# COVER SHEET for AUDITED FINANCIAL STATEMENTS

C S 2 0 0 5 1 0 7 0	2		
S.E.C. Registration Number			
COMPANY NAME			
S O C I A L H O U S I N G F I N A N C E			
C O R P O R A T I O N			
PRINCIPAL OFFICE (No. Street/Barangay/City/Town/Province)			
5/F B D O P L A Z A 8 7 3 7 P A S E O			
D E R O X A S M A K A T I C I T Y			
Form Type Department requiring the report Secondary License Type if Applicable  C F D			
CY-2022			
COMPANY INFORMATION			
Company's email address Company's Telephone Number Mobile Number			
shfc.obs2019@gmail.com 77506338 Loc.601 /02-8941096 09178088330			
No. of Stockholders  Annual Meeting (Month/Day)  Fiscal Year (Month/Day)	7)		
Eight (8) Fourth Friday of June December 31			
CONTACT PERSON'S ADDRESS			
The designation contact person <u>MUST</u> be an Officer of the Corporation			
Name of Contact Person Emails address Telephone Number	r		
shfc.obs2019@gmail.com 77506338 Loc.60			
ATTY. KAROLINE J. ABELLO - TORDECILLA			
CONTACT PERSON'S ADDRESS			
BDO PLAZA 8737 PASEO DE ROXAS, MAKATI CITY			

NOTE 1: In case of death; resignation or cessation of office of the officer designated as contact person, such incidental shall be reported to the Commission within thirty (30) days from the occurance thereof with information and complete contact details of the new contact person designated

2. All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with Commission and/or of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



04 May 2023

### RACHEL ESTHER J. GUMTANG-REMALANTE

Director Corporate Governance and Finance Department Securities and Exchange Commission 7907 Makati Avenue, Bel-Air Makati City 1209

### Dear Director Gumtang-Remalante:

The Securities and Exchange Commission (SEC) required the registered corporations including select government-owned and-controlled corporations, to submit the Audited Financial Statement (AFS) within ten (10) days from the receipt of the Annual Audit Report from the Commission on Audit (COA).

In this regard, the Social Housing Finance Corporation (SHFC) is respectfully submitting the COA Annual Audit Report for CY 2022 which was received on 28 April 2023 by the Office of the Board Secretary, as evidenced by herein attached copy.

Should you have any question and/or clarification, please contact us through this number 02-77506338 local 601.

Thank you very much.

Sincerely,



# REPUBLIC OF THE PHILIPPINES COMMISSION ON AUDIT

Commonwealth Avenue, Quezon City

## CORPORATE GOVERNMENT AUDIT SECTOR CLUSTER 2 – SOCIAL SECURITY

April 27, 2023

THE BOARD OF DIRECTORS

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

# SHFG UFFICE OF THE BOARD SECRETAR'S RECENTRY NOTE: MICHAEL BUNYAD 1128 122

### Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Housing Finance Corporation (SHFC) for the years ended December 31, 2022 and 2021.

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

The Auditor expressed an adverse opinion on the fairness of the presentation of the financial statements of the SHFC for the years ended December 31, 2022 and 2021 due to the following:

- a. Undistributed Collections (UC) totaling P353.807 million remained unposted to the Mortgage Contract Receivable (MCR), despite the policy implemented and efforts exerted by Management to lower the same, thus, overstating both the Other Payables and the MCR accounts by the same amount as at December 31, 2022;
- b. The requirements of the Philippine Financial Reporting Standard (PFRS) 9 on Financial Instruments were not complied with, thus, the balances of various financial asset accounts totaling P23.188 billion as at December 31, 2022 are misstated by undetermined amounts; and
- c. The accounts Right-of-Use of Assets (ROUA) and Lease Payable are not recognized in the books of SHFC, contrary to the requirements of PFRS 16 on Leases, thus, the assets and liabilities are both understated, and the balances of the related accounts are all misstated by undetermined amounts as at December 31, 2022.

For the above observations, we recommended that Management:

For undistributed collections

a. Ensure posting at the end of the calendar year the current year's collections lodged in UC;

- Require the ICTD to facilitate the enhancement of the database of HDH MBs under migration and all other accounts not yet in the database;
- Implement measures to prevent or correct the causes of the non-posting of collections; and
- d. Revisit the timeline in Office Order No. 21-1178, the Policy Implementing the Distribution/Posting of Amortization Collections, considering the volume of transactions.

For noncompliance with the requirements of PFRS 9 on Financial Instruments

- Resubmit and make a representation to the BODs to prioritize the approval of the SHFC Accounting Manual;
- b. Accordingly, apply the policy embedded in the SHFC Accounting Manual which should be PFRS compliant on the proper classification, measurement, and impairment of all financial instruments of SHFC; and
- c. Provide the disclosures required under PFRS 7 in the Financial Statements.

For noncompliance with PFRS 16 on Leases

Facilitate the approval of the accounting policy by the Board of Directors and its subsequent implementation that is compliant to the provisions of PFRS 16, including its disclosure requirements on SHFC's leases.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on March 9, 2023 are discussed in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

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

Very truly yours,

**COMMISSION ON AUDIT** 

By:

MA. LISA P. INGUILLO
Director IV

### Copy furnished:

The President of the Republic of the Philippines The Vice President

The Speaker of the House of Representatives

The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management

The Governance Commission for Government-Owned and Controlled Corporations
The Presidential Management Staff, Office of the President

The UP Law Center
The National Library



Republic of the Philippines
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, 2022 and 2021

### **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.

The creation of the SHFC, a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), was in accordance with the Corporation Code, now Republic Act No. 11232 or the Revised Corporation Code of the Philippines. It 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 Chairperson of Department of Human Settlement and Urban Development (DHSUD); (b) the President of SHFC; (c) the Secretary of Department of Budget and Management (DBM); (d) the Undersecretary of Department of Finance (DOF); (e) the President of NHMFC; (f) the Undersecretary of Department of the Interior and Local Government (DILG); and (g) three private sector representatives.

The President is assisted in the management of SHFC by the Executive Vice-President, two Vice-Presidents, two Officer-in-Charge (OIC) Senior Vice-Presidents, 18 OIC Vice-Presidents and one Acting Vice-President. The personnel complement for calendar year 2022 is 635, with 215 regular, five probationary and 415 agency-hired employees. To date, the SHFC has 27 Satellite/Regional Offices located in Legaspi Albay, Bacolod City, Biñan Laguna, Cagayan de Oro City, Calamba City, Cauayan Isabela, Cebu City, Daet, Davao City, Dipolog City, General Santos City, Iligan City, Iloilo City, Lucena City, Naga City, Palawan, Pampanga, Roxas City, Tubigon City Bohol, Zamboanga City, Bacoor City, Caraga Butuan City, Imus Cavite, Tacloban City, Tuguegarao, North Cotabato and Dapitan.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2022 and 2021 amounted to P4.560 billion and P5.652 billion, respectively, which were utilized as follows:

	20	22	20	21
Particulars	Budget	Utilization*	Budget	Utilization
F-1	(In Thousand Pesos)			
Personnel services	369,437	278,363	340,585	282,929
Maintenance and other operating expenses	834,713	445,857	702,776	338,552

	20	22	20	21
Particulars	Budget	Utilization*	Budget	Utilization
	(In Thousand Pesos)			
Capital outlay	55,282	40,155	89,066	51,647
Loan outlay	3,300,685	1.735,046	4,519,084	1,530,675
North-South Luzon Railway Project	0,000,000	0	0	142,139
Marawi Recovery, Rehabilitation and	ō	0	0	51,963
Reconstruction Program  AKPF	0	0	0	9,372
AINT	4.560,117	2,499,421	5,651,511	2,407,277

<sup>\*</sup>The amounts of utilization presented are on a cash basis.

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

### FINANCIAL HIGHLIGHTS (In Philippine Peso)

### Comparative Financial Position

Particulars	2022	2021	Increase
Assets Liabilities Equity	31,819,388,851 22,150,497,600 9,668,891,257	29,291,356,092 21,523,724,493 7,767,631,599	2,528,032,759 626,773,107 1,901,259,658

### II. Comparative Results of Operations

2022	2021	Increase
734.078.100	643,344,483	90,733,617
	601,161,324	28,183,185
		70,037,950
		17,173,261
		45,377,171
		895,173,067
1,962,818,077		940,550,238
	734,078,100 629,344,509 88,588,201 23,047,144 81,686,447 1,881,131,630	734,078,100 643,344,483 629,344,509 601,161,324 88,588,201 18,550,251 23,047,144 5,873,883 81,686,447 36,309,276 1,881,131,630 985,958,563

### **SCOPE OF AUDIT**

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC for the period January 1 to December 31, 2022, in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022, and 2021. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

#### **AUDITOR'S OPINION**

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the SFHC for the year ended December 31, 2022 due to the Undistributed Collections (UC) under Other Payables account pertaining to payments of member-

borrowers that are un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account.

Moreover, the account balances of the Investment; Receivables, current; Other Current Assets; Receivables, non-current; and Other Non-Current Assets, are misstated by undetermined amounts due to non-compliance to the provisions of PFRS 9 *Financial Instruments* requiring classification, measurement and impairment of the above-enumerated financial assets.

Further, the requirements of PFRS 16 Leases have not yet been applied on the leases of SHFC as at December 31, 2022, thus, the assets and liabilities are both understated by undetermined amounts as at December 31, 2022 for the non-recognition of Rights-of-Use of Assets and lease liabilities in the books. In addition, the account balances of the related Retained Earnings; Accumulated Depreciation; Rent/Lease Expenses; Depreciation Expenses; and Interest Expenses are all misstated also by undetermined amounts thereby affecting the fairness of presentation of the accounts in the financial statements.

For the above observations, we recommended that Management:

#### For undistributed collections

- Ensure posting at the end of the calendar year the current year's collections lodged in UC;
- Require the ICTD to facilitate the enhancement of the database of HDH MBs under migration and all other accounts not yet in the database;
- Implement measures to prevent or correct the causes of the non-posting of collections; and
- d. Revisit the timeline in Office Order No. 21-1178, the Policy Implementing the Distribution/Posting of Amortization Collections, considering the volume of transactions.

For noncompliance with the requirements of PFRS 9 on Financial Instruments

- Resubmit and make a representation to the BODs to prioritize the approval of the SHFC Accounting Manual;
- Accordingly, apply the policy embedded in the SHFC Accounting Manual which should be PFRS compliant on the proper classification, measurement, and impairment of all financial instruments of SHFC; and
- c. Provide the disclosures required under PFRS 7 in the Financial Statements.

### For noncompliance with PFRS 16 on Leases

Facilitate the approval of the accounting policy by the Board of Directors and its subsequent implementation that is compliant to the provisions of PFRS 16, including its disclosure requirements on SHFC's leases.

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

The balance of disallowances amounting to P78,950,312 consists of the balances of (a) ND No. 2022-02 (2022) amounting to P1,526,000, (b) ND No. 2022-01 (2020) amounting to P955,500, (c) ND No. 2019-01(2018) amounting to P5,280,000, (d) ND No. 2017-01-CIB-TD amounting to P71,030,479, and (e) ND 2016-01 (2014) and ND 2015-04 (2014) amounting to P158,333 as at December 31, 2022. There were no Notices of Suspension and Charge issued during the year.

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

Out of 51 audit recommendations for both SHFC and AKPF embodied in the CY 2021 Annual Audit Report, 18 were implemented, 21 were not implemented six of which were reiterated, nine were reconsidered, and three with notice of disallowance in Part II of this Report.

### **TABLE OF CONTENTS**

			Page
PARTI	-	AUDITED FINANCIAL STATEMENTS	
		Independent Auditor's Report	1
		Statement of Management's Responsibility for Financial Statements	5
		Statements of Financial Position	6
		Statements of Comprehensive Income	7
		Statements of Changes in Equity	8
		Statements of Cash Flows	9
		Notes to Financial Statements	10
PART II	-	OBSERVATIONS AND RECOMMENDATIONS	52
PART III	-	STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS	79
PART IV		ABOT-KAYA PABAHAY FUND	
		Statements of Financial Position	97
		Statements of Comprehensive Income	98
		Statements of Changes in Fund Balance	99
		Statements of Cash Flows	100
		Notes to Financial Statements	101

### LIST OF ACRONYMS

Asian Development Bank ADB Assets Held in Trust AHT **AKPF** Abot-Kaya Pabahay Fund Administrative Order AO **Abstract of Collections** AOC Accomplishment Report AR **Board of Directors BODs Board Resolution** BR Bangko Sentral ng Pilipinas **BSP** 

BSP Bangko Sentral ng Pilipinas

CAs Community Associations

CAD Corporate Accounts Division

CAIS Community Association Information System

CBA Collection Bargaining Agreement
CER Collection Efficiency Ratio

CGF Community Guided Financing Framework

CISFA Comprehensive and Integrated Shelter Financing Act

CMD Cash Management Department CMP Community Mortgage Program

CO Capital Outlay

COA Commission on Audit

COB Corporate Operating Budget

COS Contract of Service

CPSE Commercial Public Sector Entity

CREATE Corporate Recovery and Tax Incentives for Enterprises

CSC Civil Service Commission

DBM Department of Budget and Management

DBM-PS Department of Budget and Management - Procurement Service DHSUD Department of Human Settlements and Urban Development

DILG Department of Interior and Local Government

DMD Data Management Division
DOF Department of Finance
DOTr Department of Transportation

DRRM Disaster Risk Reduction and Management
DRRMF Disaster Risk Reduction and Management Fund
DSWD Department of Social Welfare and Development

ECL Expected Credit Losses

EO Executive Order

EWT Expanded Withholding Tax

FRSC Financial Reporting Standards Council
FVPL Fair Value Through Profit and Loss

FVTOCI Fair Value Through Other Comprehensive Income

GAA General Appropriations Act
GAD Gender and Development

GCG Governance Commission for GOCCs
GFIs Government Financial Institutions

GFPS GAD Focal Point System

GL General Ledger

GMMA Greater Metro Manila Area

GMMS Gender Mainstreaming Monitoring System

### LIST OF ACRONYMS

GMP Government Money Payments

GOCC Government Owned and/or Controlled Corporation

GPB Gender and Development Plan and Budget

HDH High Density Housing

HDHP High Density Housing Program

HMO Healthcare Maintenance Organization

HUDCC Housing and Urban Development Coordinating Council

IA Intramuros Administration

IASB International Accounting Standards Board

ICOS Institutional Contract of Service

ICTD Information and Communication Technology Department

ISFs Informal Settler Families

JEs Journal Entries

JICA Japan International Cooperation Agency

LBP Land Bank of the Philippines

LCMP Localized Community Mortgage Program

LGUs Local Government Units
LIR Loans Installment Receivable
LPA Lease Purchase Agreement

MBs Member Beneficiaries MC Memorandum Circular

MCIT Minimum Corporate Income Tax MCR Mortgage Contract Receivable MMRBs Micro Medium Rise Buildings

MO Memorandum Order

MOA Memorandum of Agreement

MOOE Maintenance and Other Operating Expenses

MOU Memorandum of Understanding MRI Mortgage Redemption Insurance

MRRRP Marawi Recovery, Rehabilitation and Reconstruction Program

MSP Marawi Shelter Project
NCA Notice of Cash Allocation
NCR National Capital Region

NDRRM National Disaster Risk Reduction and Management

NDRRMC National Disaster Risk Reduction and Management Council

NG National Government

NGAs National Government Agencies NGOs Non-Government Organizations

NHMFC National Home Mortgage Finance Corporation

NOLCO Net Operating Loss Carry Over

NSCR-Ex North-South Commuter Railway Extension

OIC Officer-in-Charge
OP Office of the President

OSIS Operation Support Information System
PAS Philippine Accounting Standards
PCW Philippine Commission on Women

PD Presidential Decree
PE Property and Equipment

PFRS Philippine Financial Reporting Standards

### LIST OF ACRONYMS

**Undistributed Collections** 

Value Added Tax

UC

VAT

-		2.51 Of ACKORTING
PNF		Philippine National Railway
POs		People's Organizations
PS		Personnel Services
PVA		Panel of Voluntary Arbitrators
RA		Republic Act
RCA	<b>\</b>	Revised Chart of Accounts
RCI	Γ	Regular Corporate Income Tax
RD		Registry of Deeds
REN	1	Real Estate Mortgage
ROL	JA	Right-of-Use Asset
RR		Revenue Regulations
SAF	O	Special Allotment Release Order
SEC	;	Securities and Exchange Commission
SHF	C	Social Housing Finance Corporation
SIM	PLE	Strategy for the Inclusive Mainstreaming of Peoples Living Entitlements
SL		Subsidiary Ledger
SFP	)	Statement of Financial Position
SOF	HEAI	Social Housing Employees Association, Inc.
SSS	3	Social Security System
TCT	•	Transfer Certificate of Title

# PART I AUDITED FINANCIAL STATEMENTS



### INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Social Housing Finance Corporation
Banco de Oro Plaza
8737 Paseo de Roxas
Makati City

### Report on the Audit of the Financial Statements

### **Adverse Opinion**

We have audited the financial statements of the **Social Housing Finance Corporation** (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation, which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity, statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the Bases for Adverse Opinion section of our report, the accompanying financial statements do not present fairly the financial position of SHFC as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### Bases for Adverse Opinion

The Undistributed Collections (UC) under Other Payables account pertaining to payments of member-borrowers remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P353.807 million and P413.693 million as at December 31, 2022 and 2021, respectively. Moreover, the account balances of the Investment – Held to Maturity of P50.000 million in 2022 and 2021; Receivables, current of P1.202 billion in 2022 and P2.239 billion in 2021; Other Current Assets of P6.963 billion in 2022 and P1.396 billion in 2021; Receivables, non-current of P14.302 billion in 2022 and P17.455 billion in 2021; and Other Non-Current Assets of P670.552 million in 2022 and P672.591 million in 2021, or a total of P23.188 billion and P21.813 billion as at December 31, 2022 and 2021, respectively, are misstated by undetermined amounts due to non-compliance to the provisions of PFRS 9 Financial Instruments requiring classification, measurement and impairment of the above-enumerated financial assets.

Further, the requirements of PFRS 16 Leases have not yet been applied on the leases of SHFC as at December 31, 2022, thus, the assets and liabilities are both understated by undetermined amounts as at December 31, 2022 and 2021 for the non-recognition of Rights-of-Use of Assets and lease liabilities in the books. In addition, the account balances of the related Retained Earnings of P9.659 billion in 2022 and P7.758 billion in 2021; Accumulated Depreciation of P188.473 million in 2022 and P200.599 million in 2021; Rent/Lease Expenses of P16.445 million in 2022 and P13.022 million in 2021;

Depreciation Expenses of P18.671 million in 2022 and P20.090 million in 2021; and Interest Expenses of P0.337 million in 2022 and P0.700 million in 2021 are all misstated also by undetermined amounts thereby affecting the fairness of presentation of the accounts in the financial statements.

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

### Other Matter

In our report dated March 10, 2022, we modified in part our opinion on the fairness of presentation of SHFC's financial statements for the year ended December 31, 2021, because the present value of expected payments to cover the future retirement benefits of SHFC's employees were not measured, recognized and disclosed in the books as benefit cost and benefit obligation, contrary to the requirement of PAS 19 Employee Benefits, resulting in the understatement of both the Retirement Expense and Retirement Gratuity Payable accounts by undetermined amounts as at December 31, 2021. In our current audit, due to the authorization to implement Executive Order No. 150 dated October 1, 2021 approving the Compensation and Position Classification System (CPCS) issued by the Governance Commission for GOCCs (GCG) on December 15, 2022, as disclosed in Note 31 to the Financial Statements, SHFC is not anymore covered by Republic Act No. 7641 (as amended), otherwise known as the Labor Code of the Philippines, Providing for Retirement Pay to Qualified Private Sector Employees in the Absence of any Retirement Plan in the Establishment, since under the approved CPCS, employees are not entitled to retirement gratuity equivalent to their years of service upon separation from the Corporation. Hence, the recognition of benefit cost and benefit obligation in the financial statements is no longer applicable. Accordingly, our opinion on the CY 2022 financial statements with respect of this matter is no longer modified.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SHFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SHFC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained to the date of our auditor's report. However, future events or conditions may cause SHFC to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

### Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 33 to the financial

statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of SHFC. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. Because of the significance of the matters described in the *Bases for Adverse Opinion* section of our report, it is inappropriate to, and we do not express an opinion on the supplementary information referred to above.

### **COMMISSION ON AUDIT**

CELIA L. NAZARENO Supervising Auditor

March 27, 2023



## 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, 2022 and December 31, 2021 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 is responsible for overseeing the SOCIAL HOUSING FINANCE CORPORATION's financial reporting process.

The Board of Directors 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.

JOSE RIZALING L. ACUZAR Chairperson of the Board

FEDERICO A. L President & CEO

DANTE M. ANABE OIC - Vice President

Finance and Comptrollership Group

March 27, 2023

# SOCIAL HOUSING FINANCE CORPORATION (A Wholly-Owned Subsidiary of the National Home Mortgage Finance Corporation) STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021 (In Philippine Peso)

A00FT0	Note	2022	2021
ASSETS			
Current Assets			
Cash and cash equivalents	4	5,916,658,209	4,859,964,897
Investments	5	110,000,000	159,990,000
Receivables	6	1,202,366,208	2,239,245,511
Inventories	7	9,441,828	9,113,793
Other current assets	8	6,963,387,558	1,396,422,426
		14,201,853,803	8,664,736,627
Non-Current Assets			
Receivables, net	6	14,196,738,201	17,356,215,480
Investment property	9	2,455,563,155	2,275,373,328
Property and equipment, net	10	191,279,676	201,864,466
Intangible assets, net	11	10,312,248	11,409,518
Deferred tax assets	25.2	93,297,866	109,165,683
Other non-current assets	12	670,343,908	672,590,990
		17,617,535,054	20,626,619,465
TOTAL ASSETS		31,819,388,857	29,291,356,092
LIABILITIES AND EQUITY			
Current Liabilities			
Financial liabilities	13	1,214,502,845	1,083,856,593
Inter-agency payables	14	37,870,992	51,466,116
Income tax payable	25.3	2,596,236	2,535,73
Trust liabilities	15	4,763,065	4,791,167
Deferred credits/unearned income	16	199,907,701	217,941,932
Other payables	17	1,626,986,525	1,405,962,950
		3,086,627,364	2,766,554,489
Non-Current Liabilities			
Financial liabilities	13	400,766	2,004,452
Trust liabilities	15	19,063,469,470	18,755,165,552
		19,063,870,236	18,757,170,004
TOTAL LIABILITIES		22,150,497,600	21,523,724,49
Capital stock	18.1	10 000 000	10,000,000
Retained earnings	18.2	10,000,000	10,000,000
TOTAL EQUITY	10.2	9,658,891,257 9,668,891,257	7,757,631,599 7,767,631,599
TOTAL LIABILITIES AND SOURCE			
TOTAL LIABILITIES AND EQUITY		31,819,388,857	29,291,356,092

# 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, 2022 and 2021 (In Philippine Peso)

	Note	2022	2021
INCOME			
Service and business income	19	717,932,710	619,711,575
		717,932,710	619,711,575
EXPENSES			
Personnel services	20	276,768,383	268,685,517
Maintenance and other operating expenses	21	323,633,045	297,120,452
Non-cash expenses	22	28,558,779	34,561,716
Financial expenses	23	384,302	793,639
		629,344,509	601,161,324
INCOME FROM OPERATIONS		88,588,201	18,550,251
Other non-operating income	24	16,145,390	23,632,908
PROFIT BEFORE TAX		104,733,591	42,183,159
INCOME TAX EXPENSE/(BENEFIT)			
Current	25.1	7,179,327	6,197,116
Deferred	25.2	15,867,817	(323,233)
		23,047,144	5,873,883
PROFIT AFTER TAX Net assistance/subsidy income from National		81,686,447	36,309,276
Government	26	1,881,131,630	985,958,563
NET INCOME/COMPREHENSIVE INCOME		1,962,818,077	1,022,267,839

# 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, 2022 and 2021 (In Philippine Peso)

	Capital Stock	Retained Earnings	Total Equity
	18.1	18.2	-17
			<b></b>
Balance as at January 1, 2022	10,000,000	7,757,631,599	7,767,631,599
Prior period adjustments	0	(7,795,188)	(7,795,188)
Restated balance as at January 1, 2022	10,000,000	7,749,836,411	7,759,836,411
Net income for the year	0	1,962,818,077	1,962,818,077
Dividends for CY2022	0	(53,763,231)	(53,763,231)
Balance as at December 31, 2022	10,000,000	9,658,891,257	9,668,891,257
Balance as at January 1, 2021	10,000,000	6,753,369,634	6,763,369,634
Prior period adjustments	0	1,816,782	1,816,782
Restated balance as at January 1, 2021	10,000,000	6,755,186,416	6,765,186,416
Net income for the year	0	1,022,267,839	1,022,267,839
Dividends for CY2021	0	(19,822,656)	(19,822,656)
Balance as at December 31, 2021	10,000,000	7,757,631,599	7,767,631,599
Appropriated as at December 31, 2022			
Funds appropriated for HDH Project		6,384,479,898	
Retained Earnings for transfer to NHMFC		60,505,380	
Un-appropriated as at December 31, 2022		3,213,905,979	
		9,658,891,257	

# 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, 2022 and 2021 (In Philippine Peso)

	2022	2021
ASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows		
Collection of income/revenue	1,246,320,374	997,779,846
Receipt of assistance/subsidy	2,191,248,132	1,005,285,424
Trust receipts	288,550	75,459
Collection of receivables	2,666,695	7,914,692
Receipt of inter-agency fund transfers	306,307	116,343,598
Other receipts	3,625,179	593,711
Total cash inflows	3,444,455,237	2,127,992,730
Cash outflows		
Release of funds for mortgage contracts	(1,639,971,776)	(1,867,021,584
Payment of expenses	(459,575,789)	(658,556,759
Refund of deposits	(2,176,147)	(3,615,593
Remittance of personnel benefit contributions and mandatory deductions	(30,524,329)	(27,656,356
Payment for prepaid expenses	(91,152,860)	(116, 138, 212
Purchase of inventories	(17,290,161)	(17,466,106
Grant of cash advances	(11,132,485)	(4,370,966
Release of inter-agency fund transfers	(30,365,528)	(2,339,785
Other disbursements	(475,152)	(1,255,334
Total cash outflows	(2,282,664,227)	(2,698,420,695
Net cash provided by/(used in) operating activities	1,161,791,010	(570,427,965
Cash inflows Proceeds from matured investments/redemption of long-term		
Cash inflows	918,266,676 14,822,185	
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments		32,788,947
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments  Receipt of interest earned	14,822,185	32,788,947
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments  Receipt of interest earned  Total cash inflows	14,822,185	32,788,947 1,745,123,755
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments  Receipt of interest earned  Total cash inflows  Cash outflows	14,822,185 933,088,861	32,788,947 1,745,123,755 (817,092,000
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property	14,822,185 933,088,861 (861,040,833)	32,788,947 1,745,123,755 (817,092,000 (242,134,968
Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments	14,822,185 933,088,861 (861,040,833) (152,677,687)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480
Cash inflows Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315) (1,072,553,313)
Cash inflows Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315) (1,072,553,313)
Cash inflows Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,556 (2,437,486 (4,318 (1,072,553,313
Cash inflows Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES Cash outflows	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315) (1,072,553,313)
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES Cash outflows Payment of financial expenses for technical assistance	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315 (1,072,553,313 672,570,442
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES  Cash outflows  Payment of financial expenses for technical assistance Payment of long-term liabilities	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315 (1,072,553,313 672,570,442
Cash inflows Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES Cash outflows Payment of financial expenses for technical assistance	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315 (1,072,553,313 672,570,442 (20,373,506 (13,466,798
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES Cash outflows  Payment of financial expenses for technical assistance Payment of long-term liabilities	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879) (355,751) (3,839,465)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315 (1,072,553,313 672,570,442 (20,373,506 (13,466,798 (886,158
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES  Cash outflows  Payment of financial expenses for technical assistance Payment of long-term liabilities Payment of interest on loans and other financial charges	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879) (355,751) (3,839,465) (323,587)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,318 (1,072,553,313 672,570,442 (20,373,506 (13,466,798 (886,158
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES Cash outflows  Payment of financial expenses for technical assistance Payment of long-term liabilities Payment of interest on loans and other financial charges Payment of cash dividends  Total cash outflows	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879) (355,751) (3,839,465) (323,587) (9,694,016)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315) (1,072,553,313) 672,570,442 (20,373,508 (13,466,798 (886,159) (34,726,463
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES Cash outflows  Payment of financial expenses for technical assistance Payment of long-term liabilities Payment of interest on loans and other financial charges Payment of cash dividends  Total cash outflows  Net cash used in financing activities	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879) (355,751) (3,839,465) (323,587) (9,694,016) (14,212,819)	32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315) (1,072,553,313 672,570,442 (20,373,506) (13,466,798) (886,159) (34,726,463)
Cash inflows  Proceeds from matured investments/redemption of long-term investments/return on investments Receipt of interest earned  Total cash inflows  Cash outflows  Purchase of investments Purchase of land as investment property Purchase/construction of property and equipment Purchase of intangible assets Grant of loans  Total cash outflows  Net cash provided by/(used in) investing activities  CASH FLOWS FROM FINANCING ACTIVITIES  Cash outflows  Payment of financial expenses for technical assistance Payment of long-term liabilities Payment of interest on loans and other financial charges Payment of cash dividends	14,822,185 933,088,861 (861,040,833) (152,677,687) (9,956,220) (299,000) 0 (1,023,973,740) (90,884,879) (355,751) (3,839,465) (323,587) (9,694,016) (14,212,819) (14,212,819)	1,712,334,808 32,788,947 1,745,123,755 (817,092,000 (242,134,968 (10,884,550 (2,437,480 (4,315 (1,072,553,313 672,570,442 (20,373,506 (13,466,798 (886,159 (34,726,463 67,416,014 4,792,548,883

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

### 1. CORPORATE INFORMATION

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

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

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

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

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

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

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

A Memorandum of Understanding (MOU) was executed between the United Nations Human Settlements Programme (UN-Habitat), and the SHFC, where the parties agreed to collaborate in the shelter and community recovery programme in response to the Marawi Siege of 2017 under the "Project for Rebuilding Marawi through Community-Driven Shelter and Livelihood support" which is being supported by People of Japan. The Rebuilding Marawi Shelter Livelihood Recovery Project supports people displaced by Marawi conflict in the rebuilding of resilient and peace-promotive shelter, livelihood and community infrastructure. One thousand five hundred (1,500) core shelters will be built for identified home partners organized under the project of the United Nations Human Settlements Programme (UN Habitat) and the SHFC.

On March 27, 2019 a Memorandum of Agreement (MOA) was executed between the Intramuros Administration (IA), the Housing and Urban Development Coordinating Council (HUDCC), and the SHFC, where the parties agreed to finally operationalize the Strategy for the Inclusive Mainstreaming of Peoples Living Entitlements (SIMPLE Program). IA to transfer initial amount of P410 million for the resettlement of the families that is enrolled to the SIMPLE Program. The amount transferred shall provide for the construction of Micro Medium Rise Buildings (MMRBs) or CMP Vertical, regular CMP and other community-driven housing programs and shelter solutions that will primarily benefit Intramuros' ISFs.

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 as at and for the year ended December 31, 2022, including the comparative financial statements as at and for the year ended December 31, 2021 were approved and authorized for issue by the SHFC Board of Directors (BOD) on March 27, 2023.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards

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

the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

SHFC has formulated policies/guidelines for the classification, measurement and recognition of various financial assets, and "Right-of-Use" Asset (ROUA) and a lease liability on the adoption of PFRS 9 on Financial Instruments and PFRS 16 on Leases, respectively, but is pending approval by the Board of Directors.

SHFC's accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRSs.

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

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

In compliance with COA Circular No. 2020-002 dated January 28, 2020, SHFC adopted the RCA in its trial balance for CYs 2022 and 2021. General Ledger and Subsidiary Ledger accounts were diligently analyzed and manually mapped to the RCA.

#### c. Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. SHFC has not yet adopted PFRS 9 to its financial instruments, and PFRS 16 to its leases, thus, cannot disclose the impact on the non-adoption to its financial statements.

### d. Functional and Presentation Currency

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

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

### 2.2 Adoption of New and Amended PFRSs

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2022. SHFC has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

### a. Effective in 2022 that are relevant to SHFC:

(i) Amendments to PAS 16, Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit Corporation deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the Corporation recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

(ii) Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that the Corporation includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

### b. New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2022

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

- (i) Effective beginning on or after January 1, 2023
  - Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction
  - Amendments to PAS 8, Definition of Accounting Estimates
  - Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies
- (ii) Effective beginning on or after January 1, 2024
  - Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- (iii) Effective beginning on or after January 1, 2025
  - PFRS 17. Insurance Contracts

### c. Deferred effectivity

PFRS 10 (Amendments), Consolidated Financial Statements, and PAS 28 (Amendments), Investments in Associates and Joint Ventures –

Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely). The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in the PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

### 2.3 Financial Assets

A financial asset is any asset that is:

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

### Recognition and Measurement

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

### Classification

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

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

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

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

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

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

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

SHFC derecognizes a financial asset only when: a) the contractual rights to the cash flows from the financial asset expire or are settled, or b) the Corporation transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Corporation, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose

additional restrictions on the transfer. In this case, the Corporation derecognizes the asset and recognizes its rights and obligations retained or created in the transfer.

### 2.4 Inventories

### a. Inventory Held for Consumption

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

### b. Semi-expendable Property

These are tangible items below the capitalization threshold of P50,000 as prescribed under COA Circular No. 2022-004 implementing Section 23 of the General Provisions of RA No. 11639 also known as the General Appropriations Act (GAA) for fiscal year 2022 relative to the increase in the capitalization threshold from P15,000 to P50,000.

The said COA Circular supersedes Paragraph 5.4 of COA Circular No. 2016-006 on Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per COA Circular No. 2004-008, as amended, to the RCA for GCs under COA Circular No. 2015-010, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof. Semi expendable properties are recognized as expense upon issuance thereof.

### 2.5 Prepayments and Other Current Assets

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

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

### 2.6 Property and Equipment

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

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

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

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

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

### 2.7 Investment Property

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

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

### 2.8 <u>Intangible Assets</u>

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

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

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

### 2.9 Financial Liabilities

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

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

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

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

### 2.10 Provisions and Contingencies

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

Provisions are measured at the best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

### 2.11 Revenue and Expense Recognition

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

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

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

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

When economic benefits are expected to arise over several accounting periods and the association with income can only be indirectly determined, expenses are recognized in the income statement on the basis of rational allocation procedures. This is often necessary in recognizing the expenses

associated with the using up of assets. These allocation procedures are intended to recognize expenses in the accounting periods in which the accounting benefits associated with these items are consumed.

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

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

### 2.12 Employee Benefits

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

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

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

### 2.13 Leases

SHFC as Lessee:

### a. Finance Lease

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

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

### b. Operating lease

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

lease term. Associated costs, such as repairs and maintenance and insurance are expensed as incurred.

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

### 2.14 Related Parties

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

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

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

### 2.15 Income Taxes

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

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

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

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

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

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

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

## 2.16 Events After the End of the Reporting Period

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### 3.1 Distinction Between Operating and Finance Leases

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

## 3.2 Recognition of Provisions and Contingencies

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

## 3.3 Key Sources of Estimation Uncertainty

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

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

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

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

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

The carrying amounts of property and equipment and intangible assets are analyzed in Notes 10 and 11, respectively. Based on Management's assessment as at December 31, 2022 and 2021, there is no change in the estimated useful lives of those assets during those years.

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

SHFC reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2022 and 2021 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 25.2.

#### 4. CASH AND CASH EQUIVALENTS

	2022	2021
Cash on hand		
Cash – collecting officers and supervising tellers	13,436,235	3,082,828
Petty cash	1,660,154	1,516,776
Change Fund	3,000	0
Cash in bank	5,701,572,954	4,765,355,293
Short-term placements	-,,,	.,,,
Treasury bills	99,985,866	0
Time deposits – local currency	100,000,000	90,010,000
	5,916,658,209	4,859,964,897

- 4.1 Cash collecting officers/supervising tellers pertains to cash collections by the collecting officers and supervising tellers on the last working day of the year which are deposited only on the first working day of the succeeding year.
- 4.2 Petty cash pertains to fund established to defray immediate or emergency petty expenses at the Head and Regional/Satellite Offices.
- 4.3 Change fund pertains to the money advanced to each cashier of Main and Regional office for purposes of facilitating change to collections received from customers in the course of business transactions.
- 4.4 Cash in bank consists of funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds, High Density Housing (HDH) Program, PNR South Commuter Project (DOTr Project), National Disaster Risk Reduction and Management (NDRRM) Funds for Marawi Shelter Projects and Intramuros resettlement project. Cash in bank earns interest at prevailing interest rates of 1.40 to 1.85 per cent per annum for the time deposit and 0.10 per cent for the current account.
- A.5 Short-term placements consist of: (a) treasury bills which are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value; and (b) time deposits local currency which represent investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than three months from date of placements.

#### 5. INVESTMENTS

	2022	2021
Investment in treasury bills	50,000,000	50,000,000
nvestment in time deposits	60,000,000	109,990,000
	110,000,000	159,990,000

- 5.1 Investment in treasury bills consists long-term highly liquid investments with average prevailing interest rates of 1.85 per cent per annum maturing from 91 days up from the date of placements.
- 5.2 Investment in time deposits represents time deposits in local currency which are highly liquid investments with maturity of more than 91 days from date of placements.

## 6. RECEIVABLES, NET

This account consists of:

	2022	2021
Current:	,	
Mortgage contract receivable	1,093,584,925	2,138,976,718
Due from parent corporation	59,447,575	59,447,575
Due from other funds – AKPF	8,177,258	3,775,139
Interest receivable	3,236,514	2,340,834
Due from government corporations	15,009,990	14,797,880
Due from NGAs	17,840,125	16,343,779
Loans receivable	2,617,553	2,903,200
Due from officers and employees	553,349	303,156
Receivables – disallowances/charges	149,083	158,334
Due from provident fund	0	198,896
Other receivables - suppliers	1,749,836	0
	1,202,366,208	2,239,245,511
N.		
Non-current:		
Mortgage contract receivable	13,788,960,327	16,979,139,973
Assets held in trust (AHT) – insurance receivables	484,403,193	442,838,607
Unamortized mortgage origination cost	17,608,560	19,728,357
Loans receivable	10,121,866	12,492,464
Assets held in trust (AHT) – interest receivables	433,096	433,095
,	14,301,527,042	17,454,632,496
Less: Allowance for impairment	104,788,841	98,417,016
	14,196,738,201	17,356,215,480

#### 6.1 <u>Mortgage contract receivable (MCR)</u>

	2022	2021
Current	1,093,584,925	2,138,976,718
Non-current		
Past due - High Density Housing (HDH)	4,605,027,961	4,516,793,044
Past due - Community Mortgage Program (CMP)	8,450,947,660	11,668,784,167
Restructured interest – bearing principal	530,755,483	573,299,308
Restructured – noninterest – bearing principal	151,303,866	169,338,097
Items in litigation	50,925,357	50,925,357
	13,788,960,327	16,979,139,973
Less: Allowance for impairment	104,788,841	98,417,016
Non-current, net	13,684,171,486	16,880,722,957
	14,777,756,411	19,019,699,675

- a. Current This account amounting to P1.094 billion and P2.139 billion as at December 31, 2022 and 2021, respectively, includes CMP and HDH taken-out projects from the time of transfer up to the end of each year, and the current portion of restructured interest and non-interest bearing principal.
- Past due HDH The amount of P4.605 billion and P4.517 billion as at December 31, 2022 and 2021, respectively, represents loan granted to

the beneficiaries of High Density Housing Program (HDHP) payable in 30 years. This account also represents draw down releases to various projects intended for HDHP beneficiaries.

- c. Past due CMP The account amounting to P8.451 billion and P11.669 billion as at December 31, 2022 and 2021, respectively, represents the past due portion of the loan at the time of transfer up to December 31, 2022. This also includes CMP projects taken-out from 1989 to 1993, which were retained by NHMFC but eventually transferred to SHFC with a monetary value of P621 million representing outstanding principal loan balances as at December 31, 2009. The transferred loan balances were based on the Community Association's (CAs) ledgers subject to adjustments upon the determination of the actual outstanding principal balance that should be based on the Member Beneficiaries' (MBs) loan ledgers.
- d. Restructured interest bearing principal This account amounting to P530.755 million and P573.299 million as at December 31, 2022 and 2021, respectively, refers to the accounts of delinquent borrowers who availed of the Restructuring Program offered by SHFC, in accordance with Republic Act (RA) No. 9507, otherwise known as the 2008 Socialized and Low Cost Housing Loan Restructuring Act of 2008, a rescue package for housing loan borrowers.
- e. Restructured noninterest bearing principal This account amounting to P151.304 million and P169.338 million as at December 31, 2022 and 2021, respectively, refers to loans with unpaid interests availed by delinquent borrowers who also availed the Restructuring Program offered by SHFC. (See Note 16.1)
- f. Items in litigation This account amounting to P50.925 million as at December 31, 2022 and 2021 represents the outstanding balance of receivables from delinquent CAs transferred to the Legal Department for foreclosure and with petitions already filed in court. Said outstanding balance is the original amount transferred from NHMFC.

#### 6.2 Allowance for impairment

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

*	Balance, January 1, 2022	Additional Provision	Recovery/ Reversal	Balance, December 31, 2022
Mortgage contracts receivable				
Current accounts Past due accounts	5,347,442	4,295,014	0	9,642,456
Over 3 months - 12 months	9,274,857	0	(2,794,792)	6,480,065
Over 12 months – 3 years	22,579,438	0	(2,319,237)	20,260,201
Over 3 years	56,520,115	7,190,840	Ó	63,710,955
Items in litigation	4,695,164	0	0	4,695,164
	98,417,016	11,485,854	(5,114,029)	104,788,841

#### 6.3 <u>Due from parent corporation</u>

This account includes CMP amortization payments and other collections amounting to P16.432 million received from the borrowers who still pay at NHMFC for account of SHFC.

Also, this account comprises among others, management fee and collection servicing fee amounting to P43.015 million computed pursuant to the provision under Section VI of the Trust Agreement entered by and between NHMFC and SHFC.

#### 6.4 Due from other funds (AKPF)

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

#### 6.5 Interest receivable

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

#### 6.6 <u>Due from government corporations</u>

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

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

#### 6.7 Due from national government agencies (NGAs)

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

Department of Transportation (DOTr) – This account pertains to all expenses incurred for the DOTr projects charged against SHFC corporate funds.

#### 6.8 <u>Receivables – disallowances/charges</u>

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

#### 6.9 Due from provident fund

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

#### 6.10 Other receivables - suppliers

This refers to advance payment made to suppliers regarding Project No. 2020-03 on the design, supply, installation, configuration, commissioning, and testing of IP Technology and Unified Communications for SHFC.

#### 6.11 Assets held in trust (AHT) - Insurance receivables

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

#### 6.12 Unamortized mortgage origination cost

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

#### 6.13 Loans receivable

This represents the car and calamity loans availed by SHFC officers and employees in the amounts of P12.106 million and P0.633 million as at December 31, 2022 and P14.762 million and P0.633 million as at December 31, 2021, respectively, which are payable in 10 years.

	2022	2021
Current		
Car loan	1,984,168	2,269,815
Calamity loan	633,385	633,385
	2,617,553	2,903,200
Non-current		
Car loan	10,121,866	12,492,464
	12,739,419	15,395,664

#### 6.14 Assets held in trust (AHT) - interest receivables

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

## 7. INVENTORIES

This account consists of:

	2022	2021
Inventory held for consumption		
Accountable forms, plates and stickers	332,547	491,175
Office supplies inventory	92,813	1,551,694
Drugs and medicines inventory	0	18,278
Other supplies and materials inventory	79,959	124,173
Semi-expendable furniture and fixtures	3,559,146	2,616,538
Semi-expendable office equipment	1,769,717	1,612,203
Semi-expendable IT equipment	1,634,548	884,412
Semi-expendable other machinery and equipment	1,797,775	1,639,997
Semi-expendable communication equipment	168,741	168,741
Semi-expendable books	6,582	6,582
	9,441,828	9,113,793

## 8. OTHER CURRENT ASSETS

The account consists of:

	2022	2021
Advances to Community Associations	6,304,107,752	752,949,883
Advances to contractors	464,485,773	597,598,033
Restricted fund	181,700,925	5,000,000
Guaranty deposits	4,371,744	3,829,125
Advances to Special Disbursing Officer	838,382	1,699,192
Prepayments	1,758,147	2,209,615
Other deposits	6,124,835	33,136,578
	6,963,387,558	1,396,422,426

## 8.1 Advances to CAs

This refers to the payments of Heirs Bond, Estate Taxes and Transfer taxes to the BIR, and registration fees with the Registry of Deeds.

## 8.2 Advances to contractors

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

## 8.3 Restricted Fund

This represents contingency trust fund opened with Land Bank of the Philippines as trustee, to answer for the mortgage redemption insurance (MRI) claims arising from death or permanent incapacity of the member-borrower.

## 8.4 Guaranty deposits

This account represents guaranty fees for SHFC's rental of Regional Offices and warehouse.

## 8.5 Advances to Special Disbursing Officer

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

#### 8.6 Prepayments

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

#### 8.7 Other deposits

This account consists of amount paid in advance or 20 per cent down payment for the properties to be acquired from the Bangko Sentral ng Pilipinas (BSP) amounting to *nil* and P14.392 million as at December 31, 2022 and 2021, respectively, and amount paid in advance to suppliers for acquisitions with cash on delivery terms of payment amounting to P6.125 million and P18.744 million as at December 31, 2022 and 2021, respectively.

## 9. INVESTMENT PROPERTY

The account balances amounting to P2.456 billion and P2.275 billion as at December 31, 2022 and 2021, respectively, represent land acquired for building construction and site development for the ISFs under usufruct arrangement with HDHP beneficiaries. These are carried at acquisition cost plus costs incurred for site development and home building. Disclosure for the fair value of the investment property is not possible due to lack of appraiser to date. However, SHFC is intending to engage the services of external appraisers for fair value measurements in the following year.

SHFC Corporate Circular No. 13-026 on HDH guidelines provides for the implementation framework of SHFC's participation in the priority P50 billion ISFs Housing Program for the relocation of ISFs 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 in Board Resolution No. 391, Series of 2014, and under its Articles of Incorporation and by-laws, SHFC is fully empowered to pursue the acquisition of property in its own name and for the eventual disposition to the CAs, or entering into a usufruct arrangement, for the implementation of the HDHP.

## 10. PROPERTY AND EQUIPMENT, NET

The details of the account are shown below:

	Buildings and Other Structures	Leased Assets Improvements, Buildings	Furniture, Fixtures & Books	Machinery and Equipment	Construction in Progress- Buildings and Other Structures	Transportation Equipment	Total
Cost							
January 1, 2022	201,330,000	34,724,580	3,965,491	93,840,701	28,130,027	40,472,588	402,463,387
Additions	727,695	36,164,660	97,777	2,420,588	0	6,710,560	46,121,280
Adjustments	0	(956,592)	(1,982,993)	(49,896,310)	(15,996,144)	0	(68,832,039)
December 31, 2022	202,057,695	69,932,648	2,080,275	46,364,979	12,133,883	47,183,148	379,752,628
Accumulated Depreciation							
January 1, 2022	(100,368,687)	(18,612,643)	(2,224,444)	(54,770,595)	0	(24,622,552)	(200,598,921)
Depreciation	(6,781,868)	(1,756,810)	(129,273)	(6,617,134)	0	(3,385,802)	(18,670,887
Adjustments	0	262,508	1,022,895	29,511,453	0	0	30,796,856
December 31, 2022	(107,150,555)	(20,106,945)	(1,330,822)	(31,876,276)	0	(28,008,354)	(188,472,952)
Net Book Value December 31, 2022	94,907,140	49,825,703	749,453	14.488,703	12,133,883	19,174,794	191,279,676

	Buildings and Other Structures	Leased Assets Improvements, Buildings	Furniture, Fixtures & Books	Machinery and Equipment	Construction in Progress- Buildings and Other Structures	Transportation Equipment	Total
Cost							
January 1, 2021	201,330,000	28,561,859	3,929,991	78,529,663	21,866,718	40,472,588	374,690,819
Additions	0	6,162,721	35,500	15,311,038	6,263,309	0	27,772,568
December 31, 2021	201,330,000	34,724,580	3,965,491	93,840,701	28,130,027	40,472,588	402,463,387
Accumulated Depreciation							
January 1, 2021	(93,586,819)	(16,922,938)	(2,002,546)	(46,236,591)	0	(21,759,588)	(180,508,482)
Depreciation	(6,781,868)	(1,689,705)	(221,898)	(8,534,004)	0	(2,862,964)	(20,090,439)
December 31, 2021	(100,368,687)	(18,612,643)	(2,224,444)	(54,770,595)	0	(24,622,552)	(200,598,921)
Net Book Value December 31, 2021	100,961,313	16,111,937	1,741,047	39,070,106	28,130,027	15,850,036	201,864,466

## 11. INTANGIBLE ASSETS, NET

The details of this account are shown below:

	2022	2021
Cost		
Balances at beginning of year	21,119,977	18,682,497
Additions	299,000	2,437,480
Balances at end of year	21,418,977	21,119,977
Accumulated amortization		
Balances at beginning of year	(9,710,459)	(8,156,955)
Amortization	(1,396,270)	(1,553,504)
Balances at end of year	(11,106,729)	(9,710,459)
Net book value at end of year	10,312,248	11,409,518

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

#### 12. OTHER NON-CURRENT ASSETS

The account consists of:

	2022	2021
Trust asset - AKPF	546,047,315	548,294,397
Sovernment grant - Marawi Shelter Program	124,296,593	124,296,593
	670,343,908	672,590,990

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

This account is treated in the books of SHFC in the same manner and procedure it was previously treated in the books of NHMFC wherein periodic increment and reduction of said account, as a result of its operations, are taken up as credit and debit to *Trust Liabilities* account. (See Note 15)

The details of the Fund balance amounting to P546.047 million and P548.294 million as at December 31, 2022 and 2021, respectively are as follows:

	2022	2021
Cash and cash equivalents	292,670,723	291,236,938
Receivable - current	2,895,663	2,508,360
Receivable - non - current	67,441,124	67,441,124
Property and equipment, net	84,453	105,085
Other non-current assets	196,845,866	197,635,751
Intra-agency payables	(5,213,228)	(3,775,139)
Inter-agency payables	(8,117,973)	(6,339,327)
Other payables	(559,313)	(518,395)
	546,047,315	548,294,397

12.2 Government grant - Marawi Shelter Program refers to fund sourced from the National Disaster Risk Reduction Management (Calamity Fund) for the Marawi Recovery, Rehabilitation and Reconstruction Program (MRRRP) that was bestowed to cover the national subsidy of the SHFC in acquiring land for the Marawi Shelter Project (Phases I & II), site development and construction of retaining wall for the purpose of relocating 1,500 families.

#### 13. FINANCIAL LIABILITIES

	2022	2021
Current:		
Accounts payable	1,130,320,469	1,017,508,203
Insurance/reinsurance premium payable	81,510,784	61,366,301
Forward	.,,.	0.,000,00.

-	2022	2021
Loans payable - domestic	1,629,282	3,865,062
Due to officers and employees	1,042,310	1,117,027
	1,214,502,845	1,083,856,593
Non-current:		
Loans payable – domestic	400,766	2,004,452
•	1,214,903,611	1,085,861,045

#### 13.1 Accounts payable

This refers mainly to the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements amounting to P953.752 million and P987.762 million as at December 31, 2022 and 2021, respectively. The 50 per cent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of 2001. This account also includes perfected contracts with suppliers amounting to P176.568 million and P29.745 million as at December 31, 2022 and 2021, respectively.

## 13.2 <u>Insurance/Reinsurance premium payable</u>

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

#### 13.3 Loans payable - domestic

This account amounting to P2.030 million and P5.870 million for the years 2022 and 2021, respectively, represents the costs of the office building, parking space and other structures acquired from BSP. (See Note 16.2)

#### 14. INTER-AGENCY PAYABLES

This account consists of:

	2022	2021
Due to parent corporation (NHMFC)	20,428,525	40,584,547
Due to BIR	15,648,474	8,859,322
Due to Treasurer of the Philippines	999,537	1,293,230
Due to Pag-IBIG	342,629	357,532
Due to SSS	226,566	221,216
Due to PhilHealth	225,261	150,269
	37,870,992	51,466,116

#### 14.1 <u>Due to parent corporation (NHMFC)</u>

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

#### 14.2 Due to BIR

This account represents the taxes withheld from payment of employees' compensation and allowances, and from government money payments to be remitted to BIR on or before 15th day and 10th day of the following month, respectively.

#### 14.3 Due to Treasurer of the Philippines

This account represents the interest income on deposits (net of tax) earned from the DOTr and DILG Funds to be remitted to the Bureau of the Treasury after the closing of the year-end financial statements as provided in the Memorandum of Agreement between SHFC and DOTr/DILG.

## 15. TRUST LIABILITIES

The account consists of:

	2022	2021
Current:		
Performance warranty	4,259,669	4,287,771
Bidders' bonds	503,396	503,396
	4,763,065	4,791,167
Non-current:		
NHMFC	14,756,822,155	14,756,822,155
DOTr	3,000,000,000	3,000,000,000
AKPF (See Note 12)	546,047,315	548,294,397
Other trust liabilities	760,600,000	450,049,000
	19,063,469,470	18,755,165,552

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

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

The CMP Mortgages from 1989 to 1993 with a total outstanding principal loan balance of P621 million as at December 31, 2009, which were retained by NHMFC, were eventually transferred to SHFC. This amount is temporarily lodged under the Loans Installment Receivable (LIR) – current account but was later reclassified to MCR – past due account. Details of this account as at December 31, 2022 are as follows:

Particulars	Amount
Cash	(3,341,919,552)
Loans installment receivable	14,282,851,442
Past due loan installment receivables	2,750,042,775
Retained earnings balance for transfer to NHMFC	427,961,999
Land	638,298,293
Notes receivable – National Housing Authority	200,000,000
Interest income	165,470,563
Advances to contractors	385,975,032
Advances to community association	8,730,219
Origination and appraisal cost	167,389,148
Insurance receivable	119,672,465
Interest receivables	72,873,957
Items in litigation	51,345,059
Unamortized mortgage origination cost	50,479,961
Origination fee payable	18,292,211
Service fee incentives	5,648,600
Technical subsidy	2,846,676
Real estate taxes	48,682
Other professional fees	3,500
Accounts payable – MCR	(818,066,491)
Undistributed collections	(200,012,482)
Guaranty deposits payable	(165,830,829)
Insurance payable	(5,189,361)
Due to BIR (Withholding tax payable)	(2,150,368)
Advances from borrowers	(1,598,646)
Other deposits	(19,286,988)
Other payables	(26,961,141)
Performance warranty payable	(1,092,569)
	14,756,822,155

The corresponding fund sourced from the Comprehensive and Integrated Shelter Financing Act (CISFA) of 1994 for the implementation of CMP amounting to P12.775 billion was fully released by the DBM through NHMFC in 2017. After the exhaustion of the CISFA fund in 2019, the trust liability account started to sustain negative cash balance, which amounted to P3.342 billion as at December 31, 2022. The subsequent CMP loan take-outs were sourced from the SHFC's corporate fund. On December 31, 2021, the DBM released an amount of P325 million directly to SHFC as budgetary support to cover the implementation of the CMP and recorded as subsidy income from the National Government in the SHFC's books. (See Note 26)

#### 15.2 Department of Transportation (DOTr)

The Trust Agreement was entered into by and between the DOTr and SHFC with an initial amount of P3 billion pesos (First Tranche) transferred to SHFC on February 20, 2018 to finance the resettlement program for the Philippine National Railways South Commuter Project. Management had already acquired BSP Property located in Carissa Homes, Tanza, Cavite as one resettlement area for MBs affected by the project.

#### 15.3 Other trust liabilities

This account pertains to the funds received by SHFC from the following government agencies:

- a. Trust fund Department of the Interior and Local Government (DILG) amounting to P350 million refers to the fund held in trust per Trust Agreement entered into by and between the DILG and SHFC on June 27, 2016 intended for HDHP projects which was deposited and maintained in a separate fund account (HDHP II) in order not to comingle with other funds. The construction of ALPAS 2 project is still ongoing, while the Jess Robredo Housing Project is still under negotiation between the HOA and the Contractor on the contract amount.
- b. Trust fund Intramuros Administration amounting to P410 million refers to fund held in trust in 2021 for the relocation and resettlement of five hundred (500) duly identified and qualified dweller-families in Intramuros.
- c. Trust fund Department of the Social Welfare and Development (DSWD) amounting to P10.360 million refers to the fund received on July 01, 2016, from the Emergency Shelter 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. The P7.7 million portion of the fund was already utilized as payment to loan amortization of beneficiaries while the remaining unused balance of P2.660 million was returned/ refunded to the DSWD under Official Receipt No. 9334585 dated June 1, 2021.
- d. Trust fund Department of Human Settlements and Urban Development (DHSUD) amounting to P600,000 refers to the fund received on June 14, 2022 from DHSUD to cover the cost/expenses of the Road Right of Way (RROW) Acquisition Project of Hadiya Village, MSP Phase I and Darussalam Village, MSP Phase II both in the amount of P300,000.

## 16. DEFERRED CREDITS/UNEARNED INCOME

	2022	2021
Deferred income	151,162,316	169,196,547
Deferred credits	48,745,385	48,745,385
	199,907,701	217,941,932

#### 16.1 <u>Deferred income</u>

This account pertains to the interest as of date of application for restructured loans which are payable within a period of 30 years. (See Note 6.1e)

#### 16.2 Deferred credits

This account pertains to the principal portion of amortization payments of SHFC for the office spaces occupied and already paid by HUDCC in advance. Upon full payment of the loan the account will be closed, and corresponding asset will be transferred to HUDCC. (See Note 13)

#### 17. OTHER PAYABLES

This account consists of:

	2022	2021
Undistributed collections	353,806,866	413,693,000
Other payables	973,397,416	905,394,359
Contingency fund payable	183,936,769	0
Leave benefits payable	47,468,087	46,776,159
Retirement gratuity payable	14,614,156	20,276,776
Dividends payable (See Note 18.2)	53,763,231	19,822,656
	1,626,986,525	1,405,962,950

#### 17.1 Undistributed collections

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

	2022	2021
Un-posted amortization payments from remedial		
accounts	125,771,224	114,532,286
Un-posted amortization payments from HDH projects	28,623,614	33,693,790
Un-categorized amortization payments	75,742,181	75,742,181
No abstract of collections	63,192,129	92,960,561
Not in the database	22,620,861	62,208,319
Non-transmittal of collection documents by NHMFC	14,878,645	14,878,645
Collections from MBs who availed of the 1-year		
updating scheme	2,302,395	7,379,964
Not in the master list	3,188,219	3,444,477
Un-posted amortization payments from restructured		
accounts	58,109	58,398
Others	17,429,489	8,794,379
	353,806,866	413,693,000

The approval of in-house restructuring program will serve as guidelines for remedial accounts to begin the process of documentation up to posting and

reversal of amortization payments. Payments categorized under *No abstract of collections* and *Not in the master list* need compliances of the discrepancies noted in the payments of substitutes before collections can be cleared and posted.

#### 17.2 Other payables

	2022	2021
Guaranty Deposits Payable	410,766,291	315,249,769
Advances from Borrowers	433,038,521	419,224,817
Origination Fee Payable	34,765,761	34,019,098
Unreleased Checks	60,256,844	6,489,565
Due to Provident Fund	3,247,011	2,323,757
Other Payables	31,322,988	128,087,353
	973,397,416	905,394,359

This account consists of:

#### a. Guaranty Deposits Payable

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

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

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

## b. Advances from Borrowers

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

#### c. Origination Fee Payable

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

#### d. Due to Provident Fund

This account refers to deductions made from the salaries of the employees representing 3 per cent of their basic salaries as part of the contributory plan. Upon remittance, the SHFC contributes 15 per cent of the basic salary of each employee.

## 17.3 Contingency fund payable

This represents the set-up of contingent liability for the amount of MRI premiums received from the annual enrollment or renewal of insurance policy of member-beneficiaries.

#### 17.4 Leave benefits payable

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

#### 17.5 Retirement gratuity payable

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

#### 18. EQUITY

#### 18.1 Capital Stock

SHFC has an authorized capital stock of P100 million divided into 100,000 shares with a par value of P1,000 each. A total of 25,000 shares were subscribed by the NHMFC, of which, 10,000 shares were paid for P10 million and the balance of P15 million remains unpaid for the 15,000 subscribed shares.

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

#### 18.2 Retained Earnings

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

Dividends declared were P53.763 million and P19.823 million for years 2022 and 2021, respectively, that were due for remittance to Bureau of Treasury on or before May 15 of the following year.

The prior period adjustments at the beginning of CY2022 amounting to P7.795 million refers to the net amount of the following:

Particulars	Amount
Adjustment on over set up of CY2021 dividends	10,128,640
Reclassification of tangible items below P50,000	, , , , , , , , , , , , , , , , , , , ,
threshold as semi-expendable property	(20,581,550)
Adjustment on retirement gratuity payable	3,078,051
Other adjustments	(420,329)
	(7,795,188)

## 19. SERVICE AND BUSINESS INCOME

This account consists of:

	2022	2021
Service income	1	
Interest income - loans and receivables	424,592,083	429,994,223
Fines and penalties – service income	280,629,496	178,076,398
Business income		
Other business income		
Service fee	12,297,644	11,339,327
Miscellaneous income	413,487	301,627
	717,932,710	619,711,575

## 19.1 Other business income account consists of:

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

#### b. Miscellaneous income account includes:

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

#### 20. PERSONNEL SERVICES

	2022	2021
Salaries and wages – regular	132,732,735	132,063,449
Other compensation		, ,
Year-end bonus	11,078,289	11,171,612
Personnel economic relief allowance	5,205,770	5,305,195
Transportation allowance	4,435,620	4,221,326
Representation allowance	4,292,500	3,990,000
Overtime and night pay	3,252,624	714,862
Clothing/uniform allowance	1,281,780	1,301,220
Forward		

	2022	2021
Cash gift	1,087,750	1,109,000
Hazard pay	0	1,415,000
Honoraria	0	170,000
Other bonuses and allowances	70,376,997	65,233,147
	101,011,330	94,631,362
Personnel benefit contributions	,	0.,00.,002
Provident/welfare fund contributions	19,580,133	19,668,429
Retirement and life insurance premiums	5,447,783	5,509,617
PhilHealth contributions	2,409,298	1,707,201
Pag-IBIG contributions	263,000	266,000
Employees compensation insurance premiums	78,450	79,630
	27,778,664	27,230,877
Other personnel benefits		,,_
Terminal leave benefits	15,245,654	12,704,870
Retirement gratuity	0	1,849,959
Other personnel benefits	0	205,000
	15,245,654	14,759,829
	276,768,383	268,685,517

## 21. MAINTENANCE AND OTHER OPERATING EXPENSES

	•
2022	2021
11.338.020	6,730,408
	0,: 55, 155
	6,730,408
	-,,
2,732,135	766,698
	766,698
	,
8,029,102	6,275,053
	3,390,151
	5,555,107
1,468,523	56,159
	216,289
	,
302,289	62,416
,,	52,
183,472	770
•	19,524
	1,806,370
16,718,152	11,826,732
	11,338,020 216,468 11,554,488 2,732,135 2,732,135 8,029,102 5,482,671 1,468,523 581,368 302,289 183,472 143,881 526,846

	2022	2021
Utility expenses		
Electricity expenses	9,857,336	8,130,753
Water expenses	719,047	662,403
	10,576,383	8,793,156
Communication expenses		
Postage and courier services	3,423,726	4,347,556
Internet subscription expenses	3,216,910	2,640,691
Telephone expenses	1,893,788	1,881,667
Cable, satellite, telegraph and radio expenses	58,662	43,000
	8,593,086	8,912,914
Confidential, intelligence and extraordinary expenses		
Extraordinary and miscellaneous expenses	909,804	874,761
	909,804	874,761
Professional services		07 1,70
Consultancy services	1,238,462	2,778,841
Legal services	115,000	1,516,490
Other professional services	820,217	3,876,859
procedural solvings	2,173,679	8,172,190
General services	2,173,079	0,172,190
Clerical services	144 007 550	407.050.040
Security services	141,987,550	127,253,840
Janitorial services	42,633,880	53,697,715
Other general services	3,541,382	4,069,811
Other general services	12,963,510	1,431,481
Repairs and maintenance	201,126,322	186,452,847
Repairs and maintenance – transportation		
equipment	2 244 702	0.547.70
Repairs and maintenance – machinery and	3,341,723	2,517,796
equipment	256 540	400.00
	256,518	196,003
Repairs and maintenance – leased assets improvements	00 500	057 45
	96,533	357,451
Repairs and maintenance – buildings and other		
structures	85,600	23,927
Repairs and maintenance – furniture and fixtures		
	2,500	530
Repairs and maintenance – semi-expendable	_	
furniture and fixtures	0	2,104
T	3,782,874	3,097,811
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	14,093,401	14,927,386
Insurance expenses	667,719	766,530
Fidelity bond premiums	326,077	239,161
	15,087,197	15,933,077
Oth'-1		
Other maintenance and operating expenses		
Rent/lease expenses	16,444,757	13,021,627
Other maintenance and operating expenses Rent/lease expenses Representation expenses Association dues	16,444,757 6,223,818	13,021,627 2,152,193

	2022	2021
Major events and conventions expenses	5,121,530	4,166,233
Collection servicing fee	4,021,806	4,572,794
Origination and appraisal cost	3,388,469	5,583,269
Litigation/acquired assets expenses	2,450,582	0
Financial assistance/subsidy/contribution	1,472,507	2,526,645
Directors and committee members' fees	1,431,000	1,860,000
Printing and publication expenses	881,517	540,879
Miscellaneous expense	739,195	1,816,085
Advertising, promotional and marketing		
expenses	559,924	2,119,335
Subscription expenses	578,788	203,348
Transportation and delivery expenses	193,416	62,280
Donations	0	1,075,000
Membership dues and contributions to		
organizations	0	5,875
Others	911,096	212,615
	50,378,925	45,559,858
	323,633,045	297,120,452

## 22. NON-CASH EXPENSES

This account consists of:

	2022	2021
Depreciation		
Depreciation – buildings and other structures	6,781,868	6,781,868
Depreciation – machinery and equipment	6,617,134	8,534,004
Depreciation – transportation equipment	3,385,802	2,862,964
Depreciation – leased assets improvements	1,756,810	1,689,705
Depreciation – furniture, fixtures and books	129,273	221,898
	18,670,887	20,090,439
Amortization		
Origination and appraisal cost	2,119,797	1,421,948
Amortization – intangible assets	1,396,270	1,553,504
Impairment loss		.,,
Impairment loss – loans and receivables	6,371,825	11,495,825
	28,558,779	34,561,716

## 23. FINANCIAL EXPENSES

	2022	2021
Interest expenses	337,374	700,404
Bank charges	46,928	93,235
\(\frac{1}{2}\)	384,302	793,639

#### 24. OTHER NON-OPERATING INCOME

This account consists of:

	2022	2021
Interest income – notes	1,114,931	6,165,106
Interest income – bank deposits	15,030,459	17,467,802
	16,145,390	23,632,908

#### 24.1 Interest income - notes

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

#### 24.2 Interest income - bank deposits

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

#### 25. INCOME TAXES

The major components of provisions for income tax for the years ended December 31, 2022 and 2021 follows:

	2022	2021
Current	7,179,327	6,197,116
Deferred	15,867,817	(323,233)
	23,047,144	5,873,883

SHFC applied the minimum corporate income tax (MCIT) rate on taxable gross income for CY2022 and CY2021 since its taxable net income resulted in breakeven. Also, SHFC claimed itemized deductions in computing for its income tax due for both CYs 2022 and 2021.

Moreover, regular corporate income tax (RCIT) rate was reduced from 30 to 25 per cent while MCIT rate was reduced from 2 to 1 per cent upon effectivity of RA No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, on April 12, 2021.

#### 25.1 Current Tax Expense

The components of RCIT are as follows:

	2022	2021
Net income before income tax	104,733,591	42,183,159
Non-deductible expense	3,600,374	4,945,280
Interest income on investment/bank deposits	(16,145,390)	(23,632,908)

Forward

	2022	2021
Accounting income subject to tax	92,188,575	23,495,531
Loan loss provision	6,371,825	11,495,825
Applied NOLCO	(98,560,400)	(34,991,356)
Net taxable income (loss)	0	0
Tax rate	25%	25%
RCIT	0	0

## Excess (MCIT) over RCIT:

	2022	2021
Gross income	717,932,710	619,711,575
Tax rate	1%	1%
MCIT	7,179,327	6,197,116
RCIT	0	0
Current tax expense	7,179,327	6,197,116

## 25.2 Deferred Tax Asset and Expense

The components of SHFC's deferred tax assets follows:

	2022	2021
Deferred tax asset – beginning	109,165,683	108,842,450
Temporary differences:		
Loan loss provision	6,371,825	11,495,825
NOLCO applied	(98,560,400)	(34,991,356)
Tax rate	25%	25%
	(23,047,144)	(5,873,883)
Excess MCIT over RCIT	7,179,327	6,197,116
Deferred tax benefit/(expense)	(15,867,817)	323,233
Deferred tax asset – ending	93,297,866	109,165,683

The following are the details of the SHFC's Net Operating Loss Carry Over (NOLCO) and Minimum Corporate Income Tax (MCIT), which is available for offsetting against the future income:

## NOLCO:

<b>Inception Year</b>	Amount	Applied	Balance	<b>Expiry Year</b>
2020	142,454,220	(98,560,400)	43,893,820	2025
	142,454,220	(98,560,400)	43.893.820	

#### MCIT:

Inception Year	Amount	Applied	Balance	<b>Expiry Year</b>
2022	7,179,327	0	7,179,327	2025
2021	6,197,116	0	6,197,116	2024
2020	8,333,194	0	8,333,194	2023
	21,709,637	0	21,709,637	

#### 25.3 Income tax payable

This account represents income tax still due after deducting previous quarter income tax payments and tax credits, if any, for the years ended December 31, 2022 and 2021 as follows:

	2022	2021
Income tax due	7,179,327	6,197,116
Less: Tax payments from previous quarters	4,583,091	3,661,385
Income tax payable	2,596,236	2,535,731

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

The total approved funding allocation and release from DBM as the National Government's support for the housing projects, including the NDRRM Fund sourced from GAA for the implementation of Marawi Shelter Projects, amounted to P1,881,297,132 and P1,005,285,424 for the years 2022 and 2021, respectively. The subsidy income received in CY 2021 includes the P325 million budgetary support to cover the implementation of CMP. (See Note 15.1)

On the other hand, the financial assistance to Non-Government Organizations (NGOs) and technical assistance and service to People's Organizations (POs) amounted to P0.166 million and P19.326 million for the years 2022 and 2021, respectively.

#### 27. LEASES

The related rent expense recognized in profit or loss amounted to P16.445 million and P13.022 million for the years ended December 31, 2022 and 2021, respectively. (See Note 21)

#### Operating Lease

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

The minimum rentals payable under these non-cancellable operating lease as at December 31, 2022 are as follows:

	2022
Within one year	6,348,102
Nithin one year Beyond one year but not later than five years	4,003,138
,	10,351,240

#### Finance Lease

SHFC is a lessee with lease term of 15 years. The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognized in the Statement of Financial Position as property and equipment and borrowings, respectively,

at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognized in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

The minimum rental payable under these non-cancellable finance lease as at December 31, 2022 are as follows:

	2022
Within one year	1,629,282
Beyond one year but not later than five years	400,766
	2,030,048

#### 28. RELATED PARTY DISCLOSURES

As of December 31, 2022, the composition of the Board of Directors of SHFC is as follows:

Во	ard Position	Name	Position from Other Agencies		
1.	Chairman	Jose Rizalino L. Acuzar	Chairman, Department of Human Settlement and Urban Development		
2.	Vice-Chairman	Federico A. Laxa	President & CEO, SHFC		
3.	Member	Benjamin D. Abalos, Jr.	Under Secretary, DILG		
4.	Member	Usec. Catherine L. Fong	Under Secretary, Department of Finance		
5.	Member	Renato De Leon Tobias	President & CEO, NHMFC		
6.	Member	Usec. Leo Angelo M. Larcia			
7.	Member	Lyndon B. Catulong, Sr.	Private Sector		
8.	Member	Atty. Emiliano C. Reyes	Private Sector		
9.	Member	Ronald R. Barcena	Private Sector		

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

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

Meanwhile, the total remuneration (per diem) received by the members of the Board of Directors amounted to P1.431 million and P1.860 million for CY 2022 and CY 2021, respectively.

#### 29. COMMITMENTS AND CONTINGENCIES

#### **Legal Claims**

SHFC is a respondent to a labor case docketed as AC-973-RCMB-NCR-LVA-024-01-09-2014 titled SOHEAI vs. SHFC in CY 2015 wherein the Office of the Panel Voluntary

Arbitrator ruled in favor of SOHEAI directing the garnishment of time deposit at DBP amounting to P70.931 million for the release of discontinued benefits under the Collective Bargaining Agreement and State of the Nation Bonus to its member.

On October 14, 2020, the Supreme Court promulgated its decision where the Court denied the petition and upheld the CA ruling that the benefits under CBA and SONA bonus are not allowed. SHFC filed a Motion for Reconsideration to the Court and awaiting for its final resolution.

#### 30. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

## Financial Risk Management

#### Credit Risk

Mortgage Contracts Receivable -CMP Loans

CMP loans receivable 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 underprivileged families to assist them in purchasing the private land where they are informally settled or buying a relocation site.

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

#### Credit Policy for MCRs -CMP Loans

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

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

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

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

#### Insurance

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

#### Security

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

#### Collection

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

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

	Balance, January 1, 2022	Additional Provision	Recovery/ Reversal	Balance, December 31, 2022
Mortgage contracts receivable			16	
Current accounts	5,347,442	4,295,014	0	9,642,456
Past due accounts				
Over 3 months - 12 months	9,274,857	0	(2,794,792)	6,480,065
Over 12 months - 3 years	22,579,438	0	(2,319,237)	20,260,201
Over 3 years	56,520,115	7,190,840	Ó	63,710,955
Items in litigation	4,695,164	0	0	4,695,164
	98,417,016	11,485,854	(5,114,029)	104,788,841

#### Liquidity Risk

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

The total financial liabilities of SHFC excluding the statutory obligations such as tax liabilities as at December 31, 2022 and 2021 are as follows:

	2022	2021
Financial liabilities	1,212,873,563	1,079,991,531
Deferred credits/unearned income	199,907,701	217,941,932
Other payables	2,030,048	5,869,514
	1,414,811,312	1,303,802,977

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

#### Regulatory Framework

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

#### 31. EVENTS AFTER REPORTING PERIOD

EO No. 150 dated October 1, 2021 on Compensation and Position Classification System's impact on SHFC's financial position is yet to be determined. SHFC received the Authorization to Implement dated December 15, 2022 from the Governance Commission for GOCCs (GCG) under Category 2, GOCC Grade 17, Tier 4 and Category 2 Salary Structure. This will be subject for Board's approval, then will be indorsed by the Supervising Agency and will be implemented after receiving the final letter from GCG.

#### 32. IMPACT OF COVID-19

Continued efforts from the previous year were undertaken by the SHFC in response to the impact of the COVID-19 pandemic. These include the following:

#### Efforts made to sustain project take out:

- Continued use of electronic/online platforms (e.g., messenger, email, text messaging, Zoom, Facebook, SHFC website, among others) to communicate and coordinate with the HOA/CAs, LGUs and other stakeholders;
- Conduct of site visits and other activities which need physical interaction while adhering to the DOH Minimum Health Standards and Safety Protocols, in accordance with the alert level status of the area;
- Increased presence on the ground through turnover ceremonies and groundbreaking events to encourage interested CAs to apply for SHFC's programs, while adhering to the minimum public health standards; and
- Virtual orientation, MOA signing and other collaborations with the LGU and other stakeholders.

#### Efforts made to maintain the loan amortization collections:

- Use of online communication channels;
- Assistance to HOA/CAs through giving of directions on where to conduct collections of housing loan amortizations;
- Promotion of digital payment options to all stakeholders to assist the partner homeowners in paying their amortization;
- Additional online payment channels (PayMaya and GCash); and
- Corporate-wide collection campaign in the form of a collection text brigade participated by all SHFC employees.

#### Operational Efforts:

 Operated at a minimum workforce capacity to accommodate collections from CAs and MBs;

- Continued use of programs (Online Appointment System, Community Needs Assessment, and Electronic Signature System); and
- Continued adherence to the guidelines on occupational safety and health standards to ensure the safety of all the stakeholders.

#### 33. COMPLIANCE WITH TAX LAWS

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

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

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

	2022	2021
Final tax paid on income	3,263,000	4,244,876
Percentage tax	6,626,661	7,022,753
Real property tax	2,925,304	1,977,823
Business permits	1,277,936	1,681,434
BIR registration	500	500
	14,093,401	14,927,386

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

	2022	2021
Income taxes withheld on compensation and final withholding taxes (1604-C) Creditable income taxes withheld (expanded)/income	26,732,877	25,427,228
payments exempt from withholding tax (1604-E)	5,990,966	19,491,994
	32,723,843	44,919,222

#### Tax Contingencies

SHFC did not receive any final tax assessments in CY 2022, and has no tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of the BIR.

# PART II OBSERVATIONS AND RECOMMENDATIONS

#### **OBSERVATIONS AND RECOMMENDATIONS**

#### A. FINANCIAL AUDIT

- Undistributed Collections (UC) totaling P353.807 million remained unposted to the Mortgage Contract Receivable (MCR), despite the policy implemented and efforts exerted by Management to lower the same, thus, overstating both the Other Payables and the MCR accounts by the same amount as at December 31, 2022.
  - 1.1 Paragraph 15 of the Philippine Accounting Standard (PAS) 1 on 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 definition and recognition for assets, liabilities, income and expenses set out in the framework. The application of IFRS's, with additional disclosure when necessary is presumed to result in financial statements that achieve a fair presentation.

1.2 Office Order No. 21-1178, Series of 2020, Policy on Implementing the distribution/posting of amortization collections, provides that:

#### A. IN-HOUSE COLLECTIONS

Daily amortization collections from head office and regional/satellite offices shall be posted/credited to borrower's account within one (1) day after payment is made. This is in line with the Community Association Information System (CAIS) Kiosk and Cash Management Implementation System.

Regional/satellite offices having internet and/or connectivity problems with ZEUS are required to transmit their weekly collections on the first day of the following week. With this circumstance, the Data Management Division (DMD) shall ensure posting of weekly collections of the concerned offices within three to five (3-5) days from actual receipt of the collection documents.

B. LANDBANK OF THE PHILIPPINES (LBP) COLLECTIONS

Semi-monthly collections from LBP shall be posted within three to five (3-5) days from actual receipt of the collection documents from Cash Management Department (CMD).

#### C. OTHER PAYMENT CHANNELS

Daily collection from payment centers (e.g., ECPay, LinkBiz etc.) shall be posted within one (1) day after receipt of collection report/daily transactions from CMD.

DMD shall conduct a reconciliation between booked and posted collections on the third week of each succeeding reporting period to ensure accuracy of balances and shall make a "go" signal for Information Communication Technology Division (ICTD) to proceed with the batch processing of transactions. ICTD shall provide within three to five (3-5) days the raw data of processed transactions to the DMD as basis in the preparation of summary of actual distribution of collections, ageing of accounts, cumulative CER, and other reports.

- 1.3 The UC account refers to amortization payments not yet applied/posted to the individual borrower's account as of statement date due to timing differences and other related concerns such as:
  - Payments with no abstract of collections;
  - · Payments not in the master list:
  - Payments from Member Beneficiaries (MBs) who availed of the One Year Updating;
  - Payments from MBs who availed of the Restructuring Program;
  - Unposted collections from Remedial accounts;
  - Payments of MBs not in database;
  - Payments of High Density Housing (HDH) accounts in the process of migration; and
  - Collections of NHMFC for the account of SHFC.
- 1.4 Payments categorized under no abstract of collections should be verified first in the CAIS Kiosk in order to ascertain the correct amount of amortization to be paid by MBs, while those not in the master list need to comply with the substitution process before collections can be cleared and posted.
- Office Order No. 21-1178, Series of 2020, Policy on Implementing the distribution/posting of amortization collections, was issued by SHFC in order to prevent the accumulation of UC.
- Review of the UC under the Other Payables account as at December 31, 2022 disclosed a total decrease of P59,886,134 or 14 per cent of the total UC balance as at December 31, 2021.

Category	UC Balance 12/31/2022	UC Balance 12/31/2021	Increase/ (Decrease)	Percentage (%)
Abstract Related	63,192,129	101,857,539	(38,665,410)	(38)
One Year Updating	2,302,395	16,294,288	(13,991,893)	(86)
Restructuring	58,109	58,109	(1-),)	0
Not in Database	22,620,861	29,866,599	(7,245,738)	(24)
HDH	28,623,614	36,864,825	(8,241,211)	(22)
Remedial Forward	125,771,224	118,245,141	(7,526,083)	6

Category	UC Balance 12/31/2022	UC Balance 12/31/2021	Increase/ (Decrease)	Percentage (%)	
Not in Master list	3,188,219	3,188,219	0	0	
With Site Development	10,058	10,058	. 0	0	
NHMFC	14,878,645	14,878,645	0	0	
Unaccounted	75,742,182	75,742,182	0	0	
Others	17,419,430	16,687,395	732,035	4	
Total	353,806,866	413,693,000	(59,886,134)	(14)	

1.7 Management was able to post and allocate to the individual ledger balances of MBs in the amount of P119,412,418 or 28.87 per cent of the accumulated UC balances for CY 2021 and earlier and a total of P1,190,269,026 or 95.24 per cent were posted and allocated for the CY 2022 transactions. Details are shown below:

Particulars	Amount	Percentage of Posting	
UC Balance as at December 31, 2021	413,693,000		
Less: 2021 UC distributed/allocated in 2022	119,412,418	28.87*	
Balance	294,280,582		
Add: Undistributed Collections for CY 2022	1,249,795,310		
Adjusted Balance	1,544,075,892		
Less: 2022 UC distributed/allocated in 2022	1,190,269,026	95.24**	
UC balance as at December 31, 2022	353,806,866		

<sup>\*</sup> Percentage of allocated/distributed UC pertaining to prior years

- 1.8 The decrease in the UC can be associated to the various programs and activities that Management has implemented viz:
  - a. Installation of CAIS Kiosk in the Head Office and Regional Offices;
  - Sending of notices to various CAs on the submission of photocopies of Community Mortgage Receipts;
  - c. Providing all HUBS/Branches copies of UC for their validation;
  - d. On site visits to CAs upon request of the CA officers;
  - e. Immediate reversal of accounts received thru e-mail, walk in CAs; and
  - f. Reconciliation of Landbank payments with CA officers.
- 1.9 Review of the aging of UCs as at December 31, 2022, disclosed that Management has already identified the categories of the unposted/undistributed loan amortization collections, as follows:

Particulars	Aging of Undistributed Collections at December 31, 2022							
Category of UC	0-30 days	31-60 days	61-90 days	91-120 days	121 to 150 days	151 and over	Total	
AbstractRelated	4,692,838	2,662,037	2,661,341	3,156,421	1,230,167	48,789,325	63,192,129	
One Year Updating	0	0	0	0	0	2,302,395	2,302,395	
Restructuring	0	0	0	0	. 0	58.109	58,109	
Not in database	12,471,085	1,824,256	467,343	651,725	285,610	6.920.842	22,620,861	
HDH	145,936	284,258	215,960	228,350	178,630	27.570,480	28,623,614	
Remedial	949,381	736,555	423,841	624,436	741,633	122,295,378	125,771,224	
Not in the Master list	0	0	0	0	0	3,188,219	3,188,219	
NHMFC	0	0	0	0	. 0	14,878,645	14,878,645	
Unaccounted	0	0	0	0	0	75,742,182	75,742,182	
Others	732,035	0	0	0	0	16,697,453	17,429,488	
Total	18,991,275	5,507,106	3,768,485	4,660,932	2,436,040	318,443,028	353,806,866	

<sup>\*\*</sup>Percentage of allocated/distributed UC pertaining to current year

- 1.10 According to Management the UC classified as "Not in the database" are payments not captured during the batch processing due to late posting, especially those coming from LBP. However, as at February 20, 2023, as a result of the reconciliation, Management has already posted to the individual MB ledgers a total of P11.463 million, which is 50.68 per cent of the December 31, 2022 UC balance of P22.621 million classified as "Not in Database". Moreover, collections from LBP for the second half of December of 2022 amounting to P4,476,000 have already been accounted and its posting is ongoing. Management also explained that the system that will cater HDH accounts is still having some minor enhancement (ledgering, additional loan features), and that the migration process of HDH projects to Zeus Operation Support Information System (OSIS) was already done, however there are accounts where the loan data are yet to be encoded.
- 1.11 Further, payments with abstract of collections related issues refer to the LBP and other online partners where the Abstract of Collections do not tally with and actual payments, thus, a reconciliation with consultation to the CAs is necessary before posting payments to the individual ledger of the MBs is made. In addition, ledger/data from NHMFC accounts have not yet been provided.
- 1.12 Despite the earnest efforts of Management to reduce the UC, there is still a balance of P353,806,866 as at December 31, 2022, resulting in the overstatement of both the Payable and Receivable accounts by the same amount.
- 1.13 We reiterated our prior year's recommendations and Management agreed to:
  - a. Ensure posting at the end of the calendar year the current year's collections lodged in UC; and
  - b. Require the ICTD to facilitate the enhancement of the database of HDH MBs under migration and all other accounts not yet in the database.

We further recommended and Management agreed to:

- c. Implement measures to prevent or correct the causes of the non-posting of collections; and
- d. Revisit the timeline in Office Order No. 21-1178, the Policy Implementing the Distribution/Posting of Amortization Collections, considering the volume of transactions.
- 2. The requirements of the Philippine Financial Reporting Standard (PFRS) 9 on *Financial Instruments* were not complied with, thus, the balances of various financial asset accounts totaling P23.188 billion as at December 31, 2022 are misstated by undetermined amounts.

#### On measurement

- 4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:
- (a) the entity's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.
- Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial asset or financial liability.
- 5.2.1 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1-4.1.5 at:
- (a) amortised cost;
- (b) fair value through other comprehensive income; or

## (c) fair value through profit or loss.

#### On impairment

- credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).
- 5.5.3 Xxx, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit nisk on that financial instrument has increased significantly since initial recognition.
- 5.5.5 Xxx, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for

that financial instrument at an amount equal to 12-month expected credit losses.

- 5.5.16 An entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.
- 5.5.17 An entity shall measure expected credit losses of a financial instrument in a way that reflects:
  - (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
  - (b) the time value of money; and
  - (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
- 2.2 Moreover, PAS 1 requires that financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting. The application of financial reporting standards, with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation. A fair presentation also requires an entity to select and apply accounting policies in accordance with PAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors. PAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a PFRS that specifically applies to an item.
- 2.3 As stated under Paragraph 1.1 of PFRS 9, the objective of the standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for the assessment of the amounts, timing and uncertainty of an entity's future cash flows.
- As at December 31, 2022, the Corporation reported the following financial assets which are recorded at amortized cost in the Statement of Financial Position (SFP):

Particulars	Amount	% over Total Assets	Remarks
Investment in treasury bills	50,000,000	0.16	B*
Receivables, current	1,202,366,208	3.78	Α
Other current assets	6,963,387,558	21.88	A
Receivable, non-current	14,301,527,042	44.95	В
Other non-current assets	670,552,391	2.11	Ā
<u></u>	23,187,833,199	72.87	

Forward

Particulars	Amount	% over Total Assets	Remarks
Cash and cash equivalents	5,916,658,209	18.58	С
Investment in time deposits	60,000,000	0.19	С
<b>Total Financial Assets</b>	29,164,491,408	91.66	
Total Assets	31,819,597,340	100	

A -SHFC should select its accounting policy for trade receivables, lease receivables and contract assets independently of each other and shall recognize a loss allowance for expected credit losses in accordance with paragraph 5.5.16, PFRS 9.

B –SHFC should also recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 (amortized cost), PFRS 9.

B\*- SHFC should provide the required disclosures in the Notes to Financial Statements for its Investment in Treasury Bills.

C - These accounts should be simplified as low credit risk, hence, no ECL.

- 2.5 Review of the SHFC's SFP as at December 31, 2022, showed that its financial assets totaling P23,187,833,199, representing 72.87 per cent of its total assets amounting to P31,819,597,340 are not compliant with PFRS 9.
- 2.6 Further review of the accounts disclosed that SHFC continuously assesses and computes impairment for Mortgage Contracts Receivable through loan loss provisioning which was approved under Board Resolution No. 329 dated May 24, 2013, as follows:

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

2.7 The aforementioned rates were applied in the actual computation of impairment loss and allowance for impairment loss only for the MCR as at December 31, 2022, as follows:

#### Impairment Loss

	Amounts in Pesos				
Loan Classification	Additional Provision	Recovery/ Reversal	Total		
Current Accounts	4,295,014	0	4,295,014		
Past Due Accounts					
>3-12 Months	0	(2,794,792)	(2,794,792)		
>1-3 Years	0	(2,319,237)	(2,319,237)		
Over 3 Years	7,190,840	0	7,190,840		
			6,371,825		

## Allowance for Impairment Loss

Loan Classification	Outstanding Principal Balance	Loan Loss Rate (%)	Loan Loss Provision
Current Accounts	3,856,982,460	0.25	9,642,456
Past Due Accounts			
>3-12 Months	1,296,012,943	0.50	6,480,065
>1-3 Years	2,701,360,097	0.75	20,260,201
Over 3 Years	6,371,095,484	1.00	63,710,955
Items in Litigation	93,903,294	5.00	4,695,164
			*104,788,841

<sup>\*</sup>Difference of P1 was due to rounding off.

- 2.8 There are no expected credit losses (ECL) recognized in the books on these MCR accounts and other financial assets mentioned in paragraph 2.4. The ECL should be recognized, generally, in three stages depending on the magnitude and extent of credit risks and should no longer be based on occurrence of loss which has been the continuing practice of SHFC.
- 2.9 It must be emphasized that Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with Management's assertions embodied in the financial statements.
- 2.10 The following should be considered in the classification and measurement of financial assets as required in PFRS 9 and in the selection of accounting policy for the application of these requirements:
  - The business model at the level of portfolio;
  - Classification or designation of financial instruments;
  - Their initial and subsequent measurements:
  - Application of ECL (Expected Credit Losses) and Credit Loss Allowances, generally, in three stages; and
  - Any relevant tainting provisions or derecognitions.
- 2.11 Likewise, ECL is calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. ECL calculation model should calculate an unbiased and probability weighted amount to be presented as impairment to book value of financial asset in SFP. Since most entities would have to start from scratch and probably will find as very acceptable and convenient, the aforementioned calculation is presented as:

#### $ECL = EAD \times LGD \times PD$

ECL – Expected Credit Losses; EAD – Exposure at Default; LGD – Loss Given Default; and PD – Probability of Default

- 2.12 For the financial assets, SHFC may select its accounting policy for impairment depending on the embedded credit risks and the significance of its increases as mentioned in paragraphs 5.5.3 and 5.5.5 of PFRS 9. Further, a provision for a loss allowance and expected credit loss should be made in accordance with paragraph 5.5.17 of the same Standard.
- 2.13 Even though Management has already finalized the SHFC Accounting Manual that adopts the provisions of the Standard, last January 21, 2022, this was not yet applied in the SHFC's Financial Statements as at December 31, 2022, due to the pending approval of the same by the Board of Directors (BODs). This Manual was submitted to the Office of the Board Secretary on September 05, 2022 to be included in the BOD's meeting agenda for presentation and approval. The Management further mentioned that they cannot finalize yet the working papers and the Journal Entries (JEs) to adjust the accounts until the said approval is obtained.
- 2.14 Further, the minimum disclosure requirements under PFRS 7 which includes: (1) classes of financial instruments and level of disclosure; (2) significance of financial instruments for financial position and performance; (3) nature and extent of risks arising from financial instrument (qualitative and quantitative disclosures); and (4) transfers of financial assets, if any, were not complied because Management still applies PAS 39 in its Financial Statements, and the disclosure requirements relating to these financial instruments are still based on PAS 32, Financial Instruments: Disclosure and Presentation.
- 2.15 The non-compliance with the requirements of PFRS 9 on Financial Instruments resulted in the misstatement of the balances of various financial asset accounts totaling P23,187,833,199 as at December 31, 2022 by undetermined amounts. In addition, the required disclosures were not complied with, thus, affecting the fairness of presentation of the affected accounts in the financial statements.
- 2.16 We reiterated our prior year's recommendations and Management agreed to:
  - a. Resubmit and make a representation to the BODs to prioritize the approval of the SHFC Accounting Manual;
  - Accordingly, apply the policy embedded in the SHFC Accounting Manual which should be PFRS compliant on the proper classification, measurement, and impairment of all financial instruments of SHFC; and
  - c. Provide the disclosures required under PFRS 7 in the Financial Statements.

- 3. The accounts Right-of-Use of Assets (ROUA) and Lease Payable are not recognized in the books of SHFC, contrary to the requirements of PFRS 16 on Leases, thus, the assets and liabilities are both understated, and the balances of the related accounts are all misstated by undetermined amounts as at December 31, 2022.
  - 3.1 As disclosed in the Notes to Financial Statements, SHFC is regarded as a Lessee and has not yet adopted PFRS 16 on its leases including the application guidance prescribed under COA Circular No. 2021-009 dated October 01, 2021 for all Government Corporations classified as Commercial Public Sector Entity which shall mandatorily apply the provisions of the said Standard effective January 1, 2020.
  - 3.2 Based on the provisions of the said Standard, the COA Circular prescribed the entries¹ to be considered in the books of the Lessee. For leases scoped under PFRS 16, ROUA and Lease Payable should be recognized upon adoption/commencement date. The ROUA shall be initially measured at cost and the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.
  - 3.3 Subsequently, Depreciation Expense and the corresponding increase in Accumulated Depreciation shall be recognized for ROUA and Interest Expense for Lease Payable and its corresponding increase. Cash or cash in bank shall be debited for payments received on lease liabilities.
  - 3.4 Aside from the non-recognition of ROUA and Lease Payables, the following accounts are affected by the non-adoption of PFRS 16 for CY 2022:

# Statement of Financial Position

Account Name	2022	Remarks
Accumulated Depreciation	188,472,952	Α
Retained Earnings	9,658,891,257	В
Property and Equipment - Buildings and Other Structures	94,907,140	С
Loans Payable - Domestic (Current		
and Non-current)	2,030,048	С

A – Understated due to unrecognized cumulative Depreciation Expense.

B – Misstated due to overstatement of Rent/Lease Expenses and unrecognized Interest and Depreciation Expenses.

C- Refers to the cost and outstanding balance of the office building, parking space and other structures acquired from the Bangko Sentral ng Pilipinas (BSP). For reclassification to ROUA and Lease Payables.

<sup>&</sup>lt;sup>1</sup> Also refer to COA Circular No. 2021-009 dated October 1, 2021.

## Statement of Comprehensive Income

Account Name	2022	Remarks
Rent/Lease Expenses	16,444,757	D
Depreciation Expenses	18,670,887	E
Interest Expenses	337,374	E

D – Overstated due to non-adoption of PFRS 16 for lease contracts with a period of more than one year

- 3.5 However, PFRS 16 and the COA Circular provides recognition exemption for short-term leases or leases for which the underlying asset is of low value when new. For this kind, the lessee shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.
- 3.6 Further validation of the Rent/Lease Expense account for CY 2022 showed that there are rentals of office spaces and warehouses of SHFC that are more than one year. These are not considered short-term leases to apply the recognition exemption; hence, should be recorded as ROUA and Lease payable.
- 3.7 For the disclosure requirements, the ROU and lease liabilities should be presented in the Statement of Financial Position separately from other assets and other liabilities except for right-of-use asset that meet the definition of Investment Property, which shall be presented as Investment Property.
- 3.8 Management has finalized the SHFC Accounting Manual on January 21, 2022 and submitted such to the Office of the Board Secretary on September 05, 2022 to be included in the BOD's meeting agenda for presentation and approval, however, the same is still for approval by the BODs. Thus, the appropriate accounting policy has not yet been applied in the SHFC's Financial Statements as at December 31, 2022. Management further mentioned that they cannot finalize yet the working papers and the Journal Entries (JEs) to adjust the accounts until the said approval is obtained.
- Thus, the non-compliance with the requirements of PFRS 16 on Leases resulted in the understatement of the asset and liabilities for the non-recognition of ROUA and lease liabilities as at December 31, 2022 both by undetermined amounts. The balances as at December 31, 2022 pertaining to Retained Earnings of P9,658,891,257; Accumulated Depreciation of P188,472,952; Rent/Lease Expenses of P16,444,757; Depreciation Expenses of P18,670,887; and Interest Expenses of P337,374 are also all misstated by undetermined amounts.
- 3.10 We reiterated our prior year's recommendation and Management agreed to facilitate the approval of the accounting policy by the BODs and its subsequent implementation that is compliant to the provisions of PFRS 16, including its disclosure requirements on SHFC's leases.

E - Understated due to unrecognized Depreciation and Interest Expenses.

SHFC procured Healthcare Maintenance Organization (HMO) services covering the period from August 2020 to August 2023 for its officers and employees through its employees' association, the Social Housing Employees Association, Inc. (SOHEAI), and paid a total of P15.849 million on the same as at December 31, 2022, without prior approval by the President upon recommendation of the Department of Budget and Management (DBM), contrary to Commission on Audit (COA) Resolution No. 2005-001 in relation to Section 5 of Presidential Decree (PD) No. 1597 and Section 3 of Memorandum Order No. 20, series of 2001, hence, constitutes irregular expenditure and unnecessary use of public funds.

4.1 Section 5 of the Presidential Decree No. 15972 reads:

Section 5. Allowances, Honorana, and Other Fringe Benefits. Allowances, honorana and other fringe benefits which may be granted to government employees, whether payable by their respective offices or by other agencies of government, shall be subject to the approval of the President upon recommendation of the Commission shall review on a continuing basis and shall prepare, for the consideration and approval of the President, policies and levels of allowances and other fininge benefits applicable to government personnel, including honorana or other forms of compensation for participation in projects which are authorized to government personnel, including honorana or other forms of compensation for participation in projects which are authorized to pay additional compensation. (Underscoring supplied)

4.2 Section 3 of Memorandum Order (MO) No. 20 dated June 25, 2001, provides that:

Section 3. Any increase in salary or compensation of GOCCs/GFIs that are not in accordance with the SSL shall be subject to the approval of the President. (Underscoring supplied)

4.3 COA Resolution No. 2005-001 states in part:

XXX

WHEREAS, procurement of another health insurance by government agencies from private health insurance companies is a disbursement of public funds for the same purpose and must be viewed as a form of additional allowance and compensation;

XXX

NOW, THEREFORE, BE IT RESOLVED as it is, hereby RESOLVED, that the procurement of private health insurance by any agency or instrumentality of the government is an irregular

<sup>&</sup>lt;sup>2</sup> Further Rationalizing the System of Compensation and Position Classification in the National Government.

<u>expenditure and constitutes unnecessary use of public funds</u> <u>which cannot be countenanced by this Commission.</u> (Underscoring supplied)

- 4.4 On December 24, 2008, SHFC and SOHEAI, both represented by their respective Presidents, executed a Collection Bargaining Agreement (CBA) for the utmost interest and welfare of both, SHFC and SOHEAI, to foster and promote a noble and enduring relationship between the employees and management through the development of harmonious and sound labour management practices and upholding the principles of transparency.
- 4.5 Section 5 (b) of Article X: Benefits and Allowances of the said CBA provides that SHFC, at its expense, shall provide for the health care services of its officers and employees through the availment of a Health Maintenance Organization (HMO), to wit:

Section 5. Insurance and Health Benefits – <u>Aside from the mandatory health coverage and medical benefits (SSS, PhilHealth, etc.)</u>, the following shall be provided to the employees.

- (b) Over and above the said medical and dental program, the employees shall be provided with group health care services (Health Maintenance Organization) at the expense of the CORPORATION. The officials and employees shall have the option to enroll their dependents to the said program at their expense. (Underscoring supplied)
- Audit of the disbursements made by SHFC to HMO services through SOHEAI disclosed a total disbursement in the amount of P15,849,122.02 in CYs 2021 to 2022, as follows:

Contract Year	Year Paid	DV Number	Check Number/ Letter of Authority	Date	Payee	Particulars	Gross Amount*
August 13, 2022 to August 12, 2023	2022	2022113932	129351	11/18/2022	SOCIAL HOUSING EMPLOYEES ASSOCIATION, INC.	Payment of hospital and dental allowance of SHFC employees for the contract year of August 13, 2022 – August 12, 2023	5,138,124.62
August 13, 2021 to August 12, 2022	12	2022010302	LOI_2022- 079	02/03/2022	-do-	Payment of hospital and dental allowance of SHFC employees for the contract year of August 13, 2021 – August 12, 2022	5,331,258.25
	SUB-	TOTAL					10,469,382.8

Forward

Contract Year	Year Paid	DV Number	Check Number/ Letter of Authority	Date	Payee	Particulars	Gross Amount*
August 13, 2020 to August 12, 2021	2021	2021040973	LOI_2021- 035	04/08/2021	-do-	Payment of hospital and dental allowance of SHFC employees for the contract period of August 13, 2020 – August 12, 2021	5,379,739.15
	SUB-	TOTAL					5,379,739.15
	TOTA	\L					15,849,122.02

<sup>\* -</sup> Inclusive of Government Money Payments (GMP) - Value Added Tax (VAT) and Expanded Withholding Tax (EWT).

- 4.7 We inquired with Management on the HMO procurement, and they mentioned that it was in accordance with their CBA. Management further clarified that the said benefit was not a reimbursement and reiterated that it is shouldered by SHFC. Lastly, they added that such is different and apart from the employees' medical and dental allowance.
- 4.8 We also observed that, for SHFC, there were no communications to the OP or DBM regarding the grant of HMO services. Further, there were no documents to seek for DBM's recommendation and OP's approval, which is mandatory.
- 4.9 We acknowledge the intent and purpose of SHFC in procuring the HMO which is to promote a noble and enduring relationship between the employees and management through the development of sound labour management practices, however, we believe that such practices must also conform to the government laws, rules and regulations.
- 4.10 Thus, SHFC should have refrained from procuring health care insurance from private insurance agency as it would be tantamount to additional allowance and compensation. The HMO services provided to its officers and employees through its employees' association, SOHEAI, amounting to a total disbursement of P15,849,122.02 in CYs 2021 to 2022, is contrary to COA Resolution No. 2005-001 in relation to Section 5 of PD No. 1597 and Section 3 of MO No. 20, series of 2001, and constitutes irregular expenditure and unnecessary use of public funds.

## 4.11 We recommended that Management:

- Stop disbursing funds from SHFC to pay for the officers and employees' HMO premiums;
- b. Seek for a post-facto approval from the OP, otherwise, refund the total amount of P15.849 million, which constitutes an unauthorized benefits and allowances; and
- c. Strictly follow and comply with COA Resolution No. 2005-001, Section 5 of PD No. 1597 and Section 3 of MO No. 20, series of 2001.

- 4.12 Management respectfully commented to take exception to the said observation and request reconsideration on the following grounds: (a) SHFC did not directly procure an HMO for its employees and officers; (b) Administrative Order No. 402 establishes an annual medical check-up program; (c) Memorandum Order No. 20, series of 2001, is not applicable to medical check-up program; and (d) COA Resolution No. 2005-001 provides for exceptions under the jurisprudence.
- 4.13 As a rejoinder, we stand by our observations and recommendations because absence of any proof that the procured HMO services were considered in lieu of the annual medical check-up under Administrative Order No. 402 is tantamount to additional benefit and allowance that requires approval by the OP as recommended by the DBM.
- 5. The unexpended balance of the Marawi Shelter Project (MSP) Fund, amounting to P29.451 million, that was sourced from the FY2018 National Disaster Risk Reduction and Management (NDRRM) Fund and appropriated for the acquisition of two (2) lots, still remained in the SHFC's depository account as at December 31, 2022, although the purpose of its appropriation was already completed; hence, it runs counter to the National Disaster Risk Reduction and Management Council (NDRRMC) Memorandum Circular (MC) No. 110, series of 2021, and deprives the National Government (NG) of fund to finance other priority programs.
  - 5.1 NDRRMC MC No. 110, series of 2021, on the revised guidelines on the administration of the DRRM Fund, prescribes that:

Section 9. Release of Funds and Project Implementation.

- 9.4. Unexpended balances or savings from the NDRRM fund released to the implementing agencies or LGUs shall be reverted to the National Treasury.
- 5.2 On February 21, 2019, the SHFC President wrote a letter to the Undersecretary and Administrator, Office of the Civil Defense Executive Director of the NDRRMC informing that SHFC has already acquired property in Marawi with an area of 15.6 hectares (156,495 sq meters more or less) for the initial 900 beneficiaries with the cost of P43,036,125 at P275/sq meters.
- Records show that on October 30, 2019, the Office of the President approved the release of funds amounting to P43,036,125 chargeable against the continuing appropriations for the Marawi Recovery, Rehabilitation, and Reconstruction Program (MRRRP) under the FY2018 NDRRM Fund, for the acquisition of two properties with an area of 15.6 hectares. Details are as follows:

Registered Landowner	Area (sqm)	Approved Price per sqm	Total Project Cost/Obligated
Lot Owner A	22,625	P275/sqm	6,221,875
Lot Owner B	133,870	P275/sqm	36,814,250
TOTAL	156,495	P275/sqm	43,036,125

- 5.4 On November 15, 2019, the SHFC President wrote to the Honorable Secretary of the DBM, requesting for the release of the fund amounting to P43,036,125 for the acquisition of two (2) properties with an area of 15.6 hectares.
- 5.5 Subsequently, the NG through Department of Budget and Management (DBM) issued a letter dated November 25, 2019, on the release of DRRM Fund through SARO-BMB-19-0021419 in the amount of P43,036,125 which was sourced from the FY2018 GAA Continuing Appropriations to cover the government subsidy in the land acquisition on the said shelter project. On December 17, 2019, SHFC received the funds through NCA No. BMB-C-19-0024721 from NG to fund the cash requirement of the mentioned SARO.
- Verification of Report on the Receipt and Utilization of Disaster Risk Reduction and Management Fund (DRRMF) sourced from GAA as at August 31, 2022, revealed that there is an unexpended balance of SARO No. BMB-19-0021419 for the lot acquisition amounting to P29,451,400, which remained in the depository bank account of SHFC as at December 31, 2022. The savings arise from the reduction of lot area for Property B from the original area of 133,870 sqm to 26,774 sqm due to the actual claims of five clans over the subject property. Details are as follows:

<b>Date and Reference</b>	Particulars		Amount
RECEIPT OF FUND 01/17/2020 JEV2020010063	Receipt of funds for lot acquisition of MSP Phase 1 and 2 (SARO No. BMB-C-19- 0021419)	ė.	43,036,125
LESS: UTILIZATION 01/11/2019 DV2019-010060	Phase 1: Property A Purchase of lot with lot area of 22,625 sqm @P275/sqm approved per Board Resolution No. 694 s. 2018		6,221,875
01/11/2019 DV2019-010061	Phase 2: Property B Purchase of lot with lot area of 133,870 sqm @P275/sqm approved per Board Resolution No. 694 s. 2018	36,814,250	
05/04/2021 BR No. 926, s. 2021	Phase 2: Property B Adjustment in lot acquisition price due to reduction of lot area of Property B pursuant to BR No. 926, s. 2021. From the original P36,814,250 for the 133,870 sqm to P7,362,850 for the 26,774 sqm	(29,451,400)	7,362,850
TOTAL UTILIZATION			13,584,725
BALANCE OF THE F	UND AS AT DECEMBER 31, 2022		29,451,400

5.7 Based on the reports on initial survey that was conducted on February 20, 2019, on the property of Lot Owner B, land surveying shows that only a

portion of the said property with an area of 67,751 sqm was available for site development of the MSP Phase 2 due to the complaints of third-party claimants.

- After the Notice to Proceed was issued to the contractor, the lot was resurveyed on January 8, 2020, and it has been discovered that only an area of 26,774 sqm more or less was the available area for house construction project instead of 67,751 sqm as indicated in the initial survey. With the reduced lot area of Rodi property, SHFC's BODs approved the revised lot acquisition price from P36,814,250 to P7,362,850 pursuant to BR No. 926, s. 2021.
- Inquiry with the Management disclosed that they have sought the approval of the DBM in the utilization of the unexpended balance of DRRM funds for the lot acquisition to be used in Marawi Shelter Project. However, DBM responded and clarified that the FY 2018 subsidy released to GOCC's charged against the National Disaster Risk Reduction and Management Fund (NDRRMF) can only be utilized until December 31, 2019, in view of the extension of FY 2018 appropriations pursuant to Joint Resolution No. 3. Thereafter, any unexpended balance shall be reverted to the unappropriated surplus of the General Fund consistent with EO No. 292.
- 5.10 Since the purpose of SARO No. BMB-19-0021419 is for the purchase of the two lots and has been completed and fully obligated as at December 31, 2021, SHFC is compelled to revert the unutilized balance or savings of the NDRRM Fund amounting to P29,451,400 to the National Treasury pursuant to NDRRMC MC No. 100, s. 2021, to be used as disaster funds in the emergency procedures during natural or human-induced calamities.
- 5.11 We recommended that Management return the remaining DRRM Fund appropriated for lot acquisition of Phase I and Phase II, amounting to P29,451,400 as demanded by DBM pursuant to NDRRMC MC No. 110, s. 2021.
- 5.12 Management commented and humbly maintained their position that the remaining funds can still be utilized for the purchase of another lot considering that the full amount released to the Corporation was obligated in January 2019 prior to December 31, 2019. SHFC simply fulfilled its commitment, the project is existent and now nearing completion. Failure to settle the payment to the landowners will mean breach of contract and possible discontinuance and failure of the Project.
- 5.13 As a rejoinder, we stand on our recommendation for Management to return the unutilized balance of DRRM fund for the acquisition of Phase I and Phase II lots amounting to P29.451 million since the purpose indicated in the NCA and SARO is very clear that its intended purpose is to procure lots to be used in the Phase I and Phase II of Marawi Shelter Project. Further, absence of prior approval from the DBM to utilize the fund other than for its intended purpose is considered irregular expenditure.

- The SHFC has contracted for the services of 415 institutional contract of service personnel and 21 of whom were assigned managerial and supervisory positions due to the insufficiency of its workforce for its operations, which is not in accordance with Paragraph 7 of the CSC-COA-DBM Joint Circular No. 1, series of 2017.
  - 6.1 Civil Service Commission (CSC) Commission on Audit (COA) Department of Budget and Management (DBM) Joint Circular No. 1, series of 2017, provides that:

#### 7. Limitations:

- 7.1 Hiring under contract of service (COS) shall be limited to consultants, learning service providers, and/or other technical experts to undertake special projects of job within a specific period. The project or job is not part of the regular function of the agency, or the expertise is not available in the agency, or it is impractical or more expensive for the government agency to directly undertake the service provided by the individual or institutional contractor.
- 7.2 Contract of Service and job order workers should not, in any case, be made to perform functions which are part of the job description of the agency's existing regular employees.
- 7.3 <u>Contract of service and job order workers should not be designated to positions exercising control or supervision over regular and career employees.</u> (Emphasis supplied)
- 6.2 Records show that the total manpower complement of SHFC as at December 31, 2022, is 635, of which 220 or 35 per cent are regular employees and 415 or 65 per cent are agency-hired contractual personnel from LBRDC, to wit:

Particulars	<b>Head Office</b>	Region	Total	Percentage
Regular (Plantilla Positions)	152	68	220	35
Agency-Hired	243	172	415	65
	395	240	635	100

- 6.3 There are 21 SHFC agency-hired contractual personnel who are designated to various supervisory positions such as Head of Unit/Branch, Chief of Division, OIC Managers, Cashier, Executive Assistant, etc. which is beyond the duties and responsibilities of the position for which they were hired, and it is also contrary to Paragraph 7.3 of the CSC-COA-DBM Joint Circular No. 1, series of 2017.
- 6.4 It is worthy to note that contractual personnel could be hired if the project or job is not part of the regular functions of the agency, or the expertise is not available in the agency, or it is impractical for the government agency to directly undertake the service provided by the institutional contractor.

- 6.5 Although there is no regulation limiting the number of contractual personnel to be hired, the workforce needed for the whole Corporation and its operating units could have been determined considering that 65 per cent of the SHFC workforce are agency-hired personnel.
- 6.6 Inquiry with Management revealed that they are currently in the process of reorganization to address the insufficiency of the workforce.
- 6.7 Accordingly, the hiring of 415 agency-hired contractual personnel and allowing 21 of them to handle managerial and supervisory position with control over regular employees is not in accordance with Paragraph 7.3 of the CSC-COA-DBM Joint Circular No. 1, series of 2017.
- 6.8 We recommended and Management agreed to fast track the reorganization to address the insufficiency of the SHFC's current workforce.
- 7. The mode of payment of the cost of land for the SHFC-DOTr Housing Project intended as a resettlement site for the dweller-families affected by the North-South Commuter Railway Extension (NSCR-Ex) Project is not harmonized with the SHFC CMP Corporate Circular No. 22-058, thus may result in the delay of conversion of TCT in the name of the SHFC because the landowner had already collected 90 per cent of the cost of the land.
  - 7.1 Item V 3 of CMP Corporate Circular No. 22-058, series of 2022, Guidelines on the SHFC-DOTr Housing Project on the release of payments to landowners, states that:

The Corporation may release the proceeds on staggered basis, as approved by the SHFC Board in the following manner:

3.1 Initial release of Fifty (50%) loan proceeds

The Corporation may release, upon approval by the Board, the initial Fifty (50%) of the proceeds to help assist the landowners with the following requirements:

- a. Certification from the LGU or LIAC stating that the property will be used as the resettlement site for the predetermined MBs;
- Certification from the DOTr PNR, LGU or LIAC stating that the list of the pre-determined or potential beneficiaries, with or without official registration as a Community Association or Housing Cooperative;

c. Proof of Registration or Application of the Community Association to DHSUD with at least the minimum required membership, for the Accommodation Mortgage;

d. Tax clearance or receipts thereof;

- e. Owner's duplicate copies of TCTs;
- f. Execution or submission of the Deed of Absolute sale by the landowner in favor of the CA for accommodation Mortgage or SHFC for usufruct arrangements;
- g. Letter of Guarantee;
- h. Other Documents that maybe required by the Corporation
- 3.2 Release of the final fifty (50%) loan proceeds upon submission of the following requirements
  - a. Certificate of registration of the CA for Accommodation Mortgage:
  - Submission of the owner's duplicate copy of TCT and RD certified copy in the name of the CA for accommodation mortgage or SHFC for Usufruct agreement;
  - Annotation of the REM in the CAs TCT for the Accommodation Mortgage;
  - d. Tax declaration in CA's name for accommodation mortgage or SHFC's name for usufruct arrangements;
  - e. Payment of transfer taxes, registration fees and documentary stamp taxes shall be for the account of the landowner;
  - f. Other documents that maybe required by the Corporation
- 7.2 A Memorandum of Agreement (MOA) was entered into in CY 2017 by and between the Department of Transportation (DOTr), the Social Housing Finance Corporation (SHFC), the Housing and Urban Development Council (now DHSUD), and the Philippine National Railways (PNR) to cover the implementation of the Resettlement Action Plan for the relocation and resettlement of the duly identified 26,000 more or less dweller-families at the Tutuban-Los Banos segment and the Calamba-Batangas branchline through a community-driven housing project.
- A Trust Agreement was entered into between the DOTr (Trustor) and the SHFC (trustee) for the construction of the Micro Medium Rise Building (MMRB)/Community Mortgage Program (CMP) Vertical, regular CMP and other community driven housing programs and shelter solutions that will primarily benefit the informal settler families (ISFs) living along the Tutuban-Los Banos segment and Calamba-Batangas branchline (PNR South Commuter Project). As a result, SHFC drafted Guidelines for the SHFC-DOTr Housing Project under CMP Corporate Circular No. 22-058 to have a uniform interpretation and detailed procedures on the implementation of the Project.
- 7.4 In 2018, the DOTr transferred a total of P3.00 billion to SHFC to fund the resettlement component of the NSCR-Ex project financed by the Asian

Development Bank (ADB) and Japan International Cooperation Agency (JICA).

7.5 Validation of the DOTr Fund disclosed the following utilization/disbursements for the purchase of lots as relocation of the ISFs:

Payee	Check No./ Date	Cost of the Land	Particulars	% of Payment	Amount Paid
Payee A	103659 10/7/2019	169,240,120	20% reservation fee for the 86,347 sqm at P2,800/sqm with 30% discount on the BSP Properties in Carissa Homes, Tanza Cavite	20	33,848,024
Payee A	86666 3/12/2021		80% full payment of the 86,347 sqm	80	135,392,096
TOTAL LO	A TO	169,240,120		100	169,240,120
Payee B	MC 8686 3/14/2022	29,219,315	90% loan proceeds on the land acquisition on the 37,094 sqm at P787.71/sqm in Calamba, Laguna	90	26,297,383
Payee B	MC 8684 3/14/2022	36,740,370	90% loan proceeds on the land acquisition on the 46,642 sqm at P787.71/sqm in Calamba, Laguna	90	33,066,333
TOTAL LO	T B	65,959,685		90	59,363,716
TOTAL C		235,199,805			228,603,836

- 7.6 Review of the Disbursement Vouchers for the payments made to Payee B disclosed that the initial payments of P59,363,716 or ninety (90) per cent of the total cost of the lot was made, which is not in accordance with the aforementioned CMP Circular which requires that only 50 per cent shall be paid initially.
- 7.7 Board Resolution (BR) No. 971, series of 2022, for the approval of the grant of Letter of Guaranty on the DOTr South Project, as well as approval for the release of the land acquisition loan proceeds for the Pilot Phase amounting to P65,959,685 provides the following:
  - a. Ninety (90) per cent or P59,363,716 of the loan proceeds will be released upon submission of the following
    - Undertaking from the developer
    - · Commitment letter to reclassify from the LGU
    - LIAC resolution requesting the payment of the land, and commitment to aid/assist in land conversion
  - b. Ten (10) per cent or P6,595,969 will be released upon submission of the land conversion clearance certificate.
- 7.8 The documents stated in the BR had been complied with by the Developer, however, the approval by the Board of the 90 per cent payment contravenes with the issued Circular which may cause confusion

- and different interpretation of the issued policy defeating the purpose of uniformity of interpretation of policy across the Corporation.
- 7.9 Inspection made by the Audit Team of the Project on September 7, 2022 disclosed that the area is a rice field. The site is adjacent to the housing projects of the National Housing Authority, and it was observed that there is an ongoing site development (drainage and road networks) being undertaken by the Developer.
- 7.10 Thus, the payment to the landowner of more than what is provided in the policy may create confusion and different interpretation across the Corporation and may affect the conversion of the TCT in the name of SHFC since the landowner had already collected 90 per cent of the total cost of the land.
- 7.11 We recommended and Management agreed to harmonize actions with existing policy to ensure uniform interpretation and application of the Circular across the Corporation and to safeguard the conversion of TCTs in the name of SHFC.
- 7.12 Management mentioned that they have crafted a financing framework, the Community Guided Financing (CGF) Framework, to harmonize and ensure uniform application of policies in all their programs and modalities, including special projects like the DOTR-projects. The CGF was approved by the BODs on November 28, 2022. It aims to accelerate the financing of housing projects through a more flexible, responsive, and adaptable approach, which shall be applied to all SHFC program modalities and special projects.
- 8. SHFC was able to utilize/attribute P434.799 million, or 98.41 per cent, of its CY 2022 GAD Plan and Budget, amounting to P441.804 million, or 9.69 per cent, of its P4.560 billion DBM-Approved Corporate Operating Budget (COB); however the GPB initially submitted to the PCW was neither based on the DBM-approved COB nor the proposed COB submitted to DBM, which is contrary to Section 1.2.2.1.3 of PCW MC No. 2021-04.
  - 8.1 The PCW-NEDA-DBM Joint Circular No. 2012-001 provides the following:
    - 6.1 At least five percent (5%) of the total agency budget appropriations authorized under the annual General Appropriations Act (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.

8.2 The PCW Memorandum Circular No. 2021-04 dated August 24, 2021, Preparation and Online Submission of Fiscal Year (FY) 2022 Gender and Development Plan and Budgets, provides that:

Section No. 1.2.2. GAD Budget Costing and Attribution

#### Xxx

**1.2.2.1.3.** For GOCCs, the computation of the minimum five percent (5%) GPB requirement shall be based on their corporate operating budget (COB).

## Xxx

4.0 Deadline for GPB Submission through the GMMS Version 2 or 3

Xxx	Xxx
15 November 2021	Deadline of encoding and submission to PCW of FY 2022 GPBs of GOCCs through the GMMS

8.3 Records show that out of the CY 2022 DBM-Approved COB of P4,560,117,000, the amount of P441,804,400 or 9.69 per cent was allocated/attributed to GAD Programs, Activities and Projects to comply with Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01. Moreover, SHFC was able to utilize/attribute a total of P434,799,030 or 98.41 per cent of the GPB. Details as follows:

No	Programs/Project/Activities	GAD Budget	Actual Utilization/ Attribution
Clie	nt-Focused Activities		
1.	Conduct of capacity development trainings and seminars/conduct periodic meetings and		
	consultations with internal and external clients	660,000.00	1,805,301.68
2. 3.	Information dissemination of the IEC materials Conduct of capacity development focus on	520,000.00	-
4.	sustainable economic independence. Conduct of customized capacity development focus on perceived role reversal of women and	300,000.00	-
	men in the communities.	760,000.00	-
5.	Conduct of capacity development on digital literacy, the basics of teaching, and safe in		
6.	digital realms.  Conduct of capacity development to increase knowledge of MBs in modern technologies and practices in edible urban gardening for food	600,000.00	· · ·
	security.	410,000.00	-
7.	Conduct of extensive promotion of the	,	
	advocacy on women and protection	580,000.00	98,567.32
8.	Conduct of different capacity development and		
	forum on women's empowerment	640,000.00	
Tota	al	4,470,000.00	1,903,869.00

No	Programs/Project/Activities	GAD Budget	Actual Utilization/ Attribution
	anizational Focused Activities		
1.	Conduct of capacity development		
	training/seminar of different gender subjects.	900,000.00	-
2.	Conduct of various activities in the celebration		
	of women's month (March) in line with theme		
	"We Make Change Work for Women"	690,000.00	188,774.29
3.	Conduct of capacity development on various		
	GAD-related mandated laws, gender analysis,		
	and other deepening session to the GFPS		
	Commitee and champions.	800,000.00	97,812.72
4.	Establish/Set up of Wellness Room and	C-8200 800 0	•
	Breastfeeding Room in SHFC.	360,000.00	_
5.	Conduct of Gender Audit, regular meetings,		
	planning and budgeting with GFPS Committee		
	members/conduct of annual assessment and		
	evaluation of the GFPS Committee/		
	Establish/set up GAD Office in SHFC	710,000.00	1,800,268.77
6.	Conduct of capacity Development Writeshop in	. (0,000.00	1,000,200.77
	crafting the agency multi-year plan of GAD		
	Agenda.	300,000.00	
7.	Conduct of various capacity development on	300,000.00	
	GAD related mandatory activities	360,000.00	263,556.19
8.	Institutionalize male involvement and	000,000.00	200,000.10
	engagement Gender Equality and Women		
	Empowerment.	510,000.00	301,501.00
9.	Conduct of capacity development on training	310,000.00	301,301.00
٥.	the trainer on natural resources management,		
	etc.	440,000.00	
10.	Conduct of capacity development for the	440,000.00	
10.	internal program developer on sex-	. 1	
	disaggregated data collection, reporting and		
	gender analysis	300,000.00	
11.	Hire personnel that will focus on all corporate	300,000.00	
11.		1 014 400 00	000 040 00
Tot	GAD related activities	1,214,400.00	993,248.08
	वा ributed Programs	6,584,400.00	3,645,161.05
Atti		420 7E0 000 00	400 050 000 00
	Community Mortgage Program/High Density	430,750,000.00	429,250,000.00
C	Housing Programs	444 004 406 00	101 700 000 00
Gra	na rotai	441,804,400.00	434,799,030.05

- The GPB was submitted to the PCW through the Gender Mainstreaming Monitoring System (GMMS) on November 15, 2021, which is within the prescribed deadline set in the PCW MC No. 2021-04.
- 8.5 Review of the GPB initially submitted to the PCW was neither based on the DBM-approved COB nor on the proposed COB submitted to DBM, which is contrary to Section 1.2.2.1.3 of PCW MC No. 2021-04.
- 8.6 Management explained that the DBM-approved budget is usually received after the deadline of submission set by PCW, hence, they cannot use it as a basis in the preparation of GPB. They further explained that the Board-approved COB, which was then available, was used as a basis for crafting the annual GPB, however, any revisions made on the Board-approved COB after the GPB submission was therefore not reflected.

- 8.7 Moreover, 11 activities included in the GPB were not accordingly accomplished as shown in the GAD Accomplishment Report (AR) for CY 2022. There are also two activities which exceeded the allotted budget, which includes the conduct of capacity development trainings and the conduct of gender audit, regular meetings, planning and budgeting with GFPS Committee members.
- 8.8 Inquiry with management revealed that the exceeding of the budget was due to the new SHFC guidelines on CMP modalities (turnkey), which require all new community associations of SHFC to undergo gender-responsive capacity building, and the unforeseen number of actual employees who participated in the gender audit.
- 8.9 Although SHFC promptly submitted the GPB and was able to utilize/attribute almost 100 per cent of such budget, proper planning and budgeting are still necessary to come up with an appropriate GPB and to include activities that will not only address gender issues but can also be attained during the year.
- 8.10 Thus, although the SHFC was able to utilize/attribute P434,799,030 or 98.41 per cent of its CY 2022 GPB amounting to P441,804,400 or 9.69 per cent of its P4,560,117,000 DBM-approved COB, the submitted GPB to the PCW is contrary to Section 1.2.2.1.3 of PCW MC No. 2021-04 as it was neither based on the DBM-approved COB nor on the proposed COB submitted to the DBM.
- 8.11 We recommended and Management agreed to:
  - a. Use the DBM-approved COB or the proposed COB submitted to DBM, whichever is readily available, as basis in the preparation of the GPB:
  - b. Include only attainable GAD-related activities in the GPB; and
  - Strictly comply with the provisions of Section 1.2.2.1.3 PCW MC No. 2021-04.

#### **COMPLIANCE WITH TAX LAWS**

9. The SHFC consistently withholds taxes on salaries and wages and other benefits due from its officers and employees, as well as procurement of goods and services, and remits the same to the Bureau of Internal Revenue (BIR) within the prescribed period. For CY 2022, taxes withheld/accrued amounted to P52.638 million, while the total taxes remitted to the BIR amounted to P44.045 million. The balance of P8.592 million as at December 31, 2022, was remitted in CY 2023, as shown in the table below:

	Amount	Date Remitted
Value-added tax	2,662,303	01.10.2023
Percentage tax	1,451,911	01.20.2023
Withholding tax on compensation	3,376,677	01.16.2023
Expanded withholding tax	1,101,293	01.10.2023
	8,592,184	

# COMPLIANCE WITH THE SSS, PHILHEALTH AND HDMF LAWS

10. The SHFC consistently complies with the requirements on the withholding from its employees' salaries the corresponding contributions to the SSS, PhilHealth and HDMF and regularly remits to these government agencies the withheld amounts. Details for CY 2022 remittances are as follows:

	Amount
Social Security System	8,525,500
PhilHealth	4,338,134
Home Development Mutual Fund	681,400
	13,545,034

# 11. Status of Suspensions, Disallowances and Charges

The total audit disallowances and settlements are shown below, while there are no suspensions or charges as at December 31, 2022:

Particulars	Balance, 1/1/2022	Issued (January to December 2022)	Settlement (January to December 2022)	Balance, 12/31/2022
ND	76,468,812	2,481,500	0	78,950,312

- a. ND No. 2022-02(2020) dated October 10, 2022, pertaining to the CY 2020 financial assistance in the amount of P1,526,000.
- b. ND No. 2022-01(2020) dated September 12, 2022, pertaining to the CY 2019 one-time gratuity pay in the amount of P955,500, which is under appeal dated March \*13, 2023, filed by SHFC et al.
- c. ND No. 2019-01(2018) dated October 17, 2019, pertaining to the payment of Collective Bargaining Agreement, which is under appeal per CGS Decision No. 2020-12 dated July 30, 2020, has an outstanding balance of P5,280,000. Settlement for the year amounting to P377,500 was deducted from the last salary of retired/resigned employees.
- d. ND No. 2017-01-CIB-TD (2016) dated February 9, 2018, amounting to P71,030,479 pertains to the garnished peso time deposit with DBP, including bank charges enforced by an Urgent Exparte Motion from case AC-973-RCMB-NCR LVA-024-01 titled SOHEAI vs. SHFC which is under appeal with the Commission on Audit. Separately, on October 14, 2020, the

Supreme Court denied the petition of SOHEAI versus SHFC and affirmed the Court of Appeal's Decision dated July 21, 2017, in CA-G.R. SP No. 140975 in annulling Panel of Voluntary Arbitrators' (PVA) Decision and ordering SOHEAI to redeposit the amount P70,228,467.79 to the depository bank.

e. ND issued for the payment of grocery subsidy and 13th month pay is being settled through salary deduction. The balance of P158,333 as at December 31, 2022, refers to the uncollected amount from the resigned/retired employees.

# **PART III**

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

# STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 51 audit recommendations for both SHFC and AKPF embodied in the CY 2021 Annual Audit Report, 18 were implemented, 21 were not implemented six of which were reiterated in Part II of this Report, nine were reconsidered, and three are with issued Notice of Disallowance. Details are presented below:

Reference		dit	Status/Actions
	Observations	Recommendations	Taken
A. Socia	I Housing Finance Corporation		•
CY 2021			
Observatio No. 1, page 51	(UC) totaling P413.693 million remained unposted to the Mortgage Contract Receivable (MCR) account, despite the efforts made by Management to lower the accumulated UC and posting to the individual ledger of the member beneficiaries (MBs) thus, overstating both the Other Payables and the MCR accounts by the same amount	breakdown schedule and to post and allocate UC for CY 2020 and earlier by at least:  i. 60 per cent by the end of CY 2022  ii. 40 per cent by the end of CY 2023;  b. For the current	in recommendation letter a of
	as at December 31, 2021.	year's collections lodged in UC, ensure posting at the end of the calendar year; and	
		c. Require the ICTD to facilitate the enhancement of the database of HDHP MBs under migration and all other accounts not yet in the database.	Reiterated with modifications in Observation No
		d. Management closely and constantly coordinates with the CAs and NHMFC on the submission of documents necessary in the reconciliation of the	

UC account.

Reference -	Auc	dit	Status/Actions
	Observations	Recommendations	Taken
Observation No. 2, page 54	PFRS 9 on Financial Instruments were not	representation to the Board of Directors to	
	balances of various financial	fast track the approval of the SHFC Accounting Manual;	
	December 31, 2021 are misstated by undetermined	b. Accordingly apply the policy on the proper	
	amounts.		Reiterated in Observation No. 2, Part II of this Report
		SHFC; and	
		c. Provide the disclosures required under PFRS 7 in the	Not implemented  Reiterated in
		Financial Statements.	
No. 3, page	3. The present value of expected payments to cover	books the present value	
59	future retirement benefits of SHFC's employees was not measured, recognized, and disclosed regularly in the	as expense and liability pursuant to PAS 19 to	the approval of
	books as benefit cost and benefit obligation, contrary to PAS 19 on Employee	retirement benefits;	discussion with GSIS.
	Benefits, resulting in the understatement of both the	b. Disclose in the Notes to Financial	Reconsidered
	expense and liability accounts by undetermined amounts. This defeats the purpose of spreading out the expense over years in service so that	and necessary information required under paragraph 135 of PAS 19 on Employee	Ongoing discussion with
	the benefit expense recognized in the financial statements does not differ		GSIS. Reconsidered
	materially with the benefit expense at the	with an Actuary to facilitate the	Overturned by
	reporting/availment period and which has likewise an adverse impact on cash flows for the period.	material post-	Ongoing
		detailed valuation of the obligation before the	GSIS.

No. 4, page Use Assets (ROUA) and Management agreed to Pavable are recognized in the books of the Board of Directors Observation No. contrary to the and SHFC. requirements of PFRS 16 on implementation of the Report. Leases, thus, the assets and accounting policy that is are understated, and the balances provisions of PFRS 16, of the related accounts are including its disclosure misstated all by undetermined requirements amounts as at December 31. SHFC's leases. 2021 and 2020.

Observation 4. The accounts Right-of- We recommended and Not implemented not facilitate the approval by Reiterated both compliant

subsequent 3, Part II of this

Observation 5. 64

No. 5, page Fund amounting to P7.700 Management agreed to million received from the seek a written authority On November 9, Department of Social Welfare from and Development (DSWD) for Secretary emergency assistance of families whose of the trust fund and DSWD informing houses were damaged by modality Sendong applied as loan amortization as payment of beneficiaries. This is not in the amount of P7.700 On November 11, accordance with the intended million to the DSWD. purpose provided in Memorandum of Agreement (MOA) between DSWD and SHFC and is contrary to Section 4(3) and Section 84(2) of Presidential Decree (PD) No. 144 This also defeats the objective of the trust fund to provide immediate assistance intended beneficiaries at the earliest possible time.

The balance of the Trust We recommended and Not implemented DSWD 2022. the for shelter change in the purpose response of the of was distribution to the MBs accommodate the stipulated in the SHFC's request member MOA. Otherwise, return for

SHFC the received its that it conformity. 2022, SHFC in reply to the letter of the DSWD their stated and position its reiterated request for the conformity of the DSWD on the utilization of the Trust Fund.

Observation 6. 67

**ESA** amounting No. 6, page P5.390 million sourced from documents to DSWD the DSWD trust fund was and secure a written On November 9. granted to seventy-seven (77) approval substitute MBs securing prior approval from changes in the list of response of the

to a. Submit the required Not implemented from without DSWD Secretary on the received

the 2022. SHFC the

Reference -	Aud		Status/Actions
	Observations	Recommendations	Taken
	DSWD on the amendment of the original list of MBs, contrary to Section 1.1 of Article III of the MOA between DSWD and SHFC. This casts doubt on the eligibility of the substitute beneficiaries as the rightful recipients of the program.		that it cannot accommodate their request for conformity. On November 11, 2022, SHFC in reply to the letter of the DSWD stated their position and reiterated its request for the DSWD on the DSWD on the
		b. Require the HOA to submit to SHFC the documentary requirements for the actual recipients of the ESA, who are substitutes of those in the original list of MBs, to avoid unauthorized substitution of the original MBs including the certification issued by the LHIAC.	
Observation No. 7, page 70	Housing (HDH) Project for the Phase II (Site	Assign an engineer for each project who will monitor its timely completion within the agreed period as stated in the BCSDA to prevent additional loan funding or non-	Management assigned a foca person an engineers fo HDH South an HDH North t monitor th projects.

Doforonoo	Auc	Status/Actions	
Reference	Observations	Recommendations	Taken
	Agreement and Notice to Proceed, depriving the intended 546 ISF-beneficiaries living in waterways and danger zones of decent and affordable housing, defeating the objectives of the Program and the possible non-recovery of funds invested in housing.	Prospectively, devise a template to document the turnover of the project monitoring by the personnel assigned who was reshuffled to another department, to include, among others, the detailed list of documents and status of work to be reviewed and approved by their immediate supervisor to ensure continuity of work, and orderly and	
		b. Require the CA to implement the following remedies against the Contractor as provided in Article XIV of the BCSDA:	Not implemente
		<ul> <li>Give a written notice to the Contractor to proceed with the work and to perform what is in the agreement; and</li> </ul>	
		If the Contractor fails to perform the work within seven days from receipt of the written notice, the CA and SHFC shall have the option to proceed against the bond and enter the premises and employ another contractor to	

	Aud	Audit	
Reference -	Observations	Recommendations	Taken
		complete the work at the expense of Contractor A.	
		c. Require the CA to compute for and demand the payment of liquidated damages from the Contractor, pursuant to Article XII of the BCSDA;	Not implemented
		d. Submit to the Audit Team updated Accomplishment Report of the Contractor duly validated by the Department of Engineering of SHFC; and	Implemented
		Contractor to submit to the HDH Team in charge of the Project the	No performand bond was submitted.
Observation No. 8, page 76	P43.036 million for the Marawi site development housing projects turned over and	transfer of the ownership of the land to SHFC to hasten the individualization of the titles in the name of the qualified home partners/beneficiaries;	SHFC is exerting its effort the ensure the immediate the transfer of the second

SHFC, contrary to MSP Corporate Circular No. 19-001, resulting in the delay of the individualization of titles

and the risk of loss of funds invested in housing in case of

sought

Project.

transfer the title to the individual beneficiaries of

Management has

the

already

Audit			Status/Actions
Reference ——	Observations	Recommendations	Taken
third-	party claimants.		the assistance of the Local Government Units to support the landowners in the conduct of relocation survey and in compliance with the other requirements for the transfer of TCT in the name of the seller and eventually in the name of SHFC.
		providing timeline within which the	Lot for Marawi
		c. As part of due diligence for future purchases of lot intended for housing projects, ensure that the lot to be purchased is properly inspected particularly the boundaries of the lots to prevent third party claimants.	Implemented

Observation 9. Unserviceable Property a. Direct the Inspection Not implemented No. 9, page and Equipment (PEs) and Disposal Committee amounting to P12.908 million to which have long been stored immediate and occupying space in the systematic disposal of prepared the draft warehouse for more than PEs in accordance with guidelines for the seven undisposed, contrary Section 79 of PD No. 1445 prevent

facilitate remain existing rules to regulations in order to disposal of PEs

the The Disposal and Committee and systematic further which is still

Reference -	Auc	lit Recommendations	Status/Actions Taken
	Observations and COA Circular Nos. 2020-		subject to the
	06 and 2004-008, resulting in	maximize recoverable values/income	
		Property Officer to	Implemented
		c. Prospectively, ensure that all unserviceable PEs are promptly acted upon by the Property Officer and Disposal Committee to avoid further deterioration of property and further non-use of the storage occupied for other purposes.	
Observation No. 10, page 82	recommendation in the BAC Resolution on the award of contracts for 127 purchases thru Small Value Procurement as incorporated in the contracts/purchase orders amounting to P10.289 million was signed by SHFC Key Officers other than the	ensure that only authorized signatories will approve the Notice of Award, Purchase Order and other related documents in accordance with Board Resolution No. 847, s. 2020.	
Observation No. 11, page 85	11. The actual utilization/attribution amounting to only P267.912 million or 10.09 of the GAD		

Deference	Aud		Status/Actions
Reference -	Observations	Recommendations	Taken
		budget year as approved by PCW; and b. Strictly adhere to the provisions of PCW/NEDA/DBM Joint Circular No. 2012-01 on	Implemented
Observation No. 12, page 89	Procurement Plan was not supported with a BAC Resolution approved by the HOPE, contrary to Section 7.2 and Annex H-Item IV(A) of the 2016 RIRR of RA No. 9184 thus, casting doubt on whether the actual mode used provided	Management agreed to prospectively ensure that all procurements shall be undertaken in accordance with the approved APP. Any changes must be accompanied by a BAC Resolution providing for a justification and the required approval of the HOPE before undertaking actual procurement in	
Observatior No. 13, page 92	n 13. A total of 28 POs for the requisition of office and IT supplies amounting to P1.363 million were entered into with various suppliers through SVP under Negotiated Procurement mode without first satisfying the conditions set forth under Section 53.9	the SVP as alternative procurement method for goods that satisfy the conditions provided in Section 53.9 and Annex H-Item V(D)(8) of the 2016 RIRR of RA No	

Reference -	Aud		Status/Actions
Kelelelice	Observations	Recommendations	Taken
	and Annex H-Item V(D)(8) of the 2016 RIRR of RA No. 9184, thus affecting the propriety of the transactions.	b. Prospectively, ensure that the suitable mode of procurement is adopted based on the specific conditions provided in the same Act for all purchases of SHFC.	Implemented
Observation No 14, page 94	product brand indicated in the procurement documents, contrary to Section 18 of the 2016 RIRR of RA No. 9184, which may result in undue advantage to bidders and defeats the principle of fairness and equal	Management agreed to stop the practice of incorporating product brand name and/or specific technical requirement tailor fitting the description in the procurement in any of the bidding documents in accordance with the provisions of Section 18	
Observation No. 15, page 99	property and equipment and 11 semi-expendable supplies amounting to P1.009 million were delivered and accepted by SHFC prior to the start of the procurement process through SVP, contrary to Annex H-Item V (D)(8)(b) of the 2016 RIRR of RA No 9184, thus renders doubtfut the legality and propriety of the transaction and depriving SHFC to get the lowest possible price from the supplier.	Management agreed to complete the procurement process before accepting delivery of goods from suppliers and strictly adhere to the procurement process provided for in Annex H on the Consolidated Guidelines for Alternative Methods of Procurement of the	
Observation No. 16, page101	n 16. The Contract for the Supply and Delivery of Office Air Purifier amounting to	the qualifications	S

Deference	Auc	Status/Actions	
Reference	Observations	Recommendations	Taken
	P0.995 million was awarded to a Supplier who failed to submit the Lowest Calculated Bid and responsive quotation, contrary to the 2016 RIRR of RA No. 9184, Item V(D)(8)(b) and Appendix A both of Annex H, respectively, thus affecting the legality and propriety of the procurement process and validity of the Agreement.	of the suppliers and ensure that the winning supplier is compliant with the legal/documentary requirements of SHFC and offers the lowest calculated and responsive quotation;	Implemented

# **CY 2020**

No. 6, page 72

Observation 17. Accounts Payable - MCR a. Follow up with the Not implemented amounting to P988.844 million CAs the documentary payable to 490 CAs for the 50 requirements needed for The per cent balance of the cost of the payment of the Unitization lot, remained outstanding for remaining 50 per cent Asset a period of two years or more cost of lot to due to the inability of the CAs landowner; and complete documentation required under SHFC Corporate Circular No. 024, series of 2013. This may result in the non/poor recovery of funds invested in housing and deprives SHFC the use of the fund for other housing projects intended for low-income families.

Title and the Management Department (TUAAMD), together with the concerned SHFC branches, conducted meetings with the Community Associations and LGUs for the compliance with the documentary requirements for the release of the final 50 per cent payment.

b. Include in the Implemented Schedule of AP-MCR

Reference	Audit		Status/Actions
I/elelelice	Observations	Recommendations	Taken
		the information on the approval of the Letter of Guaranty, cost of lots and name of the landowner/seller to facilitate the validation and monitoring of the accounts.	
Observation No. 7, page 75	Security Services Incorporated employees hired by the SHFC through Institutional Contract of Service (ICOS) is not in	from the DBM or the Office of the President whether the personnel of institutional contract of service provider rendering services to SHFC are entitled to the gratuity pay authorized under AO No. 20; and b. Otherwise, in the absence of an express	Disallowance No 2022-01 (2020) dated Septembe 12, 2022 has been issued fo the amount o P955,500.
Observation No. 8, page 79	Incorporated employees hired through Institutional Contract of Service (ICOS) has no legal basis and is not in	the grant of financial assistance to personnel of ICOS rendering services to SHFC, otherwise refund the financial assistance granted to them in the absence of legal authority.	Disallowance No 2022-02 (2020 dated October 10, 2022 has been issued for the amount of P1.526 million.

Reference	Audit		Status/Actions
	Observations	Recommendations	Taken
	_		

1445.

#### **CY 2019**

Observation 20. The variance of P1.077 a. Reconcile No. 3. billion between the balances variances between SL of page 59 of the General Ledger (GL) of CA and SL of MBs, as Mortgage Receivable Mortgage Program (MCR- billion by at least: CMP) and Subsidiary Ledger (SL) of the Community Associations (CAs) account as at December 31, 2019, casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) 1445 and Paragraph 15 of PAS 1, affecting the fair presentation of the account balance in the financial

statements.

the Implemented Contracts well as SL and GL Community balances of P1.077

- 65 percent of the variance by CY 2020
- ii. 35 percent of the variance by CY 2021; and

No. 10. page 87

Observation 21. The granting by SHFC of a. Secure a post-facto Not implemented car amounting loans P70.831 million to its officers through the GCG, of No approval yet. and **Board** of (BODs) is contrary to the Car officers; and Plan approved by the Office of the President (OP) of the Philippines for Government Financial Institutions (GFIs), b. Require the three Not implemented as the benefit applies only to members of the Board those that do not receive to immediately settle the The three Board subsidy from the National amount Government (NG), renderina the car irregular. balance amounting to P1.794 million of BODs who availed of the car plan after the publication of Executive Order (EO) No. 24 on February 10, 2011, as amended by the Governance Commission for Government-Owned Controlled Corporations (GCG) Memorandum Circular

to approval from the OP, Directors SHFC's Car Plan to its

of thus million to comply with paying plan the provisions of GCG installment Moreover, loan MC No. 2016-01.

Car plan was already discontinued

P1.794 of Directors are on balance

the P1.794 million of their car loans, hence. as at December 31. the 2022 only amount of P841,788 has not been collected.

Reference	Audit		Status/Actions
Keierence	Observations (MC) No. 2016-01, still remain	Recommendations	Taken
	outstanding as at December 31, 2019, but which should have already been due and demandable.		
Observation No.12, page 94		retirement plan and formulate policy guidelines harmonized with the provisions of RA No. 7641 to be approved by the governing Board and submitted to GCG for its	discussion on the transfer from SS to GSIS coverage
Observation No. 17, page 114	P315.630 million remain idle since CY 2010 with no utilization, except for	the foreclosed and dacioned properties in the name of SHFC; and	The AKF

Reference		Audit	Status/Actions Taken	
Reference	Observations	Observations Recommendations		
			discrepancies in the technical description, government expropriated /auctioned accounts and undeclared lots. These issues are contributory in the delay of the transfer of TCTs.	
		b. Dispose the properties already in the name of SHFC through public bidding.	Appraisal of the properties ready for disposal are being conducted and the policies/guideline s in the disposal of AKPF acquired properties had already been drafted and for approval by the Board. However,	
			there are also properties which were already fully or a portion had been taken by the government due to some impediments which are beyond the control of	

# **CY 2017 AAR**

Observation 24. CMP accounts totaling Analyze and reconcile Not implemented No. 3, P88.154 million transferred by the the NHMFC without the lapsed MRI premiums Reconciliation is corresponding supporting and immediately apply ongoing and as of documents and 638 accounts the negative balances to December 31, page 48 negative balances future

accounts with periods amounting to P8.818 million insurance coverage or of P58.723 million

of 2022, the amount

SHFC.

Reference	Au	dit	Status/Actions		
	Observations	Recommendations	Taken		
	cast doubts on the accuracy of the Insurance Receivable-MBs account balance of P295.382 million under the CMP, contrary to paragraph 15 of PAS 1.	refund to the MBs if loan			
Observation No. 6, Page 54	approved by the Board and	testing of the subject property is favorable,	Not implemented		

#### **2016 AAR**

No. 4, Page 34

Observation 26. Thirty-one Certificate of Title (TCTs) the subject TCTs in the under Usufruct Agreement of name of SHFC for The TCTs for two HDH lot acquisition project Usufruct and in the projects valued at P392.284 million are name of CA for the been transferred still not transferred in the refinanced amount and in the name of name of SHFC, thus, contrary annotate the same in SHFC while the to Section 6 of Corporate the name of SHFC in requirements for Circular No. 14-005 series of compliance 2014. Likewise, TCT on the lot Corporate Circular HDH remaining acquisition through SHFC Re- No. 14-005 series of are Financing Program of an 2014 and IRR 2014-003, reviewed LGU, amounting to P16.359 million was not transferred in the name of the CA and with annotation of SHFC Mortgage while full payment was already made, contrary to Section 5 of the IRR 2014-003, thus, may result to nonrecovery/loss of fund in case of a third-party claimant.

Transfer Expedite the transfer of Not implemented

with the transfer of the **TCTs** being as to technical and legal aspects.

Audit Status/Actions Reference -**Observations** Taken Recommendations

# **Abot-Kaya Pabahay Fund**

#### **CY 2018 AAR**

Observation 27. Assets of No. 16. amounting to P260.219 million guidelines Page 99 were not stated at their fair assessment. value for CY 2018 due to measurement assessment. and recording of impairment assets losses as required under PAS under PAS 36 and 39 36 and 39, thus, casting doubt for CY 2018. on the reliability and valuation of the Fund's assets.

AKPF Formulate policy/ Reconsidered on the absence of policy on the recording of impairment PFRS 9. measurement losses of its recorded as

Overtaken by the and issuance

# **CY 2016 AAR**

Observation 28. There are lapses No. 7. management page 43 implementation of which are contrary to the Trust file Agreement entered into by administrative action for is and between the NHMFC and failure to perform their SHFC's capacity the SHFC, resulting in the functions. deficiencies that following expose SHFC to the nonrecovery of 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, posting 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 AKPF despite non-compliance with schedule of completion for the land development housing construction, contrary to the Section 4 (4.02) of the

in Determine the persons Reconsidered and liable for the AKPF deficiencies noted and The

appropriate recommendation beyond to comply due to unavailability supporting documents.

#### Observations Recommendations

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 million and P26 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/SHFC notwithstanding the lapse of eight to 14 years after the expiration of one-year redemption period. thus. resulting in the delay in the asset disposal of and exposing the property to further depreciation deterioration.

# 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, 2022 and 2021

(In Philippine Peso)

	Note	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	4	292,670,723	291,236,938
Receivables	5	2,772,993	2,508,360
Advances to officers and employees	6	122,670	0
		295,566,386	293,745,298
Non-current assets			
Receivables, net	5	67,441,124	67,441,124
Property and equipment	7	84,453	105,085
Investment property	8	196,845,866	197,635,751
		264,371,443	265,181,960
TOTAL ASSETS		559,937,829	558,927,258
LIADII ITIES AND FUND DALANGE			
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	9	13,331,201	10,114,466
Other current liabilities	10	559,313	518,395
TOTAL LIABILITIES		13,890,514	10,632,861
Fund balance	11	546,047,315	548,294,397
TOTAL LIABILITIES AND FUND BALANCE		559,937,829	558,927,258

# ABOT-KAYA PABAHAY FUND SOCIAL HOUSING FINANCE CORPORATION (as Trustee) AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2022 and 2021 (In Philippine Peso)

	Note	2022	2021
NOOME			
INCOME			
Service and business income	12	4,656,813	4,552,733
		4,656,813	4,552,733
EXPENSES			
Personnel services	13	3,709,643	3,586,845
Maintenance and other operating expenses	14	3,388,337	4,232,195
Financial expenses	15	2,450	60,456
Non-cash expenses	16	20,632	24,176
		7,121,062	7,903,673
LOSS BEFORE OTHER INCOME		(2,464,249)	(3,350,940)
Other non-operating income	17	10,833	18,502
		(2,453,416)	(3,332,438)
NET LOSS		(2,453,416)	(3,332,438)

# 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, 2022 and 2021 (In Philippine Peso)

Balance at December 31, 2021	11	548,294,397
Net loss		(3,332,438)
Balance as at January 1, 2021		551,626,835
Balance at December 31, 2022	11	546,047,315
Net loss		(2,453,416)
	i	548,500,731
Prior Year's Adjustment		206,334
Balance as at January 1, 2022		548,294,397

# 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, 2022 and 2021 (In Philippine Peso)

Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Collection of receivables	5,121,933	3,959,247
Interest income received	182,681	716,450
Refund of cash advance	43,480.00	0
Other receipts	239,283	510
Payment of realty tax	(3,727,227)	(4,193,169)
Payment of cash advance	(331,920)	0
Payment of operating expenses	(94,445)	(24,466,510)
Net cash provided by/(used in) operating activities	1,433,785	(23,983,472)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,433,785	(23,983,472)
Cash and cash equivalents at beginning of the year	291,236,938	315,220,410
CASH AND CASH EQUIVALENTS AT END OF YEAR 4	292,670,723	291,236,938

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

#### 1. GENERAL INFORMATION

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

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

# 2. SIGNIFICANT ACCOUNTING POLICIES

The recording of the Fund's financial transactions is centralized in the SHFC's Finance and Controllership Department. The Fund submits a monthly summary of transactions duly reviewed, certified and approved by its responsible officers to the Finance and Controllership Department for journal entry voucher preparation and recording in the books of accounts.

#### 2.1 Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards

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

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

#### b. Presentation of Financial Statements

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

# c. Functional and Presentation Currency

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

#### 2.2 Adoption of New and Amended PFRS

#### a. Effective in 2022 that are relevant to the AKPF:

(i) Amendment to PFRS 16, Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit Corporation deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the Corporation recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

(ii) Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that the Corporation includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

b. New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2022

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

- (i) Effective beginning on or after January 1, 2023
  - Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction
  - Amendments to PAS 8, Definition of Accounting Estimates
  - Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies
- (ii) Effective beginning on or after January 1, 2024
  - Amendments to PAS 1, Classification of Liabilities as Current or Non-current
- (iii) Effective beginning on or after January 1, 2025
  - PFRS 17, Insurance Contracts

#### c. Deferred effectivity

PFRS 10 (Amendments), Consolidated Financial Statements, and PAS 28 (Amendments), Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely). The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in the PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

#### 2.3 Financial Assets

A financial asset is any asset that is:

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

#### Recognition and Measurement

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

assets at fair value or amortized cost in accordance with PFRS rules on financial instruments.

#### Classification

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

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

# 2.4 Property and Equipment

Property and equipment are carried at cost less accumulated depreciation.

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

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

	Years	
Leasehold improvements	10	
Furniture and Fixtures	10	
Office Equipment	5	
IT Equipment	5	

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

#### 2.5 Investment Property

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

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

#### 2.6 Financial Liabilities

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

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

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

Financial liabilities are derecognized from the Statement of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability

derecognized and the consideration paid or payable is recognized in profit or loss.

#### 2.7 Revenue and Expense Recognition

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

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

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

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

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

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

#### 2.8 Employee Benefits

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

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

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

#### 2.9 Events after the End of the Reporting Period

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

#### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### a. Recognition of Provisions and Contingencies

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

# b. Key Sources of Estimation Uncertainty

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

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

An adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. AKPF evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of AKPF's relationship with the customers, the customers' current credit status, the average age of accounts, collection experience and historical loss experience.

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

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

technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and intangible assets are analyzed in Note 7. Based on Management's assessment as at December 31, 2022 and 2021, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

#### 4. CASH AND CASH EQUIVALENTS

This account consists of:

	2022	2021
Cash in bank	20,263,179	16,931,938
Investment in treasury bills – local	272,407,544	274,305,000
	292,670,723	291,236,938

# 4.1 Cash in bank

This account consists of current savings account with government banks that earns interest at prevailing interest rates 0.05 per cent per annum.

# 4.2 <u>Investment in treasury bills – local</u>

This account represents investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than three months from date of placements.

# 5. RECEIVABLES, NET

This account consists of:

	2022	2021
Current:		
Interest receivable	2,772,993	2,508,360
Non-current:		
Loan receivable – others	89,921,499	89,921,499
Less: Allowance for doubtful accounts	22,480,375	22,480,375
	67,441,124	67,441,124

#### 5.1 Interest Receivable

This account consists of accrued interest on Special Savings Deposits (SSD) with the Development Bank of the Philippines. The investment in SSD earns interest at the prevailing rates of 1.525 per cent to 1.70 per cent

#### 5.2 Loans Receivable - Others

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

#### a. Rivera Heights Subdivision

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

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

The TWG convened last August 23, 2018 to discuss some possible actions for the repurchase of Rivera Heights Subdivision for presentation to Management for approval.

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

#### b. Villa Alejandrea Subdivision

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

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

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

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

Per follow up on the case on February 7, 2020, the Task Force Titulong Malinis (TFTM) wrote the Registry of Deeds in the province of Isabela to ask for certified copies of titles used as collateral for this project, however, the TFTM has not received any as of this time.

#### c. Palao Country Homes

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

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

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

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

On August 26, 2020, a Decision was issued by the Court resolving the issues presented in the case. In the decision, the Court dismissed the petition/case filed against SHFC. A Motion for Reconsideration was filed by Petitioner in November 2020.

On May 17, 2021, the RTC issued a Resolution denying the Petitioner's Motion for Reconsideration.

#### 6. ADVANCES TO OFFICERS AND EMPLOYEES

This account pertains to amount advanced to Officers and Employees for official travel totaling to Php122,670.00 as at December 31, 2022.

#### 7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2022 and 2021 are shown below:

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
Cost					
January 1, 2022	461,376	34,815	99,235	193,243	788,669
Additions/Deductions	0	0	0	0	0
December 31, 2022	461,376	34,815	99,235	193,243	788,669
Forward					

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
Accumulated				a a	· · · · · · · · · · · · · · · · · · ·
Depreciation					
January 01, 2022	(457,792)	(31,333)	(78,512)	(115,947)	(683,584)
Depreciation	0	Ó	(3,240)	(17,392)	(20,632)
December 31, 2022	(457,792)	(31,333)	(81,752)	(133,339)	(704,216)
Net Book Value					
<b>December 31, 2022</b>	3,584	3,482	17,483	59,904	84,453
Cost					
January 1, 2021	461,376	34,815	99,235	193,243	788,669
Additions/Deductions	0	0	0	0	0
December 31, 2021	461,376	34,815	99,235	193,243	788,669
Accumulated					
Depreciation					
January 01, 2021	(454,248)	(31,333)	(75,272)	(98,555)	(659,408)
Depreciation	(3,544)	Ó	(3,240)	(17,392)	(24,176)
December 31, 2021	(457,792)	(31,333)	(78,512)	(115,947)	(683,584)
Net Book Value			1 1	1	100017
December 31, 2021	3,584	3,482	20,723	77,296	105,085

# 8. INVESTMENT PROPERTY

This account pertains to the costs of eight (8) foreclosed properties and five (5) projects acquired from the settlement of accounts through Dacion en Pago totaling **P196,845,866** and P197,635,751 as of **December 31, 2022** and 2021, respectively. These assets were previously reclassified from Acquired Assets to Foreclosed Properties/Assets in compliance with the Revised Chart of Accounts (RCA) and were later reclassified to Investment Property.

The net decrease of P789,885 pertains to the payment of Bases Conversion and Development Authority (BCDA) of Php901,600.00 as just compensation on the twelve (12) lots of Evergreen Subdivision affected by Subic-Clark-Tarlac Expressway (SCTEX) and the payment of Registration fee with RD for the project, Olympia Village, for the transfer of titles to the SHFC's name in the amount of Php111,715.30.

# 9. INTER-AGENCY PAYABLES/INTRA-AGENCY PAYABLES

This account consists of:

	2022	2021
Due to other funds	8,117,973	3,775,139
Due to LGUs	5,213,228	6,339,327
	13,331,201	10,114,466

# 9.1 Due to Other Funds

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

# 9.2 Due to LGUs

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

#### 10. OTHER CURRENT LIABILITIES

This account consists of other payables representing taxes withheld from interest income on Investment in SSD with DBP amounting to **P559,313** and P518,395 as of **December 31, 2022** and 2021, respectively.

# 11. FUND BALANCE

The Retained earnings account comprises of the prior year's adjustments on Taxes, Duties and Licenses due to reimbursement made by BCDA for the Real Property Tax paid on the 12 lots affected by SCTEX and adjustments on Interest Income - Sales Contract Receivable due to recasting as at December 31, 2022 and 2021, respectively.

#### 12. SERVICE AND BUSINESS INCOME

	2022	2021
Interest income – investments	4,656,813	4,537,510
Interest income – sales contract receivable	; <b>o</b>	4,344
Fines and penalties – business		
income	0	10,879
	4,656,813	4,552,733

#### 13. PERSONNEL SERVICES

This account consists of:

	2022	2021
Salaries and wages – regular	1,882,400	1,862,520
Other compensation		
Year-end bonus	157,615	155,210
Personnel economic relief allowance	72,000	72,000
Transportation allowance	67,200	67,307
Representation allowance	60,000	60,000
Clothing/uniform allowance	18,000	18,000
Cash gift	15,000	15,000
Other bonuses and allowances	906,253	885,955
	3,178,468	3,135,992

Forward

	2022	2021
Personnel benefit contributions		4 / 4
Provident/welfare fund contributions	282,360	279,378
Retirement and life insurance premiums	76,500	74,925
PhilHealth contributions	25,853	25,781
Pag-IBIG contributions	3,600	3,600
Employees compensation insurance premiums	1,080	1,080
	389,393	384,764
Other personnel benefits		
Terminal leave benefits	132,782	57,089
Birthday gift	9,000	9,000
	141,782	66,089
7	3,709,643	3,586,845

# 14. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2022	2021
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	2,481,771	2,882,547
Insurance expense	103,747	0
Fidelity bond premiums	3,000	0
	2,588,518	2,882,547
General services		
Other general services	177,913	786,492
Security services	96,026	96,026
Janitorial services	16,430	16,430
	290,369	898,948
Traveling expense		
Traveling expenses – local	137,032	38,586
	137,032	38,586
Utility expenses		
Electricity expenses	83,449	81,116
Water expenses	8,485	8,516
	91,934	89,632
Supplies and materials expenses		
Office supplies expenses	6,000	52,988
	6,000	52,988
Communication expenses		21
Telephone expenses	11,379	32,569
	11,379	32,569
Other maintenance and operating expenses		and the second s
Rent/lease expenses	233,325	233,325
Documentary stamps expenses	1,260	1,480
Forward	-,	.,
	4	

	2022	2021
Printing and publication expenses	184	0
Other maintenance and operating expenses	28,336	2,120
	263,105	236,925
	3,388,337	4,232,195

#### 15. FINANCIAL EXPENSES

This account consists of:

	2022	2021
Management Supervision/Trusteeship Fees	0	59,456
Bank charges	2,450	1,000
	2,450	60,456

#### 16. NON-CASH EXPENSES

This account consists of:

	2022	2021
Depreciation	2	
Depreciation – leased assets improvements	17,392	17,392
Depreciation – machinery and equipment	0	3,544
Depreciation – furniture, fixtures and books	3,240	3,240
	20,632	24,176

#### 17. OTHER NON - OPERATING INCOME

This account consists of interest income from bank deposits amounting to **P10,833** and P18,502 for the year **2022** and 2021, respectively.

### 18. COMPLIANCE WITH TAX LAWS

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.

	2022	2021
Taxes and licenses		
Final tax paid on income	1,548,242	1,971,344
Real property tax	933,529	911,203
	2,481,771	2,882,547