused</p>

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
			by the pandemic.
			Transferred to SHFC's name:
			a. Evergreen Subdivision
			b. Cristina Homes
			With RD:
			Olympia Village-resubmission of documents
			With BIR:
			1. Villa Rita – for issuance of CAR
			2. Juel Country Homes - CGT/DST
			3. Plainville Homes – CGT/DST
			4. Cristina Homes 2 – CGT/DST
			Securing Documentary Requirements:
			1. UPLB- ONAPUP Village
			2. Catbalogan Citihomes
			For application of Abatement:
			1. Malinville Subdivision
			2. Villa Felipe Heights Subdivision



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		c. Dispose the properties already in the name of SHFC through public bidding.	Partially implemented  The projects are still in the process of consolidation. For the properties already in the name of SHFC, Management will still seek the help of an appraiser to establish the value of the lots.

### **CY 2018 AAR**

Observation No. 8, page 76	18. Unserviceable equipment items with acquisition cost of P1.567 million which have long been stored and occupying space in the office, remain undisposed, contrary to Section 79 of PD No. 1445 and COA Circular Nos. 89-296 and 2004-008, resulting in their further deterioration.	Gather/restructure available data required for the immediate disposal of all unserviceable property and equipment in accordance with the modes prescribed under COA Circular No. 89-296.	Partially implemented  Management is preparing the documents of the unserviceable properties for disposal.
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### **CY 2017 AAR**

Observation No. 3, page 48	19. CMP accounts totaling P88.154 million transferred by the NHMFC without the corresponding supporting documents and 638 accounts with negative balances amounting to P8.818 million cast doubts on the accuracy of the Insurance Receivable-MBs account balance of P295.382 million under the CMP, contrary to paragraph 15	Analyze and reconcile the accounts with lapsed MRI premiums and immediately apply the negative balances to future periods of insurance coverage or to the loan balances or refund to the MBs if loan is already fully paid; and	Partially implemented  The Management has started using the ZEUS system to facilitate the reconciliation of the account in order to come up with a one-time adjustment, which will be communicated to NHMFC.
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Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	of PAS 1.		
Observation No. 6, Page 54	20. A High-Density Housing (HDH) project amounting to P414.049 million was approved by the Board and payment amounting to P100.329 million was made despite Greater Metro Manila Area (GMMA) Hazard Map result that the lot is susceptible to moderate flooding, within the tsunami inundated area, susceptible to moderate liquefaction, thereby not suitable for relocation contrary to EO No. 272 and Corporate Circular No. 13-026.	If the result of the soil testing of the subject property is favorable, demand the contractor to complete the project.	Partially implemented  Management is in constant coordination with the Contractor for the resumption of the construction following the favorable result on the suitability of the project.
Observation No.16, Page 80	21. The Chattel Mortgage Agreements (CMA) entered into by and between the SHFC and the 11 CAs with approved loans in the aggregate amount of P4.016 billion are contrary to the Chattel Mortgage Law (Act No. 1508), Article 2125 of the Civil Code of Philippines and relevant jurisprudence decided by the Supreme Court (SC), thus, the interest of the SHFC is put to risk against third party claimants in case of default by the MBs and the alienation or disposal of the housing units.	Exercise its right to demand the execution and the recording of the CMA with the RD in which the mortgage is formalized in order to protect its interest.	Reconsidered  Management can only annotate the chattel mortgage in the Registry of Property after the 100 per cent completion of the project.



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
<b>2016 AAR</b>			
Observation No. 4, Page 34	<p>22. Thirty-one Transfer Certificate of Title (TCTs) under Usufruct Agreement of HDH lot acquisition project valued at P392.284 million are still not transferred in the name of SHFC, thus, contrary to Section 6 of Corporate Circular No. 14-005 series of 2014. Likewise, TCT on the lot acquisition through SHFC Re-Financing Program of an LGU, amounting to P16.359 million was not transferred in the name of the CA and with no annotation of SHFC Mortgage while full payment was already made, contrary to Section 5 of the IRR 2014-003, thus, may result to non-recovery/loss of fund in case of a third party claimant.</p>	<p>Expedite the transfer of the subject TCTs in the name of SHFC for Usufruct and in the name of CA for the refinanced amount and annotate the same in the name of SHFC in compliance with Corporate Circular HDH No. 14-005 series of 2014 and IRR 2014-003</p>	<p>Partially implemented</p> <p>The transfer of TCTs in the name of SHFC for the usufruct arrangement is a continuing process.</p> <p>Pending transfer of TCT's in the name of SHFC.</p> <p>AMC Housing Cooperative - for issuance of CAR.</p> <p>Kapitbahay ng Bluemeadows – for payment of CGT and DST by the landowners.</p> <p>Gloria Ville - pending CGT payments. Landowner is willing to deduct the amount to be paid for CGT from the 20 per cent remaining balance on the cost of lot.</p> <p>MWACH – pending CGT payment. Landowner is requesting for a change of their Attorney-in-fact.</p> <p>Gumamela Neighborhood HOAI-pending</p>

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
			payment of CGT due to encroachment issue.

#### **CY 2013 AAR**

Observation No. 4, Page 27	23. 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.	a. 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.	Reconsidered  There is no database and pertinent documents from where to check who among the officers and employees were responsible in the processing of the loan applications.  It was only in CY 2014 that the Double Availment Management System was developed. Substitution of the confirmed double avalees is in process.
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#### **B. Abot-Kaya Pabahay Fund**

#### **CY 2018 AAR**

Observation No. 16, Page 99	24. Assets of AKPF amounting to P260.219 million were not stated at their fair value for CY 2018 due to absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39, thus, casting doubt on the	Formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS 36 and 39 for CY 2018.	Partially implemented  This will be addressed, together with Observation No. 2, Part II of this Report, when the Contract of Services for the consultant on
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Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	reliability and valuation of the Fund's assets.		Accounting matters takes effect. The contract is still with the Legal Office of SHFC for review.
Observation No. 20, Page 106	25. Real Property Taxes (RPT) amounting to P4.735 million under the Due to LGUs account remained unpaid as at December 31, 2018, despite having been accrued for one year to over seven years, contrary to RA No. 7160, or the Local Government Code of 1991. This may result in the delay of consolidation of titles in the name of SHFC as this constitutes lien on the property, or SHFC may even lose the property if the LGU concerned avails of the remedies by administrative action thru levy on real property or by judicial action.	a. Follow-up status of the ongoing cases filed for speedy disposition of the properties.	Reconsidered  Already part of Observation with modification on Observation No. 17 part III of this Report. Management continuously follows up the status of the on-going cases.

#### **CY 2016 AAR**

Observation No. 7, page 43	26. There are lapses in management and implementation of AKPF which are contrary to the Trust Agreement entered into by and between the NHMFC and the SHFC, resulting in the following deficiencies that expose SHFC to the non-recovery of loan exposure.  A total of 202 TCTs remain unaccounted and	a. Undertake immediate legal action to secure/recover the financial exposure on the above-mentioned projects and update this office of the status of action taken considering the period that lapsed;	Reconsidered  Already part of Observation No. 17, Part III of this Report but only with modification.  Management is in regular coordination with the different RDs and BIR branches to follow up the status and for the
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Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	<p>undelivered by three developers who availed of the Developmental Loan Projects in violation of Section 3.02 of the Loan Agreement and Trust Receipts, thus, posting the risk that the TCT/s and Corporation loan exposure may not be recovered.</p> <p>Nine developers were able to avail of a loan amounting to P134.50 million under AKPF despite non-compliance with schedule of completion for the land development and housing construction, contrary to the Section 4 (4.02) of the Memorandum of Agreement and Section 2.02 of the Loan Agreement. Thus, a very low percentage of development and the return of investment on the loan exposure, after 19-21 years remains nil.</p> <p>The existence of third-party claimants on the property mortgaged for a Subdivision and the foreclosed property of a Subdivision Projects cast doubts on the recovery of capital exposures amounting to P22 million and P26 million, respectively, and on the legality of the rights/ownership of the property.</p> <p>A total of 726 TCTs of</p>	<p>b. Determine the persons liable for the deficiencies noted and file appropriate administrative action for failure to perform their functions.</p>	<p>speedy transfer of the TCTs in the name of SHFC and eventually dispose the properties thru public auction.</p> <p>Partially Implemented</p> <p>The AKPF projects were approved and released by NHMFC and transferred to SHFC by virtue of EO 272.</p> <p>With regards to the Rivera Heights Subdivision, wherein the TCT was garnished and already in the name of the Province of Bataan, Management sent a letter to the Acting Provincial Treasurer of Bataan, requesting for a copy of TCT in the name of Province of Bataan.</p> <p>Waiting for the response from the Land Registration Authority on their request for assistance in the validation/ investigation of the authenticity of</p>



Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	acquired properties with loan amounting to P66 million were not consolidated in the name of the NHMFC/SHFC notwithstanding the lapse of eight to 14 years after the expiration of one-year redemption period, thus, resulting in the delay in the disposal of asset and exposing the property to further depreciation or deterioration.		the TCTs offered as collateral for the Villa Alejandra Subdivision.

## **PART IV**

### **ABOT-KAYA PABAHAY FUND**



**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2020 and 2019**  
(In Philippine Peso)

	Note	2020	2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	315,220,410	315,638,020
Receivables	5	2,690,442	4,770,478
		<b>317,910,852</b>	<b>320,408,498</b>
<b>Non-current assets</b>			
Receivables	5	67,441,124	67,441,124
Property and equipment	6	129,261	153,437
Investment property	7	196,142,840	189,838,167
		<b>263,713,225</b>	<b>257,432,728</b>
<b>TOTAL ASSETS</b>		<b>581,624,077</b>	<b>577,841,226</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Inter-agency payables	8	29,477,085	24,531,112
Other current liabilities	9	442,538	750,009
<b>TOTAL LIABILITIES</b>		<b>29,919,623</b>	<b>25,281,121</b>
Fund balance	10	551,704,454	552,560,105
<b>TOTAL LIABILITIES AND FUND BALANCE</b>		<b>581,624,077</b>	<b>577,841,226</b>

The Notes on pages 126 to 139 form part of these financial statements.

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>INCOME</b>			
Service and business income	11	<b>7,712,416</b>	15,285,339
		<b>7,712,416</b>	15,285,339
<b>EXPENSES</b>			
Personnel services	12	<b>4,545,310</b>	3,182,167
Maintenance and other operating expenses	13	<b>3,866,339</b>	9,886,432
Financial expenses	14	<b>147,835</b>	178,324
Non-cash expenses	15	<b>24,176</b>	25,873
		<b>8,583,660</b>	13,272,796
<b>INCOME/(LOSS) BEFORE TAX</b>			
Other non-operating income	16	<b>15,593</b>	10,897
		<b>(855,651)</b>	2,023,440
<b>NET INCOME/(LOSS)</b>			
		<b>(855,651)</b>	2,023,440

The Notes on pages 126 to 139 form part of these financial statements.



**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENTS OF CHANGES IN FUND BALANCE**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

Balance as at January 1, 2019		549,873,877
Prior period adjustments		662,788
Restated balance as at January 1, 2019		550,536,665
Net income		2,023,440
<b>Balance at December 31, 2019</b>	<b>10</b>	<b>552,560,105</b>
<hr/>		
Balance as at January 1, 2020		552,560,105
Net loss		(855,651)
<b>Balance at December 31, 2020</b>	<b>10</b>	<b>551,704,454</b>

The Notes on pages 126 to 139 form part of these financial statements.

**ABOT-KAYA PABAHAY FUND**  
**SOCIAL HOUSING FINANCE CORPORATION (as Trustee)**  
**AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2020 and 2019  
(In Philippine Peso)

	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of receivables		9,334,632	20,131,625
Interest income received		473,412	2,123,131
Refund of cash advance		115,339	570,100
Buyer's share on CGT for remittance to BIR		0	545,411
Other receipts		0	600
Payment of realty tax		(8,244,364)	(16,600,494)
Payment of cash advance		(245,400)	(1,493,947)
Payment of operating expenses		(1,851,229)	(394,359)
Net cash generated from/(used in) operating activities		(417,610)	4,882,067
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(417,610)	4,882,067
Cash and cash equivalents at beginning of the year		315,638,020	310,755,953
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	4	315,220,410	315,638,020

The Notes on pages 126 to 139 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**  
*(Amounts in Philippine Peso)*

**1. GENERAL INFORMATION**

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

In October 2005, the Amortization Support and Developmental Financing Components (ASDFC) of AKPF was transferred to the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the NHMFC, created 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The recording of the Fund's financial transactions is centralized in the SHFC's Finance and Controllership Department. The Fund submits a monthly summary of transactions 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 Basis of Preparation of Financial Statements**

*a. Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Fund have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense.

*b. Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Fund presents all items of income and expenses in a single statement of comprehensive income.

*c. Functional and Presentation Currency*

The financial statements are presented in Philippine Peso, the Fund's functional and presentation currency.

## 2.2 Adoption of New and Amended PFRS

### a. *Effective in 2020 that are relevant to the AKPF*

#### (i) *Amendments to PFRS 3, Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

### b. *New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2020*

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, SHFC does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. SHFC intends to adopt the following pronouncements when they become effective.

#### (i) *Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

#### (ii) *Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*



- Annual Improvements to PFRSs 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

(iii) *Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

c. *Deferred Activity*

PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely)*. The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

Under the prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Fund.

## 2.3 Financial Assets

A financial asset is any asset that is:

- a. Cash;
- b. An equity instrument of another agency;
- c. A contractual right to receive cash or another financial asset;
- d. A contractual right to exchange financial assets or liabilities with another entity on potentially favorable terms; or
- e. A contract that will or may be settled in the Corporation's own equity instruments and is a non-derivative for which the Corporation is or may be obliged to receive a variable number of the Corporation's own equity instrument; a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed

number of the Corporation's own equity instruments. For this purpose, the Corporation's own equity instruments do not include puttable financial instruments classified as equity instruments.

### *Recognition and Measurement*

Financial assets are recognized in the Statement of Financial Position when, and only when, the Corporation becomes a party to the contractual provisions of the instrument. At initial recognition, the Corporation measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. After initial recognition, the Corporation measures its financial assets at fair value or amortized cost in accordance with PFRS rules on financial instruments.

### *Classification*

A more detailed description of the categories of financial assets relevant to the authority are as follows:

- Cash and cash equivalents are carried in the Statement of Financial Position at cost. Cash includes cash on hand and in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and or at a very near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash is measured at face value.
- Loans and receivables are none derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as or financial assets at Fair Value Through Other Comprehensive Income (FVOCI) or financial assets at Fair Value Through Profit and Loss (FVPL).
- Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less impairment in value, if any. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the Statement of Income and Expenses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of interest income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.
- Allowance for impairment is maintained at a level considered adequate for potentially uncollectible receivables. The level of allowance is based on historical collection, current economic trends, and changes in the customer payment terms, age status of receivables and other factors that may affect collectability. The allowance is established by charges to income in the form of provision of doubtful accounts (now referred to as impairment).



## 2.4 Property and Equipment

Property and equipment are carried at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	10
Furniture and fixtures	10
Office equipment	5
IT equipment	5

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect to those assets.

## 2.5 Investment Property

An investment property is a property held to earn rental income and/or for capital appreciation potential, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially carried at acquisition cost plus costs incurred for site development and home building. Subsequent to initial recognition, investment property is consistently measured using the cost model which is cost less accumulated depreciation and impairment, if any, in accordance with PAS 16's requirements. However, AKPF's investment property only represents land which is valued at cost with no accumulated depreciation.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

## 2.6 Financial Liabilities

Financial liabilities are contractual obligations to deliver cash or another financial asset or to exchange financial instruments with another agency on potentially unfavorable terms. Financial liabilities are recognized when the Corporation becomes a party to the contractual terms of the instrument. All interest related charges are recognized as an expense in profit or loss under the caption Financial Expenses in the Statement of Comprehensive Income.

Trade and other payables, due to related parties and other non-current liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or AKPF does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the Statement of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

## 2.7 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by AKPF for services rendered.

Revenue is recognized to the extent that the revenue can be measured reliably; it is probable that future economic benefits will flow to AKPF; and the costs incurred or to be incurred can be measured reliably. In effect, the recognition of an income occurs simultaneously with the recognition of a decrease in liabilities or an increase in assets. In addition, interest income on special savings is accrued on a time proportion basis, by reference to the principal amount outstanding and at the interest rates applicable.

Cost and expenses are recognized in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

When economic benefits are expected to arise over several accounting periods and the association with income can only be indirectly determined, expenses are recognized in the income statement on the basis of rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets. These allocation procedures are intended to recognize expenses in the accounting periods in which the accounting benefits associated with these items are consumed.

An expense is recognized immediately in the Statement of Comprehensive Income when expenditure produces no future economic benefits or when future economic benefits do not qualify or cease to qualify for recognition in the Statement of Financial Position as an asset.

Cost and expenses are also recognized upon utilization of services or at the date they are incurred. All costs are reported in the Statement of Comprehensive Income on an accrual basis.



## 2.8 Employee Benefits

The employees of the AKPF are members of the Social Security System (SSS) which provides life and retirement insurance coverage.

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

The Corporation recognizes expenses for accumulating earned leaves. Non-accumulating compensated absences, like special leave privileges, are not recognized.

## 2.9 Events after the End of the Reporting Period

Any post year-end event that provides additional information about AKPF's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

# 3. **SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of AKPF's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *a. Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies.

### *b. Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

#### *i. Impairment of Trade and Other Receivables*

An adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. AKPF evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of AKPF's relationship

with the customers, the customers' current credit status, the average age of accounts, collection experience and historical loss experience.

ii. *Estimation of Useful Lives of Property and Equipment*

AKPF estimates the useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, and intangible assets are analyzed in Note 6. Based on Management's assessment as at December 31, 2020 and 2019 there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

#### 4. CASH AND CASH EQUIVALENTS

This account consists of:

	2020	2019
Cash in bank – LBP 1	19,482,704	1,488,762
Cash in bank – LBP 2	814,337	224,417
Investment in treasury bills – local	294,923,369	313,924,841
	<b>315,220,410</b>	<b>315,638,020</b>

*Investment in treasury bills – local* represents investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than three months from date of placements.

#### 5. RECEIVABLES

This account consists of:

	2020	2019
Current:		
Interest receivable	2,212,690	3,718,112
Sales contract receivable	477,752	1,052,366
	<b>2,690,442</b>	<b>4,770,478</b>
Non-current:		
Loan receivable – others	89,921,499	89,921,499
Less: Allowance for doubtful accounts	22,480,375	22,480,375
	<b>67,441,124</b>	<b>67,441,124</b>



### 5.1 Interest Receivable

This account consists of accrued interest from Investment in Treasury Bills. The investment in treasury bills earns interest at the prevailing rates of 0.78 per cent to 1.41 per cent.

### 5.2 Sales Contract Receivable

This account represents the amortization due on the sale of acquired assets which are due after one year.

### 5.3 Loans Receivable – Others

This account pertains to accounts previously classified as Past Due Receivable– Developmental Loans and Items-in-Litigation.

#### a. *Rivera Heights Subdivision*

This was endorsed to Legal Department on June 24, 2007 due to the unreturned 282 titles. It was again endorsed to Legal Department for the foreclosure by the Local Government Unit (LGU) of Bataan on November 29, 2007 due to non-payment of realty taxes. However, the negotiation did not push through because of the claim of the Authority for Freeport Area of Bataan (AFAB) on the property by virtue of Proclamation No. 740, series of 1970, and amended by Proclamation No. 900, series of 1971. An initial meeting was held on September 9, 2016 to discuss the issue.

A Technical Working Group (TWG) for the renegotiation with the province of Bataan for the repurchase of Rivera Heights Subdivision was constituted per Office Order No. 18-0852.

The TWG convened last August 23, 2018 to discuss some possible actions for the repurchase of Rivera Heights Subdivision for presentation to Management for approval. However, as at December 31, 2018, there was still no update regarding the matter.

The AKPF was tasked by the TWG to secure a copy of the new title already in the name of Province of Bataan and to verify back titles with annotation of mode of transfer. On December 6, 2019, AKPF was able to secure a photocopy of 1 new title in the name of the Province of Bataan. The certified true copy of this title and back titles are still for scanning. After this, the TWG will convene again.

#### b. *Villa Alejandra Subdivision*

This was endorsed to Legal Department due to missing owner's copy of Transfer Certificate of Title (TCT) no. T-274150 as mortgaged collateral with a total area of 120,000. However, only the e-copy of the said title (T-274150) is in SHFC's possession.

Based on the site inspection/verification report dated February 11, 2005 undertaken by NHMFC, it was revealed that G-Carmel surrendered to NHMFC

as security for the loan a title which was not the actual property that was developed and improved out of the developmental loan acquired from NHMFC.

The representative of G-Carmel offered to substitute the collateral property with the property actually developed out of the AKPF loan. The property was allegedly covered by TCT No. T-284306 with an area of 97,545 square meters under his name.

On November 20, 2019, SHFC wrote to Land Registration Authority (LRA) requesting for investigation of lost collateral title. This letter was already forwarded to the investigating unit of the LRA on December 16, 2019.

*c. Palao Country Homes*

This was endorsed to Legal Department for foreclosure on March 30, 2015 and still awaiting for the resolution of the case filed by GNP Construction against SHFC before the Regional Trial Court (RTC) of Quezon City assailing SHFC's decision of disapproval of requested waiver of interest prior to filing of foreclosure.

SHFC has already completed its presentation of evidence and filed a Formal Offer of Evidence as manifested during the compliance hearing on May 27, 2019.

The case was submitted for resolution. The compliance hearing was set on December 9, 2019.

On December 9, 2019, Plaintiff requested for extension to file its memoranda, hence, compliance hearing was reset on January 27, 2020.

## 6. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2020 and 2019 are shown below:

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
<i>Cost</i>					
January 1, 2020	461,376	34,815	99,235	193,243	788,669
Additions/Deductions	0	0	0	0	0
December 31, 2020	461,376	34,815	99,235	193,243	788,669
<i>Accumulated Depreciation</i>					
January 01, 2020	(450,704)	(31,333)	(72,032)	(81,163)	(635,232)
Depreciation	(3,544)	0	(3,240)	(17,392)	(24,176)
December 31, 2020	(454,248)	(31,333)	(75,272)	(98,555)	(659,408)
<b>Net Book Value, December 31, 2020</b>	<b>7,128</b>	<b>3,482</b>	<b>23,963</b>	<b>94,688</b>	<b>129,261</b>



	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
Cost					
January 1, 2019	461,376	34,815	99,235	193,243	788,669
Additions/Deductions	0	0	0	0	0
December 31, 2019	461,376	34,815	99,235	193,243	788,669
Accumulated Depreciation					
January 1, 2019	(447,161)	(31,333)	(67,094)	(63,771)	(609,359)
Depreciation	(3,543)	0	(4,938)	(17,392)	(25,873)
December 31, 2019	(450,704)	(31,333)	(72,032)	(81,163)	(635,232)
<b>Net Book Value, December 31, 2019</b>	<b>10,672</b>	<b>3,482</b>	<b>27,203</b>	<b>112,080</b>	<b>153,437</b>

## 7. INVESTMENT PROPERTY

This account pertains to the costs of eight foreclosed properties and five projects acquired from the settlement of accounts through Dacion en Pago totaling **P196,142,840** and **P189,838,167** as of December 31, 2020 and 2019, respectively. These assets were previously reclassified from Acquired Assets to Foreclosed Properties/Assets in compliance with Revised Chart of Accounts (RCA), and were later reclassified to Investment Property.

The increase of P6,304,673 pertains to the payment of CGT/DST for the project, Cristina Homes 2, for the transfer of titles to the SHFC's name.

## 8. INTER-AGENCY PAYABLES

This account consists of:

	2020	2019
Due to other funds	23,255,262	19,527,643
Due to LGUs	6,221,823	5,003,469
	<b>29,477,085</b>	<b>24,531,112</b>

### 8.1 Due to Other Funds

This account represents personal services and other administrative expenses advanced by SHFC.

### 8.2 Due to LGUs

This account represents unpaid real property taxes due on the Rivera Heights Subdivision.

## 9. OTHER CURRENT LIABILITIES

This account consists of other payables representing taxes withheld from interest income on Investment in Treasury Bills–Local with Land Bank of the Philippines amounting to **P442,538** and P750,009 as of December 31, 2020 and 2019, respectively.

## 10. FUND BALANCE

Prior period adjustments in January 1, 2019 balance include the amount of P662,788 pertaining to the over accrual of taxes, duties and licenses.

## 11. SERVICE AND BUSINESS INCOME

	2020	2019
Interest income – investments	<b>7,697,605</b>	14,954,250
Interest income – sales contract receivable	<b>10,309</b>	331,089
Fines and penalties – business income	<b>4,502</b>	0
	<b>7,712,416</b>	15,285,339

## 12. PERSONNEL SERVICES

This account consists of:

	2020	2019
Salaries and wages – regular	<b>1,858,046</b>	1,499,190
Other compensation		
Year-end bonus	<b>155,210</b>	155,210
Personnel economic relief allowance	<b>72,000</b>	57,356
Transportation allowance	<b>60,426</b>	72,031
Representation allowance	<b>55,000</b>	65,000
Clothing/uniform allowance	<b>18,000</b>	12,000
Cash gift	<b>15,000</b>	15,000
Honoraria	<b>1,500</b>	0
Other bonuses and allowances	<b>811,065</b>	728,201
	<b>3,046,247</b>	2,603,988
Personnel benefit contributions		
Provident/welfare fund contributions	<b>279,378</b>	280,907
Retirement and life insurance premiums	<b>57,600</b>	44,494
PhilHealth contributions	<b>25,449</b>	16,519
Pag-IBIG contributions	<b>3,900</b>	3,300
Employees compensation insurance premiums	<b>1,080</b>	870
	<b>367,407</b>	346,090
Other personnel benefits		
Retirement gratuity	<b>664,953</b>	0
(Forward)		



	2020	2019
Terminal leave benefits	457,703	226,089
Birthday gift	9,000	6,000
	1,131,656	232,089
	4,545,310	3,182,167

### 13. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2020	2019
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	2,774,222	7,548,192
Insurance expense	90,882	81,145
Fidelity bond premiums	3,000	3,000
	2,868,104	7,632,337
General services		
Other general services	392,380	619,876
Security services	96,026	96,026
Janitorial services	16,430	16,430
	504,836	732,332
Traveling expense		
Traveling expenses – local	74,978	318,300
	74,978	318,300
Utility expenses		
Electricity expenses	63,372	92,128
Water expenses	7,904	15,644
	71,276	107,772
Supplies and materials expenses		
Office supplies expenses	7,573	30,669
Fuel, oil and lubricants expenses	9,999	35,152
Other supplies and materials expenses	218	1,026
	17,790	66,847
Communication expenses		
Telephone expenses	30,315	59,976
	30,315	59,976
Other maintenance and operating expenses		
Rent/lease expenses	233,325	233,325
Documentary stamps expenses	19,860	21,680
Printing and publication expenses	3,791	12,631
Other maintenance and operating expenses	42,064	701,232
	299,040	968,868
	3,866,339	9,886,432

#### 14. FINANCIAL EXPENSES

This account consists of:

	2020	2019
Management supervision/trusteeship fees	147,385	176,424
Bank charges	450	1,900
	147,835	178,324

#### 15. NON-CASH EXPENSES

This account consists of:

	2020	2019
Depreciation		
Depreciation – leased assets improvements	17,392	17,392
Depreciation – machinery and equipment	3,544	3,543
Depreciation – furniture, fixtures and books	3,240	4,938
	24,176	25,873

#### 16. OTHER NON-OPERATING INCOME

This account consists of interest income from bank deposits amounting to **P15,593** and P10,897 for the years 2020 and 2019, respectively.

#### 17. COMPLIANCE WITH TAX LAWS

##### Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 amending certain provisions of RR No. 21-2002, as amended and implementing Section 6 (H) of the Tax Code of 1997 which authorize the Commissioner of Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. These regulations require that additional disclosures in the notes to financial statements shall be made to include information on taxes and license fees paid or accrued during the taxable year.

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

	2020	2019
Taxes and licenses		
Final tax paid on income	1,550,782	2,973,281
Real property tax	1,223,440	4,574,911
	2,774,222	7,548,192