



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

ANNUAL AUDIT REPORT

on the

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

For the Years Ended December 31, 2015 and 2014



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

Corporate Government Sector
Cluster 2 – Social Security Services and Housing

June 23, 2016

THE BOARD OF DIRECTORS

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

SHFC
OFFICE OF THE BOARD SECRETARY
RECEIVED

BY: *[Signature]*
DATE: 06-27-2016 @ 2:00 pm

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Housing Finance Corporation (SHFC) and the Community Mortgage Program (CMP) and Amortization Support and Developmental Financing Components of the Abot Kaya Pabahay Fund (AKPF) for the years ended December 31, 2015 and 2014.

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

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the SHFC and AKPF because of the following:

The undistributed collections (UC) in the total amount of P372.63 million and P344.15 million in CYs 2015 and 2014, respectively, remained unposted/unapplied to Loan Installment Receivable (LIR) and other affected accounts due to the absence of policy on the proper and timely allocation of UC to the appropriate borrowers' accounts, thus, overstating the LIR account and understating the affected accounts as at December 31, 2015 by the same amounts, thereby adversely affecting the fair presentation of the account balances in the financial statements.

Negative/abnormal balances under the Guaranty Deposit Payable account totalling to P2.061 million understated the balance of the account as at December 31, 2015, which is contrary to Section III of Corporate Circular Community Mortgage Program (CMP) No. 003 dated September 1, 2006 and Section 15 of Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements.

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

For the Undistributed Collections

1. Conduct continuous reconciliation of accounts to minimize the accumulation of UC;
2. Adjust the LIR and the affected accounts, accordingly;

For the Negative/abnormal balances under the Guaranty Deposit Payable account

3. Review/determine the causes of the negative/abnormal balances, take appropriate action and adjust the accounts accordingly;
4. Require the officers/employees in-charge to monitor/impose/validate strictly the provisions of Corporate Circular CMP No. 003;
5. Take appropriate action against officials/employees who failed to implement the provisions of said Corporate Circular; and
6. Require the CAs to submit a Time-bound Collection Action Plan/Strategies with pre-determined timelines in case the Guaranty/Cash Deposit falls below the required 80 percent CER to bring the balance of their guaranty deposit to two or six-month level, whichever is appropriate.

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

A. SHFC

1. The physical balance of inventory accounts differs by P2.025 million against the general ledger (GL) balance, contrary to the provisions of Section 58 of Presidential Decree No. 1445 and Section 15 of PAS 1 – Presentation of Financial Statements, thus, casting doubt on the accuracy and reliability of the account balance as at December 31, 2015.

1.1 We recommended that Management:

- a. Reconcile the discrepancy between the GL balance and the results of the physical inventory count and prepare adjusting entries, if necessary; and
- b. Prepare the monthly Report of Accountability for Accountable Forms to facilitate reconciliation with the balance presented in the financial statements.

2. The Grocery Subsidy benefit was not included in the total taxable income received by SHFC employees and officers contrary to Section 2.78.1 (B)(11) of the Bureau of Internal Revenue (BIR) Revenue Regulations No. 2-98 dated April 17, 1998, as amended, resulting in the total withholding tax deficiency on compensation amounting to P3.072 million for taxable year 2015 and BIR compromise penalty and interest, both of an undetermined amount, to be paid by the persons responsible for failure to withhold and remit said amount to the BIR.

2.1 We recommended that Management:

- a. Adjust the correct tax due and collect immediately the corresponding tax deficiency from the concerned SHFC officers and employees; and
- b. Request a BIR Officer from the Revenue District with jurisdiction over SHFC to compute for the compromise penalty and interest for the unremitted amount and charge the same against the persons responsible for the failure to withhold and remit the said amount to the BIR.

B. AKPF

1. The proceeds of the developmental loan granted for the development of Villa Alejandra Subdivision totalling to P30.50 million for the benefit of project beneficiaries was not properly implemented contrary to Section 4.02(a) of the Memorandum of Agreement (MOA) between the NHMFC and its proponent.

1.1 We recommended that Management:

a. Conduct further investigation and inquiry on the report dated February 11, 2005 submitted by the Joint Inspection Team; and

b. Determine the person/s liable for the deficiencies noted and file the appropriate administrative and criminal action due to their failure to perform their function, where warranted.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on March 31, 2016 on SHFC and AKPF are discussed in detail in Part II of the report.

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

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

Very truly yours,

Commission on Audit

By:


MARY S. ADELINO
Director IV

Copy furnished:

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

EXECUTIVE SUMMARY

INTRODUCTION

The Social Housing Finance Corporation (SHFC) was organized and established on June 21, 2005 by virtue of Executive Order (EO) No. 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

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

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

The governing board of SHFC, which exercises its corporate powers and determines its policies, is composed of the following: (a) the Chairman of 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 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 and 15 Department Managers. The personnel complement for current year 2015 is 342, with 209 regular, eight casual probationary and 125 agency-hired employees. To date, the SHFC has 10 Satellite/Regional Offices located in Isabela, Naga City, Puerto Princesa City in Palawan, Bacolod City, Iloilo City, Cebu City, Davao City, General Santos City, Cagayan de Oro City and Zamboanga City.

The DBM-approved Corporate Operating Budget of the SHFC for CYs 2015 and 2014 amounted to P5.351 billion and P5.906 billion, respectively, which were utilized as follows:

Particulars	2015		2014	
	Budget	Utilization (In Thousand Pesos)	Budget	Utilization
Personal services	198,881	175,335	187,785	167,815
Maintenance and other operating expenses	193,692	228,385	494,358	183,174
Capital outlay	4,958,736	2,397,234	5,223,862	16,309
	5,351,309	2,800,954	5,906,005	367,298

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

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of the presentation of the financial statements as of December 31, 2015 and 2014 due to the undistributed collections (UC) in the total amount of P372.63 million and P344.15 million in CYs 2015 and 2014, respectively, that remained unposted/unapplied to Loan Installment Receivable (LIR) and other affected accounts thereby, overstating the LIR account and understating the affected accounts as at December 31, 2015 by the same amounts; and on negative/abnormal balances under the Guaranty Deposit Payable account totalling to P2.061 million which understated the balance of the account as at December 31, 2015. Both these conditions adversely affected the fair presentation of the said accounts in the financial statements.

For the above observations, we recommended that Management:

For the Undistributed Collections

1. Conduct continuous reconciliation of accounts to minimize the accumulation of UC;
2. Adjust the LIR and the affected accounts, accordingly;

For the negative/abnormal balances under the Guaranty Deposit Payable account

3. Review/determine the causes of the negative/abnormal balances, take appropriate action and adjust the accounts accordingly;
4. Require the officers/employees in-charge to monitor/impose/validate strictly the provisions of Corporate Circular CMP No. 003;
5. Take appropriate action against officials/employees who failed to implement the provisions of said Corporate Circular; and
6. Require the CAs to submit a Time-bound Collection Action Plan/Strategies with pre-determined timelines in case the Guaranty/Cash Deposit falls below the required 80 percent CER to bring the balance of their guaranty deposit to two or six-month level, whichever is appropriate.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. SHFC

1. The physical balance of inventory accounts differs by P2.025 million against the general ledger (GL) balance, contrary to the provisions of Section 58 of Presidential Decree No. 1445 and Section 15 of PAS 1 – Presentation of Financial Statements, thus, casting doubt on the accuracy and reliability of the account balance as at December 31, 2015.

1.1 We recommended that Management:

- a. Reconcile the discrepancy between the GL balance and the results of the physical inventory count and prepare adjusting entries, if necessary; and
- b. Prepare the monthly Report of Accountability for Accountable Forms to facilitate reconciliation with the balance presented in the financial statements.

2. The Grocery Subsidy benefit was not included in the total taxable income received by SHFC employees and officers contrary to Section 2.78.1 (B)(11) of the Bureau of Internal Revenue (BIR) Revenue Regulations No. 2-98 dated April 17, 1998, as amended, resulting in the total withholding tax (WT) deficiency on compensation amounting to P3.072 million for taxable year 2015 and BIR compromise penalty and interest, both of an undetermined amount, to be paid by the persons responsible for failure to withhold and remit said amount to the BIR.

2.1 We recommended that Management:

- a. Adjust the WT due to the correct amount and collect immediately the corresponding WT deficiency from the concerned SHFC officers and employees; and
- b. Request a BIR Officer from the Revenue District with jurisdiction over SHFC to compute for the compromise penalty and interest for the unremitted amount and charge the same against the persons responsible for the failure to withhold and remit the said amount to the BIR.

B. AKPF

3. The proceeds of the developmental loan granted for the development of Villa Alejandra Subdivision totalling to P30.50 million for the benefit of project beneficiaries was not properly implemented contrary to Section 4.02(a) of the Memorandum of Agreement (MOA) between the NHMFC and its proponent.

4.1 We recommended that Management:

- a. Conduct further investigation and inquiry on the report dated February 11, 2005 submitted by the Joint Inspection Team; and
- b. Determine the person/s liable for the deficiencies noted and file the appropriate administrative and criminal action due to their failure to perform their function, where warranted.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 46 audit recommendations embodied in prior years' Annual Audit Report, 12 were fully implemented, 29 were partially implemented and five were 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, which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of income and expenses, statements of changes in equity and statements of cash flows for the years 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 in the Philippines, 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 audits. We conducted our audits in accordance with Philippine Public Sector 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.

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 qualified audit opinion.

Bases for Qualified Opinion

The undistributed collections (UC) in the total amount of P372.63 million and P344.15 million in CYs 2015 and 2014, respectively, remained unposted/unapplied to Loan Installment Receivable (LIR) and other affected accounts due to the absence of policy on the proper and timely allocation of UC to the appropriate borrowers' accounts, thus, the LIR account and the other affected accounts as at December 31, 2015 were overstated and understated, respectively by the same amounts, thereby adversely affecting the fair presentation of the account balances in the financial statements.

Further, negative/abnormal balances under the Guaranty Deposit Payable account totalling to P2.061 million understated the balance of the account as at December 31, 2015, which is contrary to Section III of Corporate Circular Community Mortgage Program No. 003 dated September 1, 2006 and Section 15 of Philippine Accounting Standard 1 – Presentation of Financial Statements.

Qualified 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 SHFC as at December 31, 2015 and 2014, and of its financial performance and its cash flows for the years then ended in accordance with generally accepted accounting principles in the Philippines.

Emphasis of Matter

We draw attention to Note 27 to financial statements of the SHFC on the labor case filed with the Office of the Panel of Voluntary Arbitrator (OPVA), Department of Labor and Employment docketed as Case No. AC-973-RCMB-NCR-LVA-024-01-19-2014 entitled Social Housing Employees Association, Inc. (SOHEAI) versus SHFC, regarding the discontinued benefits under the Collective Bargaining Agreement and the State of the Nation Address Bonus with an estimated amount of P70.228 million. The OPVA has already issued a Notice of Decision on May 12, 2015 in favor of SOHEAI as well as Writ of Execution on September 21, 2015 directing the garnishment of the amount from the SHFC funds.

We also draw attention to Note 5.2 to financial statements of the Abot-Kaya Pabahay Fund which describes the developmental loans granted to the developers which were endorsed to the Legal Department for legal action. Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 25 to the financial statements is presented for purposes of filing with

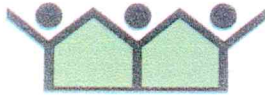
the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Management of SHFC. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, except for the effects of the matter 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



JULIA E. MORENO
Supervising Auditor

April 7, 2016



SOCIAL HOUSING FINANCE CORPORATION


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2015 and December 31, 2014 in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

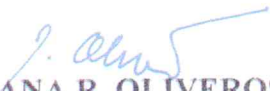
In this regard, management maintains a systems of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the President, the Senate and the Congress of the Philippines and other stakeholders.

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



ATTY. CHITO M. CRUZ
Chairman of the Board



MA. ANA R. OLIVEROS
President



DANTE M. ANABE
Manager, Finance & Controllershship Dept.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
ASSETS			
Current assets			
Cash on hand and in banks	3	3,703,881,358	3,521,101,421
Receivables	4	78,389,772	68,107,057
Inventories	5	4,262,836	3,488,247
Prepayments	6	3,016,287	2,438,809
Guaranty deposits	7	1,640,121	777,774
Advances to contractors	8	215,095,744	63,912,624
		4,006,286,118	3,659,825,932
Assets held in trust			
National Home Mortgage Finance Corporation	9	10,913,591,215	10,395,562,968
Abot-Kaya Pabahay Fund	9	553,055,436	553,778,742
		11,466,646,651	10,949,341,710
Non-current assets			
Long-term loan receivables	10	732,661,102	147,121,185
Property and equipment, net	11	172,708,569	178,985,941
Intangible assets, net	12	1,801,080	1,169,504
Other resources	13	1,143,909,413	382,557,071
		2,051,080,164	709,833,701
TOTAL ASSETS		17,524,012,933	15,319,001,343
LIABILITIES AND EQUITY			
Current liabilities			
Payables	14	1,489,679,779	1,238,875,776
Inter-agency payables	15	32,160,256	44,014,116
Other current liabilities	16	1,032,859,828	859,227,999
		2,554,699,863	2,142,117,891
Long-term liabilities			
Other long-term liabilities	17	102,399,462	114,457,960
Trust liabilities			
National Home Mortgage Finance Corporation	18	12,092,938,895	11,342,966,311
Abot-Kaya Pabahay Fund	19	553,055,436	553,778,742
		12,645,994,331	11,896,745,053
TOTAL LIABILITIES		15,303,093,656	14,153,320,904
EQUITY		2,220,919,277	1,165,680,439
TOTAL LIABILITIES AND EQUITY		17,524,012,933	15,319,001,343

The Notes on Pages 9 to 25 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF INCOME AND EXPENSES
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
INCOME			
Interest income on loans		296,579,794	306,028,822
Interest on savings deposits		63,663,955	37,687,442
Service fees		10,870,040	10,597,698
Miscellaneous income		201,801,900	151,363,421
		572,915,689	505,677,383
EXPENSES			
Personal services			
Salaries and wages		82,862,722	80,943,674
Other personnel benefits		14,306,106	14,714,764
Other compensation		61,680,276	56,049,583
Personnel benefit contribution		16,486,392	16,106,812
		175,335,496	167,814,833
Maintenance and other operating expenses			
Professional services		54,910,831	46,576,616
Origination and appraisal cost		31,877,470	26,500,548
Gender and development expenses		211,858	-
Taxes, insurance premiums and other fees		24,117,292	17,929,470
Depreciation	11	14,026,441	13,063,252
Amortization	12	784,329	884,281
Representation		4,528,145	7,790,646
Utility		6,805,366	7,122,903
Supplies and materials		6,604,457	6,981,169
Loan loss	2.6	5,154,022	3,013,882
Travelling		8,032,874	6,955,366
Rent		4,257,161	3,330,385
Building association contribution to organization		3,864,899	3,177,349
Communication		3,634,530	4,415,526
Confidential, extraordinary and miscellaneous		1,457,232	3,285,683
Subsidies and donations		28,000	48,000
Training and seminar		5,465,335	2,258,907
Repairs and maintenance		1,745,200	1,709,630
Advertising		1,985,231	1,205,646
Printing and binding		611,800	916,705
Subscription		167,334	127,063
Transportation and delivery		145,809	49,540
Miscellaneous expense		17,094,341	19,362,626
		197,509,957	176,705,193
Financial expenses			
Interest expenses		6,446,182	5,894,099
Bank charges		30,450	54,925
Financial expense - technical assistance		24,398,363	22,559
Other financial charges		-	497,323
		30,874,995	6,468,906
INCOME BEFORE INCOME TAX			
		169,195,241	154,688,451
Income tax expense		37,025,138	38,265,548
NET INCOME AFTER INCOME TAX			
		132,170,103	116,422,903
Subsidy from National Government	22	978,968,849	806,919,084
NET INCOME AND SUBSIDIES			
		1,111,138,952	923,341,987

The Notes on Pages 9 to 25 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	Paid in Capital 21	Retained Earnings 24	Total Equity
Balance at December 31, 2013, as restated		10,000,000	251,928,986	261,928,986
Dividends paid		-	(19,590,534)	(19,590,534)
Net income		-	923,341,987	923,341,987
Balance at December 31, 2014		10,000,000	1,155,680,439	1,165,680,439
Balance at December 31, 2014		10,000,000	1,155,680,439	1,165,680,439
Dividends paid		-	(59,718,343)	(59,718,343)
Net income		-	1,111,138,952	1,111,138,952
Prior period adjustments		-	3,818,229	3,818,229
Balance at December 31, 2015		10,000,000	2,210,919,277	2,220,919,277

The Notes on Pages 9 to 25 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Amortization collections from borrowers		857,460,730	791,332,066
Subsidy from National Government		978,968,849	806,919,084
Receipt of CMP Fund transferred from NHMFC		750,000,000	750,000,000
Receipts of interests from deposits		54,549,351	32,280,306
Service fee income		11,001,305	9,801,834
Insurance prepayments		5,472,642	4,470,997
Receipts of interest on receivable - investments		4,321,817	2,525,303
Other receipts		68,087,895	35,575,402
Miscellaneous income		1,394,728	1,325,080
Cash paid for loan take-outs, employees and suppliers		(1,769,684,526)	(1,244,922,491)
Net cash provided by operating activities		961,572,791	1,189,307,581
CASH FLOWS FROM INVESTING ACTIVITIES			
Leasehold Improvements		(2,537,861)	(189,883)
Purchase/construction of buildings/furnitures & fixtures		(157,608,571)	(57,731,264)
Purchase of office, IT and communication equipment		(6,097,082)	(4,088,251)
Purchase of transportation equipment		-	(3,574,000)
Payment of amortization of office building		(9,075,255)	(7,706,665)
Investment in land		(579,075,722)	(326,102,900)
Net cash used in investing activities		(754,394,491)	(399,392,963)
CASH FLOWS FROM FINANCING ACTIVITIES			
Financial expense for technical assistance		(24,398,363)	(22,559)
Net cash used in financing activities		(24,398,363)	(22,559)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		182,779,937	789,892,059
Cash and cash equivalents at beginning of year		3,521,101,421	2,731,209,362
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	3,703,881,358	3,521,101,421

The Notes on Pages 9 to 25 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 (EO) No. 272 was signed and approved by the President of the Republic of the Philippines authorizing the National Home Mortgage Finance Corporation (NHMFC) to organize and establish the Social Housing Finance Corporation (SHFC), as a wholly-owned subsidiary, in accordance with the Corporation Code and pertinent rules and regulations issued by the Securities and Exchange Commission (SEC). SHFC has been formally organized and established on June 21, 2005 with the issuance of the Certificate of Incorporation under SEC No. CS 200510702.

As a wholly-owned subsidiary of NHMFC, SHFC was created primarily to be the lead agency in undertaking social housing programs that will cater to the formal and informal sectors in the low-income bracket and in taking charge of the development and administration of the social housing program schemes, particularly the Community Mortgage Program (CMP) and the Amortization Support and Developmental Financing Programs of the Abot-Kaya Pabahay Fund (AKPF) as well as other social housing programs of the NHMFC, to allow the NHMFC to focus on its primary mandate of 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 it 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 CMP (LCMP) since July 2010. LCMP is a derivative of the CMP that would assist and empower the local government units (LGUs) in achieving their housing programs for the informal sector in their respective areas.

Also, in 2010, the President of the Philippines issued a directive, in line with the "Ten-Point Covenant with the Urban Poor," to ensure a safe and a flood resilient permanent housing solutions for informal settler families (ISFs) residing in the danger areas in the National Capital Region (NCR). Said directive falls squarely within the mandate of SHFC, thus, in furtherance of 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 preparation

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

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. In adherence with the NGAS, the provision for depreciation is computed on a straight-line basis where a residual value equivalent to 10 per cent of the cost is applied.

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

LIR – held in trust are carried at book value less provision for probable losses. These receivables are classified into current, restructured interest-bearing principal (IBP), restructured non-IBP, past due and items in litigation.

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 (BOD), in its Resolution No. 329, series of 2013, approved the "Adoption of the Policy on Loan Loss Provisioning, With Prescribed Rates, Reserve, Write-off and Accounting Thereof" which provides for the following loan loss provisioning rates:

Loan Classification	Loan Loss Rates
LIR – current	0.25%
LIR – restructured	0.25%
LIR – past due	
More than 3 months to 1 year	0.50%
More than 1 year to 3 years	0.75%
Over 3 years	1.00%
Items in litigation	5.00%

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash on hand	5,390,377	8,911,349
Cash in bank – time deposit	3,442,527,761	3,198,067,383
Cash in bank – current account	255,963,220	314,122,689
	3,703,881,358	3,521,101,421

3.1 Cash on hand

Cash on hand consists of: (a) collections of cash collecting officers and supervising tellers in the last working day of the year and were deposited only in the first working day of the succeeding year, as well as cash advances granted to cash disbursing officers; and (b) petty cash fund established at the Head and Regional/Satellite Offices to defray immediate or emergency petty expenses. Details follow:

	2015	2014
Cash collecting officers/supervising tellers	4,715,377	8,236,349
Petty cash fund	675,000	675,000
	5,390,377	8,911,349

Cash collecting officers/supervising tellers includes collection of P91,632 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.

3.2 Cash in bank

Cash in bank consists of funds deposited with government banks for payroll, corporate operating funds, take-out funds and HDH Program. Cash in banks earn interest at prevailing interest rates of 1.8 to 2.0 per cent per annum for the time deposit and 0.25 per cent for the current account.

4. RECEIVABLES

Included under this account are the following:

	2015	2014
Due from NHMFC	59,278,014	59,325,993
Interest receivable – investment	7,291,683	4,325,709
Due from AKPF	3,365,575	3,318,782
Due from officers and employees	1,866,587	132,913
Advances to officers and employees	1,595,252	545,217

	2015	2014
Due from Social Security System (SSS)	137,779	301,939
Due from Housing and Urban Development Coordinating Council (HUDCC)	253,917	-
Accounts Receivable (AR) – Others	4,600,965	156,504
	78,389,772	68,107,057

4.1 Due from NHMFC

This account includes CMP amortization payments and other collections of NHMFC for the account of SHFC. It also includes the management fee computed pursuant to Section VI of the Trust Agreement entered into by and between NHMFC as Trustor and SHFC as Trustee, which provides the latter a compensation consisting of: (a) 10 per cent of total collections; and (b) 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 and other administrative expenses of the fund advanced by SHFC during the year.

4.3 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.

4.4 Due from SSS

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

4.5 AR – Others

The account is composed of Directors, Officers, Stockholders and their Related Interests loans extended to members of the BOD and employees, receivable from employees out of disallowances issued by the COA, and receivable from employees on personal calls. It also includes advances to the Procurement Services for undelivered supplies purchased during the year.

5. INVENTORIES

This account consists of the following:

	2015	2014
Office supplies inventory	2,754,897	2,268,650
Accountable forms inventory	1,351,331	1,181,011
Other supplies inventory	156,608	38,586
	4,262,836	3,488,247

6. PREPAYMENTS

Included under this account are the following:

	2015	2014
Prepaid rent	2,098,151	291,950
Prepaid interest	607,776	607,776
Prepaid insurance	306,460	1,451,547
Prepaid subscription	3,900	78,650
Prepaid income tax	-	8,886
	3,016,287	2,438,809

7. GUARANTY DEPOSITS

This account represents the guaranty fees for SHFC's rental of Regional Offices and warehouse totalling to P1,640,121 and P777,774 as of December 31, 2015 and 2014, respectively.

8. ADVANCES TO CONTRACTORS

This account pertains to the amounts paid in advance as mobilization fee to contractors for HDH projects which are to be subsequently deducted from the progress billings based on the percentage of completion of the projects. As of December 31, 2015 and 2014, the account has a balance of P215,095,744 and P63,912,624, respectively.

9. ASSETS HELD IN TRUST

This account represents the balances of CMP-related accounts and AKPF fund balance from the time of transfer up to the reporting date. The account, however, excludes "cash" which is presented separately in the financial statements. Details are as follows:

	2015	2014
NHMFC		
LIR – current	6,924,642,214	6,239,196,673
LIR – past due	2,885,513,755	3,066,053,573
LIR – restructured	839,400,522	840,334,331
Insurance receivables	251,636,569	230,727,292
Items in litigation	50,925,357	50,925,357
Unamortized mortgage origination cost	29,497,155	31,196,077
Interest receivable	433,095	433,095
Loan loss reserve	(68,457,452)	(63,303,430)
	10,913,591,215	10,395,562,968
AKPF fund balance	553,055,436	553,778,742
	11,466,646,651	10,949,341,710

9.1 LIR – current

This account includes the amount of CMP taken-out projects from the time of transfer up to the reporting date.

9.2 LIR – past due

This account represents the past due portion of the loans at the time of transfer, the amount of which was based on Community Associations' (CAs') ledger outstanding balances as of the September 30, 2005 cut-off date. It 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 CAs' ledger subject to adjustments upon the determination of the actual outstanding principal balance based on the member-beneficiaries' (MBs') loan ledgers.

9.3 LIR – restructured

The account is composed of the following:

	2015	2014
Interest bearing principal	627,113,348	620,637,682
Non-interest bearing principal	212,287,174	219,696,649
	839,400,522	840,334,331

9.4 Insurance receivables

This account consists of the general ledger (GL) balances transferred from NHMFC as of September 30, 2005. The balance of this account increases whenever there is renewal of the Mortgage Redemption Insurance (MRI) coverage advanced by SHFC for qualified CAs on a yearly basis. On the other hand, the account decreases upon collection of insurance repayments from MBs which can be determined only upon reversal/distribution of collections temporarily lodged in the Undistributed Collections (UC) account.

9.5 Items in litigation

The account refers to the outstanding balance of receivables from delinquent CAs, transferred to the Legal Department for foreclosure and with petitions already filed in court. The outstanding balance of this account represents the original amount transferred from NHMFC.

9.6 Unamortized mortgage origination cost

This account pertains to the unamortized portion of costs incurred in originating and appraising mortgages. It was the policy of the Corporation to capitalize such costs and to amortize the same over the term of the loan which normally is 25 years or 300 months. Beginning 2011, however, origination and appraisal costs are expensed outright.

10. LONG-TERM LOAN RECEIVABLES

The account consists of the following:

	2015	2014
LIR – HDH program	706,798,579	118,813,210
Car and calamity loan receivable – officers and employees	25,862,523	28,307,975
	732,661,102	147,121,185

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	Library Materials	Office Buildings/ Structures	Total
Cost								
January 1, 2015	15,238,546	7,939,080	9,337,462	20,289,918	21,021,884	178,506	201,330,000	275,335,396
Adjustments	(12,890)	-	-	-	-	(39,088)	-	(51,978)
Additions	2,010,659	221,241	1,214,756	-	4,354,391	-	-	7,801,047
December 31, 2015	17,236,315	8,160,321	10,552,218	20,289,918	25,376,275	139,418	201,330,000	283,084,465
Accumulated Depreciation								
January 1, 2015	8,366,577	5,780,630	4,478,674	10,333,614	14,427,522	66,825	52,895,613	96,349,455
Depreciation	1,832,429	397,223	902,439	1,983,364	2,107,955	21,163	6,781,868	14,026,441
December 31, 2015	10,199,006	6,177,853	5,381,113	12,316,978	16,535,477	87,988	59,677,481	110,375,896
Net Book Value, December 31, 2015	7,037,309	1,982,468	5,171,105	7,972,940	8,840,798	51,430	141,652,519	172,708,569
Net 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

12. INTANGIBLE ASSETS

This account refers to computer softwares which include the Lex Libris, Microsoft Office 2010 and 2013 Standard Open License Program, and 300 nodes of Anti-virus Government License Keys, which are amortized over an estimated useful life of one to five years. Details follow:

	2015	2014
Cost		
Balance, January 1	4,262,755	3,951,374
Adjustments	(71,098)	172,383
Additions	1,487,003	138,998
Balance, December 31	5,678,660	4,262,755

	2015	2014
Accumulated Amortization		
Balance, January 1	3,093,251	2,208,970
Amortization	784,329	884,281
Balance, December 31	3,877,580	3,093,251
Net Book Value, December 31	1,801,080	1,169,504

13. OTHER RESOURCES

13.1 Real properties for development and sale

SHFC Corporate Circular No. 13-026 on HDH Guidelines, provides for the implementation framework for SHFC's participation in the priority P50-billion ISFs Housing Program on the relocation of ISFs 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 HDH 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 the eventual disposition to the CAs, 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, in the interim, under a usufruct arrangement with HDH program beneficiaries. These are carried at acquisition cost plus costs incurred for site development and home building. Details are as follows:

	2015	2014
Land	928,290,652	326,102,900
Construction in progress	215,618,761	56,454,171
	1,143,909,413	382,557,071

14. PAYABLE ACCOUNTS

This account consists of the following:

	2015	2014
Accounts payable	1,485,577,622	1,236,006,361
Performance warranty payable	3,570,613	2,294,935
Performance/Bidders bond payable	492,020	537,055
Due to officers and employees	39,524	37,425
	1,489,679,779	1,238,875,776

14.1 Accounts payable

The account refers to the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance with requirements. The 50 per cent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of 2001. This account also includes perfected contracts with suppliers amounting to P221,211,955 and P46,542,551 as of December 31, 2015 and 2014, respectively.

15. INTER-AGENCY PAYABLES

This account consists of the following:

	2015	2014
Due to NHMFC	18,871,043	18,873,593
Due to Bureau of Internal Revenue (BIR)	8,088,669	20,677,019
Due to HUDCC	3,453,782	2,610,189
Due to Provident Fund	1,210,559	1,379,474
Due to SSS	253,526	224,781
Due to Pag-IBIG	181,809	165,435
Due to PhilHealth	80,788	83,625
Due to Other GOCC	20,080	-
	32,160,256	44,014,116

15.1 Due to BIR

The account 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 the year.

15.2 Due to NHMFC

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

16. OTHER LIABILITIES

This account consists of the following:

	2015	2014
Accrued expenses payable	26,505,374	17,108,578
Other payables		
Undistributed collections (UC)	372,626,335	344,148,497
Deferred income	212,287,174	219,696,649
Guaranty deposits payable	176,627,611	99,903,888
Advances from borrowers	157,517,672	108,014,968

	2015	2014
Origination fee payable	34,052,120	25,242,023
Insurance payable	26,438,986	21,406,441
Deferred credits	24,864,113	21,881,870
Tax refunds payable	663,995	580,482
Other payable – Others	806,472	870,017
Other liabilities	469,976	374,586
	1,032,859,828	859,227,999

16.1 Undistributed collections

UC refers to amortization payments from 2008 up to the reporting date that remained unposted or unapplied to LIR and other pertinent accounts due to the following reasons:

- Payments with no abstract of collections;
- Payments of MBs not in the master list;
- Collections from MBs who availed of the one-year updating scheme;
- Unposted amortization payments from restructured accounts;
- Unposted amortization payments from remedial accounts pending approval of the proposed in-house restructuring program;
- Non-transmittal of collection documents by NHMFC;
- Collections from accounts with site development loan component;
- Collections from express lane projects which are not yet in the database;
- Collections from HDH projects which are not yet in the database; and
- Uncategorized amortization payments.

A total of P258.187 million and P178.87 million collections from restructured accounts as of December 31, 2015 and 2014, respectively had already been reversed due to completion of the computer program, specifically the billing and posting modules, which enabled SHFC to recognize a total of P163.251 million and P70.21 million for 2015 and 2014, respectively in interest and miscellaneous income.

16.2 Guaranty deposits payable

This account refers to two-month and six-month advance deposits required for old and new originators, respectively pursuant to Corporate Circular CMP No. 003 which is calculated based on the total monthly amortization payments plus one year MRI premiums. However, these deposits are to be applied to CAs' account once the collection efficiency rating falls below 80 per cent but in no case such application be made earlier than six months from take-out date.

16.3 Advances from borrowers

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

16.4 Origination fee payable

This account refers to the 50 per cent origination fee retained by SHFC pending originators' compliance with certain requirements.

16.5 Insurance payable

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

16.6 Deferred credits

The account pertains to the principal portion of amortization payments paid by SHFC pertaining to office spaces occupied by HUDCC.

17. OTHER LONG-TERM LIABILITIES

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

18. TRUST LIABILITIES – NHMFC

The transfer of the CMP accounts to 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. Said conveyance correspondingly required the transfer of the 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 of P621 million as of December 31, 2009, which were retained by NHMFC, were eventually transferred to SHFC. This amount is temporarily lodged under the LIR – current account but was later reclassified to LIR – past due account in compliance with COA recommendations. Details of the account are as follows:

	2015	2014
Cash	721,683,901	287,028,012
LIR – current	9,094,424,922	8,580,950,965
LIR – past due	2,750,042,775	2,750,042,775
Notes receivable – National Housing Authority	200,000,000	200,000,000
Interest income	165,678,128	165,678,128
Insurance receivables	119,762,108	119,762,108
Interest receivables	72,873,958	72,873,957
Origination and appraisal cost	71,451,603	64,767,828
Items in litigation	50,925,357	50,925,357
Unamortized mortgage origination cost	49,799,880	49,799,880

	2015	2014
Service fee incentives		
Advances to contractors	1,390,500	(8,525,889)
Other professional fees	3,500	-
Accounts payable – MCR	(974,160,117)	(1,136,990,011)
Undistributed collections	(152,206,695)	(152,074,476)
Guaranty deposits payable	(51,443,160)	(56,069,433)
Origination fee payable	(20,094,314)	(21,864,382)
Insurance payable	(4,314,063)	(4,097,738)
Taxes, duties and licenses	(1,986,173)	337,575
Advances from borrowers	(1,598,646)	(1,598,646)
Performance warranty payable	(1,092,569)	(1,177,160)
Real properties for development and sale	-	382,557,071
Financial expenses/other professional fees	-	48,390
	12,092,938,895	11,342,966,311

19. TRUST LIABILITIES – AKPF

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

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

	2015	2014
Cash and cash equivalents	296,481,253	288,883,562
Acquired assets	139,973,318	139,729,325
Installment sales receivable – long term	34,928,112	48,050,469
Items in litigation, net	47,326,100	39,383,712
Past due receivable – developmental loan, net	26,093,962	34,036,351
Installment sales receivable – current	19,863,023	15,211,417
Accounts receivable	750,000	1,399,500
Interest receivable – special deposit account	115,794	458,128
Office equipment, IT equipment and software, furniture and fixtures, net of accumulated depreciation	246,587	37,940
Advances to officers and employees	20,600	-
Due to LGUs	(6,883,582)	(7,531,382)
Due to SHFC	(3,365,575)	(3,318,782)
Deferred income on sale of acquired assets	(2,469,872)	(2,469,872)
Accrued income tax payable – special savings deposit	(23,159)	(91,626)
Due to BIR	(1,125)	-
Fund Balance	553,055,436	553,778,742

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 NHMFC is P25,000,000, of which, P10,000,000 was paid up and the balance of P15,000,000 remains 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 EO No. 272. Of this amount, P9,989,000 was paid up by the NHMFC and the remaining amount by various stockholders for and in behalf of the Government of the Philippines.

22. SUBSIDY FROM THE NATIONAL GOVERNMENT

The HDH Program window is a new program which enables SHFC to extend financing assistance to organized communities living in danger areas in the NCR. There were 14 and 15 approved HDH projects in various phases in 2015 and 2014, respectively with the following approved funding allocation and releases from the Department of Budget and Management (DBM):

	2015	2014
Approved funding allocation from DBM	3,742,865,000	3,665,008,000
Funds released during the year	978,968,849	806,919,084

23. PRIOR PERIOD ADJUSTMENT

The account primarily 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. Details follow:

Nature of Adjustments/Correction	Accounts Affected				Amount
	Asset	Liabilities	Income	Expense	
1. Interest and final tax paid on income recognized in 2014	Receivables	-	Interest income	Final tax paid	(4,864.74)
2. Unused/unissued drugs and medicines supplies	Inventories	-	-	Supplies and materials	17,059.35
3. Cancelled check covered by DV No. 20140123556	Cash	-	-	Professional services	5,000.00
4. Payable to HUDCC on Insurance claims received by SHFC that was credited to prior year's adjustments (PYA)	-	Inter-agency payable	Miscellaneous income	-	(1,325,870.06)
5. Unamortized portion of prepaid insurance covering various years	Prepayments	-	-	Taxes, insurance and other fees	(959,661.53)

Nature of Adjustments/Correction	Accounts Affected				Amount
	Asset	Liabilities	Income	Expense	
6. Board allowances of a Director	-	Inter-agency payable	-	Representation	(36,000.00)
7. Settlement of disallowed amount	Cash	-	-	Confidential, extraordinary and miscellaneous	2,980.32
8. Prepaid Income Tax to PYA for unclaimed tax deductible credit	Prepayments	-	-	Income tax	(8,886.14)
9. Receivable from OGCC personnel handling cases to refund Christmas Bonus and PEI for 2014	Receivable	-	-	Confidential, extraordinary and miscellaneous	630,000.00
10. Unremitted contributions of SSS to Due to Officers & Employees and PYA	-	Inter-agency payable	-	Personnel benefit contribution	450.00
11. Unremitted contributions to Pag-IBIG from 2006 to 2013	-	Inter-agency payable	-	Personnel benefit	94.83
12. Expired portion of prepaid rent to PYA for September 2014	Prepayments	-	-	Rent	(291,949.89)
13. Expired portion of prepaid subscription to PYA from 2011 to 2014	Prepayments	-	-	Subscription	(75,400)
14. Other supplies inventory	Inventories	-	-	Supplies and materials	(38,585.90)
15. Receivable from resigned employees, re: Refund of cash gift on 13 th month and GC for 2014	Receivable	-	-	Other personal benefits	50,000.00
16. Reversal of accrued expenses payable	-	Other liabilities	-	Various MOOE accounts	5,853,862.98
					3,818,229.22

24. RETAINED EARNINGS

Retained earnings consist of the following:

	2015	2014
Appropriated for HDH Program	1,797,188,643	818,219,793
Unappropriated	413,730,634	337,460,646
	2,210,919,277	1,155,680,439

Unappropriated retained earnings include (a) retained earnings due for transfer to NHMFC P342,877,045 as addition to Trust Liability pursuant to the amended Trust Agreement; (b) payment for dividends P68,662,063 due to the Bureau of Treasury; and (c) investment income from HDH Program amounting to P2,191,526 which does not form part of the amount to be transferred to NHMFC.

25. COMPLIANCE WITH TAX LAWS

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

	2015	2014
Taxes and licenses		
BIR registration	500	500
Real property tax	1,235,900	1,235,041
	1,236,400	1,235,541
Withholding taxes		
On compensation	22,428,272	23,603,919
Percentage tax	7,585,369	6,126,794
Final tax paid on income	12,731,818	7,537,033
	42,745,459	37,267,746
	43,981,859	38,503,287

26. FINANCIAL RISK MANAGEMENT

The Corporation is exposed mainly to credit risk relative to its financial assets. Credit risk is the risk that SHFC will incur a loss because its counterparties fail to discharge their contractual obligations. Hereunder are the measures undertaken by Management, under the guidance of the BOD, to minimize its exposure to credit risk:

a. MCR (CMP Loans)

CMP loan 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 CAs made up mostly of poor and under-privileged 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 CA. The property is covered by a subdivision plan and each lot in the subdivision plan is assigned to a member under a lease purchase agreement (LPA) with the association. The LPAs of the associations are assigned to SHFC as additional security for the community loan.

b. Credit Policy for MCR (CMP Loans)

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

c. Insurance

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

d. Security

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

e. Collection

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

27. CONTINGENCIES

Social Housing Employees Association, Inc. (SOHEAI), a bona fide employees' union, has a money claim against SHFC in a labor case filed with the Office of the Panel of Voluntary Arbitrator (OPVA), Department of Labor and Employment (DOLE), docketed as Case No. AC-973-RCMB-NCR-LVA-024-01-19-2014 entitled, SOHEAI versus SHFC, regarding the discontinued benefits under the Collective Bargaining Agreement and the State of the Nation Address Bonus with an estimated amount of P70,228,468. The OPVA has already issued a Notice of Decision on May 12, 2015 in favor of SOHEAI as well as a Writ of Execution on September 21, 2015 directing the garnishment of the amount from the SHFC funds.

The SHFC through its legal counsel, the Office of the Government Corporate Counsel appealed the decision with the Court of Appeals in June 2015 and also filed a Supplemental Petition for Review with Prayer for Issuance of Temporary Restraining Order (TRO) and/or Preliminary Injunction.

A Notice of Garnishment was served upon the Land Bank of the Philippines and the Development Bank of the Philippines (DBP) on September 29, 2015 and September 30, 2015, respectively. On October 28, 2015, an Order from the Regional Conciliation and Mediation Board – NCR through the OPVA, directing DBP to deliver in check the garnished amount of P70,228,468 plus one per cent execution fee and deposit the same to the cashier, National Conciliation and Mediation Board (NCMB) – Central Office. The Order specifically stated that the respondent SOHEAI need not file money claim with the COA since SHFC is covered by Labor Code and not by the Civil Service Law.

On November 11 and 13, 2015, DBP filed a Manifestation/Comment and Supplemental Manifestation/Comment, respectively, to set aside the Order dated October 28, 2015 and a new Order be issued directing Complainant to file the claim before COA in accordance with applicable laws, rules and regulations and settled jurisprudence on the

matter. However, on December 2, 2015, SOHEAI filed a complaint for indirect contempt against the DBP officers for not complying on OPVA's Order to deliver the check and deposit the same to the cashier, NCMB – Central Office.

PART II -
OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. SOCIAL HOUSING FINANCE CORPORATION

1. The undistributed collections (UC) in the total amount of P372.63 million and P344.15 million in CYs 2015 and 2014, respectively, remained unposted/unapplied to Loan Installment Receivable (LIR) and other affected accounts due to the absence of policy on the proper and timely allocation of UC to the appropriate borrowers' accounts, thus, overstating the LIR account and understating the affected accounts as at December 31, 2015 by the same amounts, thereby adversely affecting the fair presentation of the account balances in the financial statements.

1.1 Section 15 of Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements 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 IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.”

1.2 Note 16.1 to the financial statements disclosed that UC refers to amortization payments from 2008 up to the reporting date that remained unposted/unapplied to LIR and other affected accounts. Details of the UC balances (in millions) from CY 2013 to 2015, are as follows:

Particulars	2015	2014*	Inc. (Dec.)	% of Inc. (Dec.)	2013	Inc. (Dec.)	% of Inc. (Dec.)
	A	B	C = A-B	D = C/B	E	F = E-B	G = F/E
No abstract of collections	33.74	21.10	12.64	0.60	23.90	(2.80)	(0.12)
Not in the master list	7.42	7.17	0.25	0.03	4.17	3.00	0.07
1-yr updating RA 9507/PD1445	107.77	73.88	33.89	0.46	18.17	55.71	3.06
Collections from NHMFC	14.88	14.85	0.03	0.00	14.87	(0.02)	(0.00)
Collections from restructured accounts	31.81	51.89	(20.08)	(0.39)	167.01	(115.12)	(0.69)
With site development	(0.02)	23.27	(23.29)	(1.00)	28.08	(4.81)	(0.17)
Collections from remedial accounts	86.02	64.54	21.48	0.33	45.86	18.68	0.41
Express lane not yet build-up	5.80	2.59	3.21	1.24	0.00	2.59	1.00
HDH projects not yet build-up	0.85	0.36	0.49	1.36	0.00	0.36	1.00
Unaccounted	83.57	83.57	-	0.00	78.77	4.80	0.06
Others	0.79	0.93	(0.14)	(0.16)	3.31	(2.38)	(0.72)
	372.63	344.15	28.48	9.00	384.14	(39.99)	(10.41)

*With restatement of 2014 figures.

1.3 Said UC in CYs 2015 and 2014 in the total amount of P372,626,335 and P344,148,497, respectively, remained unposted/unapplied, thus, overstating the LIR account and understating the affected accounts by the same amount, contrary to Section 15 of PAS 1 – Presentation of Financial Statements. Corollarily, the subsidiary ledgers of the individual borrowers do not reflect their actual outstanding loan obligations.

1.4 While we recognize the efforts made by SHFC on the adjustment/reversal of the UC, comparison of the UC balance for CYs 2015 and 2014, however, showed an increase of nine per cent while for CYs 2014 and 2013, the balance had already decreased by 10.41 per cent.

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

a. **Conduct a continuous reconciliation of accounts to minimize the accumulation of UC; and**

b. **Adjust the LIR and the affected accounts, accordingly.**

1.6 Management commented that they have the following plan of actions to address the several components of UC:

a. *No Abstract of Collection (AOC)* – to send notices to concerned CAs and to require them to submit AOC. For those who will not comply, the policy on hanging payments shall be implemented;

b. *One year updating scheme, Restructured Accounts and Loans with Site Development Component* – since the in-house developed program is already capable of handling these type of accounts and scheme, a significant amount of collections will be applied and will be reversed towards the end of the 2nd quarter of 2016;

c. *Remedial Accounts* – the proposed in-house restructuring program or the extension of Republic Act (RA) No. 9507 was already presented to the Board of Directors in its meeting last March 21, 2016. The proposal was already approved in principle subject to presentation of data and detailed implementation plan. Once the restructuring program is finally approved, collections from remedial accounts will be posted to the individual ledgers already; hence, a substantial reduction of the UC balance;

d. *No Master List Express Lane Projects* – to require the CAs to submit final master list and update the database to enable posting of individual monthly amortization payments; and

e. *Uncategorized Collections* – due to increasing volume of accounts, there is a need to hire additional personnel, on a contractual basis, who shall take charge of the reconciliation and accounting of collections for High Density Housing (HDH) accounts.

1.7 The full implementation of the abovementioned action plans will greatly reduce UC and certainly minimize the build-up of the same. Further, an Information System Strategic Plan (ISSP) project is now being undertaken as a long term solution to the corporate-wide Information Technology (IT) related concerns.

2. Negative/abnormal balances under the Guaranty Deposit Payable account totalling to P2.061 million understated the balance of the account as at December 31, 2015, which is contrary to Section III of Corporate Circular Community Mortgage Program (CMP) No. 003 dated September 1, 2006 and Section 15 of PAS 1 – Presentation of Financial Statements.

2.1 Section III of Corporate Circular CMP No. 003 dated September 1, 2006 on Collection Efficiency Rating (CER) Benchmark sets the collection efficiency for LIR and the required deposits to be applied to the accounts maintained by the CAs, as follows:

“The acceptable CER for CMP Originators effective October 1, 2006 shall be set at least 75%, to be further raised to 80% starting January 2, 2007. However, the first project of a new Originator should post at least ninety percent (90%) CER during the first year after take-out in order that the accreditation of new projects by the Originator may be considered.

The required cash deposit to SHFC shall be equivalent to six (6) months amortization for new Originators and two (2) months for old Originators on per project basis per take-out date. The above cited cash deposits shall be applied to the community association’s account once the CER falls below 80% but in no case such application be made earlier than six (6) months from date of take-out.

In case the CERs is within the borderline, the Originators shall be required to submit a Time Bound Collection Action Plan/Strategies with predetermined timelines to meet the target CERs, subject to the evaluation by SHFC every three months after submission of the action plan.” (Emphasis ours)

2.2 The Guaranty Deposits Payable account has a normal credit balance. However, our review of the account showed the following negative/abnormal balances totalling to P2,061,381.26, as of December 31, 2015:

Account No.	Community Associations	Amount
3123651	Akbay Akibat ng Buhay at Yaman HOA, Inc. Ph II A	106,960.62
3130644	Andrea Paz Pabahay sa Barangay Barandal HOA, Inc. Ph II	405,237.60
3127142	Block III Bagong Silang HOA, Inc. Ph 1	93,227.60
3125943	Cupang Tramo Neighborhood HOA, Inc.	98,118.08
3105157	Lower Basak Brotherhood HOA, Inc.	152,958.96
3129362	Lower Employees HOA, Inc.	170,017.84
3130572	Luckyville HOA, Inc.	145,194.52
3126293	Malipayon HOA, Inc.	12,335.40
3130271	Maralitang Naninirahan at Nagkakaisa	63,314.26
3124912	Napico HOA, Inc. Ph VI	500,000.00
3124786	Pagyamanin Mamamayan Natin HOA, Inc.	28,371.90
3125137	Proxville Area IV HOA, Inc.	48,040.44
3137282	Samahan ng Magkakapitbahay sa Blk 30 Purok Maligaya II HOA, Inc.	25,462.04
3124596	San Agustin Bolante II Neighborhood Assn. Inc.	50,000.00
3166437	Villa Paraiso HOA, Inc.	162,142.00
		2,061,381.26

2.3 The existence of negative/abnormal balances in the Guaranty Deposits Payable account indicates that it has been over applied to the LIR account and that the community associations (CAs) have not attained the 80 per cent CER and the two-month or six-month level of guaranty deposit contrary to the above-quoted Section of Corporate Circular CMP No. 003.

2.4 Furthermore, said negative/abnormal balances understated the balances of the Guaranty Deposit Payable and LIR accounts, thereby contradicting Section 15 of PAS 1 as quoted in Paragraph 1.1.

2.5 **We recommended that Management:**

a. **Review/determine the causes of the negative/abnormal balances, take appropriate action and adjust the accounts accordingly;**

b. **Require the officers/employees in-charge to strictly monitor/impose/validate the provisions of Corporate Circular CMP No. 003;**

c. **Take appropriate action against officials/employees who failed to implement the provisions of said Corporate Circular; and**

d. **Require the CAs to submit a Time-bound Collection Action Plan/Strategies with pre-determined timelines in case the Guaranty/Cash Deposit falls below the required 80 percent CER to bring the balance of their guaranty deposit to two or six-month level, whichever is appropriate.**

2.6 Management commented that the Finance and Comptrollership Department (FCD) is undertaking the reconciliation with the Asset Management Department to retrieve all official receipts (ORs) issued by NHMFC, which in turn, will be used as the basis for the reversal/adjustment of the negative balances from the Guaranty Deposit Payable account to the Trust Liability account.

3. **The physical balance of inventory accounts differs by P2.025 million against the general ledger (GL) balance, contrary to the provisions of Section 58 of Presidential Decree (PD) No. 1445 and Section 15 of PAS 1 – Presentation of Financial Statements, thus, casting doubt on the accuracy and reliability of the account balance as at December 31, 2015.**

3.1 Section 58 of PD No. 1445 states that the *“examination and audit of assets shall be performed with a view of 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.”*

3.2 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 company.

3.3 Verification disclosed that the results of the physical inventory of supplies differ with the GL balance by P2,024,800.93 as of December 31, 2015, determined as follows:

Particulars	Balance per Book	Inventory Count	Variance
Office supplies inventory	2,754,897.03	2,015,593.71	739,303.32
Accountable forms inventory	1,351,331.00	172,385.39	1,178,945.61
Janitorial supplies inventory	106,552.00	-	106,552.00
Drugs and medicine	9,518.00	9,518.00	-
Semi-expendable property	40,538.22	40,538.22	-
	4,262,836.25	2,238,035.32	2,024,800.93

3.4 Management submitted only the report on the result of the inventory-taking on the Office supplies inventory account conducted on December 28, 2015. We queried on the inventory of janitorial supplies and found out that the recorded janitorial supplies inventory were not yet delivered as at December 31, 2015, thus, overstating the supplies and payable account. Meanwhile, the inventory count of accountable forms was based on the results of the cash examination conducted by the audit team in August 2015 and subsequently updated in December 2015, thereby showing a difference of P1,178,945.61 as against the GL balance. Management has not submitted the Report of Accountability for Accountable Forms (RAAF) for December 2015, as required under Chapter III (C) of the Revised Cash Examination Manual.

3.5 We recommended that Management:

- a. **Reconcile the discrepancy between the GL balance and the results of the physical inventory count and prepare adjusting entries, if necessary; and**
- b. **Prepare the monthly RAAF to facilitate the reconciliation with the balance presented in the financial statements.**

3.6 Management commented that the variance noted in the Inventory report had already been reconciled with the FCD in 2016. The supposed variance is attributed to the delays in the delivery of requisitions made in CY 2015 including janitorial supplies. These items were requested and booked in CY 2015, but were delivered only in the first quarter of CY 2016.

3.7 The variance of P739,303.32 on Office Supplies Inventory are attributable to the following: (a) reclassification of advertising expense and office/IT equipment as Office Supplies; (b) late delivery of 2015 requisitions; (c) reconciliation with Procurement Service – Department of Budget and Management (DBM); and (d) cancellation of purchase order.

3.8 Moreover, a responsible officer from the Cash Management Department would be designated to monitor the issuance of accountable forms and regularly submit a report to the FCD, copy furnished the General Services Division.

4. The Grocery Subsidy benefit was not included in the total taxable income received by SHFC employees and officers contrary to Section 2.78.1 (B)(11) of the Bureau of Internal Revenue (BIR) Revenue Regulations No. 2-98 dated April 17, 1998, as amended, resulting in the total withholding tax (WT) deficiency on compensation amounting to P3.072 million for taxable year 2015 and BIR compromise penalty and interest, both of an undetermined amount, to be paid by the persons responsible for failure to withhold and remit said amount to the BIR.

4.1 Section 2.78.1 (B)(11) of BIR RR No. 2-98 dated April 17, 1998, as amended, states that:

“(B) Exemptions from withholding tax on compensation. — The following income payments are exempted from the requirement of withholding tax on compensation: xxx

(11) Thirteenth (13th) month pay and other benefits. —

(a) Thirteenth (13th) month pay xxx; and

(b) Other benefits such as Christmas bonus, productivity incentive bonus, loyalty award, gifts in cash or in kind and other benefits of similar nature actually received by officials and employees of both government and private offices.

The above stated exclusions (a) and (b) shall cover benefits paid or accrued during the year provided that the total amount shall not exceed thirty thousand pesos (P30,000.00) which may be increased through rules and regulations issued by the Secretary of Finance, upon recommendation of the Commissioner, xxx”

4.2 The BIR issued RR No. 3-2015 dated March 9, 2015, implementing RA No. 10653 which increased the total amount of exemptions from P30,000 to P82,000 for 13th month pay, and other benefits from gross income, effective CY 2015, further amending in effect the provisions of RR No. 2-98.

4.3 The CY 2015 approved Corporate Operating Budget (COB) of SHFC for Personal Services (PS) amounted to P198,881,000 which includes the grocery subsidy of P50,000 per employee.

4.4 Records show that SHFC granted grocery subsidy in two tranches totalling to P10,150,000 for CY 2015, as follows:

DV No.	Date	Amount
2015092436	September 24, 2015	5,150,000
2015030762	March 7, 2015	5,000,000
		10,150,000

4.5 We noted that the said benefit was not included in the computation of taxable income and the corresponding tax was not withheld/deducted, thereby, resulting in the total WT deficiency of P3,071,885.99, determined as follows:

Particulars	Amount
January to November salaries, allowances and benefits	21,000,150.42
December salaries, allowances and benefits	2,627,585.88
Accrued withholding tax on salaries	173,641.55
Total	23,801,377.85
Refund	(1,190,238.64)
Net withholding tax per books	22,611,139.21
Net withholding tax per audit	(25,683,025.20)
Total withholding tax deficiency	3,071,885.99

4.6 **We recommended that Management:**

a. **Adjust the WT due to the correct amount and collect immediately the corresponding WT deficiency from the concerned SHFC officers and employees; and**

b. **Request a BIR Officer from the Revenue District which has the jurisdiction over SHFC to compute for the compromise penalty and interest for the unremitted amount and charge the same against the persons responsible for the failure to withhold and remit the said amount to the BIR.**

4.7 Management commented that the grocery subsidy benefit takes the form of, and is likewise designated as, gift checks. However, it is converted into cash when distributed to the employees and officers. The reason why SHFC does not include the grocery subsidy benefit in the computation of the total taxable income is because the corporation treats the same as a fringe benefit.

4.8 Relative to fringe benefit, Sections 33(B) and 33(C) (3) of the National Internal Revenue Code (NIRC) provides that:

“(B) Fringe Benefit Defined. – For purposes of this Section, the term ‘fringe benefit’ means any good, service or other benefit furnished or granted in cash or in kind by an employer to an individual employee (except rank and file employees as defined herein) such as, but not limited to the following:

- (1) Housing;*
- (2) Expense account; xxx*

(C) Fringe Benefits Not Taxable. - The following fringe benefits are not taxable under this Section: xxx

- (3) Benefits given to the rank and file employees, whether granted under a collective bargaining agreement or not; xxx”*

4.9 In connection therewith, Section 2.33(A) of BIR Revenue Regulation 3-98 provides that:

"Imposition of Fringe Benefits Tax — A final withholding tax is hereby imposed on the grossed-up monetary value of fringe benefit furnished, granted or paid by the employer to the employee, EXCEPT rank and file employees as defined in these Regulations, whether such employer is an individual, professional partnership or a corporation, regardless of whether the corporation is taxable or not, or the government and its instrumentalities except when: (1) the fringe benefit is required by the nature of or necessary to the trade, business or profession of the employer; or (2) when the fringe benefit is for the convenience or advantage of the employer."

4.10 SHFC is of the humble opinion that for the rank and file employees, the grocery subsidy benefit is a non-taxable fringe benefit under Section 33 (C)(3) of the NIRC and Section 2.33(A) of Revenue Regulation 3-98.

4.11 As for the officers, SHFC treats it as a fringe benefit given for the convenience and advantage of the employer corporation since such benefit ultimately redounds to the benefit of SHFC to improve morale, productivity and loyalty of its corporate officers. This is so because the grant of such benefits prevents wage distortion or the elimination or severe contraction of intentional quantitative differences in salary rates between and among employee groups of the corporation. It maintains the wage structure based on skills, length of service and other bases of differentiation. This in turn helps the corporation maintain the loyalty of its corporate officers which is advantageous to the corporation.

4.12 We agree that pursuant Section 2.33(A) of BIR Revenue Regulation 3-98 fringe benefits granted to rank and file employees are not subject to fringe benefit tax (FBT) as the said tax is imposed only on officers/officials above the rank and file. However, the said benefits are subject to withholding tax on compensation, being in excess of the P82,000 exemptions provided for under RR No. 3-2015 as stated in paragraph 4.2 hereof. Thus, we maintain our position that the subject WT deficiency on compensation should be collected from the rank and file employees of SHFC and be remitted to the BIR.

4.13 Taking into consideration that the grocery subsidy is a fringe benefit given to the Officers of SHFC, Section 2.33(A) of Revenue Regulation 3-98 provides that a final withholding tax is imposed on the grossed-up monetary value of fringe benefit furnished, granted or paid by the employer to the employee. Thus, the final withholding tax should have been paid by SHFC and remitted to the BIR within the prescribed period and any penalty incurred will be shouldered/paid by the official/employee concerned.

5. Amortization/payments required under the pertinent provisions of the Implementing Rules and Regulations (IRR) for the SHFC Vehicle Acquisition Assistance (SVAA) Program by the Officers-Availees were not monitored resulting in the delay of collection and non-recovery of the loan exposures. Further, availment of vehicles by the members of the Board of Directors under the Program is contrary to Section 8(d) and 13(b) of Executive Order (EO) No. 24 dated February 10, 2011.

5.1 Pertinent provisions of the IRR of SHFC SVAA Program state that:

"VIII. Termination of Officers Employment from the Corporation

In case of separation from the service of the Officer-Availee, the CMA shall continue to be in force and effect until such time the Officer concerned is declared by the Corporation to be in Default, xxx

An Officer-Availee shall be considered to be in Default in case of failure to pay at least three (3) monthly amortizations to the Corporation. xxx

IX. Consequences of Default. The corporation is entitled to exercise the following remedies:

- (a) Declare the obligation due and demandable;*
- (b) Forfeiture of last salary, benefits and other receivables from the corporation including proceeds from Provident Fund;*
- (c) Extrajudicially enforce the Deed of Reconveyance or Deed of Sale and/or the Chattel Mortgage Agreement and immediately repossess the motor vehicle from the Officer concerned;*
- (d) Initiate Court action for any of the actionable documents executed by the Officer-Availee and/or for collection of the outstanding loan obligation of the Officer by virtue of the Loan." (Emphasis ours)*

5.2 Record shows that 11 previous and current officers were already in default of their monthly amortization but no actions are being taken by the Management, details follow:

Employee	Status/Salary Grade	Loan Balance	Audited Balance	Variance	Months in Default
A	22	354,166.55	329,166.67	(24,999.88)	6
B	24	688,333.32	665,000.00	(23,333.32)	5
C	Resigned	299,999.83	175,000.00	(124,999.83)	5
D	22	399,999.88	387,500.00	(12,499.88)	3
E	Resigned (Board Member)	442,800.00	397,750.00	(45,050.00)	5
F	Resigned	290,766.92	277,550.00	(13,216.92)	5
G	Resigned	204,166.55	183,333.33	(20,833.22)	5
H	Resigned	460,211.50	448,250.00	(11,961.50)	5
I	Resigned	355,916.58	337,500.00	(18,416.58)	4
J	Resigned	280,000.00	168,000.00	(112,000.00)	5
K	Resigned (Board Member)	722,499.90	472,000.00	(250,499.90)	25
		4,498,861.03	3,841,050	(657,811.03)	

5.3 Likewise, nine of the ORs and Certificates of Registration (CRs) on vehicles covered by car loan are not in the custody of SHFC and 29 ORs/CRs have no annotation by the Registry of Deeds (RD) and the Land Transportation Office (LTO) as chattel mortgage on the car loan, contrary to the pertinent provisions of the Chattel Mortgage Law and SHFC Board Resolution No. 169, series of 2009.

5.4 Article 2140, Chapter 5 of Title XVI on Chattel Mortgage of the New Civil Code states that:

"By a chattel mortgage, personal property is recorded in the Chattel Mortgage Register as a security for the performance of an obligation. If the movable, instead of being recorded, is delivered to the creditor or a third person, the contract is a pledge and not a chattel mortgage."

5.5 On the other hand, SHFC Board Resolution No. 169, series of 2009 provides that:

"VI. TERMS AND CONDITIONS

xxx

4. Maintenance, Repairs and other Incidental Expenses

During the term of the mortgage xxx. All original documents, such as Official Receipts and Certification of Registration (O.R. and C.R.) of the vehicle and Insurance Coverage (Comprehensive and MRI), shall be under the custody of the Corporation."

5.6 Our review of the Chattel Mortgage Agreements (CMAs) also revealed the following deficiencies:

- a. Incomplete description of the motor vehicle such as Chassis Number and Engine Number;
- b. Absence of one or two witnesses;
- c. Some notarization dates of CMA are two to three years afar from the release date of the loan and some are not yet notarized and therefore, the corresponding documentary stamp tax (DST) due thereon was not immediately paid in accordance with BIR rules and regulations.

5.7 The deficiencies noted are contrary to Section 5 of Act No. 1508 or the Chattel Mortgage Law which states that:

"A chattel mortgage shall be deemed to be sufficient when made substantially in accordance with the following form, and shall be signed by the person or persons executing the same, in the presence of two witnesses, who shall sign the mortgage as witnesses to the execution thereof, and each mortgagor and mortgagee, or, in the absence of the mortgagee, his agent or attorney, shall make and subscribe an affidavit in substance as hereinafter set forth, which affidavit, signed by the parties to the mortgage as above stated, and the certificate of the oath signed by the authority administering the same, shall be appended to such mortgage and recorded therewith."

5.8 Furthermore, the non-notarization of the CMAs, a taxable document and delay in the payment of DST thereon violates BIR Revenue Regulation No. 6-2001 on requiring

the filing of DST as prescribed that the return shall be filed within five (5) days after the close of the month when the taxable document was made, signed, issued, accepted or transferred.

5.9 Our review also disclosed that two members of the Board of Directors availed the SVAA Program with a loan balance totalling to P1,825,000 as of December 31, 2015. Said availment is contrary to Sections 8 and 13 of EO No. 24, thus, payment of said loan balance becomes due and demandable.

5.10 Section 8(d) on Compensation Structure of EO No. 24 provides that:

"The compensation of members of the Board of Directors/Trustees shall have the following components: xxx

*(d) **Salaries, Allowance, Benefits, and other Bonuses shall not be allowed unless specifically authorized by law or Charter and approved by the President**, provided that the total of foregoing compensation and per diems shall not exceed the limits stipulated under Sections 9 and 10 hereof."* (Emphasis ours)

5.11 Meanwhile, Section 13(b) thereof on Compliance provides that:

"The Board of Directors/Trustees of all Non-charted GOCCs, including all subsidiaries, are hereby directed to pass Board resolutions adopting or reiterating the provisions contained in this Executive Order to govern the compensation and reimbursable expenses of the members of the Board of Directors/Trustees in their respective corporation."

5.12 **We recommended that Management:**

- a. **Exercise immediately the remedies provided under the SHFC Board Resolution No. 169 on the Officer-Availee who are already in default of his/her loan amortization;**
- b. **Require the two members of the Board of Directors to refund the amount of P1.825 million to comply with the provisions of Section 8(d) of EO No. 24;**
- c. **Request the Board of Directors to pass amendments on SHFC Board Resolution No. 169, series of 2009 adopting or reiterating the provisions contained in EO No. 24 governing the compensation and reimbursable expenses of the members of the Board of Directors/Trustees;**
- d. **Require submission of ORs and CRs duly annotated by the RD and/or LTO to ensure the recovery of its loan exposure; and**
- e. **Ensure that the CMAs are properly accomplished and then reviewed to address deficiencies noted and to ensure timely payment of DST to avoid penalties.**

5.13 Management commented the following:

a. The SVAA Program has a valid legal basis that is specifically authorized by law. The members of Board of Directors are allowed to avail the SVAA Program under Board Resolution No. 169, series of 2009. As a non-chartered government owned and controlled corporation (GOCC) governed by Batas Pambansa Bilang 68 or the Corporation Code of the Philippines, the authority to approve such program emanates from SHFC's by-laws. This provision in the by-laws in turn is based on Section 36, Title IV of the Corporation Code which grants every corporation incorporated under said Code the power and capacity to adopt by-laws not contrary to law, morals, or public policy.

At the time Board Resolution No. 169, series of 2009 was issued and took effect, it was within legal bounds for not being contrary to law, morals, customs, public order or public policy, hence legally valid and binding to all persons or institutions in this jurisdiction and therefore, vested rights thereto has set in. The rights granted by said Resolution are absolute, complete and not dependent on any condition or contingency and a mere expectancy of future benefit. It does not involve any inchoate rights. Thus, the rights that emanate therefrom have become the property covered SHFC employees and officers, namely those with Salary Grade 22 to 29, including the Chairman, President and Board Members. As held in the case of Boncodin vs. NAPOCOR (GR No. 162716, September 27, 2006), "to be vested, a right must have become a title – legal or equitable – to the present or future enjoyment of property" which is satisfied in the instant case.

Hence, given that the benefit is authorized by law and has acquired the status of vested right which should not be impaired, it is not an illegal disbursement contrary to the findings of COA and there is no need to refund the amount of P1.825 million.

b. As regards the audit recommendation which requests the BOD to pass amendments on Board Resolution No. 169, adopting and reiterating the provisions contained in EO No. 24 governing the compensation and reimbursable expenses of the members of the Board of Directors/Trustees, Management is of the opinion that with the issuance of RA No. 10149 or the Governance Commission for GOCCs (GCG) Law, EO No. 24 is already passé and it is now GCG which has the primary authority to issue such recommendation to amend Board Resolution No. 169.

c. For the other audit recommendations, Management does not contend such findings and is ready and willing to comply therewith.

5.14 We disagree that the issuance of RA No. 10149 or the GCG Law renders EO No. 24 outdated. It should be noted that the grant of compensation, *per diems*, allowances and incentives to the members of the Board of Directors/Trustees of SHFC is aligned under Sections 8 and 9 of the EO No. 24 and is also being referred to Section 23 of the Chapter IV of RA No. 10149. Thus, we maintain our position that the two members of BOD should refund the amount of P1,825,000 in compliance with the provisions of Section 8(d) of EO No. 24.

6. The SHFC has allocated only P5.0 million for Gender and Development (GAD) programs, projects and activities (PAPs) instead of P267.5 million representing five per cent of the approved COB as required under Philippine Commission on Women-National Economic and Development Authority-Department of Budget and Management (PCW-NEDA-DBM) Joint Circular No. 2012-01. Of the said allocation, only 4.24 per cent or P0.212 million was actually utilized, resulting in very limited PAPs implemented and the reduced opportunity of SHFC women and other concerned parties to participate and be benefitted by the GAD PAPs.

6.1 The approved COB of the SHFC for CY 2015 amounted to P5,351,309,000, which includes an allocation of P5,000,000 for GAD-related activities. For CY 2015, the following are SHFC's GAD PAPs with their allocated budget:

PAPs	Amount
I. Organization-focused	
a. Conduct Gender Sensitivity Training (GST) for all SHFC employees as a strategy to implement Magna Carta of Women	1,000,000
b. Production of video presentation highlighting role of women in community and national development to be part of SHFC's materials being presented during flag ceremony and other activities	250,000
c. Conduct of annual Strategic Planning to strengthen SHFC GAD Focal Point System – 3rd quarter	200,000
d. Conduct of capacity building activities on gender sensitivity, gender analysis, and of tools such as the Harmonized Gender and Development Guidelines for Operations Group and Support Group	400,000
e. To invite GAD representative from National Statistical Coordination Board to assist in the conduct of study in preparation of establishing GAD database to include age and sex-disaggregated data of beneficiaries to serve as inputs for planning programming, etc.	100,000
f. Conduct canvass and procurement of allowable office equipment for exclusive use of GAD Focal Points	75,000
g. Information dissemination and establishment of corporate Code of Conduct which spells out gender equality and sensitivity not only on GAD but also in consideration of Convention on the Elimination of all Forms of Discrimination Against Women, Violence against Children and Women, and the Anti-Sexual Harassment Law through conduct of series of forum (5 sessions)	50,000
	2,075,000
II. Client-focused	
a. Conduct of capacity development training for women beneficiaries in selected housing sites as partners in collection efforts and community development, to include projects in the regions	650,000
b. Implement livelihood programs and trainings for women-headed households that will provide access to income-generating business as source of income to respond to their needs	1,000,000

PAPs	Amount
c. Conduct Gender Sensitivity training to coincide with Women's Month Celebration in March to be attended by representatives from select project sites including projects in the regions	700,000
d. Conduct of seminars that are interesting to women such as cooking demo, how to manage money and other resources	250,000
e. Conduct activities in celebration of Breast feeding month, such as forum/seminars that will create awareness on the benefits of breast-feeding. Establish space within office premises that will allow women with infant to breastfeed and other requirements such as change of diaper, etc. Refurbishing of office clinic may be initiated to implement activity	325,000
	2,925,000
Total	5,000,000

6.2 The allocated budget for GAD of P5.0 million was less than five per cent of the total agency budget appropriations. Considering that the total authorized budget appropriations of SHFC for CY 2015 is P5,351,309,000, the SHFC should have allocated GAD budget amounting to P267,565,450. Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01 provides that:

"At least five per cent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from agency's maintenance and other operating expenses (MOOE), capital outlay (CO) and personal services (PS). It is understood xxx."
(Emphasis ours)

6.3 On the other hand, the actual GAD expenses of the SHFC for CY 2015 was only P211,858 or 4.24 per cent of the allocated budget of P5.0 million, details follow:

PAPs	Amount	Percentage of Actual Utilization over Allocated Amount
Organization-focused – all SHFC employees attended the GST and have knowledge on the policies and guidelines of the Magna Carta on Women on 2 nd quarter of 2015	169,425.50	8.17
Client-focused – increase in the number of CAs with women taking the lead in community development and as partners in other community-related matters	42,432.50	1.45
	211,858.00	4.24

6.4 The low actual GAD spending of the SHFC resulted in very limited PAPs implemented during the year which consequently reduced the opportunity of SHFC and other concerned parties and partners to participate and benefit from GAD PAPs for CY 2015.

6.5 **We recommended that Management through the GAD Committee:**

- a. **Comply strictly with the provisions under Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the required allocation of the GAD budget;**
- b. **Monitor the implementation of the planned GAD PAPs to ensure its full implementation within the schedule and within the budget year, as approved by PCW; and**
- c. **Properly attribute all GAD-related expenses to maximize the use of the budget allocated for GAD activities.**

6.6 Management commented that it will:

- a. Reconstitute the current SHFC GAD Focal Point Committee and create a pool of gender champions to lead and fast-track GAD implementation by the corporation and improve program budget utilization;
- b. Hire one contractual personnel to serve as full-time technical staff, specifically focusing on GAD budget and program implementation, monitoring and evaluation. The contractual personnel shall beef up the SHFC GAD Focal Point Committee and the pool of gender champions; and
- c. Mainstream GAD with SHFC's major programs as a means to increase gender responsiveness in compliance with the policies of GAD and conduct a GST, cum gender-responsive planning, to draw up the nine-month "catch up" GAD plan for SHFC based on the 2016 GAD Plans and Budget and invite resource person and facilitator from PCW, if necessary.

7. Due to the absence of database on members-beneficiaries (MBs) who availed of the HDH Program, SHFC is not able to verify compliance with Section 16 (c) of RA No. 7279 and Section 6 (b.2) of Corporate Circular No. HDH 14-001, series of 2013, thus adversely affecting SHFC's attainment of its program objective.

7.1 Section 16 (c) of RA No. 7279, otherwise known as the "Urban Development and Housing Act of 1992," provides that:

"To qualify for the socialized housing program, a beneficiary: xxx

(c) Must not own any real property whether in the urban or rural areas; xxx"

7.2 Relative thereto, Section 6 (b.2) of Corporate Circular No. HDH 14-001, series of 2013, requires that:

"The member-beneficiary (MB) must possess the following qualifications at the time of the filing of the lot acquisition loan: xxx

b.2 Must not be a beneficiary of any housing program of the government; xxx"

7.3 Review the master list of the CAs, indicating all MBs who availed of the housing loan and refinancing under the HDH Program disclosed that there is no existing database for the MBs of the HDH Program and the information for each was done only through excel file, thus, several deficiencies were noted, summarized as follows:

Particulars	No. of Count
Duplicate names with same birth date	51
Duplicate names with different birth dates	7
Birth date not yet existing	6
Aged over 65 years old	128
Incomplete information as to name, birth date, monthly income	389
Birth date – "deceased"	6
Total	587

7.4 The double grant on the HDH Program as indicated by the duplicate names would adversely affect the attainment of the objective of the Program of providing financial support to the homeless and underprivileged citizens living in waterways.

7.5 **We recommended that Management:**

- a. **Expedite the database build-up for MBs of the HDH Program;**
- b. **Validate and take appropriate action on the double grant and the deficiencies noted in MBs' information; and**
- c. **Coordinate with other housing agencies to ensure that double availment is avoided.**

7.6 Management commented that they are now in the process of consolidating the official master-lists on approved projects for the database build-up of the HDH program. In addition, proper validation and necessary actions will be undertaken to address the identified concerns.

B. ABOT-KAYA PABAHAY FUND (AKPF)

8. The proceeds of the developmental loan granted for the development of Villa Alejandra Subdivision totalling to P30.500 million for the benefit of project beneficiaries was not properly implemented contrary to Section 4.02(a) of the Memorandum of Agreement (MOA) between the NHMFC and its proponent.

8.1 Section 4.02 (a) of the MOA between NHMFC and a project proponent provides that:

"The Proponent hereby covenants and agrees that:

- (a) It will develop the Land and subdivided the same into smaller lots strictly in accordance with the mutually approved plans and specifications and within the schedule of completion xxx"*

8.2 The AKPF was created under RA No. 6846, as amended by RA No. 7835, under the trusteeship of the NHMFC. 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, pursuant to and in accordance with its mandate.

8.3 On November 13, 1997, Secretary's Certificate of Resolution No. 2768, series of 1997, approved the developmental financing for five NHMFC's AKPF housing projects, including the Villa Alejandra Subdivision located at Cauayan, Isabela. Of the loan amount of P38.00 million, the amount of P30.50 million was released to the project proponent in three tranches from 1997 to 1999 for the development of socialized housing units, as follows:

	Disbursement Voucher No.	Date	Check No.	Amount
1 st release	97-0166	December 10, 1997	0000882904	13,000,000
2 nd release	98-0019	February 19, 1998	0000882107	10,000,000
3 rd release	99-0105	September 10, 1999	0000039278	7,500,000
				30,500,000

8.4 In 2004, the NHMFC Trust Administration Department reclassified the Past Due Receivable of the proponent of the Villa Alejandra Subdivision to Items in Litigation account under JEV No. 2004-125 dated December 29, 2004.

8.5 Audit Query Memorandum (AQM) dated January 7, 2005 was issued by the former Supervising Auditor of NHMFC, regarding the two missing Transfer Certificates of Title (TCTs) of the AKPF Developmental Loan Program (AKPF-DLP) projects, the Villa Alejandra Subdivision and Rivera Heights. To be able to answer said AQM, the Management created a Joint Inspection Team composed of the Appraisal Department/Special Projects Task Force to conduct a joint inspection on the property of the proponent for the Villa Alejandra Subdivision.

8.6 In October 2005, the AKPF was transferred to the then newly created SHFC, a wholly-owned subsidiary of the NHMFC by virtue of EO No. 272 which was signed and approved by the President on January 20, 2004. Section 6 thereof states that:

"Upon the incorporation of the SHFC, the following funds and programs directed towards social housing shall be transferred from NHMFC to the SHFC:

- (1) The CMP, including all funds appropriated for the CMP;*
- (2) The AKPF Program (amortization support program and the developmental financing program); and*
- (3) Such other funds, programs and functions related to social housing as may be determined by NHMFC Board."*

8.7 The report dated February 11, 2005 of the Joint Inspection Team on the joint site inspection/verification of the Villa Alejandra Subdivision disclosed several lapses on the granting and releasing of the loan proceeds. The following are some of the highlights of the said report:

- a. There are two properties both covered by one TCT No. 274150 but with different technical descriptions;
- b. The property referred to as Villa Alejandra Subdivision is not the same property posted as collateral to the developmental loan granted by NHMFC to the proponent;
- c. The property posted as collateral is actually a "rice land"; and
- d. There is no mortgage annotation on TCT No. 274150, which is inconsistent with NHMFC's file of the owner's photocopy of the TCT.

8.8 Meanwhile, the inspection by the Audit Team of the collateral on October 22, 2015 revealed the following observations:

- a. There are no housing units in the said collateral, wherein the supposed developmental loan proceeds/physical developments should have been introduced; and
- b. The collateral property is near the cliff and still undeveloped, to date.

8.9 The visit of the Audit Team on the other property mentioned in Paragraph 8.7(b), where partial physical developments were introduced disclosed that said property is not also fully developed.

8.10 As of December 31, 2015, no additional information were gathered from the SHFC on the actions taken on the joint inspection report submitted last 2005 by the Joint Inspection Team.

8.11 In sum, the loan proceeds granted for the development of Villa Alejandra Subdivision totalling to P30.50 million for the benefit of project beneficiaries was not properly implemented, thus, making the recoverability of its loan exposure remote.

8.12 **We recommended that Management:**

- a. **Conduct further investigation and inquiry on the report dated February 11, 2005 submitted by the Joint Inspection Team; and**
- b. **Determine the person/s liable for the deficiencies noted and file the appropriate administrative and criminal action on their failure to perform their function, where warranted.**

8.13 Management commented that an Investigating Team composed of SHFC's internal auditor, legal officer and an appraiser, shall be constituted to undertake the following:

a. Confirm the findings of the Joint Inspection Team in its report dated February 11, 2005 and that of the Audit Team constituted under COA-NHMFC Office Order dated September 22, 2015;

b. Gather other relevant information which together with the above shall aid the management in the pursuit of remedial/recovery actions, including administrative and legal actions as management may deem necessary; and

c. Update Management of its findings and corresponding Management action shall be furnished to the Audit Team.

9. The Bacolod Branch Office maintains a Petty Cash Fund (PCF) of P50,000 which is more than its recurring petty operating expenses, contrary to COA Circular No. 97-002 dated February 10, 1997, thus, exposing the fund to risks of possible loss and misuse.

9.1 The Bacolod Branch Office was granted by the SHFC Head Office a PCF of P50,000.00 for its petty expenses. Related petty cash disbursements, however, showed that total petty expenses of the Branch from January to December 2015 amounted to P46,489.10 or a monthly average of only P3,874.09, as computed below:

Month	Amount
January	4,400.10
February	2,805.60
March	3,354.20
April	2,803.00
May	2,994.40
June	4,552.40
July	3,097.40
August	6,330.00
September	4,339.00
October	3,839.00
November	5,489.00
December	2,485.00
Total	46,489.10
Average	3,874.09

9.2 COA Circular No. 97-002 dated February 10, 1997 on the grant, utilization and liquidation of cash advances provides that:

"The cash advance shall be sufficient for the recurring expenses of the agency for one month. The AO may request replenishment of the cash advance when the disbursements reach at least 75%, or as the need requires, by submitting a replenishment voucher with all supporting documents duly summarized in a report of disbursements."
(Emphasis ours)

9.3 The practice of maintaining a PCF or granting a cash advance more than the agency's recurring petty expenses for a month not only violates COA Circular No. 97-002 but also exposes said fund to risks of possible loss and misuse. We also noted that, as of this Report, the PCF was not yet replenished although it was already over 75 per cent expended which is also a violation of the COA Circular quoted above.

9.4 **We recommended that the Bacolod Branch Office maintain its PFC at a level that is sufficient enough for its recurring expenses for one month and require the PCF Custodian to replenish the fund in consonance with COA Circular No. 97-002.**

9.5 Management took note of the recommendation to maintain a PCF level that corresponds to the Branch's needs. Accordingly, management will reduce the PCF of the Branch from P50,000 to P30,000. Moreover, for its timely replenishment, the custodianship of the fund shall be transferred to another accountable officer.

10. Status of Suspensions, Disallowances and Charges

10.1 The total audit suspensions, disallowances and charges and settlements as at December 31, 2015 are shown below:

Particulars	Balance, 1/1/2015	Issued This Period	Settlement This period	Balance, 12/31/2015
Notice of Suspension (NS)	-	4,105,500.00	-	4,105,500.00
Notices of Disallowance (ND)	-	1,647,980.32	17,980.32	1,630,000.00
Notice of Charge	-	-	-	-
	-	5,753,480.32	17,980.32	5,735,500.00

10.2 The NS issued for the year pertains to the grocery subsidy granted to the officers and staff in excess of the allocated budget under the DBM approved COB for CY 2014. Said NS was issued on July 22, 2015 and would have matured into an ND as of year-end. However, the issuance of an ND is on hold pending court decision/final resolution of the case due to the decision of the Department of Labor and Employment – National Conciliation and Mediation Board favoring the grant of back-pay allowances and benefits to SHFC employees.

PART III -

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 46 audit recommendations embodied in the prior years' Annual Audit Report, 12 were fully implemented, 29 were partially implemented and five were not implemented.

A. Social Housing Finance Corporation

Observations and Recommendations	Actions Taken
2014	
1. The total variance of P377.80 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.	
We reiterated our prior years' audit recommendation in CY 2012 that Management expedite the reconciliation of the GL and the MBs SL balances to ensure validity and reliability of the account balances.	Partially implemented. Awaiting completion of the documentation process.
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.	
We reiterated our audit recommendations in CYs 2012 to 2013 that Management:	
a. Formulate the guidelines for the proper and timely allocation of undistributed collections to the appropriate accounts;	Partially implemented. There is still no guidelines issued but Management has undertaken an Information System Strategic Plan's (ISSP) Project to address the UC.
b. Conduct continuous reconciliation of accounts to minimize the accumulation of undistributed collections;	Partially implemented. The full implementation of Management Action Plan will reduce the UC.

Observations and Recommendations	Actions Taken
c. Fast track the completion of the Restructured Loan Module to address the timely allocation of UC account; and	Partially implemented. Restructured accounts have been reversed due to completion of the billing and posting module which became operational last November 2014.
d. The Information Systems and Finance and Controllershship Departments to undertake 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.	Partially implemented. SHFC has prepared and submitted the ISSP to the National Computer Center. Reiterated in Observation No. 1 of this Report.
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.	
We recommended that Management:	
a. Coordinate with NHMFC for the transfer of individual SL supporting the IR account;	The three recommendations are partially implemented.
b. Review and analyze the account to determine whether there are still valid claims and prepare adjusting entry, if necessary; and	Of the P528,648.52, only P7,936.80 was reconciled. Target date for full implementation/reconciliation is April 2016.
c. Establish reason/s for the negative balances and adjust them accordingly.	
4. 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.	

Observations and Recommendations	Actions Taken
We recommended that Management to submit justification on the excessive grant of the other allowances and benefits.	Partially implemented. While justification was submitted, this was unacceptable, thus, a Notice of Disallowance (ND).was Issued.
5. Payments made on Discretionary fund amounting to P0.632 million are contrary to Section 41 of FY 2014 General Appropriations Act (GAA) or Republic Act (RA) No. 10633 and Budget Circular 2014-03.	
We recommended that Management refund the PEI granted to agency-hired including consultants contrary to Section 41 of FY 2014 General Appropriations Act (GAA) and Budget Circular 2014-03.	Partially implemented. Issued NDs on the bonus granted to OGCC and PEI granted to agency-hired personnel. Three out of the six consultants have refunded the PEI through deduction from professional fees received.

2013

6. 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.

We recommended that Management, through the Accounting and Legal Departments, to 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.

Partially implemented.

The same states as that of prior years since the SHFC reiterated entirely the actions undertaken as reflected in the submitted Status of Implementation of Prior Years' Audit Recommendation as of December 31, 2013, as follows:

1. The Legal Department (LD)

Observations and Recommendations	Actions Taken
	regularly sends demand letters, as requested by and through AMD and ROD, to delinquent MBs to avail of the one year updating scheme. Status of which is in full implementation. The LD likewise 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.
	2. The Accounting has accounted payments from past due/delinquent 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.
	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 classification hence, the evident non-movement of Past Due accounts balance despite recorded recoveries.
	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.
	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 ISSP implementation. This is the system

Observations and Recommendations	Actions Taken
<p>7. 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>that we anticipate to be fully operationalized so that the accounting may already start the reconciliation activity.</p>
<p>We recommended that Management require the Accounting Department to review and reconcile the difference of P999.70 million between the Assets held in trust – NHMFC and the Trust liabilities – NHMFC and to prepare the necessary adjusting entries to correct the variance noted.</p>	<p>Partially implemented.</p> <p>The Accounting already began working on the cash to show that the variance is indeed coming from this account, though this is going to be strenuous and will surely take time for reason that our cash accounts are muddled.</p> <p>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 need to dispense with the current practice as this may not be the proper accounting treatment.</p>
<p>8. 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>We recommended that Management:</p>	
<p>a. Require the Accreditation Department to exercise due care in the evaluation of eligibility requirements of applicant and in the processing of the CMP loan applications to ensure attainment of the objective of the Program and compliance with its implementing rules and regulation;</p>	<p>Partially implemented.</p> <p>a. Partial reports concerning double availment are forwarded to COA by the Internal Audit Department.</p> <p>b. Individually check the names of</p>

Observations and Recommendations	Actions Taken
	the borrowers of loans for take-out against the Masterlist of Borrowers of all CMP taken-out projects since 2007;
b. Instruct the Information System Department, in close coordination with the Asset Management Department, to immediately design, develop and install an Inquiry or Screening Application Program;	Partially implemented. SHFC has prepared and submitted the ISSP to the National Computer Center.
c. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double CMP loans to member-beneficiaries. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and	Partially implemented. SHFC has directed 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.
d. Immediately demand the full payment of the second loans granted to subject beneficiaries and rescind the second lease purchase agreement for violation of the terms and conditions of the contract.	Not implemented. The recommendation is hereby reiterated.
9. 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.	
We recommended that Management require the Accounting Department to submit the documents that will substantiate the Guaranty deposits payable of P702,888.36 and prepare adjusting entries, where necessary.	Partially implemented. Still for reconciliation amounted to P147,246.85. SHFC is still awaiting for NHMFC's reply.
10. 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.	
We recommended that Management:	
a. Exert extra effort to reconcile the	Partially implemented.

Observations and Recommendations	Actions Taken
accounts to identify the causes of the variance and prepare adjusting entries, if necessary;	Adjusting entries had been made.
b. Regularly monitor the amount withheld and the remittances to avoid discrepancy; and	Partially implemented. Unaccounted amount of P30,160.30 is still for reconciliation.
c. In case of failure to remit within the prescribed period, require the persons responsible/accountable to pay the corresponding interest and penalties required by the concerned government agency/corporations.	Partially implemented. SHFC is closely monitoring the prescribed period for remittance.

2012

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.

We recommended that Management 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.

Partially implemented.

SHFC has prepared and submitted the ISSP to the National Computer Center.

12. The absence of validation procedures between the Abstract of Collections prepared by the Community Associations and the actual money on hand prior to receipt of collections resulted in discrepancies and delay in the posting of collections to the member-beneficiaries subsidiary ledgers.

We recommended that Management 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.

Partially implemented.

Management has undertaken the following:

a. Validation procedure is already being done by our in-house collection units both in the main and regional offices. While LBP, being our accredited collecting arm, was reminded already to comply with the

Observations and Recommendations	Actions Taken
	collection agreement.
	b. Part of our decentralization plan is to decentralize accounting and encoding functions hence the automatic posting of payments to MBs subsidiary/loan ledgers.
	c. In the interim and while waiting for the operationalization of the new collection system, the encoding function will remain with FCD.

B. Abot-Kaya Pabahay Fund

Observations and Recommendations	Actions Taken
<u>2014</u>	
13. 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.	
a. Determine the person/s liable for the missing CCTs; and	The two recommendations for this observation were not implemented and are hereby reiterated.
b. 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.	
<u>2013</u>	
14. 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.	

Observations and Recommendations	Actions Taken
We recommended that Management:	
a. Submit status of the actions taken by Management for the recovery of the property;	<p>Partially implemented.</p> <p>Management has 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.</p> <p>The Legal Department of the Office of the Governor is now scheduling the possible inclusion on the agenda of Sangguniang Panglungsod.</p>
b. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for failure to act on on the Notice of Delinquent Real Property Taxes, leading to the failure of the Corporation to recover its exposures; and	<p>Recommendations b and c are not implemented and are hereby reiterated.</p>
c. Require all the persons liable to pay for the amount of loan plus interest and penalties due thereon and all the expenses incurred for the recovery of the subject property.	
15. Acquired assets account still included the 31 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.	
We recommended that Management 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	<p>Partially implemented.</p> <p>On-going activity. However, some buyers are willing to shoulder expenses on the transfer of title.</p>

Observations and Recommendations	Actions Taken
<u>2012</u>	
<p>16. 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.</p> <p>We recommended that Management 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.</p>	<p>Partially implemented.</p> <p>Out of seven accounts in the Past Due, four were implemented with extra judicial foreclosure proceedings. Certificates of Sale (COS) were issued.</p>
<u>2011</u>	
<p>17. 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.</p> <p>We recommended that Management:</p>	
<p>a. Require the member-beneficiaries of the CA to terminate the sub-lease agreements to conform to the terms and conditions of the lease purchase agreement entered into by the CA and the member beneficiaries.</p>	<p>Partially implemented.</p> <p>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.</p>
<p>b. Require the CA to issue official receipts in the acceptance of payments from member-beneficiaries and keep up-to-date the subsidiary ledgers of member-beneficiaries.</p>	<p>Partially implemented.</p> <p>Management informed CAs on the issuance of official receipts, however, CAs commented that it will be costly on their part.</p>

Observations and Recommendations	Actions Taken
c. Impose sanctions provided under Section 10.2 of SHFC Circular No. 11-017 series of 2011 on member-beneficiaries who are considered in default for violating the terms and conditions of the purchase agreement.	Partially implemented. AMD endorses to Task Force on Remedial Management of Accounts (TFRMA) all past accounts above 60 months whose CA Boards and officials are no longer existing or inactive.

2010

18. The remaining 50 per cent of loan proceeds payable to 167 landowners had been long outstanding ranging from one to 19 years due to the delay in the transfer of title in the name of the community associations thus, real estate mortgage agreements and the deed of assignments could not be annotated in the Transfer Certificate of Titles. It exposes the Corporation to the risk that subject properties may be alienated to third parties who are not properly notified of the lien or encumbrance on the real property with an aggregate amount of P232.120 million.

We recommended that Management:

a. Enforce strictly the present policy of the Corporation to undertake the remaining documentation including the transfer of title in the name of the community association and annotation of real estate mortgage in favor of SHFC in case transfer of title is not made within the 90 days maximum period for transfer. The related expenses to be incurred are to be charged against the remaining balance of the loan proceeds. Also, there must be rigid review of the documents submitted before approval of the initial release.	Partially implemented. These projects are being processed for BIR Ruling on the Capital Gains Tax Exemption at the BIR Main Office, for issuance of the Certificate Authorizing Registration (CAR) at the BIR-Revenue District Office (RDO) and for the issuance of the title in the name of CAs in each respective Registry of Deeds.
b. Revisit, review and if necessary, amend the present policy allowing only the partial release/payment of the loan proceeds. No release of loan proceeds is to be made prior to the transfer of the title to the CA to protect the interest of the Corporation.	Partially implemented. SHFC will request the Board of Directors on the possible amendment on the present policy of the SHFC-AKPF.

PART IV -
ABOT KAYA PABAHAY FUND

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
ASSETS			
Current assets			
Cash	3	296,481,253	288,883,562
Receivables	4	20,749,417	17,069,045
		317,230,670	305,952,607
Non-current assets			
Long-term receivables, net	5	108,348,175	121,470,532
Acquired assets	6	139,973,318	139,729,325
Property and equipment, net		246,587	37,940
		248,568,080	261,237,797
TOTAL ASSETS		565,798,750	567,190,404
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	7	10,249,158	10,850,164
Other current liabilities	8	24,284	91,626
		10,273,442	10,941,790
Non-current liabilities			
Deferred income on sale of acquired assets		2,469,872	2,469,872
		2,469,872	2,469,872
TOTAL LIABILITIES		12,743,314	13,411,662
FUND BALANCE		553,055,436	553,778,742
TOTAL LIABILITIES AND FUND BALANCE		565,798,750	567,190,404

The Notes on Pages 61 to 64 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF INCOME AND EXPENSES
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	2015	2014
INCOME		
Interest income - special savings	4,477,397	3,396,028
Interest income - sale of acquired assets	2,457,322	2,863,466
Interest income - developmental loan	34,002	81,673
Interest income - regular savings	10,570	8,046
Other income - penalty	5,667	13,612
Other income - overpayment	-	-
Miscellaneous income	-	129,993
	6,984,958	6,492,818
ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and wages	4,755,283	4,482,263
Taxes, licenses and fees	570,754	593,571
Trustee fee	282,974	273,560
Other personnel benefits	275,000	350,000
Rent expenses	233,325	233,325
Travelling expenses	137,096	190,110
Professional services	112,456	112,456
Utility expenses	107,752	115,659
Advertising expense	75,000	-
Communication expenses	70,606	118,640
Supplies and materials expenses	40,644	189,857
Printing/binding/reproduction	36,668	28,661
Business development expense	24,000	105,000
Depreciation	20,595	9,027
Training and seminar	18,000	-
Fidelity bond premium	7,500	7,500
Other personnel services	4,680	3,906
Bad debts expense	-	310,448
Miscellaneous expense	38,338	14,076
	6,810,671	7,138,059
INCOME BEFORE TAX	174,287	(645,241)
INCOME TAX EXPENSE		
Final income tax - special savings	895,479	679,206
Final income tax - regular savings	2,114	1,609
	897,593	680,815
NET INCOME (LOSS)	(723,306)	(1,326,056)

The Notes on Pages 61 to 64 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF CHANGES IN FUND BALANCE
 For the Years Ended December 31, 2015 and 2014
 (In Philippine Peso)

	Note	Total
Balance at December 31, 2013, as restated		555,104,798
Net loss		(1,326,056)
Balance at December 31, 2014		553,778,742
Balance at December 31, 2014		553,778,742
Net loss		(723,306)
Balance at December 31, 2015		553,055,436

The Notes on Pages 61 to 64 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Installment sales receivable, current		8,470,752	9,887,068
Interest income received		7,287,623	6,100,483
Accounts receivable		649,500	2,265,500
Installment sales receivable, long-term		-	207,078
Miscellaneous income/other income		39,669	95,285
Payment of personal services		(4,476,411)	(3,352,578)
Payment of operating expenses		(1,425,119)	(1,136,533)
Payment of taxes		(966,060)	(647,403)
Payment of trustee fee		(282,974)	(273,560)
Payment of realty tax		(1,218,553)	(67,217)
Payment of insurance		(7,500)	(7,500)
Net cash provided by operating activities		8,070,927	13,070,623
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalized cost		(243,993)	(4,315,905)
Acquisition of property, plant and equipment		(229,243)	(3,500)
Net cash provided by investing activities		(473,236)	(4,319,405)
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,597,691	8,751,218
CASH AND CASH EQUIVALENTS, BEGINNING		288,883,562	280,132,344
CASH AND CASH EQUIVALENTS, END	3	296,481,253	288,883,562

The Notes on Pages 61 to 64 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 (RA) No. 6846 under the trusteeship of the National Home Mortgage Finance Corporation (NHMFC) and was amended under RA No. 7835. The Fund shall be used exclusively for enhancing affordability of low-cost housing by low income families thru the amortization support component and by providing developmental financing for low-cost housing projects.

In October 2005, the AKPF was transferred to the newly created Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the NHMFC by virtue of Executive Order (EO) No. 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund uses the commercial accounting system wherein the recording of financial transactions is centralized in the Finance Department. The Fund submits monthly summary of transactions duly reviewed, certified and approved by its responsible officers to the Finance 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.

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

2.2 Income and expense recognition

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

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash in bank – LBP 1	1,348,097	373,556
Cash in bank – LBP 2	3,132,456	1,509,306
Investment in BSP – Special Deposit Account (SDA)	292,000,700	287,000,700
	296,481,253	288,883,562

4. RECEIVABLES

This account consists of the following:

	2015	2014
Installment sales receivable – current	19,863,023	15,211,417
Interest receivable – BSP-SDA	115,794	458,128
Accounts receivable	750,000	1,399,500
Advances to officers and employees	20,600	-
	20,749,417	17,069,045

The 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:

	2015	2014
Past due receivables – developmental loans	34,791,950	45,381,801
Items in litigation – developmental loans	63,101,467	52,511,616
	97,893,417	97,893,417
Allowance for doubtful accounts	(24,473,354)	(24,473,354)
	73,420,063	73,420,063
Installment sales receivable – long-term	34,928,112	48,050,469
	108,348,175	121,470,532

5.1 Past due receivables – developmental loans

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

5.2 Items in litigation – developmental loans

This account represents developmental loans granted to developers which were endorsed to the Legal Department for legal action.

Rivera Heights Subdivision (JC Rivera Engineering) account was foreclosed by the local government unit (LGU) of Bataan on November 29, 2007 due to non-payment of realty taxes. This account was endorsed to the Legal Department on June 24, 2007 due to the unreturned 282 titles. A meeting with the Bataan Provincial Legal Officer Atty. Joey Angeles was conducted on February 9, 2015 to pursue negotiation on the repurchase of the subdivision.

Meanwhile, the Villa Alejandrea Subdivision account was endorsed to the Legal Department due to missing owner's copy of Transfer Certificate of Title (TCT) No. T-274150, in the name of Spouses Dante R. Cabauatan, which was mortgaged as collateral. However, the e-copy of said title is in the Fund's possession. The proprietor, Mr. Arlene L. Ayroso, submitted another property to SHFC covered by TCT No. 284306 in his name on September 30, 2005 with an area of 97,545 square meters.

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 developmental loan granted by NHMFC to the project proponent for the development of the project.

6. ACQUIRED ASSETS

This account pertains to properties acquired from settlement of accounts through "dacion en pago" for three projects namely: Juel Country Homes, UPLB-ONAPUP Village and Olympia Village; and seven foreclosed projects namely: La Vista Cruz Subdivision, Villa Haniya Subdivision, Evergreen Subdivision, Cristina Homes 1, Cristina Homes 2, Villa Rita Subdivision and Catbalogan City Homes.

The appeal filed on the reconsideration of the 31 TCTs of La Vista Cruz Subdivision covered by the Comprehensive Agrarian Reform Program is still pending before the Department of Agrarian Reform.

7. INTER-AGENCY PAYABLE

This account consists of the following:

	2015	2014
Due to LGUs	6,883,583	7,531,382
Due to SHFC	3,365,575	3,318,782
	10,249,158	10,850,164

7.1 Due to SHFC

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

7.2 Due to LGUs

This account represents unpaid real property taxes on projects of the Fund.

8. OTHER CURRENT LIABILITIES

This account consists of the following:

	2015	2014
Due to BIR	1,125	-
Accrued income tax payable – High Yield Savings Account (HYSA)/Special Savings Account (SSA)	23,159	91,626
	24,284	91,626

8.1 Due to BIR

Represents the taxes withheld from the payments of employees compensation, origination fees, honoraria, taxes withheld at source and on government money payments including the provision for corporate income tax for CY 2015.

8.2 Accrued income tax payable

Accrued income tax payable represents taxes withheld from interest income on investment in high-yield savings account with Landbank of the Philippines.