



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

ANNUAL AUDIT REPORT

on the

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

For the Year Ended December 31, 2014

EXECUTIVE SUMMARY

INTRODUCTION

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

As a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), SHFC was created primarily to be the lead agency to undertake social housing programs that will cater to the formal and informal sectors in the low-income bracket and shall take charge of developing and administering social housing program schemes, particularly the Community Mortgage Program (CMP) and the Amortization Support and Developmental Financing Programs of the Abot-Kaya Pabahay Fund (AKPF).

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

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

The President is assisted in the management of the Corporation by the Executive Vice-President, five Vice-Presidents, two Officer-in-Charge and 17 Department Managers. The personnel complement for current year 2014 is 340, with 209 regular and 131 agency-hired employees. To date, the SHFC has 10 Satellite Offices.

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

The approved DBM Corporate Operating Budget (COB) for CY 2014 amounted to P5.906 billion, which included among others, the following:

	Budget	Utilization	Variance
	(In thousands)		
Personal services	187,785	167,815	19,970
Maintenance and other operating expenses	494,358	183,174	311,184
Capital outlay	5,223,862	16,309	5,207,553
	5,906,005	367,298	5,538,707

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2014	2013	Increase (Decrease)
Assets	15,319,001,343	13,095,018,090	2,223,983,253
Liabilities	14,153,320,904	12,882,622,412	1,270,698,492
Equity	1,165,680,439	212,395,678	953,284,761

II. Comparative Results of Operations

	2014	2013	Increase (Decrease)
Gross income	505,677,383	367,579,835	138,097,548
Personal services	167,814,833	154,016,921	13,797,912
Maintenance and other operating expenses	176,705,193	161,656,641	15,048,552
Financial expenses	6,468,906	10,664,271	(4,195,365)
Total expenses	350,988,932	326,337,833	24,651,099
Net income before tax	154,688,451	41,242,002	113,446,449
Provision for income tax	38,265,548	6,446,113	31,819,435
Net income	116,422,903	34,795,889	81,627,014
Subsidy from National Government	806,919,084	11,300,710	795,618,374
Net income and subsidy	923,341,987	46,096,599	877,245,388

OPERATIONAL HIGHLIGHTS

Performance Indicators	2014		Scorecard Rating
	Targets	Accomplishments	
Major Final Output 1: Partnership Building Services			
1.1 Cumulative number of partnerships (mobilizers, LGUs, CSOs and other registered organizations that underwent capacity building program such as seminars/ trainings/ workshops/ mentoring/ coaching session) and institutions engaged	69	74	5%
1.2 Number of applications enrolled in terms of Informal Settler Families (ISFs) in Community Mortgage Program (CMP) and High Density Housing (HDH) Program	22,000	25,109	10%
1.3 Total number of CAs that underwent training program	675	759	5%
Major Final Output 2: Shelter Security Financing			
2.1 Total number of families belonging to Board-approved projects under the CMO CISFA Funding (Annual)	14,000	12,025	10.31%

Performance Indicators	2014		Scorecard Rating
	Targets	Accomplishments	
2.2 Total number of families belonging to Board-approved projects under the HDH P50 billion Funding (Annual)	6,400	9,786	13%
2.3 Number of TCT released to MB-Borrower (Annual)	2,500	2,571	5%
2.4 Number of loan applications processed within turnaround time (TAT) over Total number of loan applications *TAT=120 working days six mos.)	100%	96.46%	4.82%
2.5 Turnaround time starts at project enrollment and ends upon loan release	2 years	Average of 125 working days	5%
2.6 Amounts extended to private sector for land acquisition, site development and house construction	P100M	P44.42M	2.22%
2.7 Utilization of subsidy (program funds) released by a) NHMFC for CMP and b) DBM for HDH (Amount Utilized/Amount Released) x 10	100%	101.07%	10%
2.8 Actual Collections for the year/Billing for the year) x100	82%	84.36%	15%
<i>General Administrative Services</i>			10%
Total of weights			95.35%

SCOPE OF AUDIT

The audit covered the examination on a test basis, the accounts and financial transactions of the SHFC and the AKPF-Amortization Support and Developmental Financing Programs for the year ended December 31, 2014 to determine the fairness of presentation of the financial statements and the propriety of the financial transactions in accordance with the generally accepted standards in auditing.

INDEPENDENT AUDITOR'S OPINION

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements for CY 2014 due to the following:

A. SHFC

1. The total variance of P 377.80 million between the general and subsidiary ledger (GL/SL) balances of Loan Installment Receivables-Current and Past Due is contrary to Sections 111 and 114 of Presidential Decree (PD) No. 1445, thus, casting doubt on the validity and reliability of the account balances as at December 31, 2014.

1.1 Expedite the reconciliation of the GL and the MBs SL balances to ensure validity and reliability of the account balances.

2. The undistributed collections (UC) in the total amount of P344.15 million remained unposted/unapplied to LIR account and other affected accounts due to absence of policy on the proper and timely allocation of UC resulting in the overstatement/understatement of the balances of the LIR and other affected accounts by P344.15 million as of December 31, 2014.

2.1 Establish guidelines on the proper and timely allocation of UCs to the appropriate accounts; and

2.2 Continuously reconcile the subject accounts to minimize the accumulation of UCs.

3. Absence of individual SL and the presence of abnormal/negative balance of the Insurance Receivable (IR) account totalling P88.16 million and P0.529 million, respectively, are contrary to Sections 111 and 114 of PD No. 1445, thus, casting doubt on the reliability of the account balance as of December 31, 2014.

3.1 Coordinate with NHMFC for the transfer of individual SL supporting the IR account;

3.2 Review and analyze the account to determine whether there are still valid claims and prepare adjusting entry, if necessary; and

3.3 Establish reason/s for the negative balances and adjust them accordingly.

B. AKPF

4. There are 127 missing Condominium Certificate of Titles (CCTs) with a total loan value of P10.590 million on the AKPF LR-Past due contrary to Section 58 of PD No. 1445, thus casting doubt on the existence of the corporate exposure.

4.1 Coordinate with NHMFC on the missing CCTs of the Coryville Subdivision of the AKPF-ASDFP;

4.2 Determine the person/s liable for the missing CCTs; and

4.3 Hold them administratively and criminally liable for their failure to perform their function. Any additional cost that the Corporation would incur for the reissuance of title shall be on their account.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. SHFC

1. No physical inventory was conducted on the Inventory account balance of P3.490 million contrary to Section 58 of PD No. 1445 and Paragraph 15 of Philippine Accounting Standards (PAS) 1 thus, casting doubt on the accuracy and reliability of the balance as of December 31, 2014.

1.1 We recommended that Management:

- a. Conduct an annual physical inventory to ensure the accuracy and reliability of the account balance as at year end.
- b. Reconcile the discrepancy noted between the ledger balance and stock card office supplies, and prepare the necessary adjusting entries.

2. Payments on Discretionary Expenses and Business Development Expenses exceeded the appropriated rates as provided under Section 41 of FY 2014 General Appropriations Act (GAA) or Republic Act (RA) No. 10633 and the excess totaling to P9.35 million have no DBM approved budget contrary to Section 4, Paragraph 1 of PD No. 1445, thus, the P9.35 million constitutes illegal expenditures.

2.1 We recommended that Management:

- a. Adhere strictly to the authorized rates of EME as provided under of FY 2014 GAA;
- b. Require justification/legal basis of the BDE granted to Managers and Chief of Divisions and the additional bonus granted to OGCC personnel; and
- c. Refund of the PEI granted to agency-hired including consultants contrary to Budget Circular 2014-03.

B. AKPF

3. Management did not immediately send Notice of Cancellation (NOC) to two vendees upon default of payment contrary to Items 13 and 14 of the contract to sell (CTS) thus, the total sum of money received from the sale of the two properties were not forfeited in favour of SHFC-AKPF and/or considered as rentals on the properties.

3.1 We recommended that Management:

- a. Immediately send NOC to RADARs and SONINSA Realty Brokerage Services and cancel the CTS after 30 days so that the property can be sold to other interested parties; and
- b. Henceforth, monitor CTS and immediately issue NOC for defaulted CTS.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 22 audit recommendations (one in 2009, one in 2010, one in 2011, seven in 2012 and 12 in 2013) embodied in the CY 2013 AAR, six were fully implemented, 15 were partially implemented and one was not implemented.



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PART I -
AUDITED FINANCIAL STATEMENTS



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

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 Financial Statements

We have audited the accompanying financial statements of the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), which comprise the statement of financial position as at December 31, 2014, and the statement of income and expenses, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Generally Accepted Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Bases for Qualified Opinion

The total variance of P 377.80 million between the general and subsidiary ledger (GL/SL) balances of Loan Installment Receivables-Current and Past Due is contrary to Sections 111 and 114 of Presidential Decree (PD) No. 1445, thus, casting doubt on the validity and reliability of the account balances as at December 31, 2014.

The undistributed collections (UC) in the total amount of P344.15 million remained unposted/unapplied to Loan Installment Receivable (LIR) account and other affected accounts due to the absence of policy on the proper and timely allocation of UC resulting in the overstatement/understatement of the balances of the LIR and other affected accounts by P344.15 million as of December 31, 2014.

There are 127 missing Condominium Certificate of Titles (CCTs) with a total loan value of P10.590 million on the AKPF LR-Past due contrary to Section 58 of PD No. 1445, thus casting doubt on the existence of the corporate exposure.

Opinion

In our opinion, except for the possible effects of the matters described in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Social Housing Finance Corporation as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Emphasis of Matter

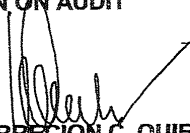
Without further qualifying our opinion, we invite attention to Note 5.2 to financial statements of the Abot-Kaya Pabahay Fund (AKPF), Items in litigation – developmental loans, which was endorsed to Legal Department for missing owner's copy of title and the property referred to is not the same property posted as collateral to the development loan granted. Thus, the recovery of the Corporate exposure is remote, doubtful and uncertain.

Report on the Supplementary Information Required Under Revenue Regulation Nos. 19-2011 and 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, except for the effects of the necessary adjustments for the

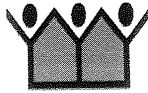
matters discussed in the preceding paragraphs, the information is fairly stated, in all material respects, in the basic financial statements taken as a whole.

COMMISSION ON AUDIT



ATTY. RESURRECION C. QUIETA
Supervising Auditor

June 1, 2015



Social Housing
Finance Corporation


SOCIAL HOUSING FINANCE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2014 and the related Statements of Income and Expenses and Cash Flow for the year then ended. The Financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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


EDUARDO T. MANICIO
Executive Vice President


MA. ANA R. OLIVEROS
President

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current assets			
Cash on hand and in banks	3	3,521,101,421	2,731,209,362
Receivables	4	68,107,057	64,987,345
Inventories	5	3,488,247	3,093,283
Prepayments	6	2,438,809	1,632,397
Guaranty deposits	7	777,774	670,361
Advances to contractors	8	63,912,624	-
		3,659,825,932	2,801,592,748
Assets held in trust			
National Home Mortgage Finance Corporation	9	10,395,562,968	9,533,082,744
Abot-Kaya Pabahay Fund	9	553,778,742	545,629,144
		10,949,341,710	10,078,711,888
Non-current assets			
Long-term loan receivables	10	147,121,185	26,991,095
Property and equipment-net	11	178,985,941	185,979,955
Intangible assets	12	1,169,504	1,742,404
Other resources	13	382,557,071	-
		709,833,701	214,713,454
TOTAL ASSETS		15,319,001,343	13,095,018,090
LIABILITIES AND EQUITY			
Current liabilities			
Payables	14	1,238,875,776	984,842,868
Inter-agency payables	15	44,014,116	25,687,785
Other current liabilities	16	859,227,999	608,695,519
		2,142,117,891	1,619,226,172
Long-term liabilities			
Other long-term liabilities	17	114,457,960	124,697,982
Trust liabilities			
National Home Mortgage Finance Corporation	18	11,342,966,311	10,593,069,114
Abot-Kaya Pabahay Fund	19	553,778,742	545,629,144
		11,896,745,053	11,138,698,258
TOTAL LIABILITIES		14,153,320,904	12,882,622,412
EQUITY		1,165,680,439	212,395,678
TOTAL LIABILITIES & EQUITY		15,319,001,343	13,095,018,090

The notes on pages 9 to 23 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF INCOME AND EXPENSES
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
INCOME			
Interest income on loans		306,028,822	214,363,648
Interest on savings deposits		37,687,442	49,415,878
Interest income on notes		-	3,466,667
Service fees		10,597,698	9,382,933
Miscellaneous income		151,363,421	90,950,709
		505,677,383	367,579,835
EXPENSES			
Personal Services			
Salaries and wages		80,943,674	79,223,427
Other personnel benefits		14,714,764	6,072,971
Other compensation		56,049,583	53,740,644
Personnel benefit contribution		16,106,812	14,979,879
		167,814,833	154,016,921
Maintenance and Other Operating Expenses			
Professional services		46,576,616	34,627,657
Origination & appraisal cost		26,500,548	22,139,485
Taxes, insurance premiums and other fees		17,929,470	19,618,270
Depreciation/Amortization		13,063,252	13,927,743
Representation		7,790,646	9,860,833
Utility		7,122,903	7,538,594
Supplies and materials		6,981,169	6,502,785
Loan loss	2.7	3,013,882	4,385,180
Travelling		6,955,366	4,245,546
Rent		3,330,385	3,473,750
Building Assoc. contribution to organization		3,177,349	3,129,149
Communication		4,415,526	3,117,479
Confidential, extraordinary and miscellaneous		3,285,683	2,872,015
Subsidies and donations		48,000	2,262,655
Training and seminar		2,258,907	2,015,038
Repairs and maintenance		1,709,630	1,478,476
Advertising		1,205,646	1,094,425
Printing and binding		916,705	862,406
Subscription		127,063	117,056
Transportation and delivery		49,540	17,883
Miscellaneous expense		20,246,907	18,370,216
		176,705,193	161,656,641
Financial Expenses			
Interest expenses		5,894,099	8,423,728
Bank charges		54,925	81,751
Financial expense - technical assistance		22,559	-
Other financial charges		497,323	2,158,792
		6,468,906	10,664,271
INCOME BEFORE INCOME TAX		154,688,451	41,242,002
Provision for income tax		38,265,548	6,446,113
NET INCOME AFTER INCOME TAX		116,422,903	34,795,889
Subsidy from National Government	22	806,919,084	11,300,710
NET INCOME AND SUBSIDIES		923,341,987	46,096,599

The notes on pages 9 to 23 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned subsidiary of National Home Mortgage Finance Corporation)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014
(In Philippine Peso)

Note	Paid in Capital 21	Retained Earnings 24	Total Equity
Balance at December 31, 2012	10,000,000	230,313,015	240,313,015
Dividends paid	-	(49,615,722)	(49,615,722)
Net income, as restated	-	46,096,599	46,096,599
Prior period adjustments	-	(24,398,214)	(24,398,214)
Balance at December 31, 2013, as restated	10,000,000	202,395,678	212,395,678
Balance at December 31, 2013, as restated	10,000,000	202,395,678	212,395,678
Dividends paid	-	(19,590,534)	(19,590,534)
Net income, as restated	-	923,341,987	923,341,987
Prior period adjustments	-	49,533,308	49,533,308
Balance at December 31, 2014	10,000,000	1,155,680,439	1,165,680,439

The notes on pages 9 to 23 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Amortization collections from borrowers		791,332,066	622,727,824
Subsidy from National Government		806,919,084	11,300,710
Receipt of CMP Fund transferred from NHMFC		750,000,000	750,000,000
Receipts of interests from deposits		32,280,306	45,961,970
Receipts of interest on Notes		-	3,466,667
Service fee Income		9,801,834	9,224,448
Insurance prepayments		4,470,997	3,966,453
Receipts of interest on receivable-investments		2,525,303	2,096,791
Other receipts		35,575,402	236,484,716
Miscellaneous income		1,325,080	1,387,034
Cash paid for loan take-outs, employees and suppliers		(1,244,922,491)	(1,080,825,134)
Net cash provided by operating activities		1,189,307,581	605,791,479
CASH FLOWS FROM INVESTING ACTIVITIES			
Leasehold Improvements		(189,883)	-
Purchase/construction of buildings/furnitures & fixtures		(57,731,264)	(823,594)
Purchase of office, IT, communication equipment		(4,088,251)	(1,623,449)
Purchase of transportation equipment		(3,574,000)	-
Payment of amortization of office building		(7,706,665)	(8,410,605)
Investment in land		(326,102,900)	-
Net cash used in investing activities		(399,392,963)	(10,857,648)
CASH FLOWS FROM FINANCING ACTIVITIES			
Financial expense for technical assistance		(22,559)	-
Net cash used in financing activities		(22,559)	-
Net increase in cash		789,892,059	594,933,831
Cash at beginning of year		2,731,209,362	2,136,275,531
CASH AT END OF YEAR	3	3,521,101,421	2,731,209,362

The notes on pages 9 to 23 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

On January 20, 2004, Executive Order No. 272 was signed and approved by the President of the Republic of the Philippines authorizing the National Home Mortgage Finance Corporation (NHMFC) to organize and establish the Social Housing Finance Corporation (SHFC), as a wholly-owned subsidiary, in accordance with the Corporation Code and pertinent rules and regulations issued by the Securities and Exchange Commission (SEC). SHFC has been formally organized and established on June 21, 2005 with the issuance of the Certificate of Incorporation under SECNo. 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 mandates 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, the SHFC has been implementing the Localized Community Mortgage Program (LCMP) since July 2010. LCMP is a derivative of CMP that would assist and empower the local government units (LGUs) in achieving their housing programs for the informal sector in their respective areas.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of financial statements preparation

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

Government Accounting and Auditing Manual on Disbursements and the New Government Accounting System (NGAS).

2.2 Accounting basis

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

2.3 Property and equipment

In adherence to the New Government Accounting System, SHFC uses the straight line method of depreciation wherein a residual value equivalent to 10 per cent of the cost is applied. Property and equipment are carried at cost less accumulated depreciation. Significant improvements and accessories are capitalized, while the cost of maintenance and repairs is treated as expense.

2.4 Inventories

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

2.5 Loan Installment Receivables (LIR) – Held in trust

Loan Installment Receivables are carried at book value less provision for uncollectible, if any. They are classified into current, restructured, past due and items in litigation. In 2009, when R.A. 9507 or the restructuring program is offered and extended in year 2011, a total of 15,706 member-beneficiaries had availed of the program with loan amount of P941.51 million however, the reclassification from past due to LIR-Restructured was made only this year when the upgraded collection system is completed and operational.

2.6 Allowance for probable loss

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

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

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

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

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

3. CASH ON HAND AND IN BANKS

This account consists of the following:

	2014	2013
Cash in bank – time deposit	3,198,067,383	2,567,969,251
Cash in bank – current account	314,122,689	150,925,731
Cash collecting officers	8,236,349	11,640,314
Petty cash fund	675,000	674,066
	3,521,101,421	2,731,209,362

3.1 Cash on Hand

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

3.2 Cash in Bank

This account consists of the following:

- Funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds and High Density Housing Program (HDHP).
- Cash in banks earn interest at prevailing interest rates of 1.1743 per cent to 1.3891 per cent per annum for time deposit.

3.3 Cash Collecting Officer-Supervising Teller

The outstanding balance of this account amounting to P8,784,155 represents portion of collection in the last working day of the year and was deposited only in the next working day. This also include collection of P91,631.97 which was reported lost due to theft as alleged by the concerned employee. A request for relief from accountability was already filed with the Commission on Audit (COA) on December 2010. Appropriate action is put on hold pending receipt of COA decision on the matter.

4. RECEIVABLES

Included under this account are the following:

	2014	2013
Due from NHMFC	59,325,993	59,293,436
Interest receivable-investment	4,325,709	2,525,303
Due from AKPF	3,318,782	1,863,941
Advances to officers and employees	545,217	25,764
Due from SSS	301,939	157,009
Due from officers and employees	132,913	92,007
Due from HUDCC	-	933,583
AR – Others	156,504	96,302
	68,107,057	64,987,345

4.1 Due from NHMFC

This account includes CMP amortization payments and other collections of NHMFC for the account of SHFC. This account also comprises management fee computed pursuant to Section VI of the Trust Agreement entered into by and between NHMFC (Trustor) and SHFC (Trustee), which provides the trustee a compensation consisting of: 1) 10 per cent of total collection; 2) actual cost of pre take-out operations plus 15 per cent from October 2005 to July 2006 only.

4.2 Due from AKPF

This account refers to accumulated Personnel Services (PS) and other Administrative expenses of the fund advanced by SHFC during the year.

4.3 Due from SSS

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

4.4 Due from HUDCC

This account represents the total advances made by SHFC for the account of HUDCC pertaining to office building special assessments and other administrative expenses.

5. INVENTORIES

This account consists of the following:

	2014	2013
Office supplies inventory	2,268,650	1,973,686
Accountable forms inventory	1,181,011	1,081,011
Other supplies inventory	38,586	38,586
	3,488,247	3,093,283

6. PREPAYMENTS

Included under this account are the following:

	2014	2013
Prepaid insurance	1,451,547	1,013,165
Prepaid interest	607,776	-
Prepaid rent	291,950	272,003
Prepaid subscription	78,650	78,650
Prepaid income tax	8,886	52,722
Prepaid IT license	-	215,857
	2,438,809	1,632,397

7. GUARANTY DEPOSITS

This represents guaranty fee for SHFC's rental of regional offices and warehouse in the amount of P777,774.

8. ADVANCES TO CONTRACTORS

This account 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.

9. ASSETS HELD IN TRUST

This represents the balances of CMP related accounts and AKPF fund balance from the time of transfer to December 31, 2014. This does not include "CASH" account as it is presented separately in the Financial Statements. Details are as follows:

	2014	2013
NHMFC		
Loan installment receivable-current	6,239,196,673	5,907,791,198
Loan installment receivable-past due	3,066,053,573	3,371,051,300
Loan installment receivable-restructured accounts	840,334,331	-
Insurance receivables	230,727,292	230,276,233
Items in litigation	50,925,357	50,925,357
Unamortized mortgage origination cost	31,196,077	32,895,109
Interest receivable	433,095	433,095
Loan loss reserve	(63,303,430)	(60,289,548)
	10,395,562,968	9,533,082,744
AKPF (Fund Balance)	553,778,742	545,629,144
	10,949,341,710	10,078,711,888

9.1 Loan installment receivable (LIR)—Current includes amount of CMP taken-out projects from the time of transfer up to December 31, 2014.

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

9.3 Insurance receivable consists of the general ledger balances transferred from NHMFC as of September 30, 2005. The balance of this account increased whenever there is renewal of the MRI coverage advanced by SHFC for qualified CAs on a yearly basis. The balance reduced upon collection of insurance repayments from member-beneficiaries which can be determined only upon reversal/distribution of collections temporarily lodged in the Undistributed Collections (UC) account.

9.4 Items in litigation represent the outstanding balance of receivables from delinquent CAs, which has been transferred to the Legal Department for foreclosure and with petitions already filed in court. Outstanding balance of this account represents the original amount transferred from NHMFC.

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

10. LONG-TERM LOAN RECEIVABLES

The balance figure of P28.31 million represents the car and calamity loan availed by SHFC officers and employees in the amount of P24.83 million and P3.47 million, respectively.

11. PROPERTY AND EQUIPMENT— NET

This account includes the following:

	Leasehold Improve- ments	Office, Communi- cation and Other Equipment	Furniture and Fixtures	Transpor- tation Equipment	IT Equipment and Software	Library Mate- rials	Office Buildings/ Structures	Total
Cost								
January 1, 2014	14,453,519	6,741,919	8,969,819	16,715,918	20,949,365	105,618	201,330,000	269,266,158
Additions	785,027	739,111	829,543	3,574,000	44,269	72,888	-	6,044,938
Adjustment	-	458,050	(462,000)	-	28,250	-	-	24,300
December 31, 2014	15,238,546	7,939,080	9,337,462	20,289,918	21,021,884	178,506	201,330,000	275,335,396

	Leasehold Improve- ments	Office, Communi- cation and Other Equipment	Furniture and Fixtures	Transpor- tation Equipment	IT Equipment and Software	Library Mate- rials	Office Buildings/ Structures	Total
Accumulated Depreciation								
January 1, 2014	7,052,269	5,452,045	3,621,936	8,569,657	12,433,240	43,311	46,113,745	83,286,203
Adjustments	-	(534)	-	-	534	-	-	-
Depreciation	1,314,308	329,119	856,738	1,763,957	1,993,748	23,514	6,781,868	13,063,252
December 31, 2014	8,366,577	5,780,630	4,478,674	10,333,614	14,427,522	66,825	52,895,613	96,349,455
Book Value								
December 31, 2014	6,871,969	2,158,450	4,858,788	9,956,304	6,594,362	111,681	148,434,387	178,985,941
Book Value								
December 31, 2013	7,401,250	1,289,874	5,347,883	8,146,261	8,516,125	62,307	155,216,255	185,979,955

12. INTANGIBLE ASSETS

	Computer Software
Cost	
January 1, 2014	3,951,374
Adjustments	172,383
Additions	138,998
December 31, 2014	4,262,755
Accumulated Amortization	
January 1, 2014	(2,208,970)
Additions	(884,281)
December 31, 2014	(3,093,251)
Net Book Value, December 31, 2014	1,169,504
Net Book Value, December 31, 2013	1,742,404

13. OTHER RESOURCES

13.1 Real Properties for Development and Sale (Land and Construction In Progress)

SHFC Corporate Circular No. 13-026, or the High Density Housing Guidelines, provide for the implementation framework for SHFCs participation in the priority Ph50-Billion Informal Settler Families (ISF) Housing Program for the relocation of ISF residing in danger areas and waterways in Metro Manila. To further strengthen this corporate objective, Corporate Circular HDH No.14-005 Series of 2014 was made pertaining to the Acquisition of property by SHFC and Usufruct under the High Density Program. Through these circulars as affirmed through 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 eventual disposition to the community association, or entering into a usufruct arrangement, for the implementation of the HDH Program.

The account represents Land acquired for building construction and site development intended for sale or to enter into a usufruct arrangement to high density housing program

beneficiaries. These are carried at acquisition costs plus cost incurred for site development and home building. Details are as follows:

	Amount
1. South Morning View HOA, Inc for lot acquisition	177,431,500
2. Alpas HOA, Inc. for lot acquisition	148,671,400
3. Alyansa ng Mamamayan ng Valenzuela at Caloocan (AMVACA) for 1 st drawdown for building construction	56,454,171
	382,557,071

14. PAYABLE ACCOUNTS

This account consists of the following:

	2014	2013
Accounts payable – MCR/Supplier	1,236,006,361	983,338,325
Performance warranty payable	2,294,935	1,335,057
Performance/Bidders bond payable	537,055	132,060
Due to officers and employees	37,425	37,426
	1,238,875,776	984,842,868

14.1 Accounts payable - Mortgage Contract Receivables (MCR) represents the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance to requirements. The 50 per cent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of Y2001. This account also includes perfected contracts with suppliers amounting to P46,542,551.

15. INTER-AGENCY PAYABLES

This account consists of:

	2014	2013
Due to BIR	20,677,019	2,658,968
Due to NHMFC	18,873,593	18,867,978
Due to HUDCC	2,610,189	2,500,000
Due to Provident Fund	1,379,474	1,232,301
Due to SSS	224,781	186,807
Due to Pag-IBIG	165,435	156,069
Due to PhilHealth	83,625	85,462
Due to AKPF	-	200
	44,014,116	25,687,785

15.1 Due to BIR represents the taxes withheld from payment of employees' compensation, origination fees, honoraria, taxes withheld at source and on government money payments including the provision for corporate income tax for CY 2014.

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

16. OTHER CURRENT LIABILITIES

This account consists of the following:

	2014	2013
Accrued expenses payable	17,108,578	12,239,908
Other payables:		
Undistributed collections (UCs)	344,148,497	384,136,007
Deferred income	219,696,649	-
Advances from borrowers	108,014,968	76,273,953
Guaranty deposits payable	99,903,888	82,782,039
Origination fee payable	25,242,023	18,747,360
Deferred credits	21,881,870	19,348,514
Insurance payable	21,406,441	12,784,410
Tax refunds payable	580,482	1,524,561
Other payable – Others	870,017	525,212
Other liabilities	374,586	333,555
	859,227,999	608,695,519

16.1 UCs refers to the un-posted/unapplied amortization payments covering CYs 2008 to 2014 due to the following reasons:

- a. Payments without abstract of collections (AOC)
- b. Payments of MBs not in masterlist
- c. Collections from MBs who availed of the 1-year updating scheme
- d. Un-posted amortization payments from restructured accounts
- e. Un-posted amortization payments from remedial accounts pending approval of the proposed in-house restructuring program
- f. Non-transmittal of Collection Documents by NHMFC
- g. Collections from accounts with site development loan component
- h. Unaccounted amortization payments

A total of P178.87 million collections from restructured accounts had already been reversed due to completion of the computer program specifically the billing and posting modules. This enable SHFC to recognize a total of P70.21 million in interest and miscellaneous income.

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

16.3 Guaranty deposits payable refers to two months and six months advance deposits required for old and new originators respectively, pursuant to Corporate

Circular CMP No. 003, calculated based on the total monthly amortization payment plus one year MRI premiums. However, these deposits shall be applied to community association's account once the CER falls below 80 per cent but in no case such application be made earlier than six months from take-out date.

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

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

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

17. OTHER LONG TERM LIABILITIES

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

18. TRUST LIABILITIES– NHMFC

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

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

	2014	2013
Cash	287,028,012	749,047,142
Loan installment receivables	8,580,950,965	7,502,373,099
Past due loan installment receivable	2,750,042,775	2,750,042,775
Real properties for development and sale	382,557,071	-
Notes receivable – NHA	200,000,000	200,000,000
Interest Income	165,678,128	165,678,128
Insurance receivables	119,762,108	119,762,108
Interest receivables	72,873,957	72,873,957
Origination and appraisal cost	64,767,828	40,558,201
Items in litigation	50,925,357	50,925,357
Unamortized mortgage origination cost	49,799,880	49,799,990
Service fee incentives	592,000	-

	2014	2013
Taxes, duties & licenses	337,575	-
Financial expenses/other professional fees	48,390	-
Accounts payable – MCR	(1,136,990,011)	(884,087,805)
Undistributed collections	(152,074,476)	(151,175,963)
Guaranty deposits payable	(56,069,433)	(49,454,917)
Origination fee payable	(21,864,382)	(17,004,403)
Advances to contractors	(8,525,889)	-
Insurance payable	(4,097,738)	(3,843,072)
Advances from borrowers	(1,598,646)	(1,598,646)
Performance warranty payable	(1,177,160)	(826,837)
	11,342,966,311	10,593,069,114

19. TRUST LIABILITIES – AKPF

The AKPF was previously under the administration of the NHMFC. Due to passage of Executive Order No. 272, the management of the Amortization Support and Developmental Financing Programs of AKPF is transferred to SHFC in 2005.

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

	2014	2013
Cash and cash equivalents	288,883,562	280,132,344
Acquired assets	139,729,325	117,250,544
Installment sales receivable- Long term	48,050,469	29,263,749
Items in litigation (net)	39,383,712	39,383,712
Past due receivable – DL (net)	34,036,351	77,789,350
Installment sales receivable, Current	15,211,417	11,107,284
Accounts receivable	1,399,500	-
Interest receivable – Special deposit account	458,128	291,070
Office equipment, IT equip & software, Furniture & fixtures, net of accumulated depreciation	37,940	43,468
Due to LGUs	(7,531,382)	(7,710,222)
Due to SHFC	(3,318,782)	(1,863,941)
Deferred income on sale of acquired assets	(2,469,872)	-
Accrued income tax payable – SSD	(91,626)	(58,214)
Fund Balance	553,778,742	545,629,144

20. CAPITAL STOCK

The Corporation has an authorized capital stock of P100,000,000, divided into 100,000 shares with a par value of P1,000 each. The amount of said capital stock which has been actually subscribed by the National Home Mortgage Finance Corporation is P25,000,000, of which, P10,000,000 was paid up and the balance of P15,000,000 of the subscribed capital stock remain unpaid.

21. PAID IN CAPITAL

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

22. SUBSIDY FROM THE NATIONAL GOVERNMENT

The HDH program window is a new program to enable SHFC to extend financing assistance to organized communities in danger areas for the implementation of a multi-storey building in National Capital Region. There are 15 approved HDH projects in various phases for CY 2014 with approved funding allocation from the DBM in the amount of P3.43 billion, of which P806.92 million was released during the year.

23. PRIOR PERIOD ADJUSTMENT

The account consists of interest income including penalty derived from reversal of amortization collections from restructured accounts and from complied findings on UC. This also includes expenses for prior years.

DATE	REFERENCE	DESCRIPTION	AMOUNT
01/31/2014	JEV2014010017	Distribution of amortization payments made by various Community Association at NHMFC booked in November and December 2013	636.51
01/31/2014	JEV2014010017	Distribution of amortization payments made by various Community Association at NHMFC booked in November and December 2013	20,129.68
01/31/2014	JEV2014010021	Liquidation of cash advance of Engr. Felman R. Gilbang for the expense during official travel to Davao City November 7 to 9, 2013	(11,889.08)
02/12/2014	DV2014010164	Honoraria for Bids & Awards Committee, TWG & BAC Secretariat for Project No. 2013-05	(2,750.00)
02/12/2014	DV2014020364	Honoraria for Bids & Awards Committee, TWG & BAC Secretariat for Project No. 2013-09	(16,499.99)
02/21/2014	DV2014020452	2013 KSA Sports Unity Games uniform for SHFC players & committee	(40,850.00)
02/28/2014	JEV2014020034	Business Development Expenses of Atty. Melgarejo pertaining to expenses incurred 81st SHFC Board Meeting	(1,714.21)
02/28/2014	JEV2014020036	Business Development Expenses of Atty. Saco pertaining to CMP Month Celebration in Davao and Gensan	(4,031.25)
04/30/2014	JEV2014040097	Liquidation of cash advance of Tuba-on for the expenses during travel to Gingoog City on November 19 to 20, 2013	(1,120.00)
04/30/2014	JEV2014040097	Liquidation of cash advance of Lennart Reyes for expenses during the conduct of 5S training in July 2013	(5,465.74)
04/30/2014	JEV2014040098	Liquidation of cash advance of Crespo for the expenses during the conduct of 5S training in August 2013	(3,264.50)
04/30/2014	JEV2014040111	Liquidation of cash advance of Louie B. Pitlo for the expenses incurred during the 5S Training and Orientation	(6,168.92)
05/31/2014	JEV2014050160-A	Reclassification of entry in JEV Nos. 2010090152 and 2010100171, payment of Maramot, Tallud and Larlar were erroneously credited to Miscellaneous Income-Others	(2,000.00)
05/31/2014	JEV2014050160-A	Adjustment in JEV Nos. 2009120241, 2009090163 and 2011100226, re: under deposit of Davao, Cauayan and Cebu branches.	(0.62)
06/30/2014	JEV2014060182	Distribution of complied findings for the years 2011, 2012 and 2013 of various community associations	2,568,374.69

DATE	REFERENCE	DESCRIPTION	AMOUNT
08/26/2014	DV2014082240	Refund of excess payment of fully paid loan, a member beneficiary of Nagkakaisang Samahan ng Nagkakaisang Samahanng Mag-Bahay	187.49
08/27/2014	DV2014082241	Refund of excess payment of a fully paid loan, a member beneficiary of Nagkakaisang Samahan ng Nagkakaisang Samahanng Mag-Bahay.	0.04
11/30/2014	JEV2014110389	Distribution of complied findings for the year 2011	6,453.00
11/30/2014	JEV2014110389	Distribution of complied findings for the year 2011	12,165.38
11/30/2014	JEV2014110389	Distribution of complied findings for the year 2012	26,408.40
11/30/2014	JEV2014110389	Distribution of complied findings for the year 2012	6,416.76
12/31/2014	JEV2014120431	Reversal of Undistributed Collection (UC) of the restructured accounts for March 2009 to December 2012 (Interest)	22,032,340.98
12/31/2014	JEV2014120431	Reversal of Undistributed Collection (UC) of the restructured accounts for March 2009 to December 2012 (IUP-interest on unpaid principal)	70,606.95
12/31/2014	JEV2014120431	Reversal of Undistributed Collection (UC) of the restructured accounts for March 2009 to December 2012 (Penalty)	573,634.43
12/31/2014	JEV2014120431	Reversal of Undistributed Collection (UC) of the foregoing restructured accounts for March 2009 to December 2012 (Interest, def)	23,269,157.24
12/31/2014	JEV2014120445	Correction of entry in JEV Nos. 2011030048 and 2011040076 pertaining to reclassification of Petty Cash Fund to Prior Year's Adjustment.	933.52
12/31/2014	JEV2014120446	Accrued Other Expenses Payable for the year 2013	1,039,304.88
12/31/2014	JEV2014120459	Correction of entry in DV2007101690 pertaining to the Philhealth premiums for September 2007. Philhealth contributions should be recorded as 29,437.50 and Due to Philhealth should be recorded as 31,750.00	2,312.50
12/31/2014	JEV2014120466	Adjustment in Cash Receipt Journal-Regional (Zamboanga Branch) for the month of February 2012, collection on February 7, 2012. Recorded as P80,354.72 instead of P80,354.73 (ARF No. 14-182).	(0.01)
TOTAL			49,533,308.13

24. RETAINED EARNINGS

	2014	2013
Balance, beginning of year	202,395,678	230,313,015
Dividends declared and paid	(19,590,534)	(49,615,722)
Net Income	923,341,987	46,096,599
Prior Period Adjustment	49,533,308	(24,398,214)
Balance, end of year	1,155,680,439	202,395,678
Less Appropriation:		
For program expansion and special reserve for probable contingencies		172,805,143
For HDH programs	818,219,793	
Un-appropriated Retained Earnings, end of year*	337,460,646	29,590,535

*In compliance to SEC Memorandum Circular No. 11

25. SUBSEQUENT EVENT

On March 27, 2015 SHFC's board approved the declaration of P59,718,343.65 in cash dividends and the grant of authority to remit the same directly to the National Government. Dividend payment to the Bureau of Treasury was made on April 16, 2015 per official receipt no. 8202246.

26. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth in Revenue Regulation Nos. 19-2011 and 15-2010 hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year.

A. National

	2014	2013
BIR Registration	500	500

B. Withholding taxes paid/accrued for the year

	2014	2013
On compensation	23,603,919	20,602,112
Percentage tax	6,126,794	6,242,910
Final tax paid on income	7,537,033	9,883,176
Real property tax	1,235,041	1,235,041
Corporate income tax	38,265,548	6,446,112
	76,768,335	44,409,351

27. FINANCIAL RISK MANAGEMENT

a. Mortgage Contract Receivables/MCR (CMP Loans)

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

The property, subject of loan and mortgage, is registered under the name of the Community Association. The property is covered by a subdivision plan and each lot in the subdivision plan is assigned to a member under a lease purchase agreement (LPA) with the association. The LPAs of the associations are assigned to SHFC as additional security for the community loan.

b. Credit Policy for MCRs (CMP Loans)

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

c. Insurance

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

d. Security

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

e. Collection

The MCR (CMP Loans) are covered by a collection agreement with the CA. The CA collects the monthly amortizations from its members and remits these to

PART II -
OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. SOCIAL HOUSING FINANCE CORPORATION

1. The total variance of P 377.80 million between the general and subsidiary ledger (GL/SL) balances of Loan Installment Receivables-Current and Past Due is contrary to Sections 111 and 114 of Presidential Decree (PD) No. 1445, thus, casting doubt on the validity and reliability of the account balances as of December 31, 2014.

1.1 Sections 111 and 114 of PD No. 1445 provides that accounts should be kept in such details for the agency's needs and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government. These include the maintenance of subsidiary records. Also, internal control dictates that an entity should maintain adequate records and systems for all aspects of its business, including the maintenance of hard copies of individual subsidiary ledgers that will support the general ledger control account at a given period of time.

1.2 Audit disclosed a variance of P377.80 million between the balance of the GL and SL balances of Loan Installment Receivables (LIR). Details are as follows:

Loan Installment Receivables	General Ledger Balance	Subsidiary Ledger Balance	Variance
Current	6,239,196,673.03	6,176,072,991.54	63,123,681.49
Past Due	3,066,053,572.75	2,751,377,305.76	314,676,266.99
Items in Litigation	50,925,357.34	50,925,357.34	-
Restructured	840,334,331.34	840,334,331.34	-
Total	10,196,509,934.46	9,818,709,985.98	377,799,948.48

1.3 As explained by Management, the LIR-past due account balance mainly comprised the balances of Community Mortgage Program (CMP) related GL accounts transferred from NHMFC to SHFC, which were based on Community Associations (CAs). The Finance and Controllership Department (FCD) have started the process of reconciling the GL and the member-beneficiaries (MBs) SL balances.

1.4 We reiterated our prior years' audit recommendation that Management expedite the reconciliation of the GL and the MBs SL balances to ensure validity and reliability of the account balances.

1.5 Management commented that the development of collection and ledgering system which will expedite the reconciliation between the GL and SL balances of LIR account is expected to be in its final stage within 2015.

2. The undistributed collections (UC) in the total amount of P344.15 million remained unposted/unapplied to LIR account and other affected accounts due to the absence of policy on the proper and timely allocation of UC resulting in the overstatement/understatement of the balances of the LIR and other affected accounts by P344.15 million as of December 31, 2014.

2.1 Our review disclosed that the UC balance in the total amount of P344.15 million still remained unposted/unapplied to LIR and other affected accounts. Also, the SLs of individual borrowers do not reflect their actual outstanding loan obligation at year-end.

2.2 We recognized the effort of the SHFC on the adjustments on and reversals of the collections from restructured accounts. However, comparison of the UC balance for CYs 2014 and 2013 showed a minimal decrease of 10.41 per cent in the balance of the account in 2014, as shown below:

Particulars	2014	2013	Increase (Decrease)	
			Amount	%
No Abstract of Collections	21.10	23.90	(2.79)	(11.69%)
Not in Masterlist	5.96	4.17	1.79	42.98%
1-yr Updating RA9507/PD1445	72.02	18.17	53.85	296.35%
APL/FUT	1.86	1.86	-	-
Collections from NHMFC	14.85	14.87	(0.02)	(0.15%)
Advance Payment	1.21	0.36	0.85	233.36%
Collections from Restructured Accounts (RSAs)	51.89	167.01	(115.12)	(68.93%)
Excluded Accounts	0.21	0.13	0.08	65.43%
With Site Development	23.06	28.08	(5.02)	(17.89%)
Unaccounted	83.57	78.77	4.80	6.09%
Collections from Remedial Accounts (RMAs)	64.54	45.86	18.68	40.73%
Cancelled Payment/Late Recording	1.41	0.61	0.80	131.67%
Encoding Errors	0.14	0.14	0.14	-
Classification Errors	(0.61)	0.21	(0.82)	(385.53%)
Express lane not yet build up	2.59	0.00	2.59	100.00%
HDH projects not yet build up	0.36	0.00	0.36	100.00%
	344.15	384.14	(39.99)	(10.41%)

2.3 We reiterated our prior years' audit recommendations that Management:

- a. Establish guidelines on the proper and timely allocation of UCs to the appropriate LIR accounts; and
- b. Continuously reconcile the subject accounts to minimize the accumulation of UCs.

2.4 Management commented that they have a newly developed system which became operational last November 2014. The new system is capable of reversing UCs from RSAs, 1-Year Updating, Excluded Accounts and UC from accounts with Site Development component. As of year-end 2014, they have reversed a total of P178,870,395.59 UC from restructured accounts or 34 per cent of the cumulative UC. For other UC components where the solution is technically independent from the technology, all concerned units were already advised to do their part requiring them to include it in their respective group/department action plans all the way down to the individual performance plans (IPPs).

The build-up of collections from RMAs is due to the pending In-house Restructuring program as proposed by the Task Force on RMAs (TFRMA). Approval of the proposed restructuring program shall not only reduce UC account by another 19 per cent, but will also help contain its build up. As regards collection from High Density Housing (HDH) projects, since the program adopted a graduated amortization scheme which is different

from that of the regular CMP account, ISD had to undertake a separate program development that is expected to be completed by 1st quarter of 2016.

3. Absence of individual SL and the presence of abnormal/negative balance of the Insurance Receivable (IR) account totalling P88.16 million and P0.529 million, respectively, are contrary to Sections 111 and 114 of PD No. 1445, thus, casting doubt on the reliability of the account balance as of December 31, 2014.

3.1 Last January 17, 2006, Vice-President of Controllershship Group, NHMFC issued a memorandum to the Interim Manager of Administrative and Finance Department, SHFC transferring its CMP taken-out from CY 1994 to September, 2005. This transfer was taken-up in the books of SHFC last December 29, 2005 under Journal Voucher (JV) No. 2005-0009 as follows:

	Accounts	Debit	Credit
1)	LIR-Held in Trust	1,602,867,739.41	
	Past Due – LIR	2,750,042,774.80	
	Items in Litigation	47,549,079.69	
	Trust Liability (TL) – NHMFC		4,400,459,593.90
2)	TL – NHMFC	138,049,235.39	
	UC		138,049,235.39
3)	Interest Receivables	78,489,832.56	
	TL – NHMFC		78,489,832.56
4)	IR	88,154,115.24	
	TL – NHMFC		88,154,115.24
		4,705,152,777.09	4,705,152,777.09

3.2 The FCD informed us that the transfer of the CMP Mortgage by the NHMFC was at the CA level and was not broken down into MBs, making it difficult to match the balances of the account since the accounting department is using the accounting software of QnE Business solutions 180 which has the following modules: GL, Accounts Receivable (AR) and Accounts Payable (AP) encoded at MB level.

3.3 Our audit disclosed that the IR amounting to P88,154,115.24 which was transferred to SHFC from NHMFC has no individual SL and remained dormant for almost nine years.

3.4 Further analysis of the account revealed that there are abnormal/negative totaling to P528,648.52 as follows:

Particulars	Amount
Exclusions: expired terms	50,728.40
Exclusions: full payments	141,939.81
Exclusions: Mortgage Redemption Insurance (MRI) claims	111,008.51
Overpayment of prior years' remittances	68,342.32
Distribution of UC for the months of January to December, 2010	151,299.11
Overpayment of previous remittance	5,330.37
	528,648.52

3.5 The absence of individual SL and the presence of abnormal/negative balance of the Insurance Receivable (IR) account are contrary to Sections 111 and 114 of PD No. 1445 as discussed in Paragraph 1.1, thereby casting doubt on the reliability of the IR account balance as of December 31, 2014.

3.6 **We recommended that Management:**

- a. **Coordinate with NHMFC for the transfer of individual SL supporting the IR account;**
- b. **Review and analyze the account to determine whether there are still valid claims and prepare adjusting entry, if necessary; and**
- c. **Establish reason/s for the negative balances and adjust them accordingly.**

3.7 Management commented that the lack of SL amounting to a total of P88,114,115.24 had already been noted since the transfer of the CMP projects through the memorandum of transfer from the NHMFC. The FCD is coordinating with NHMFC on the matter and requests for details had been made to effect the necessary adjustments. In the event NHMFC cannot provide SHFC the required documents, the accounting department is proposing to adjust the records specifically the Investment and TL accounts for NHMFC and SHFC, respectively.

The accounting of P528,648.24 negative balances in on-going and is expected to be completed by end of July 2015.

4. **A variance of P639,438.16 was noted between the Cash GL balance and the Daily Collection and Deposit Report (DCDR) contrary to Section 58 of PD No. 1445, thereby casting doubt on the accuracy and reliability of the account balance as of year-end.**

4.1 Section 58 of PD No. 1445 states that:

"The examination and audit of assets shall be performed with a view to ascertaining their existence ownership, valuation and encumbrance as well as the propriety of items composing the respective asset accounts, determining their agreement with records, proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts." (Underscoring ours)

4.2 Our audit disclosed a variance of P639,438.16 between the Cash GL balance and the DCDR contrary to Section 58 of PD No. 1445, computed as follows:

	Amount
Balance per Cash GL	8,784,155.18
Balance per DCDR	8,144,717.02
Variance	639,438.16

4.3 We recommended that Management:

- a. Reconcile the variance between the Cash GL and the DCDR and prepare the necessary adjusting entries to correct the discrepancies noted; and
- b. Henceforth, prepare regularly monthly reconciliation report to establish the correct balances every month.

4.4 The P547,806.26 was already adjusted per JV No. 2015-10008 dated January 31, 2015. The P91,631.97 is the amount of cash reported lost allegedly due to theft in Zamboanga Office last December 2010. A request for relief from accountability together with the police report and other pertinent documents has already been submitted to COA.

4.5 As a rejoinder, Management adjusted the variance of P547,806.26 only in January 2015. Thus, the DCDR and the Cash GL for CY 2014 still reflect the variance of P639,438.16.

5. No physical inventory was conducted on the Inventory account balance of P3.490 million contrary to Section 58 of PD No. 1445 and Paragraph 15 of Philippine Accounting Standards (PAS) 1, thus, casting doubt on the accuracy and reliability of the balance as of December 31, 2014.

5.1 Paragraph 15 of PAS 1 states that:

"xxx. 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 PFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation."

5.2 Physical inventory-taking is an indispensable procedure for checking the integrity of property custodianship. It aims to determine the correctness of the actual quantity as well as the present condition of the assets counted as against the perpetual records of the agency.

5.3 Review of the Inventory account as of December 31, 2014 disclosed the following SL balances:

	Amount
Office supplies inventory	2,268,649.90
Accountable forms inventory	1,181,011.00
Other supplies inventory	38,585.90
	3,488,246.80

We requested for a copy of the Inventory-taking report, however, Management submitted only a Summary of Stock Card – Office Supplies (SSCOS) prepared by the Administrative Department (AD).

5.4 Our audit disclosed that no physical inventory was conducted on the inventory accounts and the balance shown on SSCOS amounting to P814,804.20 does not reconcile with the Office supplies inventory ledger balance as of December 31, 2014.

5.5 **We recommended that Management:**

- a. **Conduct an annual physical inventory to ensure the accuracy and reliability of the account balance as at year-end; and**
- b. **Reconcile the discrepancy noted between the SL and SSCOS, and prepare the necessary adjusting entries.**

5.6 Management commented that the discrepancy between the subsidiary ledgers and stock card balances, FCD, in coordination with AD, has already started the reconciliation activity which may lead to identification of reasons that had caused the discrepancy. Further, internal control measures and procedures shall be formulated as it may deem necessary in order to maintain agreement of balances of both accounting and Admin records. Also, an Inventory team will be reconstituted to cover the office supplies in the inventory taking.

6. **Actual expenditures for Personal Services exceeded the DBM-approved Corporate Operating Budget (COB) for CY 2014 by P10.85 million contrary to Section 9 of Executive Order (EO) No. 7 dated September 8, 2010. Thus, the excess of P10.85 million constitutes irregular expenses as defined under COA Circular No. 2013-003.**

6.1 Section 9 of EO No. 7 states that:

"Moratorium on increase in the rates of salaries, and the grant of new or increases in the rates of allowances, incentives and other benefits, except salary adjustment pursuant to Executive Order No. 811 dated June 17, 2009 and Executive Order No. 900 dated June 23, 2010, are hereby imposed until specifically authorized by the President."

6.2 COA Circular No. 2012-003 defines irregular expenditure as *"an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. xxx A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules or procedures is likewise, irregular."*

6.3 Our review of the DBM-approved COB of the SHFC for CY 2014 disclosed imposed limit for the Personal Services as "Remarks", as follows:

Employee Benefits/Allowances	Limit/Remarks
Salaries	Rates based on SSL-III 4th Tranche
Personnel Economic Relief Allowance	2,000/month/employee
Uniform/Clothing Allowance	5,000/annum/employee
Year-end Bonus	One (1) basic salary as of Oct. 31
Cash Gift	5,000/annum/employee
Representation and Transportation Allowance	Based on FY 2014 GAA rates
Per Diem of Members of the Board	Based on Executive Order No. 24 series of 2011
Productivity Incentive Benefits	2,000/annum/employee
Performance Based Bonus (PBB)	5,000/annum (PEI) plus 8.540M for the FY 2013 PBB per approval of the GCG
Retirement Benefits	Actual disbursement as of September 2014 only
Cashier's Allowance	200/month x 1 position only
Provident fund	15% basic salary
13th Month Pay	One (1) basic salary plus allowances
Economic Subsidy	One (1) basic salary plus allowances
Children's Allowance	30/month/employee (maximum of 4 children)
Meal Allowance	550/month/employee
Rice Allowances	1,800/annum/employee
Medicine Allowance	7,000/annum/employee
HMO	Actual rate as of September 2014
Transportation Allowance (Rank & File)	300/month/employee
Grocery Subsidy (Gift Check)	50,000/annum/employee
Birthday Gift Benefit	3,000/annum/employee
SSS Contribution	Rates pursuant to SSS Circular No. 2013-010, s. 2013
Employees Compensation Insurance Premium	Rates pursuant to SSS Circular No. 2013-010, s. 2013
Pag – IBIG Contribution	100/month/employee
Philhealth Contribution	Pursuant to PhilHealth Circular No. 0027, s. 2013

Board Resolution No. 97, series of 2007 on "Remaining Matters on the the SHFC Benefits Program", the Board approved Grocery Subsidy to SHFC employees based on the existing set-up and disbursement of P50,000.00. Guidelines on the Distribution of Corporate Give-Aways CY 2007 was issued allotting P8,000 each for agency-hired contractual employees which later increased to P12,000 thru ammendment of guidelines dated May 2007.

On September 23, 2010, Revised Guidelines on the Grant of Grocery Subsidy was made increasing the benefit from P50,000 to P70,000 for both regular and direct hired contractual SHFC employees.

On December 28,2010, the Legal and Admin Group issued a memorandum to the Office the President-SHFC requesting for an approval increasing the grocery subsidy benefit for *agency-hired contractual employees* from P2,500 to P12,000 based on the availability of funds.

6.4 Our audit disclosed that the following allowance/benefits were given in excess of the DBM-approved COB:

Allowances/ Benefits	Status of Employment	No. of Employees	Actual/ employee	Budget/ employee	Variance/ Employee	Total Variance
Grocery Subsidy	Regular	202	70,000	50,000	20,000	4,040,000
	Probationary	2	62,750	50,000	12,750	25,500
	Resigned	4	35,000	50,000	(15,000)	(60,000)
	Agency-Hired	various	14,500	-	14,500	1,805,250
						5,810,750 1/
Rice Allowance	Regular	189	21,600/annum	1,800/annum	19,800.00	3,742,200.00
	Probationary, occasionally on leave and resigned employee during the year		1,800/month (total of 331,200 for CY 2014)	1,800/annum (45,000 for CY 2014)		286,200.00 1/
		25				
						4,028,400
13 th Month Pay	Regular	198	*with an add'l P5,000	*	5,000	990,000
	Probationary	5 2/	*with an add'l P2,500	*	2,500	12,500
	Resigned/on leave	5 2/	*with an add'l P2,500	*	2,500	12,500
						1,015,000
						10,854,150

1/ reported per DV total

2/ proportionate amount

*one (1) month basic salary plus allowances

6.5 We recommended that Management:

- a. Adhere strictly to the DBM-approved COB; and
- b. Submit justification on the excessive grant of the other allowances and benefits.

6.6 Management requested for additional days to submit their reply on the abovementioned observation while waiting for the response from the DBM for the reconsideration of the disallowances on certain benefits specifically the grocery subsidy and the additional P5,000 on the 13th month pay and rice allowances.

7. Payments on Discretionary Expenses and Business Development Expenses exceeded the appropriated rates as provided under Section 41 of FY 2014 General Appropriations Act (GAA) or Republic Act (RA) No. 10633 and the excess totaling to P9.35 million have no DBM approved budget contrary to Section 4, Paragraph 1 of PD No. 1445, thus, the P9.35 million constitutes illegal expenditures.

7.1 Section 41 of the General Provision of GAA states that:

"Appropriations authorized herein may be used for extraordinary expenses of the following officials and those of equivalent rank, as may be determined by the DBM, not exceeding:

- (a) P264,000 for each Department Secretary;*
- (b) P100,000 for each Department Undersecretary;*
- (c) P60,000 for each Department Assistant Secretary;*
- (d) P45,000 for each head of bureau or organization of equivalent rank, and for each head of a Department Regional Office;*
- (e) P26,400 for each head of a bureau Regional Office or organization of equivalent rank; and*
- (f) P19,200 for each Municipal Trial Court Judge, Municipal Circuit Trial Court Judge, and Shari'a Circuit Court Judge.*

In addition, miscellaneous expenses not exceeding Seventy-Two Thousand (P72,000) for each of the offices under the above named officials are authorized herein.

For the purpose of this section, extraordinary and miscellaneous expenses shall include, but shall not be limited to expenses incurred for:

- (a) Meetings, seminars and conferences;*
- (b) Official entertainment;*
- (c) Public relations;*
- (d) Educational Athletic and cultural activities;*
- (e) Contributions to civic charitable institutions;*
- (f) Membership in government association;*
- (g) Membership in national professional organizations duly accredited by the Professional Regulation Commission;*
- (h) Membership in the Integrated Bar of the Philippines;*
- (i) Subscription to professional technical journals and informative magazines, library books and materials;*
- (j) Office equipment and supplies; and*
- (i) Other similar expenses not supported by the regular budget allocations.*

In case of deficiency, xxx. No portion of the amounts authorized herein shall be used for the payment of salaries, allowances and other benefits, and confidential and intelligence expenses. (Underscoring ours)

7.2 Section 4 of paragraph 1 of the PD 1445 provides that:

"No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority."
(Underscoring ours)

7.3 COA Circular 85-55-A dated September 8, 1985 provides:

"A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. An

anomalous transaction which fails to follow or violates appropriate rules of procedure, is likewise irregular. Irregular expenditures are different from **illegal expenditures since the latter would pertain to expenses incurred in violation of the law** whereas, the former is incurred in violation of applicable rules and regulations other than the law." (Emphasis ours)

COA Circular 2006-001 dated January 3, 2006 also provides:

"This Circular shall be xxx. It shall cover extraordinary and miscellaneous expenses and other similar expenses, such as **discretionary, business development expenses, representation expenses and the like**, provided xxx." (Emphasis ours)

7.4 Section 4.1.1 and 4.1.4 of the Budget Circular No. 2014-3 dated December 2, 2014 provides that the following are excluded from the coverage of this Circular:

"Consultants and experts hired to perform specific activities or services with expected outputs;

"Individuals and groups whose services are engaged through job orders, contracts of service, or other similarly situated."

7.5 As at December 31, 2014, the total discretionary and business development expenses is as follows:

	Amount
Discretionary expenses	2,301,612.50
Business development expenses (BDE)	7,790,646.20
	10,092,258.70

Our review of the CY 2014 COB of the SHFC also disclosed that the amount authorized for Extraordinary and Miscellaneous Expenses was P741,600 based on the prescribed rates in the FY 2014 GAA. To wit:

Position	Salary Grade	Extraordinary Expenses	Miscellaneous Expenses	Total
President	29	60,000	72,000	132,000
Executive Vice-President	28	45,600	72,000	117,600
Vice-President, Admin & Management Services Group	27	26,400	72,000	98,400
Vice - President , Treasury Group	27	26,400	72,000	98,400
Vice - President, Legal Counsel/ Compliance Officer	27	26,400	72,000	98,400
Vice - President, Loan Processing Group for Visayas and Mindanao	27	26,400	72,000	98,400
Vice - President, Loan Processing Group for Luzon	27	26,400	72,000	98,400
		237,600	504,000	741,600

7.6 Our audit of the account showed the following:

	Amount
Total discretionary expenses and BDE	10,092,258.70
EME per approved GAA	741,600.00
Excess	9,350,658.70

During validation, the following expenses were also charged to discretionary account:

Payee	Particulars	Amount	Remarks
a. Intellicare Corporation	Asalus Annual physical examination of consultants	2,980.32	Consultants not entitled per Paragraph 6 of contract for services
b. Ma. Ana R. Oliveros	Liquidation of cash advance for the payment of Productivity Enhancement Incentive (PEI) for FY 2014 of Agency-hired Personnel	600,000.00	Not authorized under GAA, not entitled per Budget Circular 2014-03.
c. 6 OGCC personnel	Christmas bonus to OGCC personnel handling cases and other legal problems	30,000.00	Not authorized under GAA. (In addition to honorarium/legal services fee)

The BDE granted to Executive Vice President (P14,000/month) and Vice-Presidents (P10,000/month) were in excess of the allowed amount while the Managers (P8,000/month) and Chief of Divisions (P3,000/month) are not entitled to received such benefit under the GAA.

7.7 We recommended that Management:

- a. Adhere strictly to the authorized rates of EME as provided under of FY 2014 GAA;
- b. Require justification/legal basis of the BDE granted to Managers and Chief of Divisions and the additional bonus granted to OGCC personnel; and
- c. Refund of the PEI granted to agency-hired including consultants contrary to Budget Circular 2014-03.

7.8 Management is still awaiting for the DBM's feedback in their letter dated April 23, 2015 on the clarification/reconsideration on SHFC approved COB for CY 2014.

B. ABOT-KAYA PABAHAY FUND (AKPF)

8. There are 127 missing Condominium Certificate of Titles (CCTs) with a total loan value of P10.590 million on the AKPF LR-Past due contrary to Section 58 of PD No. 1445, thus casting doubt on the existence of the corporate exposure.

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

8.2 As at December 31, 2014, the LR-Past due account disclosed the following:

	Project	Proponent	Amount	Total TCTs/CCTs
1	Coryville Subdivision	Assumpta Foundation	10,589,851.18	19
2	Palao Country Homes	Palao Construction and Development Corporation	29,791,949.89	969
3	Plainville Homes	Heritage Homes	5,000,000.00	158
			45,381,801.07	1,146
		Less: Allowance for Doubtful Accounts	11,345,450.26	
			34,036,350.81	1,146

8.3 As a wholly-owned subsidiary of the 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 CMP and the Amortization Support and Developmental Financing Programs (ASDFP) of the AKPF.

8.4 There are 127 missing CCTs on the Coryville Subdivision as a result of the physical inventory of TCT's and CCT's conducted contrary to Section 58 of PD No. 1445 thus, casting doubt on the existence of the corporate exposure. Details are as follows:

	Project	Per Inventory listing	Counted TCTs	Counted CCTs	Released TCTs per MWRF	Per Loan Documents	Variance
1	Coryville Subdivision	19		19	-	146	127
2	Palao Country Homes	969	635		334	969	-
3	Plainville Homes	158	150		8	158	-

8.5 We recommended that the Documentation/Control and Custodianship Department (DCCD):

- a. Coordinate with NHMFC on the missing CCTs of the Coryville Subdivision of the AKPF-ASDFP;
- b. Determine the person/s liable for the missing CCTs; and

c. Hold them administratively and criminally liable for their failure to perform their function. Any additional cost that the Corporation would incur for the reissuance of title shall be on their account.

8.6 Management commented the following:

a. On July 26, 2007, NHMFC turned over to SHFC a total of 3,319 titles as indicated in the NHMFC's list of AKPF-Developmental Loan Program (DLP) titles as of July 24, 2007. It is noted that in this list, no single title of CORYVILLE HOUSING PROJECT was included and the project was labeled as "FORECLOSED."

b. SHFC has recovered a total of 19 original CCTs, five of which are from Home Guaranty Corporation on July 16, 2010 and 14 CCTs from individual folders with corresponding original titles attached to it which was transmitted by NHMFC sometime in 2007.

c. They have coordinated with NHMFC on the missing CCTs of the Coryville Housing Project and was able to gather data on the status of all taken out accounts.

d. As recommended, they shall also write a separate letter to NHMFC's management to inform them of this discrepancy and to support their initiative to identify responsible personnel who should be held liable for the missing titles.

9. Management did not immediately send Notice of Cancellation (NOC) to two vendees upon default of payment contrary to Items 13 and 14 of the contract to sell (CTS) thus, the total sum of money received from the sale of the two properties were not forfeited in favour of SHFC-AKPF and/or considered as rentals on the properties.

9.1 Item (13) Grounds for Cancellation states that:

"It is expressly agreed that when the VENDEE violates any if the provisions, terms and conditions of this Contract, other than the non-payment of the balance of purchase price when due, this Contract shall be considered subject to cancellation but with prior notice from the VENDOR, or when the parties mutually agree to cancel this contract."

Item (14) Cancellation for failure to pay down payment, quarterly instalment together with interest, taxes or assessment states that:

"Should the VENDEE, for any reason, fail to pay any of the portion of the down payment or quarterly instalments, together with the interest, taxes and assessments thereon as provided in this Contract, this contract shall be considered subject to cancellation or rescission within thirty (30) days after service by the VENDOR to the VENDEE of a notice of cancellation or rescission, in which event any and all sums of money paid under this contract, including down payments and amortizations made together with all improvements made on the premises shall be forfeited in favour of the

VENDOR and/or considered as rentals on the PROPERTIES. The sending of such notice by registered mail to the VENDEE's address shall be deemed sufficient service thereof for the purpose irrespective of whether or not it was personally or actually received by the VENDEE."

9.2 CTS dated March 31, 2014 was executed by and between SHFC and R.A. De Leon Appraisal and Realty Services (RADARs) or the purchase of Felipe Subdivision for P23.322 million and on October 24, 2012, another CTS was executed by and between SHFC and SONINSA Realty Brokerage Services for the purchase of Villa Molinaville Subdivision at P 26.00 million, less all contingent expenses.

9.3 On December 12, 2014, a letter was sent by the SHFC Manager of Trust Department to the General Manager of RADARs notifying the latter for non-payment of the remaining balance of the down payment as agreed upon under Item 2 of the CTS as follows:

Amortization Due Date	Check No.	Amount
August 30, 2014	0002166	150,000.00
September 30, 2014	0002167	150,000.00
October 30, 2014	0002168	150,000.00
November 30, 2014	0002169	150,000.00
		600,000.00

9.4 Item (2) DOWN PAYMENT:

"The Vendee, RADAR, shall pay the Vendor, SHFC down payment of P1.50 M, payable in ten (10) equal monthly payments from the execution of this Contract to Sell. The initial down payment of P150,000.00, shall be paid immediately upon receipt by the vendee of a duly executed Contract To Sell and every month thereafter until full payment. The Vendee shall issue nine (9) postdated checks in favour of the Vendor for the remaining balance of the down payment in the amount of P1.350 M simultaneously upon payment of the initial down payment."

9.5 On the other hand, a demand letter dated March 30, 2015, was sent to the Operations Manager of SONINSA Realty Brokerage Services for non-payment of balance of purchase price as follows:

Amortization Due Date	Check No.	Amount
October 6, 2014	0341984	431,773.79
November 6, 2014	0341985	431,773.79
December 6, 2014	0341986	431,773.79
January 6, 2015	0341987	431,773.79
February 6, 2015	0341988	431,773.79
March 6, 2015	0341989	431,773.79
		2,590,642.74 a/

a/ inclusive of interest

9.6 Our audit disclosed that Management did not immediately send NOC to two vendees upon default of payment contrary to Items 13 and 14 of the CTS. To date, unpaid down payment and monthly amortizations are as follows:

A. RADARs

Amortization Due Date	Check No.	Amount	Surcharges	Total
Down payment				
August 30, 2014	0002166	150,000.00	8,487.50	158,487.50
September 30, 2014	0002167	150,000.00	7,175.00	157,175.00
October 30, 2014	0002168	150,000.00	5,862.50	155,862.50
November 30, 2014	0002169	150,000.00	4,506.25	154,506.25
December 30, 2014	0002170	150,000.00	3,193.75	153,193.75
		750,000.00	29,225.00	779,225.00
Balance (90%)				
January 20, 2015		280,237.80	3,432.91	
February 20, 2015		280,237.80	1,062.57	
		560,475.60	4,495.48	564,971.08
		1/		1,344,196.08

1/ exclusive of interest

B. SONINSA Realty Brokerage Services

	Principal	Unpaid Interest	Surcharge	Total
October to December 2014	918,571.77	376,749.60	48,106.79	1,343,428.16
January to March 2015	939,395.03	355,926.34		1,295,321.37
				2,638,749.53
				3,982,945.61

Management explained that they allow deferment/postponement of the amortization since the concerned vendee is willing to pay the corresponding surcharges; and ownership will only be transferred to the vendee upon full payment.

9.7 We recommended that Management:

- a. Immediately send NOC to RADARs and SONINSA Realty Brokerage Services and cancel the CTS after 30 days so that the property can be sold to other interested parties; and
- b. Henceforth, monitor CTS and immediately issue NOC for defaulted CTS.

9.8 Management commented the following:

- a. On April 23, 2015, the Trust Administration Department received a letter from the General Manager of RADARs, raising issues/reasons in having difficulty on how to enhance their marketing that having been affected by the negative information dissemination of some affected homeowners/individuals and as well as their collections efforts with regards to project Villa Felipe Heights.

b. On April 14, 2015, the Operations Manager of SONINSA Brokerage Realty Services was able to pay one month amortization with corresponding surcharges amounting to P455,701.26.

c. The two vendees have continuously communicated with them to explain the reasons of the postponement of payments and one of those is the transfer of titles to their buyers' name which cannot be effected because titles are still in name of former owner-developer. Hence, they requested previous owner-developer to issue a Special Power of Attorney in favor of SHFC which is one of the requirements by the Registry of Deeds and BIR. Given this circumstances, they did not immediately send NOCs of CTS to two vendees. However, they shall abide with the recommendations and immediately initiate cancellation of the two CTS, given also the considerable allowance of time that was accorded the buyers.

10. Loss on sale of acquired assets amounting to P6.124 million was recorded under the Prior year's adjustment account contrary to Paragraphs 88 and 89 of PAS 1 – Presentation of Financial Statements. Thus, resulting in the understatement of SHFC-AKPF's net loss by the same amount as of December 31, 2014.

10.1 Paragraphs 88 and 89 of PAS 1 states that:

"An entity should recognize all items of income and expense in a period in profit or loss unless a PRFS requires or permits otherwise.

xxx

Some PFRS specify circumstances when an entity recognized particular items outside profit or loss in the current period. PAS 8 specifies two such circumstances xxx. Other PFRS require or permit components of other comprehensive income that meet the Framework's definition of income or expense to be excluded from profit or loss."

10.2 On March 17, 2014 the SHFC-AKPF sold one of its acquired assets, Villa Aguila Subdivision, to a single proprietorship with office and postal address at Makati City. The transaction was recorded in JV No. 2014-136 with the following journal entry:

Accounts Receivable	2,165,000.00	
Installment Sales Receivable-Long Term	19,485,000.00	
Prior Year's Adjustment (Loss on Sale of Acquired Assets)	6,124,321.55	
Acquired Assets		27,774,321.55

10.3 Our review disclosed that the loss on sale of acquired assets was recorded as Prior Year's Adjustment contrary to Paragraphs 88 and 89 of PAS 1, resulting in understatement of SHFC-AKPF's net loss amounting to P6,124,321.55.

10.4 We recommended Management to further review the entry made and prepare necessary adjusting entry to correct the reported net loss as at December 31, 2014.

10.5 Management commented that they have already adjusted/reversed the loss on sale of acquired assets under JEV No. 2015-096 dated May 28, 2015.

10.6 As a rejoinder, Management adjusted the loss of P6,124,321.55 only in May 2015. Thus, the statement of income and expense still do not reflect said loss.

PART III -

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 22 audit recommendations (one in 2009, one in 2010, one in 2011, seven in 2012 and 12 in 2013) embodied in the CY 2013 AAR, six were fully implemented, 15 were partially implemented and one was not implemented.

Observations and Recommendations	Actions Taken
2013	
<p>1. The absence of policy and/or guidelines on the effective administration of collection/recovery strategies on the said accounts and the insufficiency of measures initiated/undertaken by Management to recover the assets in the total amount of P3.422 billion transferred from National Home Mortgage Finance Corporation (NHMFC) in 2005 expose the Social Housing Finance Corporation (SHFC) to non-recovery of the corporate funds. Payments are not posted to the respective member beneficiaries (MBs) loan ledger rendering the balance of individual account inaccurate.</p> <p>Management, through the Accounting and Legal Departments, formulate policy and/or guidelines on the effective administration of collection/recovery strategies for past due and items in litigation accounts for approval of the Board and accelerate the immediate implementation of the System to determine the actual outstanding principal balance based on the member beneficiaries (MBs) loan ledgers.</p>	<p>Partially implemented.</p> <p>1. SHFC entirely reiterated the actions undertaken as reflected in the submitted Status of Implementation of Prior Years' Audit Recommendation as of December 31, 2013:</p> <p>a. The Legal Department regularly sends demand letters, as requested by and through AMD and ROD, to delinquent MBs to avail of the 1 year updating scheme. Status of which is in full implementation.</p> <p>b. The Legal Department already endorsed to the VP for Legal the draft of the guidelines for foreclosure. Status of which is still subject to the approval of the VP for Legal.</p> <p>2. In addition, SHFC would like to emphasize that though classified as past due/delinquent accounts, the accounting has accounted payments from these accounts amounting to P488.56 million from the time of transfer up to end of CY2013 as evidenced by the attached data extracted from the existing CMP database.</p> <p>3. Due to the deficiencies and limitations noted in the existing Collection System and in order not to complicate the impending reconciliation of accounts, our accounting opted to just use <i>Loan Installment Receivable-Current</i> (LIR-Current) account for all applied payments regardless of its</p>

Observations and Recommendations	Actions Taken
	<p>classification hence, the evident non-movement of Past Due accounts balance despite recorded recoveries.</p> <p>4. The accounting will use appropriate accounts in the adjusting entry to record application of payments once the new collection/ledgering system is fully implemented which will also be the starting point in the one-time reconciliation of CMP-related GL-SL balances.</p> <p>5. St. Hannibal accounts system referred to in the audit memo is actually a CMP project used in pilot testing the "Collection/Ledgering" system that our Information Systems Department (ISD) has developed (<i>fine-tuning phase</i>) which is part of the Information System Strategic Plan's (ISSP) implementation. This is the system that we anticipate to be fully operationalized so that the accounting may already start the reconciliation activity.</p>
<p>2. The variance of P999.70 million between the balances of Assets held in Trust- NHMFC and Trust liabilities – NHMFC casts doubt on the reliability of the account balances and contrary to Section 111 of PD 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting.</p> <p>Management require the Accounting Department to review and reconcile the difference of P999.70 million between the Assets held in trust – NHMFC and the Trust liabilities – NHMFC and to prepare the necessary adjusting entries to correct the variance noted.</p>	<p>Partially implemented.</p> <p>a. A variance of P999,696,822 noted between the balances of Asset Held in Trust-NHMFC and the Trust Liabilities-NHMFC is basically the "Cash" element as this is presented separately in the financial statements.</p> <p>b. The Accounting already began working on the <u>cash</u> to show that the variance is indeed coming from this account, though this is going to be strenuous and will surely take time for reason that our cash accounts are muddled.</p>
	<p>c. SHFC also recognize that there might have some missing accounting activities in so far as recording of trust transactions are concerned or probably there is a</p>

Observations and Recommendations	Actions Taken
<p>3. 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.</p>	<p>need to dispense with the current practice as this may not be the proper accounting treatment.</p> <p>d. For this reason, SHFC humbly suggested COA Audit Team to look into this matter and possibly discuss jointly with NHMFC and SHFC representatives to come up with a recommendation on the proper booking of trust transactions in order to conform to the trust agreement.</p>
<p>Require the Accreditation Department to exercise due care in the evaluation of eligibility requirements of applicant and in the processing of the CMP loan applications to ensure attainment of the objective of the Program, and compliance with its implementing rules and regulation;</p>	<p>Partially implemented.</p> <p>This will be directed to the Internal Audit Department (IAD) for the investigation including the reason for the double availment. If the reasons are justifiable, appropriate policy reforms will be elevated to the Board. COA will also be informed of the results of the investigation.</p>
<p>Instruct the Information System Department, in close coordination with the Asset Management Department, to immediately design, develop and install an Inquiry or Screening Application Program;</p>	
<p>Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double CMP loans to member-beneficiaries. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and</p>	
<p>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.</p>	

Observations and Recommendations	Actions Taken
<p>4. Absence of supporting documents to substantiate the Guaranty deposits payable in the amount of P702,888 received from the NHMFC in 2005 casts doubt on the accuracy and validity of the account balance.</p>	<p>Partially implemented.</p> <p>a. Partial adjustment had already been made.</p> <p>b. The unaccounted balance was part of the entry made on the account per JEV No. 2006-0078 dated June 30, 2006 for the collections remitted by NHMFC on June 22, 2006 without supporting documents.</p> <p>c. FCD will coordinate with NHMFC on the lacking documents to support the schedule and prepare the necessary adjustment.</p>
<p>Required the Accounting Department to submit the documents that will substantiate the Guaranty deposits payable of P702,888.36 and prepare adjusting entries, where necessary.</p>	
<p>5. Total variance of P222,103 between the Inter-agency payable accounts and the amount remitted in 2014 casts doubt on the accuracy and reliability of the account as at December 31, 2013 and contrary to PFRS Conceptual Framework.</p>	<p>Partially Implemented.</p>
<p>Exert extra effort to reconcile the accounts to identify the causes of the variance and prepare adjusting entries, if necessary;</p>	<p>Adjustment had been made. Unaccounted amount of P30,160.30 is still for reconciliation.</p>
<p>Regularly monitor the amount withheld and the remittances to avoid discrepancy; and</p>	
<p>In case of failure to remit within the prescribed period, require the persons responsible/accountable to pay the corresponding interest and penalties required by the concerned government agency/corporations.</p>	
<p>6. SHFC did not implement the gender and development related activities, notwithstanding the P3.8 million budget allocation for CY 2013, as required by Executive Order No. 273 and the DBM, NEDA and NCRFW Joint Circular No. 2004-1 dated April 5, 2004, as amended by PCW-NEDA-DBM Joint Circular No. 2012-01.</p>	<p>Not implemented.</p> <p>For CY 2015, SHFC will revisit Office Order on the GAD, office Order No. 11-0275. SHFC note that by its composition, the Committee members have more sensitive responsibilities that overwhelm their GAD concerns.</p>
<p>Comply strictly with the requirements of Executive Order No. 273 and PCW-NEDA-DBM Joint Circular No. 2012-01 in the formulation</p>	<p>SHFC is also proposing to delegate the responsibility for the identification of</p>

Observations and Recommendations	Actions Taken
and submission of GAD Plan, Program and Budget; and	activities to promote GAD to our Human Resources Department (HRD) for our internal personnel, as well as the Community Support Unit (CSU) for our partners. Proposed activities will be discussed with the Committee that was created.
Incorporate in the Annual Work Plan and target the GAD related activities to promote the gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment.	
7. Acquired assets account still included the 31 Transfer Certificate of Titles (TCTs) valued at P27.598 million already covered by the Comprehensive Agrarian Reform Program (CARP). A total of 1,409 TCTs of the acquired assets AKPF valued at P89.653 million are not yet transferred/registered in its name notwithstanding the lapse of one to 14 years resulting in the delay on the disposition of the properties and non-recovery of the loan exposures.	Partially implemented. Transfer/registration of the 1,409 titles was not implemented due to high cost that will be incurred in the name of AKPF/SHFC, disposition of acquired assets were effective and advantageous to the Corporation since there will be registration fees.
Prioritize the transfer/registration of the 1,409 TCTs in the name AKPF to facilitate disposal in the event of sale because the properties cannot be disposed unless the TCTs are under the name of AKPF-SHFC; and	SHFC would ask the previous owners of the acquired project to just issue a Special Power of Attorney in favor of SHFC which was honored by the Registry of Deed and BIR.
Require the Legal Department to follow up status report on the appeal filed dated 21 January 2014 on the reconsideration of the 31 TCTs covered by CARP.	Buyers of these properties agreed to shoulder all the contingent expenses that include transfer/registration fees. As to the status on the appeal filed on the reconsideration of the 31 TCTs covered by CARP, as per Legal Department the Appeals is still pending before the Office of the DAR.
8. The 25 per cent provision for the Allowance for doubtful accounts (ADA) as at December 31, 2013 is not adequate and has no approval, thus, casting doubt on the accuracy and reliability of the account and contrary to the generally accepted accounting principles.	Partially implemented. The computation of 25 per cent Allowance for Doubtful account is recommended by COA as per AOM 2007-AKPF-10 dated March 9, 2007.
Revisit the existing policy/basis in computing the provision for the Allowance for doubtful account to provide an adequate allowance on the Past due – receivable and Items in litigation accounts and submit the same for approval of the Board.	However, since significant period has elapsed since then, SHFC shall revisit their provisioning rate as recommended by COA, using as basis among others the realized values of the AKPF foreclosed/dacioned accounts that were successfully sold.

Observations and Recommendations	Actions Taken
2012	
<p>9. The absence of restructured loans module resulted in the continuous build-up of Undistributed Collections and non-posting of loan amortization payments to the CMP member-beneficiary subsidiary ledger.</p>	
<p>The Information Systems and Finance and Controllershship Departments undertake the following set of activities to ensure that the developed program procedures on restructured loan processing would reduce the amount of "Undistributed Collections" and the proper posting and recording of loan amortization payments to the member-beneficiaries subsidiary ledger:</p>	
<p>I. Information Systems Department</p>	<p>Partially implemented.</p>
<p>a. Build and review implementation plans; b. Define and review a test strategy (entry and exit criteria) and an operational test plan methodology; c. Build and maintain a business and technical requirements repository and test cases for accredited systems; d. Perform system conversion and integration tests on test environment; e. Establish a test methodology that ensures sufficient acceptance testing prior to go-live.</p>	<p>SHFC has prepared and submitted the ISSP to the National Computer Center.</p> <p>Restructured accounts have been reversed due to completion of the billing and posting module which became operational last November 2014.</p>
<p>II. Finance and Controllershship Department</p>	
<p>f. Lead the systems evaluation results and approval of the Users Acceptance Test in coordination with the Internal Audit Department; g. Conduct final acceptance tests; and h. Recommend promotion to production based on agreed-upon accreditation criteria.</p>	
<p>10. A total of 2,453 member-beneficiaries and 3,357 substitute member-beneficiaries were granted with double or multiple CMP loans in an aggregate amount of P94.413 million and undetermined amount for substitute member-beneficiaries, respectively, as at December 31, 2012 due to absence of an Inquiry or Screening</p>	

Observations and Recommendations	Actions Taken
<p>Application Program on the eligibility requirements/qualifications of CMP member-beneficiaries and detect the substitute members who have already been recipients of CMP loan from SHFC.</p>	Partially implemented.
<p>The Information System Department in close coordination with the Asset Management Department and Accreditation Department to immediately design, develop and install an Inquiry or Screening Application Program for the evaluation of CA member-beneficiaries eligibility requirements prior to the grant of CMP loan to Member-Beneficiaries and Substituted Member-Beneficiaries;</p>	<p>a. Individually check the names of the borrowers of loans for take-out against the Masterlist of Borrowers of all CMP taken-out projects since 2007;</p>
<p>Impose sanctions under Section 15.3 of SHFC Corporate Circular No. 11-017 series of 2011</p>	<p>b. Coordinate with the ISD to widen and develop a fast and easy process for the cross-checking and validation of CMP borrowers against beneficiaries of all government housing programs using the database developed by HUDCC;</p>
<p>Exercise due care in the processing of CMP loan applications and evaluation of the eligibility requirements of applicants to ensure the attainment of the objective of the program of providing financial support to the homeless and underprivileged citizens only; and</p>	<p>c. Remind the applicant CMP-MBs of their responsibility and accountability when they certify upon application that their projects are compliant with CMP guidelines; and</p>
<p>Conduct an investigation to determine the officers and employees responsible/liable for the grant of double or multiple CMP loans to individual member-beneficiaries. In case they are found negligent in the performance of their duties then appropriate administrative sanctions has to be imposed upon them.</p>	<p>For substitute members, PID/ISD is developing a program to screen out candidate substitute for possible double availment. A new Circular requiring additional requirement is drafted.</p>
<p>11. The corporation does not have policies and procedures on Business Disaster and Recovery Plan which could result in major information technology service interruption on key business functions and processes.</p>	Partially implemented.
<p>Formulate policies and procedures for Business Disaster and Recovery Plan and provide an off-site backup for storing the data and computer programs to minimize the probability of information technology service interruption.</p>	<p>SHFC has prepared and submitted the ISSP to the National Computer Center.</p>
<p>12. The absence of validation procedures between the Abstract of Collections prepared by the Community Associations and the actual</p>	

Observations and Recommendations	Actions Taken
money on hand prior to receipt of collections resulted in discrepancies and delay in the posting of collections to the member-beneficiaries subsidiary ledgers.	
Transfer the input data process or data encoding of the CA's Abstract of Collections (AOCs) from the Finance and Controllershship Department to AMDs to ensure the data accuracy, completeness and validity of the Abstract of Collections and prevent erroneous or invalid AOCs. Provide a module at the regional/satellite offices with sufficient control features for automatic or real-time posting of collections to the member-subsidiary ledgers.	<p>Partially implemented.</p> <p>a. Validation procedure is already being done by the in-house collection units both in the main and regional offices. While LBP, being the accredited collecting arm, was reminded already to comply with the collection agreement.</p> <p>b. Part of the decentralization plan is to decentralize accounting and encoding functions hence the automatic posting of payments to MBs subsidiary/loan ledgers.</p> <p>c. In the interim and while waiting for the operationalization of the new collection system, the encoding function will remain with FCD.</p>

Abot-Kaya Pabahay Fund

2013

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

Submit status of the actions taken by Management for the recovery of the property;

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

Partially implemented.

Sent letter dated March 30, 2015 to the Provincial Legal Officer of Balanga, Bataan to follow-up the status or update regarding the negotiation to repurchase the property.

The Legal Department of the Office of the Governor is now scheduling the

Observations and Recommendations	Actions Taken
Require all the persons liable to pay for the amount of loan plus interest and penalties due thereon and all the expenses incurred for the recovery of the subject property.	possible inclusion on the agenda of Sangguniang Panglungsod.
<u>2012</u>	
14. Abot-Kaya Pabahay Fund developmental loans totaling P97.719 million remained non-performing from 2 years to 18 years but no foreclosure action was initiated or more aggressive collection measures adopted that could affect the recovery of corporate exposure.	
Initiate foreclosure action or adopt more aggressive collection measures, if warranted, on long outstanding receivables in order to quickly recover corporate exposure. Also, establish guidelines on the disposition of non-performing assets to prevent accumulation thereof.	Partially implemented. The SHFC budget for CY 2014 included P6.8 million for AKPF's foreclosure activities. Petition for extra judicial foreclosures of four accounts valued at P25.2 million shall be filed during the first quarter of this year. Subsequently, these accounts shall be published for bidding.
<u>2011</u>	
15. Ocular inspection on selected CMP take-out projects revealed non-compliance by the borrowers and community associations on significant provisions of the guidelines for on-site land acquisition.	
Exercise due care in the processing of CMP loan applications and evaluation of the eligibility requirements of applicants to ensure the attainment of the objective of the program of providing financial support to the homeless and underprivileged citizens only.	Partially implemented. Management is continuously instructing AMD, Remedial Unit and Regional Offices to include in the on-site collection campaigns validation of actual occupancy of units in the community. If sub-lease arrangements are discovered, such will be a ground for termination of the LPA to be initiated by SHFC itself.
Require the member-beneficiaries of the CA to terminate the sub-lease agreements to conform to the terms and conditions of the lease purchase agreement entered into by the CA and the member beneficiaries.	AMD endorses to Task Force on Remedial Management of Accounts

PART IV -
ABOT KAYA PABAHAY FUND

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current assets			
Cash	3	288,883,562	280,132,344
Receivables	4	17,069,045	11,398,354
		305,952,607	291,530,698
Non-current assets			
Long-term receivables, net	5	121,470,532	146,436,812
Acquired assets	6	139,729,325	117,250,544
Property and equipment, net		37,940	43,467
		261,237,797	263,730,823
TOTAL ASSETS		567,190,404	555,261,521
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	7	10,850,164	9,574,163
Other current liabilities	8	91,626	58,214
TOTAL LIABILITIES		10,941,790	9,632,377
Deferred income on sale of acquired assets		2,469,872	-
FUND BALANCE		553,778,742	545,629,144
TOTAL LIABILITIES AND FUND BALANCE		567,190,404	555,261,521

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

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENT OF INCOME AND EXPENSES
For the year ended December 31, 2014
(In Philippine Peso)

	2014	2013
INCOME		
Interest income - special savings	3,396,028	6,312,794
Interest income - sale of acquired assets	2,863,465	1,883,400
Interest income - developmental loan	81,673	52,162
Interest income - regular savings	8,046	9,241
Other income - penalty	13,612	8,694
Other income - overpayment	-	1
Miscellaneous income	129,993	4,082
	6,492,818	8,270,372
ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and wages	4,482,263	4,395,971
Taxes, licenses and fees	593,571	1,281,423
Other personnel benefits	350,000	284,314
Bad debts expense	310,448	1,500,000
Trustee fee	273,560	262,314
Rent expenses	233,325	233,325
Travelling expenses	190,110	26,642
Supplies and materials expenses	189,857	76,590
Communication expenses	118,640	54,203
Utility expenses	115,659	112,373
Professional services	112,456	112,456
Business development expense	105,000	134,546
Printing/binding/reproduction	28,662	26,012
Depreciation	9,027	8,626
Fidelity bond premium	7,500	7,500
Other personnel services	3,906	1,250
Postage and deliveries	-	220
Miscellaneous expense	14,076	14,743
	7,138,059	8,532,508
INCOME BEFORE TAX	(645,241)	(262,136)
INCOME TAXES		
Final income tax - special savings	679,206	1,262,559
Final income tax - regular savings	1,609	1,848
	680,815	1,264,407
NET INCOME (LOSS)	(1,326,056)	(1,526,543)

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

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENT OF CHANGES IN FUND BALANCE
 For the year ended December 31, 2014
 (In Philippine Peso)

	Note	Total
Balance at December 31, 2012		547,761,311
Net loss		(1,526,543)
Prior period adjustments		(605,624)
Balance at December 31, 2013		545,629,144
Balance at December 31, 2013		545,629,144
Net loss		(1,326,056)
Prior period adjustments	9	9,475,654
Balance at December 31, 2014		553,778,742

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

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Installment sales receivable, current		9,887,068	6,184,049
Interest income received		6,100,483	6,613,586
Accounts receivable		2,265,500	5,280,000
Installment sales receivable, longterm		207,078	576,667
Miscellaneous income		95,285	4,082
Other income		-	8,696
Refund of cash advance		-	10,241
Payment of personal services		(3,352,578)	(5,724,435)
Payment of operating expenses		(1,136,533)	(1,334,254)
Payment of taxes		(647,403)	(1,314,426)
Payment of trustee fee		(273,560)	(262,314)
Payment of realty tax		(67,217)	-
Payment of insurance		(7,500)	-
Net cash provided by operating activities		13,070,623	10,041,892
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalized cost		(4,315,905)	-
Acquisition of Property, plant and equipment		(3,500)	-
Proceeds from sale of acquired assets		-	1,883,400
Net cash provided by investing activities		(4,319,405)	1,883,400
NET CHANGE IN CASH AND CASH EQUIVALENTS		8,751,218	11,925,292
CASH AND CASH EQUIVALENTS BEGINNING		280,132,344	268,207,052
CASH AND CASH EQUIVALENTS, END	3	288,883,562	280,132,344

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

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

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund uses the commercial accounting system wherein the recording of financial transactions is centralized in the Finance Department. The 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 Property and equipment

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

The straight line method of depreciation is adopted with a residual value equivalent to ten per cent of the total cost recognized. Straight line depreciation results in constant charge over the useful life of the asset. This method is applied consistently from period to period. Depreciation of an asset begins when it is available for use.

2.2 Income and expense recognition

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

3. CASH AND CASH EQUIVALENTS

This account consists of:

	2014	2013
Cash in bank – LBP 1	373,556	643,973
– LBP 2	1,509,306	1,487,671
Investment in BSP – Special Deposit Account (SDA)	287,000,700	278,000,700
	288,883,562	280,132,344

4. RECEIVABLES

This account consists of the following:

	2014	2013
Installment sales receivable – current	15,211,417	11,107,284
Interest receivable – BSP-SDA	458,128	291,070
Accounts receivable	1,399,500	-
	17,069,045	11,398,354

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

5. LONG – TERM RECEIVABLES

This account consists of the following:

	2014	2013
Past due receivables–developmental loans ^{5.1/}	45,381,801	103,719,133
Items in litigation – developmental loans ^{5.2/}	52,511,616	52,511,616
	97,893,417	156,230,749
Less : Allowance for doubtful accounts	24,473,354	39,057,687
	73,420,063	117,173,062
Developmental loan receivables ^{5.3/}	-	-
Installment sales receivable, long term	48,050,469	29,263,750
	121,470,532	146,436,812

5.1 Past due receivables-developmental loans

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

5.2 Items in litigation-developmental loans

This account represents developmental loan granted to developers which were endorsed to Legal Dept. for legal action. JC Rivera Engineering (Rivera Heights Subdivision) was foreclosed by LGU Bataan on November 29, 2007 due to non-payment

of realty taxes. This account was endorsed to Legal Department on June 24, 2007 due to the unreturned 282 titles.

The Villa Alejandrea Subdivision account was endorsed to Legal Department due to missing owner's copy of title no.T-274150 (in the name of SPS Dante R. Cabauatan) which was mortgaged as collateral for the project loan. However, the e-copy of said title (T-274150) is in the possession of AKPF. The developer/borrower also submitted another property to SHFC covered by TCT No. 284306 on September 30, 2005 with an area of 97,545 square meters as additional collateral for the loan. The title is under verification by AKPF.

Based on the joint site inspection/verification report dated February 11, 2005 undertaken by NHMFC, the property referred to as Villa Alejandrea Subdivision is not the same property posted as collateral to the development loan granted by NHMFC to G-Carmel Enterprises & Development Company for the development of the project.

6. ACQUIRED ASSETS

This account pertains to property acquired from settlement of accounts through "dacion en pago" for three (3) projects namely: Juel Country Homes, UPLB-ONAPUP Village and Olympia Village and seven (7) foreclosed projects namely: La Vista Cruz Subdivision, Villa Haniya Subdivision, Evergreen Subdivision, Cristina Homes I, Cristina Homes 2, Villa Rita Subdivision and Catbalogan City Homes.

On the appeal filed for the reconsideration of the 31 TCT's of La Vista Cruz Subdivision covered by CARP, the appeal is still pending before the DAR per Legal Department.

7. INTER-AGENCY PAYABLE

This account consists of the following:

	2014	2013
Due to SHFC ^{7.1/}	3,318,782	1,863,941
Due to LGUs ^{7.2/}	7,531,382	7,710,222
	10,850,164	9,574,163

7.1 Due to SHFC

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

7.2 Due to LGUs

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

8. OTHER CURRENT LIABILITIES

This account consists of tax withheld on interest income earned on investment in special savings deposit in the amount of P91,626 and P58,214 for CY 2014 and 2013 respectively.

8.1 Gross receipts tax payable

Gross receipt tax payable represents taxes withheld from Interest Income and Other Income – Penalty on developmental loans repayments.

8.2 Accrued income tax payable

Accrued Income tax payable represents taxes withheld from Interest Income on investment in Special Savings Deposit.

9. PRIOR PERIOD ADJUSTMENTS

This account represents reclassification of entry made on unpaid realty taxes and to close allowance for doubtful accounts – IL already classified as Acquired Assets.

DATE	DESCRIPTION	AMOUNT
03/31/2014	To reverse entry made on unpaid real property taxes (Villa Felipe Hieghts Subdivision)	(259,913.87)
06/09/2014	Loss on Sale of Acquired Assets (Villa Aguila Subdivision)	6,124,321.55
06/30/2014	To close allowance for Doubtful Accounts-IL already classified as Acquired Assets	(14,894,781.19)
09/30/2014	To reverse entry made on realty taxes (Villa Aguila Subdivision)	(445,280.40)
		(9,475,653.91)