



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

May 23, 2018

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

SHFC
OFFICE OF THE BOARD SECRETARY
R E C E I V E D

BY: _____
DATE: _____

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 and Amortization Support and Developmental Financing Components of the Abot Kaya Pabahay Fund (AKPF) for the year ended December 31, 2017.

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

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of the Social Housing Finance Corporation and the AKPF because the Undistributed Collections (UC) in the total amount of P374.503 million remained unposted to Loan Installments Receivable (LIR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the Member-Borrowers (MBs). Thus, the UC and the LIR accounts were overstated and understated, respectively, by the same amount. Moreover, the General Ledger (GL) or controlling account for UC was not reconciled with the Subsidiary Ledger (SL) balances, resulting in a variance of P174.797 million, or 53 percent of the GL balance. Both the over/understatement and the variance affect the fair presentation of the account balances in the financial statements, contrary to paragraph 15 of Philippine Accounting Standards (PAS) 1.

For the above observation, we recommended that Management: a) submit work breakdown schedule to post and allocate UC by CY 2019; b) reconcile the variances between SL and GL balances by CY 2019; c) oblige the Community Associations to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement; d) require the Information Systems Department to enhance the database to include the Express Lane Projects, High Density Housing (HDH) Projects, Remedial Accounts and all other account not yet in the database; e) require the National Home Mortgage Finance Corporation (NHMFC) to submit to database or listing of MBs relative to the transferred accounts amounting to P83.570 million; and f) formulate policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.

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

1. Assets of SHFC amounting to P21.031 billion were not stated at their fair value due to absence of policy on the assessment, measurement and recording of impairment losses

as required under PAS 36 and 39 for CY 2017, thus, casting doubt on the reliability and valuation of the corporate assets.

1.1 We recommended and Management agreed to formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS Nos. 36 and 39 for CY 2017.

2. Funds amounting to P350 million transferred by the Department of Interior and Local Government (DILG) to SHFC, sourced from the 2015 General Appropriations, remain unutilized since the time it was received on September 28, 2016 due to the non-execution of Trust Agreement (TA) as required in the Memorandum of Agreement contrary to Executive Order No. 292 on Special Fiduciary and Trust Funds, thus defeating the purpose of providing decent and safer housing sites to primarily benefit the Informal Settler's Families (ISFs) living in waterways and danger zones within Metro Manila. Moreover, the fund is being invested in high yield savings with interests earned amounting to P1.697 million which was not remitted to the National Treasury as required under Section 4 of the General Provisions of the General Appropriations Act for FY 2017, Section 65 (1) of Presidential Decree (PD) No. 1445 and Section 4.1 of Department of Budget and Management-Department of Finance-Commission on Audit Joint Circular No. 9-81, thus depriving the national government of the income.

2.1 We recommended that Management:

a. Return the funds which remain unutilized since the time it was received in September 2016 or coordinate with the DILG on the execution of TA to initiate the immediate implementation of the project; and

b. Remit immediately to the Bureau of Treasury the interests earned amounting to P1.697 million from the savings account of the Trust Fund.

3. Mortgage Contract Receivable (MCR) – Past Due account balance per GL of P2.854 billion for the 27,257 accounts differed by P1.533 billion or 53 per cent against the SL balances totaling to P1.321 billion as of October 2017, contrary to Section 111 of PD No. 1445 and Paragraph 15 of PAS No. 1, thus casting doubt on the accuracy and reliability of the account. Moreover, the MCR – Past Due account has remained past due and uncollected for a period ranging from four months to more than ten years and without a single payment after take out.

3.1 We reiterated our prior years' audit recommendation and Management agreed to reconcile and adjust the SL and GL balances of MCR-Past due account by CY 2020.

3.2 We further recommended that Management:

a. Monitor and issue demand letters to the member-borrowers with past due accounts who have not availed any plan of payment offered by the Corporation;

b. Offer restructuring plan of payment to ensure prompt collection to bring the account to its current status;

c. Substitute delinquent accounts with new borrowers who have the capacity to pay; and

d. Foreclose the delinquent accounts specially those accounts more than ten years and without a single payment after take out, after exhausting all remedies, and consolidate in the name of the Corporation as prescribed under R.A. 9507.

Annex A

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

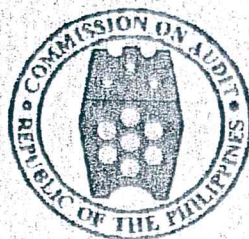
AGENCY ACTION PLAN and STATUS OF IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2017
As of _____

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

Agency sign-off:

Name and Position of Agency Officer _____ Date _____

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



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, 2017 and 2016

EXECUTIVE SUMMARY

INTRODUCTION

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

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

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

The governing board of SHFC, which exercises its corporate powers and determines its policies, is composed of the following: (a) the Chairman of 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 SHFC by the Executive Vice-President, five Vice-Presidents and 15 Department Managers. The personnel complement for current year 2017 is 387, with 216 regular and 171 agency-hired employees. To date, the SHFC has 11 Satellite/Regional Offices located in Bacoor Cavite, Isabela, Naga City, Puerto Princesa City in Palawan, Bacolod City, Iloilo City, Cebu City, Davao City, General Santos City, Cagayan de Oro City and Zamboanga City.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2017 and 2016 amounted to P5.995 billion (inclusive of supplemental COB amounting to P19.449 million) and P5.551 billion, respectively, which was utilized as follows:

Particulars	2017		2016	
	Budget	Utilization (In Thousand Pesos)	Budget	Utilization
Personal services	245,000	211,867	220,282	195,118
Maintenance and other operating expenses	417,944	231,531	318,861	286,988
Capital outlay	5,332,412	1,931,048	5,012,204	2,394,291
	5,995,356	2,374,446	5,551,347	2,876,397

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

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2017	2016 As restated	Increase (Decrease)
Assets	23,221,166,265	20,955,333,551	2,265,832,714
Liabilities	17,706,716,178	16,792,316,946	914,399,232
Equity	5,514,450,087	4,163,016,605	1,351,433,482

II. Comparative Results of Operations

Particulars	2017	2016 As restated	Increase (Decrease)
Total income	688,203,502	584,025,636	104,177,866
Total expenses	418,863,084	391,318,926	27,544,158
Profit before tax	177,598,441	118,149,611	59,448,830
Income tax expense	58,784,050	39,918,309	18,865,741
Profit after tax	118,814,391	78,231,302	40,583,089
Subsidy from National Gov't	1,221,669,800	1,885,009,797	(663,339,997)
Comprehensive income	1,432,226,168	2,037,798,198	(605,572,030)

OPERATIONAL HIGHLIGHTS

Performance Indicators	2017		Scorecard Rating
	Targets	Accomplishments	
Social Impact			
Utilization of Housing Subsidies for CMP and HHV Program	14,431	10,468	0%
Stakeholders			
Families assisted through CMP CISEA and HHV	17,422	19,176	7.50%
Partnership developed and institutions capacitated	117 partners	119 partners	6.00%
Families of legally organized associations assisted through project development process	28,972	19,507	4.04%
Client satisfaction survey	85% (for four Drivers of Satisfaction)	85.70% (for pre-takeout) 91.90 (for post-takeout)	3.00%
Financial			
Collection efficiency rate achieved	84%	68.70%	0%
EBITDA margin achieved	28%	42.08%	10.00%

Performance Indicators	2017		Scorecard Rating
	Targets	Accomplishments	
<i>Conceptual Frameworks/Schemes for Accessing Non-Traditional Funds</i>	Proposed Memorandum Circular (MC) submitted to HLURB on the issuance of SHFC Certification developer's participation for CMP under the balanced housing scheme	Submission of proposed MC subject to revised HLURB Implementing Rules and Regulations on Housing Development Program	-
<i>Issuance of CMP Mortgages, applying the proceeds for the HDH Program</i>	Issue Memorandum of Circular on the CMO Asset Backed Securities as mode of compliance	Submission of proposed MC subject to revised HLURB Implementing Rules and Regulations on Housing Development Program	-
Internal Process			
<i>Develop New-Rights Based Instrument</i>	IRR for Rental Housing signed and Board Approved	Guidelines on Rental Housing was signed on May 31, 2017 (Corporate Circular HDH No. 17-015)	5.00%
<i>New framework for financing schemes</i>	One Culturally Sensitive Socialized Housing Project Piloted	Multi-Tribunal HOA, the pilot project for Culturally sensitive socialized housing, was taken out on May 4, 2017	5.00%
<i>Automation of System Processes through ISSP</i>	Updated Information System Strategic Plan (ISSP) approved by the Board and submitted to DICT	The updated plan is with the Executive Vice President, subject to review and approval of the Board on February 2018	-
<i>Average number of Days to Process Loan Applications for CMP and HDH</i>	90% (HDH applications processed within 100 working days)	100%	5.00%
	90% (CMP applications processed within 50 working days)	98.33%	5.00%
Learning and Growth			
<i>ISO Certification for SHFC frontline services</i>	Readiness Certificate for ISO 9001:2015	-	-
<i>Comprehensive Performance Management System (CPMS) Established and Implemented</i>	Improvement on the Technical Competencies 90% of the	100% of the identified	-

Performance Indicators	2017		Scorecard Rating
	Targets	Accomplishments	
	employees under Beginner level are moved to Developing level by the end of CY 2017	competency gap were addressed through conduct of 13 trainings	

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC and the AKPF – Amortization Support and Developmental Financing Programs for the years ended December 31, 2017 and 2016 and were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Our audit was aimed to determine the fairness of presentation of the financial statements in accordance with Philippine Financial Reporting Standards and to assess the propriety of the financial transactions and compliance of SHFC with government laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of the presentation of the financial statements as of December 31, 2017 and 2016 due to Undistributed Collections (UC) in the total amount of P374,503 million that remained unposted to Loan Installments Receivable (LIR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers. Thus, the UC and the LIR accounts were overstated and understated, respectively, by the same amount. Moreover, the General Ledger (GL) or controlling account for UC was not reconciled with the Subsidiary Ledger (SL) balances, resulting in a variance of P174,797 million, or 53 percent of the GL balance. Both the over/understatement and the variance affect the fair presentation of the account balances in the financial statements, contrary to paragraph 15 of Philippine Accounting Standards (PAS) 1.

For the above observations, we recommended that Management:

- a. Submit work breakdown schedule to post and allocate UC for CY 2017 by at least:
 - i. 65 per cent of the UC by CY 2018
 - ii. 35 per cent of the UC by CY 2019
- b. Reconcile the variances between SL and GL balances by at least:
 - i. 65 per cent of the variance by CY 2018
 - ii. 35 per cent of the variance by CY 2019

c. Oblige the Community Associations to remit amortizations of Member-Beneficiaries (MBs) with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;

d. Require the Information Systems Department (ISD) to enhance the database to include the Express Lane Projects, High Density Housing (HDH) Projects, Remedial Accounts and all other account not yet in the database;

e. Require the NHMFC to submit to database or listing of MBs relative to the transferred accounts amounting to P83.570 million; and

f. Formulate policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Assets of SHFC amounting to P21.031 billion were not stated at their fair value due to absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39 for CY 2017, thus, casting doubt on the reliability and valuation of the corporate assets.

1.1 We recommended and Management agreed to formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS 36 and 39 for CY 2017.

2. CMP accounts totaling P88.154 million transferred by the NHMFC without the corresponding supporting documents and 638 accounts with negative balances amounting to P8.818 million cast doubts on the accuracy of the Insurance Receivable - Member Beneficiaries account balance of P295.382 million under the CMP, contrary to paragraph 15 of the PAS 1.

2.1 We recommended that Management:

a. Analyze and reconcile the accounts with lapsed MRI premiums and immediately apply the negative balances to future periods of insurance coverage or to the loan balances or refund to the MBs if loan is already fully paid; and

b. Strictly adhere to the Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137.

3. Funds amounting to P350 million transferred by the DILG to SHFC, sourced from the 2015 General Appropriations, remain unutilized since the time it was received on September 28, 2016 due to the non-execution of Trust Agreement as required in the Memorandum of Agreement (MOA) contrary to Executive Order (EO) No. 292 on Special Fiduciary and Trust Funds, thus defeating the purpose of providing decent and safer housing sites to primarily benefit ISIs living in waterways and danger zones within Metro Manila. Moreover, the fund is being invested in high yield savings with interests earned amounting to P1.697 million which was not remitted to the National Treasury as required under Section 4 of the General Provisions of the General Appropriations Act

(GAA) for FY 2017, Section 65 (1) of PD No. 1445 and Section 4.1 of Department of Budget and Management-Department of Finance-Commission on Audit (DBM-DOF-COA) Joint Circular No. 9-81, thus depriving the national government of the income.

3.1 We recommended that Management:

- a. Return the funds which remain unutilized since the time it was received in September 2016 or coordinate with the DILG on the execution of TA to initiate the immediate implementation of the project; and
- b. Remit immediately to Bureau of the Treasury the interests earned amounting to P1.697 million from the savings account of the Trust Fund.

4. MCR – Past Due account balance per GL of P2.854 billion for the 27,257 accounts differed by P1.533 billion or 53 per cent against the SL balances totaling to P1.321 billion as of October 2017, contrary to Section 111 of PD No. 1445 and paragraph 15 of PAS 1, thus casting doubt on the accuracy and reliability of the account. Moreover, the MCR – Past Due account has remained past due and uncollected for a period ranging from four months to more than ten years and without a single payment after take out.

4.1 We reiterated our prior years' audit recommendation and Management agreed to reconcile and adjust the MCR-Past Due by at least:

- a. 30 per cent by 2018.
- b. 30 per cent by 2019.
- c. 40 per cent by 2020.

4.2 We further recommended that Management:

- a. Monitor and issue demand letters to the member-borrowers with past due accounts who have not availed any plan of payment offered by the SLHC;
- b. Offer restructuring plan of payment to ensure prompt collection to bring the account to its current status;
- c. Substitute delinquent accounts with new borrowers who have the capacity to pay; and
- d. Foreclose the delinquent accounts specially those accounts more than ten years and without a single payment after take out, after exhausting all remedies, and consolidate in the name of the Corporation as prescribed under Republic Act (RA) No. 9507.

5. A High-Density Housing (HDH) project amounting to P414,049 million was approved by the Board and payment amounting to P100,329 million was made despite findings of the GMMA Hazard Map that the lot is susceptible to moderate flooding, within the tsunami inundated area, susceptible to moderate liquefaction, thereby not suitable for relocation contrary to EO No. 272 and Corporate Circular No. 13-026

5.1 We recommended that Management:

- a. Submit the result of soil testing of the subject property to ensure the safety of constructing the 18 three-storey housing structure;
- b. If the result of the test is not favorable for the construction for the housing unit, require the refund of the P100.329 million;
- c. If the result is favorable, demand the contractor to complete the project; and
- d. Prospectively, before approval of the project, ensure that the project sites are suitable for housing projects and safe for the member beneficiaries who will be dwelling on the property.

6. Of the total amortization due of P2.590 million from 109 MBs of the Cooperative for a HDH Project, only the amount of P1.221 million was remitted by the Cooperative or a remittance efficiency rate of 47 per cent. The check collection for the monthly amortizations amounting to P584,882 remitted by the Cooperative for the said project was dishonored by the bank as this was Drawn Against Insufficient Funds (DAIF) of which only P213,838 (net of interest and penalties) was replaced by cash as of December 31, 2017, resulting in the poor recovery of the corporate investment in housing and the existence of past due accounts of the MBs.

6.1 We recommended that Management:

- a. Demand from the Chairman or from the representative of the Cooperative assigned as collecting officer the immediate restitution of cash amounting to P584,882 to replace the dishonored check;
- b. Demand for the collection and remittance of P1.368 Million representing the amortization due as of December 31, 2017;
- c. Never accept private checks from the Cooperative for succeeding amortization payments, except for bank certified check;
- d. Investigate and file appropriate charges against the Cooperative Chairman or its representative for the unremitted collections;
- e. Cancel the Collection Agreement with the Cooperative and require the MBs to pay their monthly amortizations directly to SHFC, pursuant to the provisions of the Collection Agreement with the Cooperative; and
- f. Require all Chairmen or all representatives of the Community Associations assigned as collecting officer of HDH projects to post Surely Bond.

7. The 546 MBs have not moved-in yet to the completed and accepted HDH Project due to non-availability of water supply system, contrary to Section 21 of RA No. 7279 and Section 14 of HDH Circular No. 14-002, thus, resulting in the poor or even non-

recovery of the corporate investment in the project amounting to P214.016 million and the non-attainment of the objectives of the program.

7.1 We recommended that Management:

- a. Require the Homeowner's Associations (HOA) to make representation with the Local Government of Bulacan to provide water connections for HOA housing units or construct an alternative water supplies, such as installation of deep well or water rationing pending the connection to the water district;
- b. Demand from the HOA the collection of monthly amortizations from its MBs and remittance of the same to SHFC, as the Certificate of Completion and Acceptance has already been issued by the Association;
- c. Require the MBs, through their HOA, to move-in so as to prevent other organization/ISF from illegally occupying the completed housing project;
- d. Prospectively, strictly require HOA to submit certification or approval from utility/service agencies concerned for the availability of basic utilities/services required of the project; and
- e. Prospectively, strictly instruct the HOA to accept only housing projects that are fully completed in accordance with the plans and conditions on the site development and building construction.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 69 audit recommendations embodied in prior years' Annual Audit Report, 33 were fully implemented and 36 were partially 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

Qualified Opinion

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, 2017 and 2016, 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.

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, 2017 and 2016, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Bases for Qualified Opinion

The Undistributed Collections (UC) amounting to P374,503 million remain unposted to Loan Installments Receivable (LIR) due to the absence of a policy on the proper and timely distribution of the UC to the appropriate individual ledgers of the borrowers. Thus, the UC and the LIR accounts were overstated and understated, respectively, by the same amount. Moreover, the general ledger (GL) or controlling account for UC was not reconciled with the subsidiary ledger (SL) balances, resulting in a variance of P174,797 million, or 53 percent of the GL balance. Both conditions affect the fair presentation of the account balances in the financial statements, contrary to paragraph 15 of Philippine Accounting Standards (PAS) 1.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Social Housing Finance Corporation within the meaning of Code of Ethics for Professional accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the

Financial Statements, and we have fulfilled our other responsibilities under those relevant ethical requirements and Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Assets

Description of the Matter

The impairment of assets is considered to be matter of significance as it requires the application of critical management judgement.

Under the PAS 39, Financial Instrument: *Recognition and Measurement*, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial assets or group of financial assets measured at amortized cost is impaired. If there is an objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. An entity first assesses whether objective evidence of impairment exists individually for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Paragraph 9 of PAS 36 – *Impairment of Assets*, provides that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

As of December 31, 2017, the Corporation has reported total assets amounting to P23.221 billion composed of, among others, financial assets and non-financial assets amounting to P19.558 billion and P1.473 billion, respectively, which account for 90.57 per cent of the total assets of SHFC.

Financial Assets consist of Investment in Treasury Bills maturing more than 91 days from the date of placements, and Mortgage Contract Receivables account from Community Mortgage Program (CMP) and High Density Housing (HDH) Program member-borrowers. Allowance for Impairment of Loans and Receivables is in accordance with the Loan Loss provisioning for Mortgage Contracts Receivable under SHFC Board Resolution No. 329 dated May 24, 2013.

On the other hand, non-financial assets composed of Investment Property, represent land acquired for building construction and site development for usufructs projects; Intangible Assets; and Property, Plant and Equipment (PPE).

The disclosures of the SHFC of its financial and non-financial assets are included in Notes 5 to 13 to the Financial Statements.

How the Matter was Addressed in the Audit

Our audit procedures included the following, among others, using the best information available:

- Obtained and reviewed policy/guidelines in assessing impairment of assets;
- Interviewed Management on the appraisal of Investment Property;
- Conducted ocular inspection on the completed projects of the HDH Programs;
- Evaluated loan documents submitted by the borrowers to establish adequacy of the collateral against loan and the validity and legality of the documents, including the authenticity of the intended member-beneficiaries of the CMP and HDH Programs;
- Verified the SL of past due accounts of member-beneficiaries/borrowers against the GL balances of the Corporation;
- Recomputed and compared accomplishments against targets based on the Performance Scorecard as Approved by the Governance Commission for GOCs (GCG) on the Collection Efficiency Rating, and
- Interviewed member-borrowers of Community Associations on the status of amortization payments on their housing loans.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

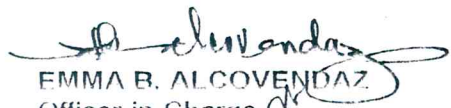
We are required to communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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


EMMA B. ALCOVENDAZ
Officer-in-Charge
Office of the Supervising Auditor

Date: April 26, 2018



Kaagapay ng Komunidad sa Maginhawang Pamumuhay



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and December 31, 2016 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

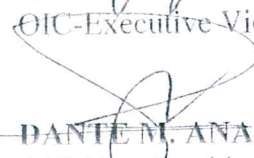
The Board of Directors or Trustees is responsible for overseeing the SOCIAL HOUSING FINANCE CORPORATION's financial reporting process.

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

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


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


ATTY. JUNE G. PAYOT
OIC-Executive Vice President


DANTE M. ANABE
OIC-Vice President
Finance and Comptrollership

Signed this 23rd day of April 2018

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016	01-Jan 2016 Restated
ASSETS				
Current Assets				
Cash and Cash Equivalents	4	2,141,192,397	2,669,564,722	512,782,093
Financial Assets	5	3,338,353,381	-	-
Other Investments	6	50,359,743	2,225,046,148	3,191,099,265
Receivables	7	83,413,409	79,043,389	76,794,520
Inventories	8	2,855,826	3,011,501	4,262,836
Other Current Assets	9	423,979,033	448,332,271	221,347,404
		6,040,153,789	5,424,998,031	4,006,286,118
Non-Current Assets				
Receivables	10	15,111,507,752	13,485,493,526	11,861,871,078
Investment Property	11	1,318,742,356	1,285,323,892	928,290,652
Property, Plant and Equipment	12	153,221,808	161,947,796	167,381,681
Intangible Assets	13	860,459	1,028,007	1,801,080
Deferred Tax Assets	14	44,551,973	43,045,461	-
Other Non-Current Assets	15	552,128,128	553,496,838	553,055,436
		17,181,012,476	15,530,335,520	13,512,399,927
TOTAL ASSETS		23,221,166,265	20,955,333,551	17,518,686,045
LIABILITIES AND EQUITY				
Current Liabilities				
Financial Liabilities	16	1,165,094,036	1,401,135,083	1,512,720,127
Inter-Agency Payables	17	30,367,357	36,006,727	28,821,785
Trust Liabilities	18	4,634,056	4,062,632	4,062,633
Deferred Credits/Unearned Income	19	273,232,302	238,681,488	237,151,287
Other Payables	20	1,155,530,778	1,017,831,088	771,944,031
		2,628,858,529	2,697,717,018	2,554,699,863
Non-Current Liabilities				
Financial Liabilities	21	73,966,546	89,340,114	102,399,462
Trust Liabilities	22	15,003,891,103	14,005,259,814	12,645,994,331
		15,077,857,649	14,094,599,928	12,748,393,793
TOTAL LIABILITIES		17,706,716,178	16,792,316,946	15,303,093,656
Retained Earnings/(Deficit)	23	5,504,450,087	4,153,016,605	2,205,592,389
Stockholders' Equity	23	10,000,000	10,000,000	10,000,000
TOTAL EQUITY		5,514,450,087	4,163,016,605	2,215,592,389
TOTAL LIABILITIES AND EQUITY		23,221,166,265	20,955,333,551	17,518,686,045

The Notes on Pages 11 to 42 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
INCOME			
Service and Business Income	27	596,461,525	509,468,537
		596,461,525	509,468,537
EXPENSES			
Personnel Services	28	211,866,621	195,118,446
Maintenance and Other Operating Expenses	28	184,042,275	171,447,449
Financial Expenses		5,307,604	5,839,526
Non-Cash Expenses	12,13	17,646,584	18,913,505
		418,863,084	391,318,926
PROFIT/LOSS BEFORE TAX		177,598,441	118,149,611
Financial Income		91,741,977	74,557,099
Income Tax Expense/(Benefit)	26	58,784,050	39,918,309
PROFIT/LOSS AFTER TAX		210,556,368	152,788,401
Net Assistance/Subsidy/(Financial Assistance/Subsidy/Contribution)	24	1,221,669,800	1,885,009,797
NET INCOME/(LOSS)		1,432,226,168	2,037,798,198
Other Comprehensive Income/(Loss) for the Period		-	-
COMPREHENSIVE INCOME/(LOSS)		1,432,226,168	2,037,798,198

The Notes on Pages 11 to 42 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, 2017 and 2016
(In Philippine Peso)

	Paid in Capital 23.1	Retained Earnings 23.2	Total Equity
Balance as of January 1, 2016	10,000,000	2,210,919,277	2,220,919,277
Adjustments:			
Prior Period Errors	-	8,118,809	8,118,809
Deferred Tax Asset Adjustment	-	41,736,461	41,736,461
Other Adjustments	-	(5,963,325)	(5,963,325)
Restated balance as of January 1, 2016	10,000,000	2,254,811,222	2,264,811,222
Comprehensive Income for the year	-	2,037,798,198	2,037,798,198
Dividends	-	(68,662,063)	(68,662,063)
Garnishment of Peso Time Deposit	-	(70,930,752)	(70,930,752)
Ending balance as of December 31, 2016	10,000,000	4,153,016,605	4,163,016,605
Balance as of December 31, 2016	10,000,000	4,153,016,605	4,163,016,605
Comprehensive Income for the year	-	1,432,226,168	1,432,226,168
Dividends	-	(84,713,020)	(84,713,020)
Other Adjustments	-	3,920,334	3,920,334
Balance as of December 31, 2017	10,000,000	5,504,450,087	5,514,450,087

The Notes on Pages 11 to 42 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, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of Income/Revenue		956,375,161	928,840,842
Receipt of Assistance/Subsidy		-	360,360,000
Collection of Receivables		6,431,590	5,492,042
Receipt of Inter-Agency Fund Transfers		2,259,704,320	2,994,267,501
Trust Receipts		155,294,364	131,886,229
Other Receipts		4,150,978	1,646,912
Total Cash Inflows		3,381,956,413	4,422,493,526
Cash Outflows			
Payment of Expenses		316,905,364	356,035,541
Purchase of Inventories		3,379,661	4,211,040
Prepayments		58,748,776	61,536,950
Refund of Deposits		16,190,022	222,270
Remittance of Personnel Benefit Contributions and Mandatory Deductions		108,563,560	67,950,773
Release of Inter-Agency Fund Transfers		17,961,017	19,091,487
Other Disbursements		2,152,516,794	2,029,164,639
Total Cash Outflows		2,674,265,194	2,538,212,700
Net Cash Provided By/(Used in) Operating Activities		707,691,219	1,884,280,826
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Receipt of Interest Earned		63,108,294	71,606,781
Proceeds from Matured Investments/Redemption of Long-term Investments/Return on Investments		802,107,930	-
Total Cash Inflows		865,216,224	71,606,781
Adjustments		3,026,995,864	-
Adjusted Cash Inflows		3,892,212,088	71,606,781
Cash Outflows			
Purchase/Construction of Property, Plant and Equipment		22,645,423	591,789,573
Purchase of Investments		4,977,624,667	-
Grant of Loans		8,200,000	5,340,000
Total Cash Outflows		5,008,470,090	597,129,573
Adjustments		-	2,225,046,148
Adjusted Cash Outflows		5,008,470,090	2,822,175,721
Net Cash Provided By/(Used In) Investing Activities		(1,116,258,002)	(2,750,568,940)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Long-Term Liabilities		9,873,038	9,828,497
Payment of Interest on Loans and Other Financial Charges		5,045,242	5,402,810
Payment of Cash Dividends		84,713,020	69,079,858
Total Cash Outflows		99,631,300	84,311,165
Adjustments		20,174,242	83,717,357
Adjusted Cash Outflows		119,805,542	168,028,522
Net Cash Provided By/(Used In) Financing Activities		(119,805,542)	(168,028,522)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(528,372,325)	(1,034,316,636)
Cash and Cash Equivalent at beginning of the year		2,669,564,722	3,703,881,358
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	2,141,192,397	2,669,564,722

The Notes on Pages 11 to 42 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly Owned Subsidiary of National Home Mortgage Finance Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Peso)

1. CORPORATE INFORMATION

On January 20, 2004, Executive Order No. 272 was signed and approved by the President of the Republic of the Philippines authorizing the National Home Mortgage Finance Corporation (NHMFC) to organize and establish the Social Housing Finance Corporation (SHFC), as a wholly-owned subsidiary, in accordance with the Corporation Code and pertinent rules and regulations issued by the Securities and Exchange Commission (SEC). SHFC has been formally organized and established on June 21, 2005 with the issuance of the Certificate of Incorporation under SEC No. CS 200510702.

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

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

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

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 (ISF) residing in the danger areas in the National Capital Region (NCR). The directive falls squarely within the mandate of SHFC, thus, in furtherance to its mandate and primary purpose, the High Density Housing (HDI) Program was created and promulgated to extend financing assistance to organized communities for the construction of high density housing projects and for acquisition of lots for near-site, in city and near city relocations.

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

The financial statements of SHFC as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the SHFC's Board of Directors (BOD) on April 23, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

The financial statements of the SHFC have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) applicable to Government Business Enterprises (GBEs), pursuant to the requirement under COA Circular No. 2015-003. PFRS are adopted and issued by the Financial Reporting Standards Council (FRSC) from the pronouncements of the International Accounting Standards Board (IASB).

In compliance with COA Circular No. 2017-004 dated December 13, 2017 on the guidelines on the preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards by Government Corporations classified as GBEs, the agency as a first time adopter included three Statements of Financial Position as of December 31, 2017, December 31, 2016 and January 1, 2016 (Opening Statement of Financial Position); two Statements of Comprehensive for the years ended December 31, 2017 and 2016; two Statements of Cash Flows for the years ended December 31, 2017 and 2016, two Statements of Changes in Equity for the years ended December 31, 2017 and 2016 and Related Notes, including comparative information.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

b. *Adoption of the Commission on Audit Revised Chart of Accounts*

In compliance with COA Circular No. 2016-006 dated December 29, 2016, SHFC adopted the Revised Chart of Accounts (RCA) titles in its trial balance for CYs 2017 and 2016. General Ledger and Subsidiary Ledger accounts were diligently analyzed and manually mapped to the RCA. SHFC's accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRS.

In the interim, SHFC will be using the RCA titles until some issues on the accounts title requirements are resolved.

c. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements.

SHFC presents a third Statement of Financial Position as of the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the Statement of Financial Position at the beginning of the preceding period. The related notes to the third Statement of Financial Position are not required to be disclosed.

d. *Functional and Presentation Currency*

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

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

2.2 First time adoption

The SHFC is a first time adopter of the PFRS and has presented the financial statements in accordance with PFRS 1 on First Time Adoption of Philippine Financial Reporting Standards. For all periods up to and including the year ended December 31, 2016, SHFC prepared its financial statements in accordance with the New Government Accounting System (NGAS) as the national source for the Generally Accepted Accounting Principles (GAAP) adopted by government agencies in the Philippines.

Group reconciliation of assets, liabilities and equity disclosed that the change from GAAP to PFRS has no impact on the balances of accounts as of January 1, 2016.

On the other hand, group reconciliation of assets, liabilities and equity showed remeasurements of non-current assets and liabilities balance as of December 31, 2016, as follows:

	GAAP	Remeasurements	PFRS December 31, 2016
Assets			
Current	5,424,998,031	-	5,424,998,031
Non-Current	15,089,996,616	440,338,904	15,530,335,520
Total Assets	20,520,957,971	440,338,904	20,955,333,551
Liabilities			
Current	2,257,378,113	440,338,904	2,697,717,017
Non-Current	14,094,599,929	-	14,094,599,929
Total Liabilities	16,351,978,042	440,338,904	16,792,316,946
Equity	4,163,016,605	-	4,163,016,605
Total Liabilities and Equity	20,520,957,971	440,338,904	20,955,333,551

The group reconciliation of profit and loss (before tax) has no major effect on the income and expenses Profit and Loss for the year ended December 31, 2016:

2.3 Adoption of New and Amended PFRS

a. *Effective in 2017 that are relevant to the Corporation*

SHFC adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments) : Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments) : Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments and improvements.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference, (b) recovering an asset for more than its carrying amount, (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

The application of this amendment had no impact on the SHFC's financial statements.

b. *Standards Effective subsequent to 2017 but not adopted early*

- PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018)

This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at Fair Value through Profit or Loss.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

SHFC is currently assessing the impact of PFRS 9 (2014) on the financial statements of SHFC Group to determine whether the effect of PFRS 9 (2014) is significant or not to the financial statements and it is conducting a comprehensive study of the potential impact of this standard to the financial statements and operations of the SHFC prior to its mandatory adoption date

- PFRS 16, *Leases*

On January 13, 2016, the International Accounting Standards Board (IASB) issued its new standard, International Financial Reporting Standards (IFRS) 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations. On February 17, 2016, the Financial Reporting Standards Council (FRSC) locally adopted PFRS 16, *Leases*.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on the Statement of Financial Position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted the new revenue recognition standard.

The agency is currently assessing the impact of adopting the above standards on the Financial Statements of the SHFC.

2.4 Financial Assets

Financial asset is any asset that is:

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

Financial assets are recognized in the Financial Position when, and only when, the agency becomes a party to the contractual provisions of the instrument. At initial recognition, the agency measures its financial assets at fair value plus or minus, in the case of financial assets not at fair value through statement of comprehensive income,

transaction costs that are directly attributable to the acquisition or issue of the financial assets. After initial recognition, the agency measures its financial assets at fair value or amortized cost in accordance with PFRS rules on financial instruments.

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

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

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

2.5 Inventories

Inventory Held for Consumption

Supplies and materials purchased for inventory purposes are recorded using the Perpetual Inventory System. In compliance with COA Circular 2015-010 dated December 1, 2015, the SHFC's inventory held for consumption is valued at lower of cost or net realizable value. Inventories are reclassified to expense upon issuance thereof and recorded based on the Report of Supplies and Materials Issued.

Semi Expendable Property

These are tangible items below the capitalization threshold of P15,000 as prescribed by COA Circular No. 2015-007 dated October 22, 2015. Semi expendable properties are recognized as expense upon issue to the end user. Said tangible items are listed in the Inventory Custodian Slips for reconciliation.

2.6 Prepayments and Other Current Assets

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

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

2.7 Property, Plant and Equipment

Building and Improvements are measured at cost less depreciation for buildings and improvements. After initial recognition, property and equipment are carried at acquisition cost or construction cost less subsequent depreciation and amortization and impairment in value, if any. All other property, plant and equipment (PPE) are also stated at cost less accumulated depreciation and any impairment in value.

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

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

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

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

2.8 Investment Property

Investment Property (IP) pertains to the land acquired for building construction and site development for HDH program beneficiaries under Usufruct Agreements. It is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, neither for use in the production or supply of goods and services or for administrative purposes.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an IP is immediately recognized in profit or loss as Fair Value Gains (Losses) from IP under the Other Operating Income (Expenses) account in the statement of profit or loss.

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

2.9 Intangible Assets

These are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to

acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to five years as the lives of these intangible assets are considered finite).

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

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

2.10 Financial Liabilities

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

Trade and Other Payables, due to related parties and Other Non-Current Liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

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

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

2.11 Provisions and Contingencies

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

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

recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.12 Recognition of Assets

An asset is recognized in the Statement of Financial Position when it is probable that economic future benefit will flow to the agency and the asset has a cost or value that can be measured reliably.

2.13 Recognition of Liabilities

A liability is recognized in Statement of Financial Position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. Recognition of liability entails recognition of related assets or expense.

2.14 Revenue and Expense Recognition

Revenue comprises mainly of interest income, fines and penalties measured by reference to the fair value of consideration received or receivable by SHFC from housing loans.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to SHFC; and the costs incurred or to be incurred can be measured reliably. In effect, the recognition of an income occurs simultaneously with the recognition of increases or decreases in liabilities.

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

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

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

Cost and expenses are also recognized in those cases when a liability is incurred without recognition of an asset and are also recognized upon utilization of services or at the date they are incurred. All are reported in Statement of Comprehensive Income on an accrual basis.

2.15 Cash and Cash Equivalents

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

2.16 Receivables

Receivables are recognized and carried at their face amounts less allowances for impairment.

Allowance for impairment is maintained at a level considered adequate for potentially uncollectible receivables. The level of allowance is based on historical collection, current economic trends, and changes in the customer payment terms, age status of receivables and other factors that may affect collectability.

2.17 Leases

SHFC accounts for its leases as:

SHFC as Lessee

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

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

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

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

2.18 Income Taxes

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

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

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

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

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

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

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

2.19 Equity

Equity comprises of equity contribution and retained earnings.

Share capital is measured at par value for all shares issued.

Retained Earnings represent all current and prior period results of operations as reported in the Statement of Comprehensive Income, reduced by the amounts of dividends declared.

2.20 Events After the End of the Reporting Period

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

3. **SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

a. *Distinction Between Operating and Finance Leases*

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

b. *Recognition of Provisions and Contingencies*

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

3.1 Key Sources of Estimation Uncertainty

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

a. *Impairment of Trade and Other Receivables*

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

b. Estimation of Useful Lives of Property, Plant and Equipment and Intangible Assets

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

The carrying amounts of PPE and IA are analyzed in Notes 12 and 13, respectively. Based on Management's assessment as of December 31, 2017 and 2016, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

c. Determination of Realizable Amount of Deferred Tax Assets

SHFC reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2017 and 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Notes 14 and 26.

4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents include the following components as of December 31:

	2017	2016
Cash on hand		
Petty Cash	698,491	675,000
Cash - Collecting Officers and Supervising Tellers	6,688,584	6,000,944
Cash in Bank	1,031,394,197	168,396,343
Short-term placements	1,102,411,125	2,494,492,435
	<u>2,141,192,397</u>	<u>2,669,564,722</u>

4.1 Petty cash fund is established at the Head and Regional/Satellite Offices to defray immediate or emergency petty expenses;

4.2 Cash - Collecting Officers and Supervising Tellers pertains to collections 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.

4.3 Cash in Bank consists of funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds, High Density Housing Program. Cash in bank earns interest at prevailing interest rates of 0.70 to 2.95 per cent per annum for the time deposit and 0.25 per cent for the current account.

4.4 Short-term placements consist of:

a. Treasury Bills are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

b. Time Deposit-Local Currency represents investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than 3 months from date of placements.

5. FINANCIAL ASSETS

This refers to Investments in Treasury Bills amounting to **P3,338,353,381** as of December 31, 2017 which are short term highly liquid investments maturing from 91 days up from date of placements.

6. OTHER INVESTMENTS

This refers to money placements in High Yield Savings Account (HYSA) amounting to **P50,359,743** and **P2,225,046,148** for the years 2017 and 2016, respectively. It represents investment in time deposits classified as highly liquid investments maturing from over 91 days up from date of placements.

7. TRADE AND OTHER RECEIVABLES (Current)

This account is composed of the following:

	2017	2016
Due from Parent Corporation	59,345,803	59,344,803
Interest Receivable	13,207,231	8,193,600
Due from Other Funds – AKPF	6,591,402	4,121,908
Receivables-Disallowances/Charges	1,620,333	4,862,417
Due from Government Corporations	1,237,622	945,528
Due from NGAs	783,143	178,641
Due from Officers and Employees	627,875	892,533
Other Receivables	-	503,959
	83,413,409	79,043,389

7.1 Due from Parent Corporation

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

7.2 Interest Receivables

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

7.3 Due from Other Funds - AKPF

This account refers to accumulated Personnel Services (PS) and other Administrative expenses of the fund paid in advance by SHFC during the year. The variance amounting to P19,006 in 2016 balance with the AKPF Due to Other Funds – SHFC, Note 7.1, Part IV of this Report, was due to restatement of prior period adjustment.

7.4 Receivables-Disallowances/Charges

This account consists of:

- a. Receivables amounting to P1,527,333 and P4,769,417 for the years 2017 and 2016, respectively, from Officers and Employees set up in compliance with the Notices of Finality of Decision dated June 29, 2016 and October 26, 2016 issued by COA, for the disallowed P5,000 cash gift as part of the 13th month pay and the P20,000 additional Grocery Subsidy granted to SHFC employees for CY 2014, respectively.
- b. Uncollected amount of P93,000 for the years 2017 and 2016, respectively, pertaining to PEI given to agency-hired employees which was also disallowed in audit.
- c. The variance against the Status of Suspensions, Disallowances and Charges paragraph 18.1, Part II of this Report amounting to P23,084 and P351,083 pertains to overpayment of resigned employees deducted to the Receivable-Disallowances/Charges account and timing difference in the recording for the years 2017 and 2016, respectively.

7.5 Due from Government Corporations

Housing and Urban Development Coordinating Council (HUDCC) - This account represents the total advances made by SHFC for the account of HUDCC pertaining to office building special assessments and other administrative expenses.

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

7.6 Due from National Government Agencies

This account represents purchases of supplies from Procurement Service-DBM which are not yet delivered.

7.7 Other Receivables

This account refers to Directors, Officers, Stockholders, and their Related Interests loan extended to employee and Advances to Procurement Service for undelivered inventory supplies purchased during the year. This account was reclassified to Due from National Government Agencies pursuant to RCA implemented under COA Circular No. 2016-006.

8. INVENTORIES

The composition of this account is shown below.

	2017	2016
Inventory Held for Consumption		
Office supplies inventory	1,771,401	2,478,252
Accountable forms, plates and stickers	479,069	485,868
Drugs and medicines inventory	8,566	8,343
Semi-expendable office equipment	578,412	35,656
Semi-expendable furniture and fixtures	14,996	-
Semi-expendable books	3,382	3,382
	2,855,826	3,011,501

8.1 Inventory Held for Consumption

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

8.2 Semi-Expendable Property

These are tangible items below the capitalization threshold of P15,000 as prescribed by COA Circular No. 2015-007 dated October 22, 2015. Semi expendable property is recognized as expense upon issue to the end user.

9. OTHER CURRENT ASSETS

The composition of this account is shown below.

	2017	2016
Advances to contractors	417,966,251	445,443,074
Advances to officers and employees	3,516,594	751,959
Guaranty deposits	1,715,608	1,574,392
Advances to special disbursing officer	417,348	254,309
Prepaid insurance	331,762	297,659
Prepaid rent	31,470	10,878
	423,979,033	448,332,271

9.1 Advances to Contractors

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

9.2 Advances to Officers and Employees

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

9.3 Guaranty Deposits

This account represents guaranty fees for SHFC's rental of Regional Offices and warehouse amounting to P1,715,608 and P1,574,392 as of December 31, 2017 and 2016 (as restated), respectively.

9.4 Advances to Special Disbursing Officer

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

9.5 Prepayments

This includes payments in advance for certain expenses to be amortized for one year.

10. TRADE AND OTHER RECEIVABLES (NON-CURRENT ASSETS)

This account is composed of the following:

	2017	2016
MCR – current	7,402,382,447	7,339,140,733
MCR – HDH	3,618,195,521	2,858,716,265
MCR - past due	2,816,614,060	2,143,065,330
MCR - restructured IBP	711,167,291	627,283,016
MCR – NIBP	241,333,955	210,586,524
MCR - items in litigation	50,925,357	50,925,357
Insurance receivable	295,382,323	275,336,568
Unamortized origination cost	26,099,312	27,798,234
Loans receivable - car loan	25,054,705	22,732,037
Loans receivable - calamity loan	1,762,176	2,297,152
Interests receivable	433,095	433,095
	15,189,350,242	13,558,314,311
Allowance for impairment	77,842,490	72,820,785
	15,111,507,752	13,485,493,526

10.1 Mortgage Contract Receivable (MCR)

Current - This account includes the amount of CMP taken-out projects from the time of transfer up to December 31, 2017.

HDH - The amount of P3.168 billion represents loan granted to the beneficiaries of HDH payable in 30 years while the car and calamity loans availed by SHFC officers and employees in the amounts of P25.054 million and P1.762 million, respectively, are

payable in ten years. The account MCR-HDHP represents draw down releases to various projects intended for HDHP beneficiaries.

Past Due - The account represents the past due portion of the loan at the time of transfer up to December 31, 2017. This also includes CMP projects taken-out from 1989 to 1993, which were retained by NHMFC but eventually transferred to SHFC with a monetary value of P621 million representing outstanding principal loan balances as of December 31, 2009. The transferred loan balances were based on the Community Association's ledger subject to adjustments upon the determination of the actual outstanding principal balance that should be based on the Member Beneficiaries (MBs) loan ledgers.

Restructured - This refers to delinquent borrowers who availed of the Restructuring Program offered by SHFC, in accordance to Republic Act (RA) No. 9507 otherwise known as the 2008 Socialized and Low-Cost Housing Loan Restructuring and Condonation Program, rescue package for housing loan borrowers.

Items in Litigation - This represents the outstanding balance of receivables from delinquent CAs transferred to the Legal Department for foreclosure and with petitions already filed in court. Outstanding balance of this account represents the original amount transferred from NHMFC.

10.2 Insurance Receivables

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

10.3 Unamortized Mortgage Origination Cost

It stands for the unamortized portion of the Origination and Appraisal Cost. It has been the policy of SHFC to capitalize the origination cost and amortized over the term of the loan which is 25 years or 300 months. However, beginning year 2011, the origination fee was treated as an outright expense.

11. INVESTMENT PROPERTY

The account balances amounting to P1,318,742,356 and P1,285,323,892 as of December 31, 2017 and 2016, respectively, represents land acquired for building construction and site development for use of ISFs under usufruct arrangement with HDH program beneficiaries. These are carried at acquisition cost.

SHFC Corporate Circular No. 13-026 on HDH guidelines, provides for the implementation framework of SHFCs participation in the priority P50-Billion Informal Settler Families (ISF) Housing Program for the relocation of ISF residing in danger areas and waterways in Metro Manila. To further strengthen said corporate objective, Corporate Circular HDH No.14-005 series of 2014 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.

12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and impairment of property, plant and equipment at the beginning and end of 2017 and 2016 are shown below.

	Buildings	Other Structures	Office Equipment	Information & Communication Technology Equipment	Communication Equipment	Other Machinery and Equipment	Motor Vehicles	Furniture & Fixtures	Books	Leased Assets Improvements, Buildings	Total
Cost											
January 1, 2017	184,770,000	16,560,000	4,899,517	26,484,201	3,380,704	183,805	20,289,918	3,439,494	97,990	19,239,119	255,392,431
Adjustments	-	-	(247,087)	(459,723)	(54,100)	-	-	(995,209)	-	(92,500)	(1,794,519)
Additions	-	-	2,076,275	1,531,453	54,100	-	-	674,162	-	376,220	4,658,110
December 31, 2017	184,770,000	16,560,000	6,728,705	27,555,031	3,380,704	183,805	20,289,918	3,118,447	97,990	19,522,839	282,208,439
Accumulated Depreciation											
January 1, 2017	(61,229,880)	(5,229,467)	(2,791,739)	(17,751,513)	(3,042,634)	(165,425)	(13,765,271)	(1,511,034)	(71,545)	(11,738,544)	(117,397,052)
Depreciation	(6,210,628)	(571,240)	(672,183)	(2,257,510)	(9,663)	-	(1,448,293)	(946,392)	(13,919)	(1,060,995)	(13,190,823)
Adjustments	-	-	155,978	250,513	9,663	-	-	1,246,936	2,713	9,732	1,675,535
Additions	-	-	(33,395)	(40,896)	-	-	-	-	-	-	(74,291)
December 31, 2017	(67,440,508)	(5,800,707)	(3,341,339)	(19,799,406)	(3,042,634)	(165,425)	(15,213,564)	(1,310,490)	(82,751)	(12,789,807)	(128,986,631)
Net Book Value											
December 31, 2017	117,329,492	10,759,293	3,387,366	7,755,625	338,070	18,380	5,076,354	1,807,957	15,239	6,733,032	153,221,808
Net Book Value											
December 31, 2016	123,540,120	11,330,533	2,107,178	8,732,788	338,070	18,380	6,524,647	1,828,460	26,445	7,500,575	161,947,796

13. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of IA at the beginning and end of 2017 and 2016 are shown below.

	Computer Software
December 31, 2017	
Cost	6,115,910
Accumulated amortization	5,255,451
Net carrying amount	860,459
December 31, 2016	
Cost	5,731,910
Accumulated amortization	4,703,903
Net carrying amount	1,028,007

14. DEFERRED TAX ASSETS

This account refers to the P44,551,973 and P43,045,461 deferred taxes for the years 2017 and 2016, respectively, computed after adjustments effecting the temporary and permanent differences during each year.

15. OTHER NON-CURRENT ASSETS

This account amounting to **P552,128,128** and **P553,496,838** for the years 2017 and 2016, respectively, refers to assets held in trust – Abot Kaya Pabahay Fund (AKPF). The AKPF was previously under the administration of the NHMFC. Due to passage of Executive Order No. 272, the Management of the Amortization Support and Developmental Financing Programs of AKPF is transferred to SHFC in CY 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. The variance of P18,514 with AKPF books was due to timing difference in recording.

16. FINANCIAL LIABILITIES (CURRENT)

This account consists of:

	2017	2016
Accounts payable	1,122,522,569	1,367,445,105
Insurance/reinsurance premium payable	41,887,787	33,093,790
Tax refunds payable	520,704	556,664
Due to officers and employees	162,976	39,524
	1,165,094,036	1,401,135,083

This account refers to the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements. The 50 per cent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of CY 2001. This account also includes perfected contracts with suppliers amounting to P2,254,403 and P7,202,497 as of December 31, 2017 and December 31, 2016, respectively.

17. INTER-AGENCY PAYABLES

This account consists of:

	2017	2016
Due to BIR	11,128,307	16,651,765
Due to Parent Corporations	18,871,043	18,871,043
Due to Pag-IBIG	161,133	172,942
Due to SSS	126,215	231,864
Due to PhilHealth	80,659	79,113
	30,367,357	36,006,727

17.1 Due to BIR

This account represents the taxes withheld from payment of employees' compensation, origination fees, honoraria, taxes withheld at source and on government money payments including provision for corporate income tax for the year.

17.2 Due to Parent Corporations

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

18. **TRUST LIABILITIES (Current)**

The account consists of Guaranty/Security Deposits and Performance Warranty and Bidders Bonds.

	2017	2016
Performance warranty	4,151,996	3,570,612
Bidders bonds	482,060	492,020
	4,634,056	4,062,632

19. **DEFERRED CREDITS/UNEARNED INCOME**

This account is composed of the following:

	2017	2016
Deferred income	241,333,955	210,586,524
Deferred credits	31,898,347	28,094,964
	273,232,302	238,681,488

Deferred Income – Unpaid interests as of date of application of restructuring that are capitalized as MCR but are non-interest bearing. Setup of capitalized MCR are credited. Where this is collection applied to MCR-NIBP, Deferred Income is debited and Interest Income is recognized (credit).

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

20. **OTHER PAYABLES**

	2017	2016
Other payables	781,027,950	577,492,184
Undistributed collections	374,502,828	440,338,904
	1,155,530,778	1,017,831,088

20.1 Undistributed Collections

This consists of accounts for clearing under the following categories:

	2017
Unposted amortization payments from remedial accounts	121,784,533
Unposted amortization payments from HDH projects	20,961,795

	2017
Unposted amortization payments from express lane projects	7,127,125
Unposted amortization payments from restructured accounts	1,721,577
Payments with no abstract of collections (AOC)	32,069,797
Payments of MBs not in master list	7,577,741
Collections from MBs who availed of the 1-year updating scheme	83,830,743
Non-transmittal of collection Documents by NHMFC	14,878,645
Uncategorized amortization payments	83,570,463
Others	980,409
	374,502,828

It refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related concerns. This was previously presented as reduction of Loans Receivable accounts.

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

20.2 Other Payables

a. Guaranty Deposits Payable

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

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

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

b. Advances from Borrowers

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

c. Origination Fee Payable

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

d. Insurance Payable

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

21. FINANCIAL LIABILITIES (NON-CURRENT)

This account amounting to P73,966,546 and P89,340,114 for the years 2017 and 2016 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. Interest rate is eight per cent per annum payable in 180 monthly installment.

	2017	2016
Office Building and 23 Parking Spaces		
SHFC	39,758,708	48,734,623
HUDCC	16,847,038	20,650,421
3 rd Floor	14,258,585	16,485,012
Parking Space – 5 additional	1,115,644	1,263,537
Parking Space – 8 additional	1,986,571	2,206,521
	73,966,546	89,340,114

22. TRUST LIABILITIES (NON-CURRENT)

This account consists of:

	2017	2016
NHMFC	14,091,402,975	13,091,402,976
AKPF	552,128,128	553,496,838
DILG	350,000,000	350,000,000
DSWD	10,360,000	10,360,000
	15,003,891,103	14,005,259,814

22.1 NHMFC

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

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

	2017	2016
Cash	1,248,396,255	920,960,106
Past due loan installment receivables	2,750,042,775	2,750,042,775
Loan installment receivables	10,207,702,370	9,746,621,088
Land	81,458,667	71,035,203

	2017	2016
Advances to contractors	32,867,482	6,416,571
Notes receivable – National Housing Authority	200,000,000	200,000,000
Insurance receivables	119,762,108	119,762,108
Items in litigation	50,925,357	50,925,357
Unamortized mortgage origination cost	50,090,716	49,799,880
Origination and appraisal cost	102,081,484	91,657,143
Interest receivables	72,873,957	72,873,957
Accounts payable – MCR	(751,526,457)	(924,341,354)
Guaranty deposits payable	(67,095,632)	(58,481,537)
Insurance payable	(4,647,805)	(4,600,018)
Advances from borrowers	(1,598,646)	(1,598,646)
Interest income	165,678,128	165,678,128
Undistributed collections	(150,012,482)	(152,488,226)
Origination fee payable	(17,125,893)	(16,251,890)
Performance warranty payable	(1,092,569)	(1,092,569)
Other professional fees	3,500	3,500
Service fee incentives	5,648,600	4,481,400
BIR	(3,028,939)	-
	14,091,402,976	13,091,402,976

This also consists of the CMP fund transferred from NHMFC.

22.2 AKPF

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

This 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.

22.3 DILG

This account pertains to fund granted by DILG released to SHFC amounting to P350 million intended for HDH projects and was deposited and maintained in a separate fund account (HDHP II) in order not to co-mingle with other funds.

22.4 DSWD

This account pertains to fund granted by DSWD released to SHFC amounting to P10.36 million from the Emergency Assistance Program of DSWD earmarked for the 148 ISF victims of typhoon Sendong in Cagayan de Oro City to be used solely for the purchase of housing materials.

23. EQUITY

23.1 Paid in Capital

SHFC has an authorized capital stock of P100 million divided into 100,000 shares with a par value of P1,000 each. The amount of said capital stock which had been subscribed by the NHMFC is P25 million, of which, P10 million was paid up and the balance of P15 million remains unpaid.

The paid-in portion of authorized capital stock is P10 million and transferable pursuant to the distribution mandated by Executive Order 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.

23.2 Retained Earnings

Unappropriated retained earnings include (a) retained earnings due for transfer to NHMFC as addition to Trust Liability pursuant to the amended Trust Agreement; (b) payment for dividends due to the Bureau of Treasury; and (c) investment income from HDH Program amounting to **P4,993,582** which does not form part of the amount to be transferred to NHMFC.

24. SUBSIDY INCOME FROM 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 three and 21 approved HDH projects in various phases in 2017 and 2016, respectively, with the following approved funding allocation and releases from the Department of Budget and Management (DBM):

This is apart from the CMP funding received from NHMFC. Approved funding allocation releases from DBM Fund amounted to **P1,246,204,521** and **P1,975,797,545** for CYs 2017 and 2016, respectively.

25. COMPLIANCE WITH TAX LAWS

25.1 Supplementary Information Required Under Revenue Regulations 15-2010

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

	2017	2016
Taxes and licenses		
BIR registration		
Real property tax	500	500
Corporate income tax	60,290,562	41,227,309
Final tax paid on income	18,348,395	14,911,420
Percentage tax	10,237,476	9,685,258
Real property tax	1,235,900	1,235,900
	90,112,333	67,059,887

25.2 SHFC withhold the following taxes:

	2017	2016
On Compensation	28,581,036	23,383,597
On Supplies and Services	3,744,284	1,884,472
	32,327,337	25,270,085

26. INCOME TAXES

26.1 Regular Corporate Income Tax

Particulars	2017	2016
Net income (loss) before income tax	269,340,418	192,706,710
Non-deductible expense	18,348,395	14,911,420
Interest income on investment/bank deposits	(91,741,977)	(74,557,098)
Accounting income subject to tax loan loss provision	5,021,705	4,363,332
Net taxable income (loss)	200,968,542	137,424,363
Tax rate	30%	30%
Current tax expense	60,290,562	41,227,309

26.2 Income Tax Benefit Computation

Particulars	2017	2016
Deferred tax asset – beginning	43,045,461	41,736,461
Temporary differences	5,021,705	4,363,332
Tax rate	30%	30%
	1,506,512	1,309,000
Deferred tax asset - ending	44,551,973	43,045,461
Income tax expense		
As reported	60,290,562	41,227,309
Adjustments	1,506,512	1,309,000
	58,784,050	39,918,309

27. SERVICE AND BUSINESS INCOME

This account consists of:

	2017	2016
Interest Income – Loans and Receivables	377,083,433	309,214,684
Fines and penalties – business income	206,624,624	187,674,107
Other business income		
Service fee income	11,929,118	11,576,551
Miscellaneous income	824,350	1,003,195
	596,461,525	509,468,537
Interest Income from Interest Savings from		
Interest income - notes	28,817,135	-
Interest Income – bank deposit	62,924,842	74,557,099
	91,741,977	74,557,099
	688,203,502	584,025,636

27.1 Service Fee Income

This represents the 20 per cent service fee earned by SHFC from enrollment of the member beneficiaries to the MRI Pool.

27.2 Miscellaneous Income

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

28. DETAILS OF EXPENSES

Personal Services

	2017	2016
Salaries and Wages-Regular	104,083,822	86,302,734
Other Compensation		
Other Bonuses and Allowances	54,913,868	60,136,653
Year End Bonus	8,910,122	7,319,082
Personnel Economic Relief Allowance	5,077,347	5,089,184
Representation Allowance	4,827,863	4,147,247
Transportation Allowance	3,972,099	4,097,694

	2017	2016
Overtime and Night Pay	3,893,990	3,289,241
Cash Gift	1,078,000	1,057,750
Clothing/Uniform Allowance	1,055,000	1,075,000
Honoraria	-	96,770
	83,728,289	86,308,621

Personnel Benefit Contributions		
Provident/Welfare Fund Contributions	15,647,075	12,860,418
Retirement and Life Insurance Premiums	2,905,734	3,024,775
PhilHealth Contributions	960,450	943,575
Pag-IBIG Contributions	258,400	257,800
Employees Compensation Insurance Premiums	69,930	77,250
	19,841,589	17,163,818
Other Personnel Benefits		
Terminal Leave Benefits	4,212,921	4,957,523
Retirement Gratuity	-	385,750
	4,212,921	5,343,273
	211,866,621	195,118,446

Maintenance and Other Operating Expenses

	2017	2016
Traveling Expenses		
Traveling Expenses-Local	12,559,695	5,906,697
Traveling Expenses-Foreign	1,235,149	2,741,333
	13,794,844	8,648,030
Training and Scholarship Expenses		
Training Expenses	4,027,934	7,573,162
Supplies and Materials Expenses		
Office Supplies Expenses	5,918,194	6,384,944
Fuel, Oil and Lubricants Expenses	1,475,869	1,178,261
Semi-Expendable Machinery and Equipment Expenses	376,910	-
Accountable Forms Expenses	327,119	191,547
Semi-Expendable Furniture, Fixtures and Books Expenses	310,512	-
Drugs and Medicines Expenses	41,856	39,053
Other Supplies and Materials Expenses	405,536	369,508
	8,855,996	8,163,313
Utility Expenses		
Electricity Expenses	5,670,295	5,442,682
Water Expenses	595,360	619,528
	6,265,655	6,062,210
Communication Expenses		
Telephone Expenses	2,095,547	2,008,884
Postage and Courier Services	1,736,553	1,166,013

	2017	2016
Internet Subscription Expenses	1,035,007	673,389
	4,867,107	3,848,286
Confidential, Intelligence and Extraordinary Expenses		
Extraordinary and Miscellaneous Expenses	634,957	696,616
	634,957	696,616
Professional Services		
Consultancy Services	12,750,304	7,252,242
Legal Services	84,000	168,000
Auditing Services	2,000	925
Other Professional Services	36,123,924	27,505,670
	48,960,228	34,926,837
General Services		
Security Services	6,038,539	5,444,765
Janitorial Services	2,866,137	1,371,285
Other General Services	3,868,223	3,991,102
	12,772,899	10,807,152
Repairs and Maintenance		
Repairs and Maintenance-Transportation Equipment	1,426,313	1,428,783
Repairs and Maintenance-Leased Assets		
Improvements	956,129	180,911
Repairs and Maintenance-Machinery and Equipment	249,095	163,169
Repairs and Maintenance-Buildings and Other		
Structures	61,450	63,972
Repairs and Maintenance-Furniture and Fixtures	5,820	107,335
	2,698,807	1,944,170
Taxes, Insurance Premiums and Other Fees		
Taxes, Duties and Licenses	31,259,387	27,594,922
Insurance Expenses	982,369	919,104
Fidelity Bond Premiums	689,460	527,125
	32,931,216	29,041,151
Other Maintenance and Operating Expenses		
Other Maintenance and Operating Expenses	24,578,210	42,022,127
Rent/Lease Expenses	5,865,319	4,971,739
Representation Expenses	4,910,758	6,051,830
Major Events and Conventions Expenses	3,693,993	2,915,720
Donations	2,995,546	26,000
Advertising, Promotional and Marketing Expenses	1,958,142	1,929,798
Litigation/Acquired Assets Expenses	1,582,727	-
Directors and Committee Members' Fees	1,302,000	952,000
Printing and Publication Expenses	815,198	666,499
Transportation and Delivery Expenses	350,164	24,000
Subscription Expenses	169,230	162,909
Membership Dues and Contributions to		
Organizations	11,345	13,900
	48,232,632	59,736,522
	184,042,275	171,447,449

Financial Expenses

	2017	2016
Interest Expenses	5,264,149	5,692,940
Bank Charges	43,455	146,586
	5,307,604	5,839,526

Non-Cash Expenses

	2017	2016
Depreciation		
Depreciation-buildings and other structures	6,781,868	6,781,868
Depreciation-machinery and equipment	2,597,493	2,946,456
Depreciation-transportation equipment	1,448,293	1,448,293
Depreciation-leased assets improvements	1,060,995	1,539,539
Depreciation-furniture, fixtures and books	184,683	1,007,694
	12,073,332	13,723,850
Amortization		
Amortization-intangible assets	551,547	826,323
	551,547	826,323
Impairment loss		
Impairment loss-loans and receivables	5,021,705	4,363,332
	5,021,705	4,363,332
	17,646,584	18,913,505

29. COMMITMENTS AND CONTINGENCIES

Legal Claims

The account consists of the garnished peso time deposit at DBP amounting to P70,930,753 enforced by an Urgent Ex parte Motion from case AC-973-RCMB-NCR-LVA-024-01-09-2014 titled SOHEAL vs. SHFC in CY 2015. This was disclosed in the CY 2015 Notes to FS under contingencies.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Financial Risk Management

MCR (CMP Loans)

CMP loans receivables are 25-year, six per cent interest loans secured by mortgage on the land subject of the loan. The loans are given to qualified CAs made up mostly of

poor and under-privileged families to assist them in purchasing the private land where they are informally settled or buying a relocation site.

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

Credit Policy for MCRs (CMP Loans)

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

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

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

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

Insurance

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

Security

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

Collection

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

Regulatory Framework

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

PART II –
OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AUDIT

1. The Undistributed Collections (UC) in the total amount of P374.503 million remain unposted to Loan Installments Receivable (LIR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the LIR accounts were overstated and understated, respectively, by the same amount. Moreover, the General Ledger (GL) or controlling account for UC was not reconciled with the Subsidiary Ledger (SL) balances, resulting in a variance of P174.797 million, or 53 per cent of the GL balance. Both the over/understatement and variance affect the fair presentation of the account balances in the financial statements, contrary to paragraph 15 of Philippine Accounting Standards (PAS) 1.

1.1 Paragraph 15 of the Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements states that:

Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with 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 20.1 to Financial Statements disclosed the UC account as amortization payments since CY 2008 up to reporting date that remain un-posted/unapplied to LIR and other affected accounts. It refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related reasons, such as:

- Payments with no abstract of collections;
- Payments of MBs not in master list;
- Collections from MBs who availed of the 1-year updating scheme;
- Un-posted amortization payments from restructured accounts;
- Un-posted amortization payments from remedial accounts;
- Non-transmittal of collection documents by NHMFC; and
- Un-categorized amortization payments.

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

Payments categorized under no abstract of collection and not in master list need compliances before collections can be cleared and posted.

1.4 Review of the balances of the accounts under UC as of December 31, 2017 showed the following movements:

Particulars	December 31		Increase/(Decrease)	
	2017	2016	Amount	%
MBs who availed of the one-year updating scheme (Condonation under RA 9507)	83,830,743	169,749,050	(85,918,307)	(50.61)
Payments without abstract of collection	32,069,797	24,352,181	7,717,616	31.69
MBs not in master list	7,577,741	7,192,672	385,069	5.35
Accounts with site development loan component	10,058	10,058	-	-
Collections from:				
NHMFC	14,878,645	14,878,645	-	-
Express lane projects CMP (not in the database)	7,127,125	8,191,949	(1,064,824)	(13.00)
Restructured accounts	1,721,577	10,360,599	(8,639,022)	(83.38)
Remedial accounts	121,784,533	111,660,642	10,123,891	9.07
High Density Housing (HDH) project (not in database)	20,961,794	9,927,138	11,034,656	111.16
Unaccounted	83,570,463	83,570,463	-	-
Others	970,351	445,507	524,844	117.81
	374,502,827	440,338,904	(65,836,077)	(14.95)

1.5 As shown in the above tabulation, the balance of the UC account was reduced by P65.836 million or 14.95 per cent.

1.6 The UC occurred because not all payments are supported by a Remittance Report and Abstract of Collection reflecting the individual monthly payment by all the MBs contrary to the Collection Agreement entered into by the Community Associations and SHFC.

1.7 Collections from the National Home Mortgage Finance Corporation (NHMFC) amounting to P14.879 million remained unposted/unallocated to the individual ledgers of the MBs due to absence of data/ledger of collections from the parent agency.

1.8 The unaccounted UC amounting to P83.570 million refers to the accounts transferred by NHMFC to SHFC with no database of MBs which could be used as reference in the distribution or application of the amounts to the individual MB ledgers.

1.9 Further verification revealed that subsidiary ledger balances amounting to P199.706 million maintained by the Accounting Division were not reconciled with the controlling account or the general ledger balance amounting P374.503 million, resulting in a variance of P174.797 million, or 53 per cent, as shown below:

General ledger balance	P 374,502,827
Subsidiary ledger (data base):	
One year updating of remedial accounts	P 99,156,825
Remedial accounts	67,848,272
Express lane – no database	3,301,252

High density project – no database	27,633,951	
Restructured accounts	1,765,912	199,706,213
Variance		P 174,796,615
		53%

1.10 We also noted that SHFC has no established policy within which to distribute/allocate the collection into the individual ledgers of MBs.

1.11 Thus, the non-posting of the UC account amounting to P374.503 million to the LIR has overstated and understated the accounts, respectively, rendering the account balances unreliable, and the variance of P174.797 million between the GL and the SL balances affect the fair presentation of the accounts in the financial statements, contrary to PAS 1.

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

- a. Submit work breakdown schedule to post and allocate UC for CY 2017 by at least:
 - i. 65 per cent of the UC by CY 2018
 - ii. 35 per cent of the UC by CY 2019
- b. Reconcile the variances between SL and GL balances by at least:
 - i. 65 per cent of the variance by CY 2018
 - ii. 35 per cent of the variance by CY 2019
- c. Oblige the CAs to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;
- d. Require the Information Systems Department (ISD) to enhance the database to include the Express Lane Projects, HDH Projects, Remedial Accounts and all other account not yet in the database;
- e. Require the NHMFC to submit to database listing of MBs relative to the transferred accounts amounting to P83.570 million; and
- f. Formulate policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.

1.13 Management commented on the following categories of UC and the actions taken:

- a. No Abstract of Collection (AOC) – Reversal made in 2017 amounted to P18 million. The list of remaining UCs per branch is now uploaded weekly to "FCD Online" for concerned unit's monitoring and compliance purposes. The buildup of which will be

contained once the newly developed program is in place and used in the frontline collection servicing.

b. One-year Updating Scheme - Reversal made in 2017 amounted to P180.6 million. Compliances from concerned units are effected and reversal now is made on a monthly basis.

c. Restructured Accounts - Monthly reversal is being done using the previously developed program.

d. Express Lane - Loan data are already encoded for these accounts but payments are not yet posted awaiting compliance of the AOC.

e. HDH - UC for this category are not yet posted. This is dependent on the program yet to be developed by the Information Communication Technology Department (ICTD).

f. Not in Master list - The list of names and corresponding receipts per branch is now weekly uploaded to FCD Online for concerned unit's monitoring purposes. The continuous buildup of UC under this category will likewise be contained once the newly developed program is in place and being used by the frontline collection servicing.

g. Remedial - Initial reversal made in 2017 amounted to P18.5 million for 1,000 approved restructured accounts. Task Force Remedial Management Account (TFRMA) is in the process of compliance and approval of restructuring availments.

1.14 The new program is expected to be available by the end of the second semester, 2018. Once the newly developed program is in place, the proper and timely allocation of the collections will be resolved.

1.15 As a rejoinder, we stand by our recommendation that Management expedite the reconciliation and posting of the UC account to individual ledgers.

2. Assets of SHFC amounting to P21.031 billion were not stated at their fair value due to absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39 for CY 2017, thus, casting doubt on the reliability and valuation of the corporate assets.

2.1 For Financial Assets, PAS 39 requires that an entity shall assess at the end of each reporting period whether there is any objective evidence that a **financial asset** or **group of financial assets** measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63, which states that:

If there is objective evidence that an impairment loss on financial assets measured at amortised costs has been incurred, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate (ei the effective interest rate computed at initial recognition). The carrying amount of the assets shall be reduced either

directly or through use of an allowance account. The amount of losses shall be recognized in profit and loss.

2.2 Paragraph 9 of PAS 36 – Impairment of Assets states that:

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

2.3 Paragraph 12 of the same standard provides that:

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information:

- (a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.*
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which an asset is dedicated.*
- (c) market interest rates or other market rates of returns on investment have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.*
- (d) the carrying amount of the net assets of the entity is more than its market capitalization.*

Internal sources of information

- (a) evidence is available of obsolescence or physical damage of an asset.*
- (b) Significant changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or in manner in which, an asset is used or expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.*
- (c) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.*

2.4 As of December 31, 2017, the Corporation has reported the following assets:

Particulars	Amount
Financial Assets	
Investments in treasury bills	3,338,353,381
Other investments	50,359,743
Receivables, current (net of mandatory accounts)	81,793,076
Other current assets	423,979,033
Receivable, non-current	15,111,507,752
Other non-current assets	552,128,128
	19,558,121,113
Non-Financial Assets	
Investment property	1,318,742,356
Property, plant and equipment	153,221,808
Intangible assets	860,459
	1,472,824,623
Total	P 21,030,945,736

2.5 The above accounts are defined in Notes 5, 6, 7, 9, 10, 11,12,13 and 15 to Financial Statements of the Corporation.

2.6 Review and inquiry from Management revealed that SHFC has no existing policy/guidelines to assess whether there is indication or objective evidence of impairment for the above-mentioned assets. The Corporation only provides Loan Loss provisioning for Mortgage Contracts Receivable under Board Resolution No. 329 dated May 24, 2013.

2.7 Further, for CY 2017, the collection efficiency rating of SHFC was only 68.70 per cent, which is lower than the target of 84 per cent based on the Performance Scoreboard as set by the Governance Commission for GOCCs (GCG), thereby garnering a rated rating of 0 per cent. The low collection efficiency of 68.70 per cent is an indication or objective evidence of impairment of the financial assets.

2.8 In view of the foregoing, failure of the Management to provide policy/guidelines to assess whether there is an indication or objective evidence of impairment on the recorded assets cast doubt on the accuracy and valuation of the assets and possible misstatement of the financial statement and contrary to the above stated provisions of PAS 36 and 39.

2.9 We recommended and Management agreed to formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS Nos. 36 and 39 for CY 2017.

3. CMP accounts totaling P88.154 million transferred by the NIIMFC without the corresponding supporting documents and 638 accounts with negative balances amounting to P8.818 million cast doubts on the accuracy of the Insurance Receivable - Member Beneficiaries account balance of P295.382 million under the CMP, contrary to paragraph 15 of PAS 1.

3.1 Note 10.2 to Financial Statements states that Insurance Receivable account increases whenever there is renewal, on a yearly basis, of the MRI coverage advanced by SHFC for qualified Community Associations (CA) and decreases upon collection of insurance repayments from MBs which can be determined only upon distribution of collections temporarily lodged under the UC account.

3.2 Annually, the Corporation advances the MRI coverage of CAs through the renewal of insurance with the Pag-IBIG MRI Pool. Cost of said renewal premiums is included in the monthly loan amortizations. MRI proceeds will be applied against the outstanding loan in case of death of the MBs.

3.3 Records show that as of December 31, 2017, the Insurance Receivable subsidiary ledger reflected a balance of P295.382 million, net of negative balances amounting to P8.818 million accounted for as follows:

Insurance Receivable	Amount	No. of CAs
Gross amount	P 304,200,501	2,661
Negative balances (credit)	(8,818,179)	(638)
Insurance receivable - net	295,382,322	2,023

3.4 Inquiry from Management disclosed that the cause of the abnormal balances was due to non-enrollment/renewal of the insurance premiums of the MB and property by the SHFC despite payments made by the CAs/Members.

3.5 Verification of the account also disclosed an unaccounted balance amounting to P88,154,115. Further inquiry from Management disclosed that these were the CMP accounts transferred by the NHMFC without the corresponding supporting documents.

3.6 The existence of abnormal balance in the Insurance Receivable casts doubt on the accuracy of the account contrary to paragraph 15 of PAS 1 as cited under Paragraph 1.1, Part II of this Report. Further, the non-enrolment of the MBs for MRI coverage, despite payment of insurance premium by the MBs, may result in depriving the MBs of the benefit of redeeming their mortgaged property in case of death and exposing the SHFC to the risk of not being compensated in case of death of the MB.

3.7 We recommended that Management:

a. Analyze and reconcile the accounts with lapsed MRI premiums and immediately apply the negative balances to future periods of insurance coverage or to the loan balances or refund to the MBs if loan is already fully paid; and

b. Strictly adhere to the Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137.

3.8 Management commented that the Finance & Comptrollership Department is coordinating with NHMFC on the matter and request for details on the transferred account had been made to effect the necessary adjustments and that in the event NHMFC cannot provide SHFC the required documents, accounting is proposing to adjust the records specifically the Investment and Trust Liability accounts for NHMFC and SHFC, respectively.

3.9 SHFCs proposal is yet to be made until after the reconciliation of the account which is dependent on the one-time reversal after the development and operationalization of the ledgering system. FCD is currently undertaking the activity starting February of the current period and estimated to be finished until end of the second quarter of the same period. The said one-time reversal/reconciliation shall serve as supporting document in recording the adjustments to balance the reciprocal accounts for both NHMFC and SHFC.

3.10 To rectify the negative balances as of end of the period, the accounting unit shall draw a JEV to reclassify the entry into Insurance Payable.

3.11 In the exit conference on the audit of NHMFC, we were informed that the officials and employees responsible for the transfer of the NHMFC accounts to SHFC are the same officials and employees now with the SHFC, thus they should be responsible for determining the details and supporting documents of the subject accounts totalling P88.154 million and not the NHMFC.

3.12 We therefore recommend that SHFC and NHMFC require the responsible officials to account for the documents they brought from the NHMFC.

4. Funds amounting to P350 million transferred by the DILG to SHFC, sourced from the 2015 General Appropriations, remain unutilized since the time it was received on September 28, 2016 due to the non-execution of Trust Agreement as required in the Memorandum of Agreement (MOA) contrary to Executive Order (EO) 292 on Special Fiduciary and Trust Funds, thus defeating the purpose of providing decent and safer housing sites to primarily benefit ISFs living in waterways and danger zones within Metro Manila. Moreover, the fund is being invested in high yield savings with interests earned amounting to P1.697 million which was not remitted to the National Treasury as required under Section 4 of the General Provisions of the General Appropriations Act (GAA) for FY 2017, Section 65 (1) of Presidential Decree No. 1445 and Section 4.1 of DBM-DOF-COA Joint Circular No. 9-81, thus depriving the national government of the income.

4.1 Section 4 of the General Provisions under the FY 2017 GAA states that:

"xxx. As a general rule, all fees, charges, assessment and other receipts or revenues collected by department, bureaus, offices, and instrumentalities of the National Government, including Constitutional Offices enjoying fiscal autonomy in the exercise of their mandated functions, at such rates as are now or may be approved by the appropriate approving authority shall be deposited with the National Treasury as income of General Fund pursuant to Section 44, Chapter 5, Book VI of E.O. No. 292 s. 1987 and Section 65 of P.D. 1445."

Section 65 (1) of P.D. No. 1445 provides that;

Accrual of income to unappropriated surplus of the General Fund.

(1) Unless otherwise specifically provided by law, all income accruing to the agencies by virtue of the provisions of law, orders and regulations shall be deposited in the National Treasury or in any duly authorized government depository.

Section 4.1 of DBM-DOF-COA Joint Circular No. 9-81 dated October 19, 1981 on the Consolidated and Revised Guidelines in the Proper Handling, Operation and Accounting for Trust Receipts states that:

All receipts credited to a trust liability account shall be deposited in the National Treasury unless authorized in the General Appropriations Act, Presidential Decrees, Executive Orders, stipulated in the agreement that such receipt shall be deposited with government depository banks.

Section 45 Chapter 5 Book VI of EO No. 292 on Special, Fiduciary and Trust Funds states that:

Receipts shall be recorded as Income of Special, Fiduciary or Trust Funds or Funds other than the General Fund, only when authorized by law and following such rules and regulations as may be issued by Permanent Committee xxxx. The same Committee shall likewise monitor and evaluate the activities and balances of all Funds of the national government other than the General fund and may recommend for the consideration and approval of the President, the reversion to the General Fund of such amounts as are (1) no longer necessary for the attainment of the purpose for which the Funds were established, xxx

4.2 On June 27, 2016, a Memorandum of Agreement (MOA) was entered into by and between the DILG and SHFC for the transfer of P350 million funds from DILG under the GAA allocation. The objective of the Fund is to assist ISFs living along waterways and danger areas within Metro Manila, to relocate to and acquire decent housing sites. The fund transferred shall provide for the construction of micro-medium rise buildings that will primarily benefit ISFs living along the esteros and waterways in Manila, including but not limited to:

1. Estero de San Miguel in Legarda
2. Estero de San Miguel in P. Casal
3. Estero de San Sebastian
4. Estero de Quiapo

4.3 The MOA provides that DILG will execute a Trust Agreement (TA) with SHFC for the implementation of the project. Both parties agreed to make the necessary arrangements to ensure satisfactory implementation of the project and for DILG and SHFC to communicate systematically to exchange views and report on the accomplishments and resolve policy issues, if any, with regard to the MOA.

4.4 The 350 million fund which was sourced from the 2015 general appropriations was received and accepted by SHFC on September 28, 2016, however, DILG and SHFC, failed to executed the TA as of December 31, 2017. In the absence of TA, SHFC

cannot immediately implement the project. Since the fund remained unutilized, SHFC temporarily invested the fund in the Land Bank of the Philippines (LBP) High Yield Savings Accounts which is not among the provisions of the MOA, defeating the purpose for which the trust fund was created.

4.5 Review revealed that as of December 31, 2017 Cash in Bank – HDH II amounted to P351.697 million, inclusive of interest income totaling P1.697 million earned from the deposit. For CY 2017, SHFC remitted only P896,571 to the Bureau of the Treasury (BTr) representing the interest income earned from P350 million in CY 2016. Details of the fund follow:

Period	Period	Interest Earned (Net)	Balance
Trust fund from DILG			P350,000,000
Interest income (HYSA)	Sept. - Dec. 2016	P2,171,744	352,171,744
Interest income (savings acct. deposit)	Jan. - Mar. 2017	57,042	352,228,786
Remittance to BTr	Jun. 21, 2017	(896,571)	351,332,216
Interest income	Apr. - Jun. 2017	178,061	351,510,277
Interest income	Jul. - Sept. 2017	115,217	351,625,494
Interest income	Oct. - Dec. 2017	71,888	351,697,382

4.6 SHFC's failure to remit to the BTr the interest income earned on the Trust Fund from DILG has deprived the national government of the income.

4.7 **We recommended that Management:**

a. Return the funds which remain unutilized since the time it was received in September 2016 or coordinate with the DILG on the execution of TA to initiate the immediate implementation of the project; and

b. Remit immediately to the BTr the interests earned amounting to P1.697 million from the savings account of the Trust Fund.

4.8 Management commented that the Disbursement Voucher No. 2018030986 amounting to P1.697 million is being processed and will be delivered to the National Treasury within the week. This amount consists of the residual interest up to June 21, 2017 when we remitted P896,571 to the BTr representing interest earned in 2016 as instructed by COA plus interest earned until December 31, 2017 on our outstanding un-invested but interest-bearing checking account with the Landbank of the Philippines.

4.9 The project Jesse Robredo Village HOA, Inc., in-city relocation for 172 families, is currently securing the necessary permits as compliance to the loan application requirements prior to enrolment of the project for Phase 2 (site development and building construction).

4.10 SHFC is coordinating with the HOA with regard to compliance of the documentary requirements. Upon submission of the said documents by the HOA, SHFC will subject the project for review and subsequent enrolment for Phase 2.

4.11 We stand by our recommendation to either return the fund or immediately execute a TA to initiate implementation of the project.

5. MCR – Past Due account balance per GL of P2.854 billion for the 27,257 accounts differed by P1.533 billion or 54 per cent against the SL balances totaling to P1.321 billion as of October 2017, contrary to Section 111 of PD No. 1445 and paragraph 15 of PAS 1, thus casting doubt on the accuracy and reliability of the account. Moreover, the MCR – Past Due account has remained past due and uncollected for a period ranging from four months to more than ten years and without a single payment after take out.

5.1 Section 111 of PD No. 1445 on Keeping of Accounts states:

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

b. The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information."

5.2 Verification of the subsidiary ledger balance of the Past Due Loans Installment Receivable account showed a total balance of P1.321 billion aged as follows:

Age	Number of Accounts	Amount	
4 months to 12 months	3,058	P 176,976,638	13.40%
More than 12 months to 5 years	7,688	449,917,706	34.06%
More than 5 years to 10 years	4,500	239,935,560	18.16%
More than 10 years	12,011	454,256,840	34.38%
Total - SL	27,257	P 1,321,086,744	100%
Total - GL		2,854,096,897	
Discrepancy/variance		P 1,533,010,153	54%

5.3 Audit disclosed that MCR – Past Due subsidiary ledger balance amounting to P1.321 billion consisting of 27,257 accounts represents only 46 per cent of the GL balance of P2,854.096 billion, reflecting a discrepancy of P1.533 billion or an unaccounted difference of 54 per cent.

5.4 Community Mortgage Program (CMP) is a financing scheme that assists and enables informal settlers, slum dwellers or residents of blighted areas, in purchasing through their duly registered CA, the land they occupy or the land where they would be relocated. After having turned-over and individualized/unitized the titles by the CA, these would already be in the name of the MBs. The account is considered past due when the MB fails to pay three consecutive monthly amortizations of his housing loan.

5.5 Verification disclosed that past due accounts ranged from CYs 1990 to 2017. Loan take-out amounted to a maximum of P100,000. A total of 12,011 accounts amounting to P454.257 million or 34.38 per cent from the SL balance remained past due for more than 10 years.

5.6 Further verification also disclosed that the MBs did not apply for any available remedies to update their accounts. There are also 8,892 accounts amounting to P408.517 million which have no single payment since loan take-outs.

5.7 The existence of discrepancy/variance casts doubt on the reliability and accuracy of the MCR – Past Due account, contrary to paragraph 15 of PAS 1 as cited under Paragraph 1.1, Part II of this Report. Further, the Corporation is exposed to the risk of non-recovery of its financial exposure into the housing operations.

5.8 We reiterated our prior years' audit recommendation and Management agreed to reconcile and adjust the MCR-Past Due account by at least:

- a. 30 per cent by 2018.
- b. 30 per cent by 2019.
- c. 40 per cent by 2020.

5.9. We further recommended that Management:

- a. Monitor and issue demand letters to the MBs with past due accounts who have not availed any plan of payment offered by the SHFC;
- b. Offer restructuring plan of payment to ensure prompt collection to bring the account to its current status;
- c. Substitute delinquent accounts with new borrowers who have the capacity to pay; and
- d. Foreclose the delinquent accounts specially those accounts more than ten years and without a single payment after take out, after exhausting all remedies, and consolidate in the name of SHFC as prescribed under R.A. 9507.

COMPLIANCE AUDIT

6. A High-Density Housing (HDH) project amounting to P414.049 million was approved by the Board and payment amounting to P100.329 million was made despite Greater Metro Manila Area (GMMMA) Hazard Map result that the lot is susceptible to moderate flooding, within the tsunami inundated area, susceptible to moderate liquefaction, thereby not suitable for relocation contrary to EO No. 272 and Corporate Circular No. 13-026.

6.1 Under EO No. 272 dated January 4, 2004, the Constitution mandates the State to undertake a continuing program for urban land reform and housing which will make available, at affordable cost, decent housing and basic services to underprivileged and homeless citizens in urban and resettlement areas. SHFC's corporate policy is to ensure delivery and management of safe, affordable and decent permanent housing solutions for informal settler families living in danger areas and waterways in Metro Manila.

6.2 Corporate Circular No. 13-026 on HDH Guidelines where the mandate of the Corporation is to be the lead government agency to undertake social housing programs that will cater to the formal and informal sectors of the low-income bracket and shall take charge of developing and administering social housing schemes. In furtherance of this mandate, the Corporation can participate in the ISFs Housing Project and enable it to extend financing assistance to organized communities for the construction of HDH program. The beneficiaries of the HDH are community associations of informal settlers who are living in danger areas and along the waterways in highly urbanized cities. The property to be purchased shall be chosen by the community association living along waterways and danger areas in Metro Manila pursuant to its people's plan.

6.3 Records show that as of December 31, 2017, total funds amounting to P100.329 million were disbursed for the HDH project, as detailed below:

Particulars	Amount
15% Mobilization fee	P 50,589,090
80% cost of lot	41,231,520
Building permit & professional fee	6,903,844
75 % Service fee - Civil Society Organization (CSO) partner	942,840
Construction project monitoring service fee	572,051
Expanded withholding tax	39,529
Real estate property tax	35,932
Appraisal fee	6,062
Orientation on utilities	3,513
Meralco/Maynilad/Construction monitoring	3,418
Substitution fee	1,807
	P 100,329,606

6.4 The SHFC, through Board Resolution No. 444 series of 2015, approved the purchase of the 3,000 square meters of lot through the initiative of the Cooperative and assistance of the CSO partner. The project will house 864 ISFs coming from danger zone areas of Barangays Maysan, Malanday, Bagbaguin, Dalandanan and Marulas in Valenzuela City. The Cooperative's choice of tenurial arrangement is through usufruct agreement wherein SHFC is the owner of the lot.

6.5 The lot was valued at P1,717 per square meter or a total purchase cost of P51.539 million as approved per Board Resolution No. 444 series of 2015. In 2016, the amount of P41.232 million, or 80 per cent, was already paid while the remaining 20 per cent will be paid upon transfer of the Transfer Certificate of Title (TCT) in the name of SHFC.

6.6 The project, which will house 864 ISFs, was approved by the Board of Trustees (BOT) under Resolution Nos. 444 and 494, for a total cost of P388.800 million, or P450,000 per ISF, broken down as follows:

	Amount	Share Per ISF
Site Development Cost	P 36,090,000	-
Building Cost	301,170,600	-
Total	P 337,260,600	P 390,348

	Amount	Share Per ISF
Cost of Lot	51,539,400	59,652
Total	P 388,800,000	P 450,000
Indirect Cost	25,248,926	-
Total	P 414,048,926	P 450,000

6.7 Verification disclosed that the site development and construction of 18 three-storey buildings amounting to P337.261 million are being undertaken by a Contractor. The Notice to Proceed (NTP) dated June 13, 2016 showed that the project would be completed for a period of 12 months, reckoned from ten days upon receipt of the 15 per cent mobilization fee. The mobilization fee was received on August 1, 2016. Housing units are scheduled to be delivered for a period of 12 months or until August 10, 2017, as prepared by the Structural Engineer and approved by the President of the Cooperative and Chairman of the CSO Partner.

6.8 Ocular inspection of the site conducted on February 9, 2018 revealed that the project is still very far from completion. Site development such as road networks, water layout and electricity were not yet in place. At the project site, a reinforced concrete foundation at ground level was constructed for the 12 buildings only. Columns, footing tie beam, backfilling and concrete slabs were constructed for the nine buildings, while only columns and footing tie beams could be seen for the other three buildings. Since the area was a former dumpsite of the municipality, construction of the remaining six buildings has not yet been started due to the difficulty of excavating the land to reach the original soil. This is not in conformity with the Building Construction and Site Development Agreement entered into by the Contractor and the CA that the project will be fully completed within one year from the release of the mobilization fee. It is also stated in the NTP and in the Delivery Schedule of Units prepared by the Contractor and approved by the CSO Partner that the project will be completed for a period of 12 months or on August 10, 2017.

6.9 Inquiry from Management disclosed that the construction had been temporarily stopped in November 2017 to address the problem on the soil by conducting soil contamination and boring test in order to ensure the safety of the beneficiaries who will be living in that project. Construction has not resumed as of December 31, 2017.

6.10 Although the choice of the housing project is through the People's Plan, Management should have assessed if the property chosen by the Cooperative is fit for a housing community in order that the safety and health of the MBs will not be put to risk.

6.11 Review of the Site Inspection and Appraisal Report dated July 1, 2014 by the Technical Staff of the HDH Unit (HDHU) disclosed that the site is vegetated with shrubs and trees and is adjacent to previous garbage waste/dumpsite area and the western part was observed to be bounded by Tulliahan River. Further, the HDHU recommended the Cooperative to submit a certification issued by the concerned Local Government Unit (LGU) stating that the adjacent dumpsite area is not a health hazard to the MBs.

6.12 A pre-feasibility certification dated September 15, 2014 from the Office of the Undersecretary for the Urban Poor, Informal Settler Families and Other Special Concerns certified that the site has been inspected, with the following GMMA Hazard Map results:

- a. Susceptible to moderate flooding;
- b. Not prone to rain induced landslide;
- c. Not within the storm surge area;
- d. Within the tsunami inundated area;
- e. Not prone to earthquake indirect induced landslide;
- f. Not located near the fault line;
- g. May experience intensity VII ground shaking based on worst case scenario; and
- h. Susceptible to moderate liquefaction.

6.13 The DILG recommended to the Site Selection and Evaluation Committee of the National Technical Working Group to take further technical study based on GMMA Hazard Map results.

6.14 On September 29, 2014, the Office of the Undersecretary for the Urban Poor, Informal Settler Families and Other Concerns issued a letter to the Department of Environment and Natural Resources (DENR) seeking advice, stating the findings of the GMMA Hazard Map that the proposed site is not suitable for relocation as it is susceptible to moderate flooding, is within the tsunami inundated area and is susceptible to moderate liquefaction.

6.15 Despite of the above observations, the Cooperative was able to secure Environmental Clearance Certificate (ECC) No. ECC-NCR-1411-0440 from the DENR issued on December 29, 2014 granting the proposed land development of the HDH project.

6.16 With the above recommendations, Management should have conducted additional tests or obligatory requirements to ensure that the relocation site is safe for community dwelling and not a health hazard to the MBs.

6.17 Further review disclosed that 80 per cent of the cost of lot has already been disbursed by the SHFC in 2016. More than a year has lapsed but the original TCT in the name of the SHFC has not yet been submitted to the Documentation/Control and Custodianship Department (DCCD) which is the central storage of the original TCTs as collaterals of loans. This is contrary to SHFC Corporate Circular HDH No. 14-005 dated August 12, 2014 which requires that the TCT should be transferred in the name of the SHFC.

6.18 Thus, delay in the completion of the HDH project due to the acquisition of non-suitable land for decent housing community has resulted in the deferment of relocation for the 864 informal settler families, thus risking loss of government funds and putting in peril the welfare and safety of the MBs.

6.19 **We recommended that Management:**

- a. **Submit the result of soil testing of the subject property to ensure the safety of constructing the 18 three-storey housing structures;**
- b. **If the result of the test is not favorable for the construction for the housing unit, require the refund of the P100.329 million;**

c. If the result is favorable, demand the contractor to complete the project; and

d. Prospectively, before approval of the project, ensure that the project sites are suitable for housing projects and safe for the member beneficiaries who will be dwelling on the property.

6.20 Management commented that the Contractor agreed to complete the project after the conduct of soil examination test as evidenced by the Deed of Undertaking executed by the contractor in favor of the CA. As per 129th Board Meeting (01-2018) held on February 2, 2018, the Board authorized the release of the first billing to the contractor but it decided also to momentarily stop the construction to further ensure that there are no hazardous chemicals or waste that would affect the MBs. The SHFC is now in the process of procuring the services of the third-party entity which will conduct the soil contamination test. Hence, it is the Board, not the contractor, that authorized the stoppage of construction.

6.21 With respect to the titles, they have already transferred the custody of the titles to the DCCD per its Certification dated March 22, 2018. The transfer of titles to CAs name is still pending considering that the landowners are still saving funds for the payment of taxes due for the transfer of the titles.

6.22 We stand by our recommendation that if the result of the soil testing is unfavorable, the contractor and the landowner should be required to refund not only the P100.329 million but also the first drawdown amounting to P69.641 million representing 20.649 per cent accomplishment released by SHFC to the contractor on February 13, 2018.

7. Of the total amortization due of P2.590 million from 109 MBs of the Cooperative for a HDH Project, only the amount of P1.221 million was remitted by the Cooperative or a remittance efficiency rate of 47 per cent. The check collection for the monthly amortizations amounting to P584,882 remitted by the Cooperative for the said project was dishonored by the bank as this was Drawn Against Insufficient Funds (DAIF) of which only P213,838 (net of interest and penalties) was replaced by cash as of December 31, 2017, resulting in the poor recovery of the corporate investment in housing and the existence of past due accounts of the MBs.

7.1 The Cooperative, through its Chairman or its representative assigned as collecting officer shall collect all amortization payments from its MBs and shall remit all said amounts, on or before due date, directly to the SHFC or to any designated branches of the Land Bank of the Philippines (LBP) nearest/convenient to the Association.

7.2 One of the HDH Projects managed by Cooperative is Phase I of the HDH Project in Pasay with 109 MBs. The Project was completed in July 2016 and the MBs are already occupying their own units and have started paying their monthly amortizations in September 2016 through the subject Cooperative.

7.3 Based on abstract of collections as of December 31, 2017, total amortization due from the 109 MBs amounted to P2,589,820. However, as of the same date, only the amount of P1,221,091 was remitted or a collection remittance efficiency rate of 47 per cent.

7.4 We also noted that on May 8, 2017, the Cooperative issued Philippine National Bank (PNB) Check No. 758873 amounting to P584,882 as remittance to SHFC for the collected monthly amortizations of the MBs. Moreover, it was disclosed that the check issued by the Cooperative was under the account name of Interior and Furnishing Supplies and Services.

7.5 Further verification revealed that the check was dishonored by the PNB - Cartimar, Taft Branch, as this was DAIF. The original copy of the Community Mortgage Receipt (CMR) was returned by the Cooperative, but only cash payments for 42 MBs instead of 109 MBs were received by SHFC as replacement of the dishonored check. Thus, the amortization payments of the MBs, through the Cooperative, were not credited to their respective ledgers with the SHFC, rendering their accounts past due, resulting to interests, penalties and surcharges or foreclosure of the mortgages.

7.6 Low collection efficiency rate and the dishonor of the check are grounds of cancellation of Collection Agreement which states the following:

- a. Inefficient collection by the CA as reflected in continued unacceptably low collection efficiency rating;
- b. Receipt of complaints from MBs of CA's failure to deliver payments collected, or unreasonable delay in the payments to SHFC;
- c. Inactive CA which renders the CA unable to operate, i.e. no elections have been conducted after a long period of time, CA officers unjustifiably refuse to accept valid tender of payments from the MBs;
- d. Failure of the CA to comply with Section 5.1 on maintenance of accounting records of all collection made; and
- e. Such other grounds as maybe determined by SHFC to be beneficial and most advantageous to the MBs.

7.7 Hence, MBs are continuously incurring interests, penalties and surcharges as their loan become past due, resulting in the poor recovery of the corporate investment in housing. However, despite the violation of the Cooperative, SHFC did not cancel the Agreement. The Agreement did not provide Surety/Fidelity Bond to ensure the recovery in case of missing funds.

7.8 This being the case, the Cooperative shall continue to be liable for the unremitted collections, including all interests, penalties and surcharges resulting from issuing a check drawn against insufficient funds. Private check shall no longer be accepted from the Cooperative as mode of payment except certified check.

7.9 We recommended that Management:

- a. Demand from the Chairman or from the representative of the Cooperative assigned as collecting officer the immediate restitution of cash amounting to P584,882 to replace the dishonored check;
- b. Demand for the collection and remittance of P1.368 Million representing the amortization due as of December 31, 2017;
- c. Never accept private checks from the Cooperative for succeeding amortization payments, except for bank certified check;
- d. Investigate and file appropriate charges against the Cooperative Chairman or its representative for the unremitted collections;
- e. Cancel the Collection Agreement with the Cooperative and require the MBs to pay their monthly amortizations directly to SHFC, pursuant to the provisions of the Collection Agreement with the Cooperative; and
- f. Require all Chairmen or all representatives of the Community Associations assigned as collecting officer of HDH projects to post Surety Bond.

7.10 Management commented that the HDH NCR Unit has endorsed to the Legal Department and to the Program Development and Enhancement Department the complaints against the CSO Partner, Cooperative Officers and SHFC Staff which includes the non-remittance of Monthly Amortizations to SHFC for the immediate investigation and legal action against the CSO Partner and officers of Cooperative per Memorandum dated February 19, 2018.

7.11 After the incident on the non-remittance of monthly amortizations by the CSO Partner and CA Officers to SHFC, MBs are now directly paying their monthly amortizations to SHFC. Management is awaiting the response of their Legal Department regarding the suspension or termination of the Collection Agreement.

8. The 546 MBs have not moved-in yet to the completed and accepted HDH Project due to non-availability of water supply system, contrary to Section 21 of RA No. 7279 and Section 14 of HDH Circular No. 14-002, resulting in the poor or even non-recovery of the corporate investment in the project amounting to P214.016 million and the non-attainment of the objectives of the program.

8.1 Section 21 of RA No. 7279, otherwise known as the Urban Development and Housing Act of 1992, provides:

Basic Services - Socialized housing or resettlement areas shall be provided by the Local Government Unit or the National Housing Authority in cooperation with the private developers and concerned agencies with the following basic services and facilities:

- a. *Potable water;*
- b. *Power and electricity and an adequate solid waste disposal system; and*
- c. *Access to primary roads and transportation facilities.*

Section 14 of Corporate Circular No. 14-002 states:

The amortization payment of the MBs of the Community Associations (CAs) shall commence two (2) months after issuance of the Certificate of Completion and Acceptance (COCA).

8.2 On March 31, 2014, DILG issued a certification to accredit the 546 MBs for the HDH project, an off-city project located in Tierra Benita, Barrio Panaklayan Muzon, San Jose Del Monte City (SJDM), Bulacan. The accredited MBs would come from Phase 10A and B, Bagong Silang, Caloocan and within the waterways danger areas of Marilao River.

8.3 Board Resolution No. 415, series of 2014 approved the grant of Letter of Guaranty (LOG) for the Site Development and Building Construction for a three-storey building with a loft for the HOA. Total project cost amounted to P214,015,699 and the tenurial security is through Usufruct Agreement.

8.4 The project was completed and accepted by the HOA on November 5, 2017, through the issuance of COCA, thus payment of amortizations should have already started in January 5, 2018, or two months after the issuance of COCA.

8.5 Joint inspection conducted on February 2, 2018 by the COA and the HDH Team disclosed that the Project has zero occupancy, despite issuance of COCA by the HOA. The 546 MBs have not moved-in yet to their new housing units due to absence of water supply, which is not in compliance with Section 21 of RA No. 7279 that complete water facilities should be in place.

8.6 Inquiry from the available members of the HOA on the site at the time of inspection disclosed that the Water District of Bulacan cannot supply the needed water facilities for all communities living within the areas as their water supply is only sufficient for the Bulacan residents.

8.7 MBs who are guarding the vicinity at the time of inspection further disclosed that they hire a security guard to safeguard the project at night time, while male MBs act as "tanods" at day time to guard and protect the project from illegal occupants.

8.8 Validation of the Subsidiary Ledger of the HOA showed that no payment yet has been received from HOA since the issuance of COCA on November 17, 2017, in violation of the HDH Circular which requires payment of amortization to start within two months from issuance of COCA by the HOA.

8.9 Non-availability of water supply has deprived the MBs to move-in to their new housing units, resulting in the poor or even non-recovery of the corporate financial exposure in the project amounting to P214.016 million and the non-attainment of the objectives of the HDH program.

8.10 We recommended that Management:

- a. Require the HOA to make representation with the Local Government of Bulacan to provide water connections for HOA housing units or construct an alternative water supplies, such as installation of deep well or water rationing pending the connection to the water district;**
- b. Demand from the HOA the collection of monthly amortizations from its MBs and remittance of the same to SHFC, as the COCA has already been issued by the Association;**
- c. Require the MBs, through their HOA, to move-in so as to prevent other organization/ISF from illegally occupying the completed housing project;**
- d. Prospectively, strictly require HOA to submit certification or approval from utility/service agencies concerned for the availability of basic utilities/services required of the project; and**
- e. Prospectively, strictly instruct the HOA to accept only housing projects that are fully completed in accordance with the plans and conditions on the site development and building construction.**

8.11 Management commented that it is only after the construction of the buildings at the time of their application for the water connection that the HOA disclosed to SHFC the actual water connection problem they encountered. Water service line cannot be connected to the usual smaller water line of the SJDM Water District passing through the area because the water pressure cannot reach the second and third floor of all the 26 buildings. What is required is that the pipeline connection needs to be tapped to the main water service line of the SJDM Water District located at a distance of about 1.3 kilometers away which to their estimate amounts to P12 to 14 million.

8.12 The HOA has already explained to SHFC that they issued COCA despite the absence of water supply because they are of the urgent need to transfer to their housing units immediately since most of the MBs are still living in flooded areas during heavy rains and that their children have already enrolled/transferred in school near the project site.

8.13 The SHFC has granted the request of the HOA for the moratorium for non-payment of their loan amortizations to SHFC to cope up with the expenses on water deliveries. However, this moratorium has issued a temporary stop-gap measure until such time that provision of water supply will normalize. A private supplier will also be supplying potable water and water to be used for washing. Payment for the water deliveries will be taken in lieu of the supposed payment to SHFC amortizations.

8.14 We stand by our recommendation that Management include in the feasibility study the provision of the basic facilities and services such as, but not limited to, the water and electrical facilities. Before the approval of the project, a certification should be secured from the DILG and water/electrical providers that their services will be provided to the MBs after completion of projects.

8.15 Further, since the concept of the project is a People's Plan, SHFC should ensure that the HOA and the CSO partner should have arranged with the government/agencies concerned that the project be provided with the basic facilities and services, particularly the water and electrical system before contracting with the Association, in order to have a smooth implementation of the Phases I and II of the project.

9. Payment amounting to P11.330 million, equivalent to 20 per cent of the total acquisition cost of P56.652 million for the land, which TCTs are not free from liens/encumbrances, is contrary to Section 6 of Corporate Circular No. 13-026 on the HDH Project Guidelines, thus, exposing SHFC to the risk of the non-recovery of its financial exposure to the project or loss of corporate funds.

9.1 Pursuant to Section 6 of the Corporate Circular No. 13-026 dated July 23, 2013 on High Density Project Guidelines on lot acquisition, the CMP policy guidelines for land acquisition shall apply suppletorily wherein the land to be acquired by the HOA shall serve as the CMP Loan Collateral, and will be acceptable if the following criteria are met:

- a. The title of the land is free from all liens and encumbrances at the time of the release of the CMP loan;
- b. The land is not classified as agricultural;
- c. The land is not within environmentally-constrained/hazardous or high-risk areas as certified by DENR and the concerned government unit;
- d. The land has a road right of way or an access road lot to the city, municipality or barangay road; and
- e. The landowner should have the legal capacity to sell or transfer the subject property for loan collateral under the CMP.

9.2 On the other hand, the BOT, through Board Resolution No. 530 series of 2016, approved the loan of the HOA for the purchase of lot with the following conditions:

- Prior to the release of the purchase price, the annotations/encumbrances on the land titles should be cancelled.
- For site development and house construction, Management is directed to review and conduct further study on the technical plans to determine the feasibility of a high-rise building, to maximize the use of land.

9.3 In the Letter of Guaranty/Letter of Commitment issued by the Corporate President, SHFC guarantees and commits to pay the landowner/s the amount of P56,652,000 in the following manner:

- a. First tranche of 80 per cent - upon submission of Deed of Absolute Sale, Title/s, Technical and Legal Examination Documents, and other documents in compliance to Board conditions submitted.

Balance of 20 per cent - upon transfer of title to SHFC. The purchase of the property shall be for the housing project of HOA which is composed of ISF living along waterways and danger zones within Metro Manila. SHFC shall allow the HOA to use the property under usufruct arrangement with condition prior to release of purchase price - the annotation of encumbrances on the land title should be cancelled.

b. The purchase of the property shall be for the housing project of the HOA composed of ISFs living along waterways and danger zones of Metro Manila and allow the HOA the use of property under a usufruct arrangement.

c. Condition prior to release of purchase price: The annotation encumbrances on the land title should be cancelled.

9.4 The HOA applied for a loan for the purchase of land with a total area of 2,168.90 square meters at P24,000 per square meter, or a total cost of P56.652 million, located in Sta. Ana, Manila, through the HDH Program. The HOA will house 172 ISFs living along Estero de Quiapo, Estero de San Miguel Legarda, Estero de San Miguel P. Casal and Estero de San Sebastian. The CSO partner will assist the HOA in its organization, completion of the project and in other post-occupancy activities.

9.5 The TCTs on the lot applied for HDH Projects consisted of five TCTs registered in the name of National Coconut Corporation (NACOCO), broken down as follows:

TCT No.	Location	Lot Size
1 62235		158.40
2 62236	J. Nepomuceno Street (Calle Tanduay), San Miguel,	1,460.60
3 62237	Metro Manila	381.00
4 62238		18.70
5 62239		150.20
		2,168.90

9.6 EO No. 372 dated November 24, 1950, abolished the NACOCO and ownership and/or control were transferred to the Republic of the Philippines. The same EO created the Board of Liquidators (BOL) which is tasked to sell, lease, transfer, assign or otherwise dispose of the properties, funds, other assets development projects, demonstration plantation, experimental stations and nurseries of the abolished corporations. The subject TCTs were among the properties of NACOCO.

9.7 The BOL was merged with the Privatization and Management Office (PMO) through EO No. 471 dated November 17, 2005, transferring the former's function, rights, properties, assets to PMO, leaving PMO as the surviving entity.

9.8 Inventory conducted on the TCTs disclosed that the original titles were not in the possession of the DCCD since PMO requested for the temporary release of the original TCTs for the purpose of cancellation of the encumbrances. It has been over a year since then, but the titles were not yet returned by the PMO.

9.9 Verification on the photocopied owners' duplicate of the TCTs revealed that an annotation was entered under Entry 4730/E-3629 with Notice of Levy, affecting the interest of participation of the NACOCO in the property described, the satisfaction of the sum of \$24,159.59 or its equivalent in peso with interest at the rate of six per cent per annum served by the Sheriff by virtue of Merit Execution issued by the Court of First Instance of Manila has not yet been cancelled.

9.10 Notice of Levy means lawful monies owed, like a tax or usage fee, collected monies or as a judgment or to pay a debt or claim, lawful seizure of a debtor's specific asset or property.

9.11 Further verification disclosed that despite the non-cancellation of the encumbrance annotated at the back of the Titles, SHFC paid PMO the amount of P11,330,400 through Check No. 62297 dated August 24, 2016, representing 20 per cent of the total purchase cost of P56.652 million contrary to the policy/guidelines on HDH and the Letter of Guaranty approved by the SHFC.

9.12 SHFC also paid CSO partner, the amount of P187,695 through Check No. 62295 dated August 22, 2016, representing 75 per cent of P1,500 per ISF in the form of financial incentive, although the land was not yet fully paid as there are still liens/encumbrances in the TCTs, in accordance with Corporate Circular No. 16-010 series of 2016 on HDH dated June 23, 2016 and Corporate Circular No. 15-038 which provide:

- 25% of the service fee - if the project reaches the level of Pre-Credit Committee;
- 50% - if the project reaches the Level of Executive Committee; and
- Remaining 25% - upon transfer of title in the name of HOA/SHFC.

9.13 Moreso, payment of documentary stamps amounting to P864,780 through Check No. MC 3382 dated July 22, 2016 was shouldered by the SHFC, instead of the landowner-seller, as stated in the Corporate Circular HDH No. 14-005 that payment of documentary stamp tax on the sale of land should be shouldered by the Landowner.

9.14 Thus, the payment of the 20 per cent of the total cost of the land with unclear TCTs, including related disbursements, exposed the SHFC to the risk of non-recovery of its financial exposure to housing.

9.15 **We recommended that Management:**

- a. **Coordinate with the DOF for the immediate cancellation and issuance of the new title in favor of SHFC;**
- b. **Request DOF to return the original TCTs borrowed a year ago pending the cancellation of encumbrance; and**
- c. **Strictly comply with Section 6 of Corporate Circular No. 13-026 on HDH Guidelines, specifically on land acquisition free from liens and encumbrances.**

9.16 Management commented that the Notice of Levy appearing on the PMO titles were inscribed sometime in 1957, or 61 years ago. Hence, the removal of lien is a mere ministerial act on the part of the courts. As such, the mortgage lien of SHFC would still be superior considering that the antiquated Levy is unenforceable and without force and effect.

9.17 As stated in the Board Resolution and the Deed of Absolute Sale, DOF-PMO shall cause the cancellation of the Notices of Levy annotated on the titles. The cancellation is made through judicial process. As such, the original copies of the titles were temporarily lent to DOF-PMO as documentary evidence necessary and essential to the petition for cancellation filed before the court.

9.18 Consequently, the DOF-PMO informed SHFC that the case petition for cancellation is now pending before the RTC of Manila and is being handled by its statutory legal counsel, the Office of the Solicitor General. In the meantime, we will request PMO to return the titles to SHFC in compliance with your recommendation and will let PMO borrow it again once the titles are needed for the court hearings.

9.19 We stand by our recommendation that Management, strictly comply with HDH Guidelines, particularly the liens and encumbrances of the lot to be purchased to avoid problems and delay in the transfer of titles in the name of SHFC.

10. Double availment and inconsistencies and incomplete information were noted in the database/master-list of MBs who availed under the CMP and HDH Projects, contrary to Section 16 (c) of RA No. 7279 and Section 4 (6) of PD No. 1445 and Corporate Circular No. HDH 14-001, Series of 1989. Thus, the authenticity of the intended rightful MBs of the projects is doubtful, which may resulting in the non-attainment of the objectives of the CMP and HDH Projects.

10.1 Section 16 of RA No. 7279, Otherwise known as the Urban Development and Housing Act of 1992, on the quality for a socialized housing program beneficiary provides:

- a. *Must be a Filipino Citizen;*
- b. *Must be an underprivileged and homeless citizen;*
- c. *Must not own any retail property whether in the urban or rural areas; and*
- d. *Must not be a professional squatter.*

Section 4 (6) of PD No. 1445 states:

Claims against government funds shall be supported with complete documentation.

SHFC Corporate Circular HDH No. 17-013 on the Guidelines on Substitution for Completion of the Lease Purchase Agreement (LPA)/Lease Agreements (LA) and Masterlist of Beneficiaries and Loan Apportionment (MBLA) for HDH Projects provides that the LPA/LA and MBLA shall be submitted after the issuance of the Notice of Approval and prior to the start of the site development and house construction.

SHFC Corporate Circular HDH No. 14-001 series of 2013 dated December 27, 2013, on the qualification of member beneficiaries provides:

- a. Must be at least eighteen (18) years old;
- b. Must not be a beneficiary of any housing program of the government; and
- c. xxx

10.2 Review of the database/masterlist of the MBs of CAs under CMP and 31 HDH projects disclosed the following:

- a. Out of the 288,970 CMP accounts of MBs in the data base, 1,054 accounts were found to have consisted of road lots, pathways, and open spaces, thus existence and reliability of the CMP accounts cannot be ascertained. Only 287,916 CMP MBs have existing loan accounts with the SHFC. On the other hand, 17,145 accounts were noted to be MBs of the HDH projects.
- b. Out of the total 287,916 CMP MBs account with existing loans, 284,062, or 98.66 per cent, have incomplete information, such as absence of middle name, date of birth and other personal data.
- c. Since the implementation of the HDH projects in 2012, out of the 44 projects being implemented, 15 projects were already completed and accepted by different Associations and 3,558 have already transferred to the completed and accepted projects. The MBs are already paying their monthly amortization, however, no database for the HDH is in place. Collections by the Association of the monthly amortization from the MBs were not yet posted in the individual subsidiary ledger account, contrary to Corporate Circular No. 14-002 dated January 31, 2014 that amortization payment of MBs of the CA shall commence two months after issuance of COCA.
- d. For HDH, 162 MBs have date of births ranging from years 1900s to 1952, thus aging 65 to more than 100 years old from loan take-out, creating doubt in the veracity of the database of MBs.
- e. There were duplications of names and incomplete information as to date of birth, and monthly income, as summarized below:

Particulars	CMP	HDH	Total
Members without birthdate	122,475	352	122,857
Members with no monthly income information	61,469	318	61,787
Duplicate name - same first name, surname, middle name/initial and birth date (both HDH and CMP)			1,287
Other deficiencies			98,131
			284,062

10.3 Thus, the existence of various deficiencies mentioned above cast doubt on the attainment of the objectives of the CMP and HDH Projects, specifically on the authenticity of the intended MBs of the projects being implemented by SHFC and the prevention of double availment.

10.4 We recommended that Management:

- a. Require the CA to ensure submission of complete and accurate personal information of MBs;
- b. Require the SHFC department in charge to validate and correct the deficiencies noted in the data base to establish authenticity of the intended rightful MBs of the CMP and HDH Projects;
- c. Provide/emphasize provision in the LAs on the imposition of sanctions/penalties for MBs found to have double availments of any other housing project;
- d. Require member-applicants the submission of Certificate of No Availment of Housing Unit/Project from any Shelter Agencies to prevent double availment of the housing units; and
- e. We reiterate our prior year's audit recommendation to coordinate with HUDCC for the establishment of the database for all housing agencies to avoid double availment.

10.5 Management commented that the MBLA of CMP accounts taken-out by SHFC, includes road lots, pathways and open spaces, however there are no account numbers assigned to them. Thus, they are not counted in the database of CMP Beneficiaries. While for accounts taken-out by NHMFC, Management observed that there were assigned account numbers for road lots, pathways and open spaces and will coordinate with the Information System Division (ISD) for appropriate action.

10.6 To prevent double availment, the NCR Operations Group verifies the names of CMP applicant MBs against the SHFC-CMP database of Beneficiaries and the alpha listing of the HUDCC. This is done prior to background investigation and loan release. In cases of the same names, a Joint Affidavit of the concerned Borrower and the CMP-Mobilizer is required to confirm that the MBs with same names have not availed themselves of any housing assistance from the other shelter agencies.

10.7 The HDH projects located in NCR consist of 11,300 MBs and out of 33 projects handled by the NCR group, 14 projects consisting of 1,936 MBs have started to pay the monthly amortizations. The NCR has requested for the ISD to create a Data Base for the said accounts. In the meantime, the NCR-HDH staff are posting the payments collected through Microsoft Excel.

10.8 We stand by our recommendation that Management adhere strictly to the existing policy to ensure the complete information of the member beneficiaries and to prevent double availment in order to attain the objectives of the CMP and HDH Projects of the government. Limit the database of MBs to the housing units and exclude road lots, pathways and open spaces from availment of MBs.

11. Capital Gains and Documentary Stamp Taxes amounting to P38.961 million for the acquisition of lands intended for the HDH Projects under the Usufruct Agreement were paid in advance by SHFC in favor of the landowners and were recouped on the 20 per cent payment instead of the 80 per cent, contrary to Section 4 (1) of PD No. 1445 and Section 7 of Corporate Circular HDH No. 14-005, thus, depriving the SHFC the immediate use of the funds for other HDH projects that could have benefited more HOA MBs.

11.1 Section 4(1) of PD No. 1445 states that:

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

Section 7 of SHFC Corporate Circular HDH No. 14-005 provides:

Consequently, the additional costs for transferring title to the land in the name of SHFC and the consolidation and segregation of title in the name of the CA shall be for the account of the following parties:

Transfer of Title/s from the Landowner to SHFC

A. By the Landowner

- Documentary stamp tax on the sale of land*
- Notarization of the Deed of Absolute Sale*
- Updated Real Property tax*

SHFC Corporate Circular HDH No. 14-00 provides that the mode of payment for the acquisition of property by SHFC shall be:

a. First Tranche of eighty per cent (80%) of the purchase price

After issuance of the Letter of Guaranty (LOG), the landowner with his conformity may be paid the first eighty per cent (80%) of the purchase price upon submission of the following documents:

- i. Owner's duplicate copy of the title/s under his name;*
- ii. Notarized Deed of Absolute Sale; and*
- iii. Documents in compliance with the Board conditions and other technical and legal examination findings (if any).*

b. Balance of the twenty per cent (20%) of the purchase price

The landowner shall receive the balance purchase price of twenty per cent (20%) upon transfer of title/s to SHFC. The amount shall stand as title security against third party claimants on the property subject of sale and payment of any tax due from the landowner

Corporate Circular HDH No. 16-010 states that upon release of the 80 per cent payment for the land, SHFC shall start shouldering the payment for the real property tax due on the land until completion of the construction of the buildings unit and occupancy by MBs or within two years from the time of initial release of payment to landowner. Upon occupancy by MBs or after two years from initial release of payment to landowner, the obligation to pay for the said real property tax shall shift to the CA/HOA.

11.2 As of December 31, 2017, the SHFC has acquired lands for the following HDH projects under the usufruct tenurial arrangement:

Project	Purchase price	Payment	
		80%	20%
1. HDH - A Phase 1	24,313,300	10/3/2014	3/10/2017
2. HDH - A Phase 2	22,995,000	1/31/2017	No release yet
3. HDH - B	89,593,200	10/3/2014	8/18/2016
4. HDH - C	63,525,000	10/3/2014	12/5/2017
5. HDH - D	148,671,400	11/17/2014	12/29/2015
6. HDH - E	23,577,950	5/16/2014	6/29/2016
7. HDH - F	116,437,013	3/6/2015	9/22/2017
8. HDH - G	12,747,229	4/16/2015	No release yet
9. HDH - H	66,937,500	4/24/2015	11/10/2016
10. HDH - I	50,071,000	6/10/2015	9/15/2016
11. HDH - J	28,957,500	8/12/2015	No release yet
12. HDH - K	60,135,000	11/27/2015	3/3/2016
13. HDH - L	119,203,500	12/9/2015	3/3/2016
14. HDH - M	124,121,060	12/23/2015	7/5/2016
15. HDH - N	51,539,400	2/1/2016	No release yet
16. HDH - O	96,473,600	6/7/2016	No release yet
17. HDH - P	23,421,038	7/29/2016	No release yet
18. HDH - Q	57,912,000	7/29/2016	5/30/2017
19. HDH - R*	56,652,000	8/24/2016	Not yet released
	1,237,283,690		

* 20% initial release only amounting to P11,330,400.

11.3 Review of available documents disclosed that, in order for the HOA to transfer the TCT in the name of the Corporation, SHFC paid in advance the capital gains taxes, documentary stamp taxes and transfer taxes amounting to P38.961 million on the seven HDH usufruct projects. The said taxes which should have been paid by the landowners will be deducted from the claim on the final 20 per cent. Considering the length of time to claim the final payment of 20 per cent on the land acquisition, SHFC could have automatically deducted from the 80 per cent initial payment to the landowners. The funds advanced by SHFC for taxes could have been used for other HDH projects that could have benefited more HOA members. Details are shown below:

Project	Check No.	Date	Description	Amount
1. HDH - F	MC 3377	7/25/2016	Documentary Stamp Tax	P 1,041,885
	MC 3378	7/25/2016	Capital Gains Tax	4,167,538
	MC 3379	7/25/2016	Capital Gains Tax	2,818,682
	MC 3380	7/25/2016	Documentary Stamp Tax	704,685
2. HDH - C	MC 3127	2/5/2016	Capital Gains Tax	148,155
	MC 3126	2/5/2016	Documentary Stamps Tax	37,050
	MC 3125	2/5/2016	Capital Gains Tax	3,108,510

Project	Check No.	Date	Description	Amount
	MC 3124	2/5/2016	Documentary Stamps Tax	777,135
	MC 3123	2/5/2016	Documentary Stamps Tax	168,000
	MC 3122	2/5/2016	Capital Gains Tax	672,000
3. HDH - H	MC 3019	12/11/2015	Capital Gains Tax	4,016,250
	MC 3020	12/11/2015	Documentary Stamp Tax	1,004,062
4. HDH - G	MC 3341	6/27/2016	Capital Gains Tax	467,565
	MC 3342	6/27/2016	Documentary Stamp Tax	1,870,255
5. HDH - I	MC 3164	2/26/2016	Capital Gains Tax	3,030,010
	MC 3165	2/26/2016	Documentary Stamp Tax	757,515
	MC 3289	5/31/2016	Transfer tax with penalty	524,619
6. HDH - M	MC 3218	4/4/2016	Capital Gains Tax	5,942,368
	MC 3217	4/4/2016	Capital Gains Tax	1,500,794
	MC 3216	4/4/2016	Documentary Stamp tax	1,485,600
	MC 3215	4/4/2016	Documentary Stamp tax	375,210
	MC 3482	10/20/2016	Documentary Stamp Tax	13,680
7. HDH - Q	MC 3483	10/20/2016	Capital Gains Tax	54,720
	MC 3484	10/20/2016	Documentary Stamp Tax	855,000
	MC 3485	10/20/2016	Capital Gains Tax	3,420,000
				P38,961,288

11.4 Further verification also disclosed that the P38.961 million was recorded in the books as addition to Land-HDH account, instead of Advances from Landowners under the Receivable account, since the advances will be deducted from the 20 per cent final release of the acquisition cost of land.

11.5 Had SHFC deducted the taxes amounting to P38.961 million from the initial payment to landowners representing 80 per cent of the cost of land, the amount advanced could have been used for other HDH projects which could have benefited more HOA members.

11.6 We recommended and Management agreed to revisit and amend the policy on land acquisition for the HDH projects to deduct the mandatory tax obligations of the landowners from the initial payment of 80 per cent of the acquisition cost.

12. No coverage for Mortgage Redemption Insurance (MRI) and Fire and Allied Peril Insurance (FAP) was provided on the 13 completed and accepted HDH and 87 CAs of CMP projects with a total cost P1.375 billion, contrary to HDH Corporate Circular Nos. 16-008, 15-007 and 14-003 and Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137. Thus, 3,486 MBs may be deprived of the benefit of having fully paid housing loans in case of death or occurrence of fire and allied perils and posing risk on the non-recovery of SHFC's investment into housing.

12.1 HDH Corporate Circular No. 16-008 series of 2016 dated January 15, 2016, on the effectivity of MRI/FAP provides:

- a. *Regular HDH Program (Lot Acquisition, Site Development and Housing construction):*

A Member Beneficiary shall be covered after one month from date of issuance of Certificate of Completion and Acceptance (COCA) of the building units by the Community Association (CA).

b. Refinancing of Local Government Unit (LGU) Housing Project:

A Member-Beneficiary shall be covered one (1) month after release of the first installment or full release of the loan proceeds whichever is applicable. The coverage is based on the issuance date indicated in the check as payment to LGU.

MRI/FAPI Premium Payments

Premium payments for the succeeding year shall be paid on a monthly basis and shall be included in the monthly amortizations of the MBs starting on the following month after its MRI/FIRE coverage.

12.2 Board Resolution No. 448, series of 2015 approved the Implementing Rules and Regulations on HDH Subsidy Scheme to support the technical assistance to be extended for HDH projects. This subsidy includes six per cent of the ten per cent MRI and FAPI Advances for one year.

12.3 Section 3.5 of HDH Circular No. 15-007 series of 2015 also provides that SHFC shall subsidize the one (1) year advance payment on the MRI/FAPI.

12.4 Section 12 of Corporate Circular No. 14-003 series of 2014 on Refinancing of LGU Housing Projects under the HDH Program further provides:

a. Mortgage Redemption Insurance (MRI)

The insurance premium for the 1st year of coverage shall be paid in advance which is equivalent to the borrower's share in the loan. Premium for the succeeding year shall be paid on a monthly basis which shall be included in the monthly amortization of member-beneficiary.

b. Fire and Allied Perils Insurance (FAPI)

The house or unit and its improvements shall be covered by FAPI for an amount equivalent to the loan amount. The insurance premium for the 1st year coverage shall be paid in advance which is equivalent to the borrower's share in the loan. Premium for the succeeding year shall be paid on a monthly basis which shall be included in the monthly amortization of the member-beneficiary.

12.5 Corporate Circular No. CMP-18 dated November 22, 1995 on the Consolidated Implementing Guidelines for the CMP provides:

*During the first and second stages of the CMP – wherein financing is extended for the acquisition of the and the horizontal development thereof – the principal beneficiary borrower shall be **compulsory***

covered by the Mortgage Redemption Insurance equivalent to his share in the loan, to compensate the NHMFC(SHFC) in case of death of the principal beneficiary-borrower xxx.

12.6 SHFC Office Order No. 08-0137 series of 2008 dated July 02, 2008, Mortgage Redemption Insurance (MRI)/Fire and Allied Perils Insurance (FAPI) Coverage states:

MRI – Member- beneficiary shall be covered from take-out date of the project which was based on the issue date indicated in the checks as payment to landowner/s for regular accounts and the date of the down payment for restructured accounts or actual notice of re-enrollment for the first and second stages of the CMP projects.

FAPI – MBs shall be covered from take-out date of the project which was based on the issue date indicated in the checks as payment for the house construction/improvement.

12.7 The following projects were 100 per cent completed and accepted by the CAs and already occupied by MBs:

	Projects	No. of MBs	Date of COCA	Amount
1.	HDH A	212	January 24, 2017	P 89,849,909
2.	HDH B	546	November 5, 2017	268,632,000
3.	HDH C	1,180	May 30, 2017	521,560,000
4.	HDH D	994	October 23, 2017	494,018,000
	Sub Total	2,932		1,374,059,909
	CMP-CAs	87		1,382,610
	Total			1,375,442,519

12.8 Verification on the HDH projects revealed that four HDH and nine refinancing projects were already 100 per cent completed. COCAs were issued by the respective HOAs, certifying that the buildings have been inspected and found to be in accordance with the approved plans and specifications, wherefore the said units were accepted being livable and ready for occupancy.

12.9 Further verification from the Insurance Department of SHFC disclosed that only three HDH projects were insured by SHFC with the Pag-IBIG MRI Pool for the CY 2017.

12.10 Further verification likewise disclosed that, for the year 2017, there were CMP MRI and FAPI premium payments with the aggregate amount of P1.382 million paid/remitted by 87 CAs. The SHFC, however, was not able to renew/enroll for the MRI coverage of the MBs and on their mortgaged property for the year 2017, despite payments/remittances made by the CAs.

12.11 Non-provision of insurance coverage with COCA for both life and non-life on the 13 completed and accepted HDH and 87 HOAs/CAs of CMP projects with a total cost of P1.375 billion which were already occupied by the MBs is contrary to the above stated Corporate Circulars. Thus, MBs may be deprived of the benefit of having fully paid

housing loans in case of death or occurrence of fire and allied perils and posing risk on the non-recovery of SHFC's investment into housing.

12.12 We recommended that Management:

- a. Expedite the enrollment of the 2,932 MBs for HDH and 87 HOAs/CAs MBs occupying the 100 per cent completed and accepted CMP and HDH projects for both the life and non-life insurance coverage; and**
- b. Adhere strictly to the provisions of CMP and HDH Corporate Circulars on the MRI/FAPI insurance coverage, on the completed and accepted projects by the HOA/CA to protect the interest of the Corporation.**

12.13 With reference to the four HDH projects, the Insurance Unit has requested the HDH - NCR and Luzon Operations group through memorandum dated March 19, 2018, to expedite the submission of the pertinent documentary requirements in order to facilitate immediate processing of MRI/FAPI insurance coverages.

12.14 We stand by our recommendation that MRI/FAPI be provided one month after the completion and acceptance of the projects to prevent exposing risk on the non-recovery of SHFC's investment in housing in case of death of the MBs or occurrence of fire and allied perils to the property.

13. Real Estate Mortgage (REM) in favor of SHFC were not annotated on 62 TCTs held as collateral to secure the CMP Loans while 33 TCTs were still in the name of the landowners' contrary to the Loan Agreement, Corporate Circular Nos. CMP-018 and HDH 14-005 and 41 TCTs as collateral to HDH loans were not accounted for during the physical count. Thus, exposing SHFC to unprotected rights against third party claimants, priority in property disposal or non-payment of loans.

13.1 Section 11 of the Loan Agreement made and executed by the SHFC and CA provides that the CA shall have the period of two years from the take-out date to complete the individualization of the title of the property, in the name of the association or to its MBs as appearing in the subdivision plan and Lease/Purchase Agreement with the corresponding REM in favor of SHFC and annotated in the mother title carried over in the individualized title.

13.2 Item No. 7.1 of the Corporate Circular No. CMP-18 dated November 22, 1995 on collaterals provides that the title to the property which shall be free from any liens or encumbrances for which the loan shall be utilized, shall be the collateral to secure the repayment of the loan. The title to the property, which may be collectively or individually under the names of the member beneficiaries, shall be encumbered by a first Real Estate Mortgage (REM) in favor of the Originator.

13.3 Section 6 of the SHFC Corporate Circular HDH No. 14-005 dated August 12, 2014 on the Acquisition of Property by SHFC and Usufruct under the High-Density Program provides:

a. xxx

b. *Balance of the Twenty Per cent (20%) of the Purchase Price*

The landowner shall receive the balance purchase price of twenty per cent (20%) upon the transfer of title/s in the name of the SHFC. The amount shall stand as title security against third party claimants of the property of any tax due from the landowner.

13.4 For CMP loans, verification disclosed that out of the total of 143 TCTs in the custody of the DCCD randomly selected as collaterals, 62 TCTs were not annotated in favor of SHFC while 33 TCTs were still in the name of the landowners as follows:

- a. Titles were not annotated of the mortgage in favor of SHFC;
- b. Titles were annotated in favor of Home Insurance Guaranty Corporation, National Housing Authority, Local and Municipal Government;
- c. Annotated in favor of the Foundation such as Foundation for Growth Organization Upliftment of People Inc., Wasnong Pagbaloy, Mondragon Foundation, Urban Land and Development Foundation etc; and
- d. Thirty-three TCTs still in the name of the landowners and not yet individualized in the name of the CAs/MBs;

13.5 For HDH loans, inventory and verification of the TCTs under the custody of DCCD disclosed that only three owner's original TCT, out of 44, were accounted and annotated as follows:

Title No	Registered Owner	Annotations/Encumbrance
004-2014003735	HDH A, non-usufruct- HOA	With annotation in favor of SHFC for the lot acquisition only
004-2014014936	HDH B, non-usufruct- HOA	Annotation in favor of SHFC for the cost of lot acquisition only
057-2015047531 to 651	HDH C, usufruct SHFC	Title is in the name of SHFC (32 TCTs)

13.6 Inquiry with the DCCD disclosed that the 41 TCTs for HDH projects were not yet entrusted to DCCD for safekeeping as these were with the Legal Department without the necessary accomplished Mortgage Withdrawal form.

13.7 Further verification disclosed that only the cost of lot in favor of SHFC was annotated for the two non-usufruct TCTs for HDH. The REM for the cost of the 100 per cent completed site development and building construction loan by the two HOAs were not yet annotated on the TCTs in favor of the SHFC.

13.8 Thus, the non-annotation of the REM on the TCTs held as collateral for the CMP and HDH loans in favor of the SHFC, exposed the Corporation to unprotected rights against third party claimants, disposal of property or non-payment of loans. Likewise, the

against third party claimants, disposal of property or non-payment of loans. Likewise, the non-availability of the original TCTs at the time of verification without proper documentations casts doubt on the existence of the titles and the risk that the loans are not fully secured.

13.9 We recommended that Management:

- a. **Strictly adhere to the provisions of Corporate Circular No. CMP-18, HDH 04-005 and Loan Agreement;**
- b. **Require the CAs to transfer the TCTs in their name, or individualized TCTs to MBs and effect annotation of REM in favor of SHFC for the total amount of loan by the HOAs;**
- c. **Ensure that all original TCTs held as collaterals are entrusted to the DCCD; and**
- d. **Require that borrowed TCTs should be accompanied by duly approved Mortgage Withdrawal Form.**

13.10 Management commented that TCTs still in the name of the landowner instead to the CA were due to various issues such as:

- a. Bureau of Internal Revenue due to nonpayment of Documentary Stamp Tax, noncompliance by the CA with the BIR finding;
- b. Register of Deeds due to non-payment of transfer tax, non-submission of updated tax etc.; and
- c. No approved subdivision plans.

13.11 To fully accomplish the process of annotation of titles, Management will be hiring a full-time mortgage examiner (ME) for each division. Further, the process of annotation of the TCTs for the fully completed HDH projects were already in process.

14. Special Counsel/Legal Service Allowance amounting to P134,000 for CY 2017 was paid directly to five lawyers assigned for SHFC, instead of remitting to the Office of the Government Corporate Council (OGCC), the mother agency of the recipient-lawyers, for monitoring purposes on the allowable limitation of the total extra or additional compensation as required under COA Circular No. 85-25E.

14.1 COA Circular No. 85-25-E dated April 25, 1985 or the Amendment to COA Circular No. 76-25A dated June 30, 1976 regarding service and/or incentive fees, remunerations, honoraria, and all other extra compensation paid to government officials and employees, particularly the manner of payment and the accounting treatment thereof, reads:

Effective immediately, items No. 3 and 4 of statement of Policies of COA Circular No 76-25A are hereby amended to read as follows:

Statement of Policies

xxx

1. The total amount of extra or additional compensation may be paid by the paying office to the recipient official or employee. In case of extra compensation paid by the mother agency to its own officials or employees, the same shall be paid directly to the official or employee subject to the provisions of Item below under this title. The paying office shall, however, issue/submit a notice of payment and a monthly report to the mother agency of the recipient official or employee regarding the extra or additional compensation paid to the latter. xxx

2. The total extra compensation shall, in no case, exceed fifty per centum (50%) of his annual salary. Payments of allowances and the like on strictly reimbursement basis shall not, however, be subject to the 50% limit as herein prescribed.

14.2 Review of the Disbursement Vouchers disclosed that Special Counsel Allowance/Legal Allowance amounting to P134,000 representing payment of special assessments for non-litigation cases was directly paid to five OGCC lawyers instead of remitting to their mother agency for monitoring purposes on the 50 per cent limitation of the total annual extra or additional compensation against the annual salary of the recipient-lawyers. Payment could be made directly to the OGCC lawyers, but SHFC, however, has to issue/submit a notice of payment and a monthly report to OGCC regarding the extra or additional compensation paid to the lawyers. Payment details follow:

OGCC Lawyers	Period 2017	Check		Amount
		Number	Date	
Attorney 1	January – March	70641	4/24/2017	P 18,000
	April - June	71171	7/17/2017	18,000
	July - Sept	80290	10/27/2017	18,000
Attorney 2	January - March	70642	4/24/2017	12,000
	April – June	71164	7/24/2017	12,000
	July - Sept	80291	10/27/2017	12,000
Attorney 3	January – March	70643	4/24/2017	12,000
	April – June	71163	7/14/2017	12,000
	July - Sept	80293	10/27/2017	12,000
Attorney 4	September	80292	10/27/2017	4,000
Attorney 5	September	80294	10/27/2017	4,000
				P 134,000

14.3 Thus, the extra or additional compensation should be remitted directly to OGCC for monitoring purposes since SHFC could not ascertain whether or not its totality has already exceeded 50 per cent of the recipient-lawyer's annual salary.

14.4 We recommended and Management agreed to submit a Notice of Payment and Monthly Report of the extra compensation to OGCC for monitoring purposes.

15. The MOA for the Group Mortgage Redemption Insurance (MRI) of loan borrowers with the insurance provider was automatically renewed for a period of 12 year without the benefit of public bidding, contrary to Republic Act (RA) No. 9184, otherwise known as the Government Procurement Reform Act, thus, defeating the principles of transparency, accountability, equity, efficiency, and economy.

15.1 Section 2, Rule I of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act No. 9184, otherwise known as the Government Procurement Reform Act states that in line with the commitment of the Government of the Philippines (GoP) to promote good governance and its effort to adhere to the principles of transparency, accountability, equity, efficiency, and economy in its process, it is the policy of the GoP that procurement of Goods, Infrastructure Projects and Consulting Services shall be competitive and transparent, and therefore shall undergo competitive bidding, except as provided in Rule XVI of the IRR.

15.2 Section 4 of the same law applies to the Procurement of Infrastructure Projects, Goods and Consulting Services regardless of source of funds, whether local or foreign, by all branches and instrumentalities of the government, its departments, offices and agencies, including government-owned and/or controlled corporations and local government units, subject to the provisions of Commonwealth Act No. 138.

15.3 On January 20, 2004, SHFC was created by virtue of EO No. 272, Section 2 relative to its establishment states that the NHMFC is authorized to organize and establish a body corporate to be known as the SHFC, as a wholly-owned subsidiary, to be formed in accordance with the Corporation Code and pertinent rules and regulations issued by the SEC. Upon its incorporation, the SHFC shall be under the administrative supervision of the HUDCC.

15.4 The SHFC shall be the lead government agency to undertake social housing programs that will cater to the formal and informal sectors in the low-income bracket and shall take charge of developing and administering social housing program schemes, particularly the CMP and the AKPF Program (amortization support program and developmental financing program).

15.5 In December 2006, SHFC entered into a MOA with the Insurance Pool, a consortium of life insurance companies in the Philippines to administer the Group MRI for the benefit of the SHFC and for the borrower's account under the lending program. The MOA retroacted in January 2006.

15.6 The Mortgage Loan is the real estate loan for housing and/or lot purchase, secured by a REM granted to a mortgagor by SHFC and repayable by monthly installments over a maximum of 25 years. It also covers reconstructed loans applied by the borrower and repayable up to the extent of the regular/original loan or as applicable and provided by SHFC.

15.7 All borrowers of the CMP and such other similar home financing programs who are not beyond the age of 65 at take out/date shall be eligible for the Group MRI,

including duly approved substitute MB who was subjected to the mandated underwriting requirements.

15.8 The Insurance Pool was the insurance provider of the NHMFC, thus, when SHFC took over the administration of the social housing program for the formal and informal sectors in the low-income bracket, the existing insurance provider of NHMFC, the Insurance Pool, also took charge in the administration of the turned-over accounts by the NHMFC and the current accounts maintained by SHFC without undergoing public bidding.

15.9 For the year 2017, SHFC had remitted to the Insurance Pool the amount of P47.726 million for the MRI premium of the housing loan MBs.

15.10 Verification disclosed that no public bidding was conducted in the acquisition of the insurance provider of the SHFC for its MBs since its creation on January 20, 2004.

15.11 Further verification disclosed that the MOA is silent as to the duration or validity of the Agreement. Article VIII of the Agreement on the effectivity/termination only states that the MOA shall be subject to termination by either party by giving notice to the other within ninety days prior to termination and it is understood that it shall include/cover those previously enrolled by the NHMFC.

15.12 SHFC did not adhere strictly to the provisions of RA No. 9184, thus, the principles of transparency, accountability, equity, efficiency, and economy cannot be ascertained. Through public bidding, Management could possibly select from among participating insurance broker for a better package for the benefit of the MBs that SHFC caters to low income bracket borrowers.

15.13 We recommended that Management strictly comply with the provision of RA No. 9184 in the conduct of public bidding for the provisions of the Group MRI to loan borrowers.

15.14 Management commented the hereunder clarifications on how the insurance provider was selected:

- a. SHFC Management proposed and submitted to the Chairman and Members of the Board the Quotations and Proposal for the Mortgage Redemption Insurance Coverage on August 25, 2006, to wit:

Insurance Company	Rate/Annum	MM Premium Annum	Service Fee	Proposed Settlement Upon Death of MBs
Company A	20,000/1000 x 4.92	98.40	20%	20,000.00
Company B	20,000/1000 x 3.11	62.20	10%	Theoretical Balance
Company C	20,000.00/1000 x 8.00	160.00		Theoretical Balance
Company D	20,000.00/1000 x 13.00	260.00	35%	20,000.00
Company E	20,000.00/1000 x 9.50	190.00	15%	20,000.00

- b. As stated in Board Resolution No. 48 series of 2006 dated August 28, 2006 that five insurance companies submitted their proposal upon review and based on the representation of the responsible officers of the SHFC, it would appear that the proposal of the Insurance Pool is the most viable and advantageous to the SHFC.

15.15 SHFC shall exercise more stringent measures in adhering to the rules and regulations provided for in RA No. 9184.

15.16 As a rejoinder, pursuant to Section 52.1 of RA No. 9184 Shopping is a method of procurement of goods whereby the Procuring Entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regularly equipment to be procured directly from suppliers of known qualifications.

15.17 In any case, this method of procurement shall be employed in the following cases:

- a. when there is an unforeseen contingency requiring immediate purchase, the amount shall not exceed P200,000; and
- b. procurement of ordinary or regular office supplies and equipment not available in the DBM-PS, in the amount not to exceed P1,000,000.

15.18 Hence, this method is not applicable for the procurement of MRI coverage provider considering that for CY 2017 alone, SHFC disbursed P47.726 million to the Insurance Pool.

16. The Chattel Mortgage Agreements (CMA) entered into by and between the SHFC and the 11 CAs with approved loans in the aggregate amount of P4.016 billion are contrary to the Chattel Mortgage Law (Act No. 1508), Article 2125 of the Civil Code of Philippines and relevant jurisprudence decided by the Supreme Court (SC), thus, the interest of the SHFC is put to risk against third party claimants in case of default by the MBs and the alienation or disposal of the housing units.

16.1 Section 7, Paragraph 4 of Act No. 1508 provides:

A chattel mortgage shall be deemed to cover only the property described therein and not like or substituted property thereafter acquired by the mortgagor and placed in the same depositary as the property originally mortgaged, anything in the mortgage to the contrary notwithstanding.

The SC ruled in the case of *Torres vs. Limjap*, 56 Phil. 141 (1931):

A stipulation in the mortgage, extending its scope and effect to after-acquired property is valid and binding only where the after-acquired property is in renewal of, or in substitution for, goods on hand when the mortgage was executed, or is purchased with the proceeds of the sale of such goods.

Articles 2085 and 2125 of the Civil Code of the Philippines states:

In addition to the requisites stated in Article 2085, it is indispensable, in order that a mortgage may be validly constituted, that the document in which it appears be recorded in the Registry of Property. If the instrument is not recorded, the mortgage is nevertheless binding between the parties.

The person in whose favor the law establishes a mortgage has no other right than to demand the execution and the recording of the document in which the mortgage is formalized.

The SC held in the case of Acme Shoe, Rubber & Plastic Corporation and Chua Pac vs. Hon. Court of Appeals, Bank of the Philippine Islands and Regional Sheriff of Caloocan City, to wit:

*xxx Chattel mortgage can **only cover obligations existing at the time the mortgage is constituted**. Although a promise expressed in a chattel mortgage to include debts that are yet to be contracted can be a binding commitment that can be compelled upon, the security itself, however, does not come into existence or arise until after a chattel mortgage agreement covering the newly contracted debt is executed either by concluding a fresh chattel mortgage or by amending the old contract conformably with the form prescribed by the Chattel Mortgage Law. Refusal on the part of the borrower to execute the agreement so as to cover the after-incurred obligation can constitute an act of default on the part of the borrower of the financing agreement whereon the promise is written but, of course, the remedy of foreclosure can only cover the debts existing at the time of constitution and during the life of the chattel mortgage sought to be foreclosed. The acknowledgment itself is invalid without such. (Emphasis ours.)*

Paragraph 1 of the Conditions of the CMA states:

*xxx The property is placed as security for the prompt and complete fulfillment of any and all **existing and future obligations** of the Community Association with respect to the loan and financial assistance extended by SHFC.*

16.2 The following HOA executed CMA with the SHFC for the HDH Projects, on their Tenurial Arrangement through Usufruct:

HDH under Usufruct Arrangements	No. of Clusters/ CAs	Approved Amount For the Project	Phase II Site Development and Building Construction
1. HDH 1	8	P 730, 944,000	P 603,345,105
2. HDH 2	5	494,018,000	398,408,436
3. HDH 3	2	170,788,256	155,879,693
4. HDH 4	4	227,766,838	195,335,888
5. HDH 5	5	407,876,047	350,220,283
6. HDH 6	8	673,569,378	541,651,598

HDH under Usufruct Arrangements	No. of Clusters/ CAs	Approved Amount For the Project	Phase II Site Development and Building Construction
7. HDH 7	5	337,222,034	270,676,234
8. HDH 8	2	173,865,034	147,715,734
9. HDH 9	10	681,119,978	544,189,235
10. HDH 10	8	551,020,142	443,837,126
11. HDH 11	5	521,560,000	365,195,172
		P4,969,749,707	P4,016,454,604

16.3 Paragraph 2 of the Chattel Mortgage entered into by the HOA and with the SHFC, states that the parties agree to consider the building/s and improvement presently existing and might exist thereafter as a chattel.

16.4 Review of the CMA disclosed that the buildings were not yet in existence at the time the CMA was executed, they are not, in effect, in renewal or in substitution for goods on hand when the mortgage was executed. Consequently, there is no valid collateral or security for the Building Construction and Site Development Loan incurred by the HOA.

16.5 Furthermore, since the CMA was not registered with the RD, it is, therefore, not in compliance with Paragraph 10 of the CMA which states that the mortgaged properties shall be recorded in the RD, otherwise, the obligations of the HOA shall immediately become due, demandable, and payable.

16.6 True, that the Chattel Mortgage is still binding between the parties despite the lack of registration but considering the various instances of default by the MBs and the alienation or disposal of the housing units without the Government knowing it, the registration of the chattel mortgage is an effective and binding notice to other creditors of its existence and creates a real right or a lien which, being recorded, follows the chattel whenever it goes. The registration gives the mortgagee symbolical possession. (*Northern Motors, Inc. vs. Coquia*, 68 SCRA 374 [1975]).

16.7 Moreover, paragraph 1 of the Conditions of the CMA is not in accordance with the prevailing jurisprudence and should only cover obligations existing at the time it was constituted. The condition set forth under paragraph 1 is inconsistent with the intent of Act No. 1508.

16.8 Thus, the SHFC is put to risk against third party claimants in case of default by the MBs and the alienation or disposal of the housing units.

16.9 **We recommended that Management:**

- a. Exercise its right to demand the execution and the recording of the CMA with the RD in which the mortgage is formalized in order to protect its interest;
- b. Revisit the conditions of the CMA and revise to conform with the Chattel Mortgage Law and relevant jurisprudence; and

c. Review its guidelines with respect to the security of the Loan since the collateral provided was not yet in existence at the time of the execution of the mortgage.

16.10 Management commented that the HDH Projects for the HOA was granted the right to use and construct buildings on the land acquired by SHFC by virtue of a usufruct agreement. As such, SHFC retains all acts of ownership over the said properties except those powers given to the CA, specifically, the power to develop and construct buildings thereon. Further, permanent improvements existing on the project site at the expiration or pre-termination of the agreement inure to the benefit of owner, SHFC.

16.11 In addition, the CMA is just a preparatory document that in case the buildings are 100 per cent completed, the same could be registered with the Chattel Mortgage Registry. This is also in harmony with Section 7 of the Chattel Mortgage Law which requires that the description of the property shall be such as to enable the parties to the mortgage, or any other person, after reasonable inquiry and investigation, to identify the same.

16.12 It is noteworthy to say that SHFC is already in the process of registering HDH 11 projects as its construction is fully completed and its chattel mortgage fees already paid in full. Also, HDH was recently completed and payment for the chattel mortgage fees is in process.

16.13 As a rejoinder, the SHFC should oblige the MBs to provide collateral other than the housing units to be constructed or being constructed considering the high risk involved in the disbursement of public funds with respect to the multifarious housing projects of the SHFC. The latter should be mindful of the probability of wastage of public funds while the development and construction is on-going since there was already an allocation and release of public funds. Hence, we reiterate our stand that the CMA is void because the housing units were not in existence at the time the CMA was executed. All things considered, the SHFC is not secured.

17. The SHFC has allocated only P7.060 million for its Gender and Development (GAD) programs, activities and projects (PAPs) or two percent of the approved Corporate Operating Budget (COB) contrary to Philippine Commission for Women-National Economic and Development Authority - Department of Budget and Management (PCW-NEDA-DBM) Joint Circular 2012-01. Moreover, only P2.081 million or 29 per cent of the allocated amount, was actually utilized, thus reducing the opportunity of SHFC women and other concerned parties to participate and be benefited by the GAD programs, activities and projects.

17.1 PCW-NEDA-DBM Joint Circular 2012-01 prescribes guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GAD plans and budgets, and GAD accomplishment reports. It also provides the mechanics for the development of programs, activities and projects (PAPs) to respect, protect and fulfill the rights of women at the socio-cultural, economic and political spheres.

17.2 Paragraph 6 of the Joint Circular 2012-01, on the costing and allocation of the GAD budget provides that:

a. 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 the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.

xxx.

d. Attributing agency major programs to the GAD budget.

i. If an agency intends to attribute a portion or the whole budget of major programs during the GAD planning and budgeting phase, it may subject the program to gender analysis using the Harmonized Gender and Development Guidelines (HGDG) tool.

ii. If the agency is not yet trained on the use of the tool, it may include said training in its GAD plans and Budgets (GPB) and may seek the assistance of an expert on gender analysis using the HGDG.

iii. The use of the HGDG will yield a maximum score of 20 points for each program or project. Depending on the score on the HGDG, a percentage of the budget of the agency's existing and proposed major program may be attributed to the GAD budget as follows:

HGDG Score	Description	Corresponding Budget for The Year of the Program That May Be Attributed to the GAD Budget
Below 4.0	GAD is invisible	0% or no amount of the program budget for the year may be attributed to the GAD budget
4.0 - 7.9	Promising GAD prospects (conditional pass)	25% of the budget for the year of the program may be attributed to the GAD budget
8.0 - 14.9	Gender sensitive	50% of the budget for the year of the program may be attributed to the GAD budget
15.0 - 19.9	Gender-responsive	75% of the budget for the year of the program may be attributed to the GAD budget
20.0	Fully gender-responsive	100% of the budget for the year of the program may be attributed to the GAD budget

17.3 For CY 2017, SHFC has the following GAD programs and activities and projects and allocated budget of P7.060 million with only 29.49 per cent, or P2.082 million utilized:

Programs, Activities and Projects	Budget Allocated	Utilization	%
Client-Focused Activities	P 4,450,000	P 717,000	16.11%
Organization-Focused Activities	2,610,000	1,364,833	52.23%
	P 7,060,000	P 2,081,833	29.49%

17.4 Validation disclosed that the allocated budget amounting to P7.060 million for GAD was less than five per cent of the approved corporate operating budget for CY 2017 amounting to P5.995 billion instead of allocating at least five per cent equivalent to P299.767 million for GAD-related activities.

17.5 CMPs were attributed to GAD Budget to increase SHFC's gender responsiveness, however, it was not subjected to gender analysis using HGDG tools, contrary to paragraphs 6 Joint Circular.

17.6 The low allocation and utilization of the GAD budget reduced the opportunity of SHFC women and other concerned parties to participate and be benefited by the GAD PAPs.

17.7 They further stated that they shall mainstream GAD with its major programs to increase gender responsiveness in compliance with all GAD policies; conduct series of gender sensitivity training in the head office and the regional offices to be attended by SHFC employees; and Quarterly GAD planning and evaluation will be held.

17.8 **We recommended that Management:**

a. Conform strictly with the provisions of Section 6 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the costing and allocation of the GAD budget; and

b. Properly attribute GAD-related activities/expenses in the GAD planning and budget phase to maximize the budget allocated for GAD programs, activities and projects in accordance with PCW-NEDA-DBM Joint Circular 2012-01.

Status of Suspensions, Disallowances and Charges

18.1 The total audit suspensions, disallowances and charges and settlements as of December 31, 2017 are shown below:

Particulars	Balance, 1/1/2017	Issued This Period (January to December 2017)	Settlement This period (January to December 2017)	Balance, 12/31/2017
Notice of Suspension (NS)	71,030,478	-	-	71,030,478
Notices of Disallowance (ND)	5,213,500	-	3,570,083	1,643,417
Notice of Charge	-	-	-	-

18.2 The NS issued pertains to the garnished peso time deposit with DBP including bank charges enforced by an Urgent Exparte Motion from case AC-973-RCMB-NCR LVA-024-01 titled SOHEAI vs. SHFC. The corresponding decision from Court of Appeals was issued on July 21, 2017 requiring SOHEAI to redeposit the amount to depository bank, thus, ND No. 2017-01-CIB TD (2016) was issued on February 9, 2018. Appeal Memorandum by SOHEAI for the said ND was submitted on April 25, 2018.

18.3 The ND issued for the payment of grocery subsidy, additional cash gift and 13th month are being settled through salary deduction.

PART III –

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 69 audit recommendations for both SHFC and AKPF embodied in the prior years' Annual Audit Report, 33 were fully implemented and 36 were partially implemented.

A. Social Housing Finance Corporation

Observations and Recommendations	Actions Taken
2016	
<p>1. Advances from Member Borrowers (MBs) amounting to P216 million as of December 31, 2016 are not supported with schedules and not reconciled with Individual Subsidiary Ledger of MBs, contrary to Section 111 of P.D. 1445 and Paragraph 15 of PAS 1, thus casting doubt on the reliability and fair presentation of the account balance and not beneficial to MBs.</p> <p>We recommended that Management:</p> <p>a. Prepare the schedule supporting the Advances from Borrowers account to properly monitor and expedite the reconciliation;</p> <p>b. Determine individually the property being paid for, to identify the MB payor and record unposted payments to MBs individual ledgers;</p> <p>c. Update the existing system to ensure that all excess payments are posted and applied to their individual outstanding obligations; and</p> <p>d. Adjust Receivable account and the related accounts accordingly.</p> <p>2. Thirty one Transfer Certificate of Titles (TCTs) under Usufruct Agreement of HDH lot acquisition project valued at P392.284 million are still not transferred in the name of SHFC, thus, contrary to Section 6 of Corporate Circular No. 14-005 series of 2014. Likewise, TCT on the lot acquisition through SHFC Re-Financing Program of a Local Government Unit (LGU) in Quezon City, amounting to P16.359 million was not transferred in the name of Community Association (CA) and with</p>	<p>Partially implemented for recommendations a, b, c and d.</p> <p>Management commented that on the existing collection and Ledgering Program (Adopted from NHMFC), excess payment accruing up to six (6) months equivalent monthly amortization is automatically applied as deduction from the principal of the MB's loan amount, provided however, that there were no prior instructions from the borrower to credit the amount of future amortization, while excess payment less than six months even after settlement of the loan, remains in the individual loan ledgers until refunded.</p>

Observations and Recommendations	Actions Taken
<p>no annotation of SHFC Mortgage while full payment was already made contrary to Section 5 of Implementing Rules and Regulation (IRR) 2014-003, thus, may result to non-recovery/loss of fund in case of a third party claimant.</p>	<p>Partially implemented.</p> <p>Management commented that the refusal of the landowner to pay the capital gains tax for the 31 TCT's under the usufruct Agreement of HDH Projects is the primary reason for the delay in the transfer of title in the name of SHFC. Management further stated that they have been lobbying for the exemption of HDH projects from payment of capital gains tax. Initially, Management has executed a MOA with the BIR where the latter committed to expedite and streamline the processes related to the issuance of certificate of tax exemption for CMP Projects. Management also stated that they will continue to lobby that the agreement with regards to HDH Projects will be secured. They intend to use the provision of the amended balanced housing act where proposed socialized condominium projects shall be exempted from the payment of capital gains tax.</p>

3. A member of the Board of Directors whose appointment ended on December 31, 2016 and for re-appointment was allowed to avail the SHFC Vehicle Acquisition Assistance Program which is contrary to Section 8 (d) and 13 (b) of EO No. 24 dated February 10, 2011 and COA Circular 2012-003 dated October 29, 2012, constituting irregular disbursements, thus, not beneficial to the interest of the government.

Observations and Recommendations	Actions Taken
We recommended that Management:	Partially implemented for recommendations a, b and c.
<p>a. Require the members of the Board who availed SHFC Vehicle Acquisition Assistance Program No. 169, Series of 2009, to refund the amount of car loan granted to conform with the provisions of Section 8(d) of E.O. No. 24, otherwise, the same will be disallowed in audit;</p> <p>b. 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; and</p> <p>c. Require the annotation of OR and CR by the RD to ensure the recovery of its loan exposure and cancel the same upon full payment of the loan.</p>	<p>Management have sought the opinion of the GCG on the matter, copy of which letter is enclosed for the auditor's reference. As can be recalled, a similar AOM was issued by the COA Auditor on 29 February 2016 which triggered a GCG letter to COA dated 13 September 2016. Letter to GCG on the matter is in effect a request for reconsideration on the earlier issued opinion</p>
2015	
<p>4. 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 EO No. 24 dated February 10, 2011.</p>	
We recommended that Management:	Partially implemented for recommendations a, b and c.
<p>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;</p> <p>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; and</p>	<p>The General Services Division has advised that as of August 2017, all chattel mortgages have been annotated except for BOD Augusto Lopez-Dee. All the OR's and CR's are now in the GSD Custody. A letter has been sent to Director-Lopez Dee dated September 29, 2017 on this matter. Report on the Status of Car Loan of resigned SHFC Employees</p>

Observations and Recommendations	Actions Taken
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.	and Board of Directors is submitted monthly by Finance and Comptrollership Department to HRD for monitoring.
2013	
5. 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 NHMFC in 2005 expose the SHFC to non-recovery of the corporate funds. Payments are not posted to the respective MBs loan ledger rendering the balance of individual account inaccurate.	Partially implemented.
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 MBs loan ledgers.	As of December 31, 2017, 19,768 MBs were included as part of the Restructured Accounts reducing the amount of LIR-Past Due.
6. 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.	Partially implemented.
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 to prepare the necessary adjusting entries to correct the variance noted.	FCD is considering the revision of the presentation of the accounts on the Statement of Financial Position in relation to PFRS based reporting.

Observations and Recommendations	Actions Taken
<p>7. 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>Partial implementation for recommendations a, b, c and d.</p>
<p>We recommended that Management:</p>	<p>Periodic update is directly reported to COA by the Internal Audit Department.</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>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;</p>	
<p>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 MBs. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and</p>	
<p>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.</p>	
<p>8. Absence of supporting documents to substantiate the Guaranty deposits payable in the amount of P702,888 received from the NHMFC in 2005 casts doubt on the accuracy and validity of the account balance.</p>	
<p>We recommended that Management require the Accounting Department to submit the documents that will substantiate the Guaranty</p>	<p>Partially implemented. No updates submitted on the</p>

Observations and Recommendations	Actions Taken
deposits payable of P702,888 and prepare adjusting entries, where necessary.	P147,246.85, awaiting reply from NHMFC as previously reported.

2012

9. The absence of validation procedures between the Abstract of Collections prepared by the CAs 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.

No updates on the actions undertaken as reported previously.

B. Abot-Kaya Pabahay Fund

Observations and Recommendations	Actions Taken
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2016

10. There are lapses in management and implementation of AKPF which are contrary to the Trust Agreement entered into by and between the NHMFC and the SHFC resulting in the following deficiencies that expose SHFC to non-recovery of the loan exposure.

A total of 202 TCTs remain unaccounted and undelivered by three developers who availed of the Developmental Loan Projects in violation of Section 3.02 of the Loan Agreement and Trust Receipts, thus, the risk that the TCT/s and Corporation loan exposure may not be recovered.

Nine developers were able to avail of a loan amounting to P134.50 million under

Observations and Recommendations

Actions Taken

AKPF despite non-compliance with schedule of completion for the land development and housing construction contrary to the Section 4 (4.02) of Memorandum of Agreement and Section 2.02 of the Loan Agreement. Thus, a very low percentage of development and the return of investment on the loan exposure, after 19-21 years remains nil.

The existence of third party claimants on the property mortgaged for a Subdivision and the foreclosed property of a Subdivision Projects cast doubts on the recovery of capital exposures amounting to P22.00 million and P26.00 million, respectively and on the legality of the rights/ownership of the property.

A total of 726 TCTs of acquired properties with loan amounting to P66 million were not consolidated in the name of the NHMFC notwithstanding the lapse of eight to 14 years after the expiration of one year redemption period, thus, resulting in the delay in the disposal of asset and exposing the property to further depreciation or deterioration.

We recommended that Management:

Partially implemented for a, b, and c.

a. Undertake immediate legal action to secure/recover the financial exposure on the abovementioned projects and update this office of the status of action taken considering the period that lapses;

No updates submitted by Management on the legal actions taken and on the disposal of acquired properties.

b. Initiate disposal of acquired properties to prevent further deterioration and loss of funds; and

c. Determine the persons liable for the deficiencies noted and file appropriate administrative action for failure to perform their functions.

Observations and Recommendations

Actions Taken

2015

11. 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.

We recommended that Management:

Partially implemented for recommendations a and b

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

No updates submitted on the results of investigation of the SHFC investigating Team.

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.

2014

12. 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.

We recommended that Management:

Partially implemented for recommendations a and b.

a. Determine the person/s liable for the missing CCTs; and

No updates submitted by SHFC on the missing titles.

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.

Observations and Recommendations

Actions Taken

2013

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

We recommended that Management:

Partially implemented for recommendations a, b and c.

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

Management has no updates regarding the negotiation of repurchase property.

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

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.

14. 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.

Observations and Recommendations	Actions Taken
<p>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.</p>	<p>Partially implemented.</p> <p>Management has no updates submitted as of Dec. 31, 2017.</p>
<u>2012</u>	
<p>15. 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>Partially implemented.</p> <p>No updates were submitted on the status of the foreclosure proceedings of the non-performing developmental loans as of December 31, 2016.</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>	
<u>2011</u>	
<p>16. 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>Partially implemented for recommendations a, b and c.</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>Management has no updates as of December 31, 2017.</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 MBs; and</p>	

Observations and Recommendations	Actions Taken
<p>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.</p>	
<p>2010</p>	
<p>17. 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 TCTs. 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.</p>	
<p>We recommended that Management:</p>	<p>Partially implemented for recommendations a and b.</p>
<p>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; and</p>	<p>Management has no updates as of December 31, 2017.</p>
<p>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.</p>	

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, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
ASSETS			
Current assets			
Cash	3	302,023,123	299,772,785
Receivables	4	7,398,005	9,524,680
		309,421,128	309,297,465
Non-current assets			
Long-term receivables, net	5	74,960,882	84,876,698
Other Non-current assets	6	178,534,790	169,753,490
Property and equipment, net		207,788	238,806
		253,703,460	254,868,994
TOTAL ASSETS		563,124,588	564,166,459
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	7	10,885,399	9,055,360
Other current liabilities	8	129,575	98,269
		11,014,974	9,153,629
TOTAL LIABILITIES		11,014,974	9,153,629
FUND BALANCE		552,109,614	555,012,830
TOTAL LIABILITIES AND FUND BALANCE		563,124,588	564,166,459

The Notes on Pages 101 to 105 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, 2017 and 2016
(In Philippine Peso)

	2017	2016
INCOME		
Interest income - special savings	5,147,576	5,223,189
Interest income - sale of acquired assets	1,346,411	1,934,163
Interest income - developmental loan	-	2,092
Interest income - regular savings	15,820	15,631
Other income - penalty and overpayment	181,022	4,108
	6,690,829	7,179,183
ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and wages	6,057,015	5,675,643
Taxes, licenses and fees	679,815	722,319
Trustee fee	229,075	256,100
Rent expenses	233,325	233,325
Janitorial services	16,430	16,430
Security services	96,026	96,026
Travelling expenses	196,198	152,330
Professional services	299,000	-
Utility expenses	90,087	90,834
Communication expenses	73,640	75,660
Other office equipment	-	19,689
Office supplies expense	41,574	7,713
IT supplies and materials expenses	-	19,815
Printing/binding/reproduction	5,289	39,850
Depreciation	31,016	27,472
Impairment Loss	246,302	-
Training and seminar	32,200	3,500
Gasoline, oil and lubricant	19,239	7,650
Fidelity bond premium	7,500	7,500
Transportation expenses	1,412	1,364
Miscellaneous expense	318,362	28,808
	8,673,505	7,482,028
INCOME BEFORE TAX	(1,982,676)	(302,845)
INCOME TAX EXPENSE		
Final income tax - special savings	917,996	1,044,638
Final income tax - regular savings	2,544	3,126
	920,540	1,047,764
NET INCOME (LOSS)	(2,903,216)	(1,350,609)

The Notes on Pages 100 to 101 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, 2017 and 2016
(In Philippine Peso)

	Note	Total
Balance at December 31, 2015		554,764,972
Net loss		(1,350,609)
Cancellation of CTS		1,598,467
Balance at December 31, 2016		555,012,830
Balance at December 31, 2016		555,012,830
Net loss		(2,903,216)
Balance at December 31, 2017	9	552,109,614

The Notes on Pages 101 to 105 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, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Installment sales receivable, current		8,040,181	5,908,759
Interest income received		5,446,838	2,987,091
Installment sales receivable, current		-	2,247,867
Refund of cash advance		-	63,035
Miscellaneous income/other income		177,632	-
Payment of personal services		(3,810,150)	(4,808,926)
Payment of cash advance		(541,580)	(105,050)
Payment of operating expenses		(888,210)	(838,527)
Payment of taxes		-	(1,183,344)
Payment of foreclosure expenses		(1,672,580)	(10,773)
Payment of trustee fee		(229,075)	(256,100)
Payment of realty tax		(4,272,718)	(2,281,026)
Miscellaneous expense		-	(150)
Net cash provided by operating activities		2,250,338	1,722,856
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-	1,568,676
Net cash provided by investing activities		-	1,568,676
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,250,338	3,291,532
CASH AND CASH EQUIVALENTS, BEGINNING		299,772,785	296,481,253
CASH AND CASH EQUIVALENTS, END	3	302,023,123	299,772,785

The Notes on Pages 101 to 105 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, as amended under RA No. 7835. The two components of the Fund, representing 60 per cent of the Fund, namely: a) the Liquidity support and interest subsidy component (LSISC); and b) the Amortization support and developmental financing component (ASDFC) were placed under the trusteeship of the National Home Mortgage Finance Corporation (NHMFC). The LSISC component of the fund shall be used exclusively for enhancing affordability of low-cost housing by low income families by means of subsidized monthly amortization for five years while the ASDFC component extends developmental financing loans up to 80 per cent of the total project cost to proponents of low-cost housing projects.

The Cash Flow Guaranty, the third component of the fund (40 per cent) is placed under the trusteeship of the Home Guaranty Corporation to ensure a viable cash flow for the funding agencies involved in housing in the face of liquidity risks resulting from non-collection of loans.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The 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:

	2017	2016
Cash in bank – LBP 1	3,039,793	3,743,099
Cash in bank– LBP 2	6,444,005	4,028,986
Investment in Treasury Bills – local	292,539,325	292,000,700
	302,023,123	299,772,785

4. RECEIVABLES

This account consists of the following:

	2017	2016
Sales Contract Receivable – current ^{4.1/}	6,819,612	7,537,034
Interest receivable – BSP - SDA	578,393	491,344
	7,398,005	8,028,378

4.1 The Sales Contract 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:

	2017	2016
Loan receivable – others ^{5.1/}	92,893,417	-
Past due receivables– developmental loans ^{5.2/}	-	45,381,801
Items in litigation – developmental loans ^{5.3/}	-	52,511,616
	92,893,417	97,893,417
Allowance for doubtful accounts	(23,223,354)	(24,473,354)
	69,670,063	73,420,062
Sales contract receivable – long-term	5,290,819	11,456,635
	74,960,882	84,876,698

5.1 Loans Receivable-Others

This account composed of the following:

- a. Past due receivables – developmental loans

This account represents the loans granted to developers with outstanding balance after the 24 and 36 months drawdown. For CY 2017 this was reclassified to Loan Receivable-others in compliance with Revised Chart of Account (RCA) under COA Circular No. 2016-006 dated December 29, 2016.

- b. Items in litigation – developmental loans

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

Rivera Heights Subdivision

This was endorsed to Legal Department on June 24, 2007 due to the unreturned 282 titles. It was again endorsed to Legal Department for the foreclosure by LGU-Bataan on November 29, 2007 due to non-payment of realty taxes. We had a meeting with Bataan Provincial Legal Officer, Atty. Joey Angeles to pursue negotiation on the repurchase of Rivera Heights Subdivision. However, the negotiation did not push through because of the claim of the Authority for Freeport Area of Bataan (AFAB) on the property by virtue of Proclamation No. 740 series of 1970 and amended by Proclamation No. 900 series of 1971. An initial meeting was held on September 9, 2016 to discuss the issue. The Legal Department of AFAB will do their study on the case and the LGU-Bataan will see what could be the most possible solution based on AFAB's decision.

Villa Alejandra Subdivision

This was endorsed to Legal Dept. due to missing owner's copy of title no. T-274150 in the name of Sps. Dante R. Cabauatan as mortgaged collateral with a total area of 120,000 however, only the E-copy of said title (T-274150) is in SHFC possession.

Based on the site inspection/verification report dated February 11, 2005 undertaken by NHMFC it was revealed that G-Carmel surrendered to NHMFC as security for the loan a title which was not the actual property that was developed and improved out of the developmental loan acquired from NHMFC.

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

5.2 Sales Contract Receivable – Long Term

This account represents the amortization due on the sale of Acquired Assets which are due after one (1) year.

6. OTHER NON-CURRENT ASSETS

	2017	2016
Foreclosed properties/assets ^{6.1/}	118,317,379	-
Other assets ^{6.2/}	60,217,411	-
Acquired assets	-	169,753,490
	178,534,790	169,753,490

6.1 Foreclosed Properties/Assets

This account pertains property previously recognized as Acquired Asset but reclassified to Foreclosed Properties/Asset pursuant to RCA. This composed of eight foreclosed properties namely: La Vista Cruz Subdivision, Villa Haniya Subdivision, Evergreen Subdivision, Cristina Homes 1, Cristina Homes 2, Villa Rita Subdivision, Catbalogan City Homes and Plainville Homes Subdivision reclassified from Acquired Assets.

6.2 Other Assets

This account pertains to properties acquired from settlement of accounts through Dacion en Pago for five projects namely: Juel Country Homes, UPLB Subdivision, Malinville Subdivision Villa Felipe Heights Subdivision and Olympia Village also classified from Acquired Assets. This account was reclassified to Foreclosed Properties/Assets in compliance with RCA.

7. INTER-AGENCY PAYABLE

This account consists of the following:

	2017	2016
Due to other funds ^{7.1/}	6,591,402	4,140,914
Due to LGUs ^{7.2/}	4,293,997	4,914,446
	10,885,399	9,055,360

7.1 Due to Other Funds

This account represents personal services and other administrative expenses advanced by SHFC. The balance on 2016 was restated amounting to P19,006 due to prior period adjustment.

7.2 Due to LGUs

This account represents unpaid real property taxes due on the AKPF Projects.

8. OTHER CURRENT LIABILITIES

This account consists of the following:

	2017	2016
Other payable	115,679	98,269
Accounts payable	13,896	-
	129,575	98,269

8.1 Other Payable

Other payable represents taxes withheld from Interest Income on investment in Treasury Bills-Local with Land Bank of the Philippines.

8.2 Accounts Payable

This account represents accrual of travelling expenses for the period covered November to December 31, 2017.

9. FUND BALANCE

	2017	2016
Fund Balance	552,109,614	555,012,830

The beginning balance was adjusted due to reversal of Allowance for Doubtful Accounts for the project, Plainville Homes in view of its reclassification to Foreclosed Properties/Assets and the reclassification of Other Equipment erroneously recorded as expense.

The variance of P18,514 and P1,515,992 for the years 2017 and 2016, respectively, was due to timing difference in recording and restatement of prior years adjustment on the beginning balance.