



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

July 3, 2007

Atty. Fermin T. Arzaga
President
Social Housing Finance Corporation
Banco de Oro Plaza
8737 Paseo de Roxas, Makati City

Dear Atty. Arzaga:

We are pleased to transmit the Annual Audit Report on the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation, for the calendar year ended December 31, 2006, in compliance with 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.

The audit was aimed at ascertaining the propriety of financial transactions, compliance by the Corporation with prescribed laws, rules and regulations, the accuracy of financial records and reports, and ultimately, the fairness of presentation of the financial statements. Furthermore, the audit was conducted in accordance with generally accepted state auditing standards in the Philippines and we believe that it provides reasonable basis for the results of the audit.

The report consists of two parts, Part I – Audited Financial Statements and Part II – Comments and Observations, which were discussed with concerned officials and staff of SHFC.

We will appreciate being informed of the actions taken on the recommendations, contained in the report, within sixty (60) days from the date of receipt thereof.

We acknowledge the support and cooperation extended to our audit team by the management of SHFC.

Very truly yours,

COMMISSION ON AUDIT


JOSE R. ROCHA, JR.
Director IV

Cluster II – Financial B
Corporate Government Sector

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DANTE M. ANABE
Manager
Finance & Controllorship Dept.



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

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Directors
Social Housing Finance Corporation
Banco de Oro Plaza
8737 Paseo de Roxas, Makati City

We have audited the accompanying balance sheet of Social Housing Finance Corporation, a wholly-owned subsidiary of the National Home Mortgage Finance Corporation, as of December 31, 2006 and the related statements of income, changes in stockholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in detail in comments and observations nos. 1 and 2 of this report, the balances of some accounts in the financial statements were of doubtful accuracy, hence, these could not be relied upon. These are as follows:

1. The general ledger balances of some major accounts were not reconciled with the balances of their respective subsidiary ledgers showing a total discrepancy of P76,380,034; and
2. The year-end balances of Due from National Home Mortgage Finance Corporation (NHMFC) and Due to NHMFC accounts did not reconcile by P43,723,058 and P5,671,300, respectively.

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DANTE M. ANABE
Manager
Finance & Controlling Dept.

[REDACTED]

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly the financial position of the Social Housing Finance Corporation as of December 31, 2006, the results of its operation, changes in stockholder's equity and its cash flows for the year then ended, in conformity with applicable generally accepted state accounting principles in the Philippines.

COMMISSION ON AUDIT


JOSE R. ROCHA, JR.

Director IV
Cluster II - Financial B
Corporate Government Sector

April 15, 2007

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DANTE M. ANABE

Manager
Finance & Controllorship Dept.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

CURRENT ASSETS

Cash on hand and in banks (Note 4)	P 420,757,672
Receivables (Note 5)	86,218,371
Other current assets (Note 6)	5,346,353
	<u>512,322,396</u>

ASSETS HELD IN TRUST (Note 7)

National Home Mortgage Finance Corporation	5,612,094,783
Abot-Kaya Pabahay Fund	546,534,609
	<u>6,158,629,392</u>

NON-CURRENT ASSETS

Property and equipment - net (Notes 3.2 and 8)	<u>171,387,819</u>
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TOTAL ASSETS

6,842,339,607

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Payables (Note 9)	224,320,260
Inter-agency payables (Note 10)	60,556,297
Other current liabilities (Note 11)	130,457,365
	<u>415,333,922</u>

LONG-TERM LIABILITIES

Other long-term liabilities (Note 12)	<u>147,216,800</u>
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TRUST LIABILITIES

National Home Mortgage Finance Corporation (Note 13)	5,672,583,007
Abot-Kaya Pabahay Fund (Note 14)	546,534,609
	<u>6,219,117,616</u>

TOTAL LIABILITIES

6,781,668,138

STOCKHOLDER'S EQUITY

60,671,469

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY

P **6,842,339,607**

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See accompanying Notes to Financial Statements.

DANTE M. ANABE

Manager
 Finance & Controllershship Dept.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF INCOME
For the Year Ended December 31, 2006

INCOME (Note 3)	
Interest income	P 78,375,727 ✓
Interest on savings deposits	18,665,073
Processing fees (Note 15)	17,839,758 ✓
Collection servicing fees (Note 15)	13,800,824
Service fees	6,294,167
Miscellaneous	1,964,296 \
	<u>136,939,845</u>
EXPENSES (Note 3)	
PERSONAL SERVICES	
Salaries and wages	16,132,417
Other compensation	11,440,327
Personnel benefit contributions	2,094,329
Other personnel benefits	8,672,839
	<u>38,339,912</u>
MAINTENANCE and OTHER OPERATING EXPENSES	
Rent	8,314,199
Taxes, insurance premiums and other fees	6,216,807
Professional services	4,172,542
Utility	2,492,181
Confidential, extraordinary and miscellaneous s	1,922,707
Supplies and materials	1,918,782
Custodianship fees (Note 16)	1,504,160
Travelling	1,228,523
Depreciation (Note 3)	837,953
Communication	611,434
Printing and binding	354,000
Advertising	204,204
Litigation	18,337
Miscellaneous	5,747,653
	<u>35,543,482</u>
FINANCIAL EXPENSES	
Bank charges	11,582
Other financial charges	815,485
	<u>827,067</u>
INCOME FROM OPERATIONS	<u>62,229,384</u>
Loss on foreign exchange	18,598
INCOME BEFORE INCOME TAX	<u>62,210,786</u>
Provision for income tax	16,460,164
NET INCOME AFTER INCOME TAX	P <u>45,750,622</u>

See accompanying Notes to Financial Statements.

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DANTE M. ANABE

Manager

Finance & Controlling Dept.

SOCIAL HOUSING FINANCE CORPORATION
 (A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
 For the Year Ended December 31, 2008

CAPITAL STOCK

Authorized	
Common stock 100,000 shares	
@ P 1,000 par value per share	P <u>100,000,000</u>
Subscribed	
Initial subscription, 25,000 shares	25,000,000
Subscription receivable	<u>(15,000,000)</u>
Paid-in capital	<u>10,000,000</u>

RETAINED EARNINGS

Balance at beginning of year	4,920,847
Net income for the year	<u>45,750,622</u>
Balance at end of year	<u>50,671,469</u>

STOCKHOLDER'S EQUITY P 60,671,469

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See accompanying Notes to Financial Statements.

DANTE M. ANABE
 Manager
 Finance & Controlling Dept.

SOCIAL HOUSING FINANCE CORPORATION
 (A Wholly - owned Subsidiary of the National Home Mortgage Finance Corporation)
CASH FLOW STATEMENT
 For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipt of Community Mortgage Program fund transferred from NHMFC	P 533,878,431
Amortization collections	180,124,768
Receipts of interests from deposits	18,665,073
Guaranty deposits	14,473,524
Receipts of interests on notes	12,233,333
Service fee income	6,294,167
Insurance prepayments	5,377,362
Miscellaneous income	542,423
Refund of cash advance	447,312
Mortgage contract receivable - take-out	(661,475,015)
Remittance of MFI premiums	(33,562,514)
Personal services	(19,350,534)
Maintenance and operating expenses	(10,448,999)
Origination fees	(8,380,886)
Payment to National Home Mortgage Finance Corporation	(6,764,196)
Taxes, duties and fines	(6,068,627)
Advances to contractors	(1,102,430)
Bank servicing fees	(774,684)
Discretionary, extraordinary and miscellaneous expenses	(413,375)
Purchase of office supplies	(386,080)
Refund of excess payments	(382,732)
Payment of premium of fidelity bond	(225,000)
Remittance of GSIS/Pag-IBIG/PhilHealth/BIR	(51,251)
Receivable from AKPF	(21,760)
Litigation expense	(4,000)
Miscellaneous	3,321,599
Net cash provided by operating activities	25,946,109
CASH FLOWS FROM INVESTING ACTIVITIES	
Downpayment for the purchase of office building and other structures	(16,357,400)
Purchase of transportation equipment	(4,485,418)
Leasehold improvements	(4,164,989)
Purchase of office, IT equipment and furniture and fixtures	(2,473,752)
Net cash used in investing activities	27,481,559
NET DECREASE IN CASH ON HAND AND IN BANKS	1,535,450
CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR	422,293,122
CASH ON HAND AND IN BANKS AT END OF YEAR (Note 4)	P 420,757,672

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See accompanying Notes to Financial Statements.

DANTE M. ANABE
 Manager
 Finance & Controllorship Dept.

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

1. GENERAL INFORMATION

On January 20, 2004, Executive Order (E.O.) 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).

As a 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 Development Financing Programs of the Abot-Kaya Pabahay Fund (AKPF) as well as other social housing programs of the NHMFC in order 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. The NHMFC remains in control of the affairs of SHFC and did not abandon its obligation to use its ownership under a trust relationship having retained its full ownership over the subject funds.

2. ACCOUNTING SYSTEM

The SHFC uses the commercial accounting system. Under this system, recording of financial transactions is centralized in the Administration and Financial Services (AFS). The operating groups / departments submit a report covering their transactions for a particular period duly reviewed, certified and approved by a responsible officer to the AFS for Journal Entry Voucher (JEV) preparation and recording in the books of accounts.

The corporate chart of accounts are prepared to conform with the accounts prescribed under COA Circular No. 2004-002 dated April 29, 2004.

3. ACCOUNTING POLICIES

- 3.1 The SHFC adopts the modified accrual basis of accounting. Under this method, all expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Income is on accrual basis except for transactions where accrual basis is impractical or when other methods are required by law.
- 3.2 In adherence to the New Government Accounting System (NGAS), SHFC uses the straight line method of depreciation and a residual value equivalent to ten percent of the cost. Property and equipment are carried at cost less

accumulated depreciation. Significant improvements and accessories are capitalized, while the cost of maintenance and repairs is treated as expense.

4. CASH ON HAND AND IN BANKS

The account consists of the following:

Cash in bank - time deposit	P	340,288,339
Cash in bank - current account		78,370,568
Cash collecting officers		1,948,765
Revolving fund		<u>150,000</u>
	P	<u>420,757,672</u>

5. RECEIVABLES

Included under this account are the following:

Due from NHMFC	P	84,180,418
Due from AKPF		1,459,089
Due from officers and employees		<u>578,864</u>
	P	<u>86,218,371</u>

6. OTHER CURRENT ASSETS

This account consists of the following:

Prepaid insurance	P	78,934
Advances to contractors		1,102,430
Construction in progress		<u>4,164,989</u>
	P	<u>5,346,353</u>

6.1 Advances to contractors – this represent 10% mobilization fee paid in advance to contractor for the renovation of the newly acquired office spaces. This is deductible from progress payments.

6.2 Construction in progress – represents the total payments made to contractor as of close of the year. This account shall be closed to appropriate agency asset account upon completion of the project and after the turn-over.

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DANTE M. ANABE

Manager

Finance & Controllorship Dept.

7. ASSETS HELD IN TRUST

This represents the balances of CMP related general ledger accounts transferred from NHMFC to SHFC pertaining to projects taken-out from 1994 to September 30, 2005 including the AKPF which are administered by the SHFC by virtue of Executive Order No. 272, details as follows:

7.1 NHMFC

Past due - Loan installment receivables	P	2,750,042,775
Loan installment receivables		2,515,555,526
Notes receivable - National Housing Authority		200,000,000
Insurance receivables		88,183,772
Interest receivables		433,095
Items in litigation		47,549,080
Unamortized mortgage origination cost		10,330,535
		<u>5,612,094,783</u>

7.2 AKPF (Fund Balance)

		<u>546,534,609</u>
P		<u><u>6,158,629,392</u></u>

8. PROPERTY AND EQUIPMENT - NET

Presented under this account are the following:

	Building and Other Structures	Furniture and Fixtures and Office Equipment	Computer Hardware and Software/ Others	Total
Cost				
January 1, 2006	P	P	P	P
January 1, 2006		57,000	246,200	303,200
Additions	163,574,000	744,313	7,604,259	171,922,572
December 31, 2006	<u>163,574,000</u>	<u>801,313</u>	<u>7,850,459</u>	<u>172,225,772</u>
Accumulated depreciation				
January 1, 2006				
January 1, 2006	454,372	27,753	355,828	837,953
Depreciation	454,372	27,753	355,828	837,953
December 31, 2006	<u>454,372</u>	<u>27,753</u>	<u>355,828</u>	<u>837,953</u>
Net book value,				
December 31, 2006	P <u>163,119,628</u>	P <u>773,560</u>	P <u>7,494,631</u>	P <u>171,387,819</u>

9. PAYABLES

This account consists of the balance of Accounts Payable - Mortgage Contract Receivable (MCR) account transferred from NHMFC pertaining to projects taken-out from 1994 to September 30, 2005 and transactions affecting the account after the transfer.

Accounts payable - MCR	P	224,300,428
Performance/bidders bonds payable		11,200
Due to officers and employees		8,632
	P	<u>224,320,260</u>

10. INTER - AGENCY PAYABLES

This account consists of:

Due to NHMFC	P	43,697,166
Due to BIR		16,837,147
Due to SSS		13,734
Due to PhilHealth		5,500
Due to Pag-IBIG		2,750
	P	<u>60,556,297</u>

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

Due to BIR represents the taxes withheld from payment of origination fees, purchase of goods and services and honoraria.

11. OTHER CURRENT LIABILITIES

This account consists of the following:

Accrued expenses payable	P	2,171,374
Other payables		
Undistributed collections		94,074,155
Guaranty deposits payable		38,611,185
Origination fee payable		677,260
Advances from borrowers		600,176
Insurance payable		(5,676,785)
	P	<u>130,457,365</u>

Other Payables include the balances of CMP related general ledger (GL) accounts transferred from NHMFC to SHFC pertaining to projects taken-out from 1994 to September 30, 2005 and, thereafter, transactions affecting every account as a result of its operation.

In the absence of any other account to which they can be properly classified, the payments of the borrowers for their loan amortization are temporarily recorded as undistributed collections (UC) categorized under the general caption of Other Payables (formerly Other liabilities). The reason for this is that the distribution as to the proper accounts to be credited for these payments cannot be determined at the time of payment.

The application of these amounts to the corresponding borrowers' loan accounts is done at a later date, thus the UC always carries a balance at the end of any given period. However, the Corporation adopts a policy to reverse temporarily the amount of UC pertaining to August to December 2006 amortization collections in line with the approval of amendment of the trust agreement that beginning August

2006, income recognition shall be left entirely with SHFC. Total amortization collections accounted from August to December 2006 were reversed using ratio as of year end and shall be reversed at the beginning of the ensuing year.

12. OTHER LONG -TERM LIABILITIES

This account represents the total long-term payable set up pertaining to office building and other structures acquired under finance/capital lease by SHFC from Bangko Sentral ng Pilipinas (BSP). The amount represents the acquisition cost net of the ten percent down payment. The amortization will commence in January 2007.

13. TRUST LIABILITIES - NHMFC

The transfer of the CMP accounts to the SHFC was initially implemented through the transfer of the cash balance as of September 30, 2005 of P532 million on November 10, 2005 and the turn over of the outstanding principal loan balance of the mortgages taken-out from 1994 onwards. The said conveyance correspondingly requires the transfer of the GL balances of certain accounts related to the program. In addition, the transfer also took into consideration the determination of that portion of the GL balances pertaining to mortgages turned over to SHFC and to those retained by NHMFC. Details of this account are as follows:

	Amount
Cash	P 319,000,488
Loan installment receivable	2,515,555,526
Past due loan installment receivable	2,750,042,775
Items in litigation	47,549,080
Interest receivables	433,095
Insurance receivables	88,183,772
Notes receivable	200,000,000
Unamortized mortgage origination cost	10,330,535
Accounts payable-MCR	(224,300,428) -
Guaranty deposits payable	(38,611,185)
Insurance payable	5,676,785
Advances from borrowers	(600,176)
Origination fee payable	(677,260)
	<u>P 5,672,583,007</u>

14. TRUST LIABILITIES - AKPF

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

This trust account is treated in the books of SHFC in a manner and procedure it was previously treated in the books of NHMFC wherein periodic increment and

reduction in said account as a result of operations are taken up as credit and debit to Trust Liability account. Details of this account are as follows:

	Amount
Cash in bank	P 8,013,810
Prepaid income tax	3,939
Advances to officers and employees	9,020
Accounts receivable-others	1,904,074
Interest receivable-special savings deposit (SSD)	1,913,205
Interest receivable-government securities	189,484
Interest receivable-developmental loan	19,665,746
Investment in government securities	8,290,821
Investment in SSD	186,557,080
Developmental loan receivable	22,481,950
Past due loan receivable-developmental loan	96,224,642
Items in litigation	39,383,712
Office equipment-net	24,870
Acquired assets	172,957,451
Accounts payable	(463,095)
Gross receipts tax payable	(2,615,241)
Accrued income tax payable-SSD	(382,641)
EVAT payable	(560)
Due to NHMFC	(6,164,369)
Due to SHFC	(1,459,089)
P	546,534,609

15. COLLECTION OF SERVICING /PROCESSING FEES

As stipulated in the trust agreement, SHFC shall collect fees from NHMFC equivalent to the following:

Collection servicing fee - ten percent of total collections; and
Processing fee - actual cost of pre take-out operations plus 15%.

However, on July 27, 2006, the management proposed to amend Section VI of the trust agreement. The proposal was made in view of the need to avoid the double layer of taxes being paid by the two institutions under the existing agreement wherein both SHFC and NHMFC recognize interest income on same Mortgage Contract Receivables, the SHFC on the ten percent of collections as management fee while the NHMFC on the interest portion of collections. The proposal was approved and the recognition of income is left entirely with SHFC. The Corporation started recognizing interest income in August 2006.

16. CUSTODIANSHIP FEES

For the safekeeping and custodianship of all loan documents of the SHFC, the NHMFC charges a fee equivalent to 1/40 of one percent of the total loan value, reckoned from the time the administration of the program was transferred to SHFC.

PART II
Comments and Observations


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DANTE M. ANABE
Manager
Finance & Controllershship Dept.

1. The general ledger (GL) balances of some major accounts not reconciled with the subsidiary ledgers (SL)

- 1.1 The GL balances as of December 31, 2006 of the following major accounts did not reconcile with the balances reflected in their respective SLs as shown below:

Major Accounts	GL	SL	Difference
Loans Installment Receivable	P 2,515,555,526	P 1,941,270,272	P 574,285,254
Past Due Loans Installment Receivable	2,750,042,775	2,571,369,740	178,673,035
Items in Litigation	47,549,080	691,747,202	(644,198,122)
Other Garnished/Foreclosed Assets	-	120,563,905	(120,563,905)
Insurance Receivable	88,183,772	-	88,183,772
	P 5,401,331,153	P 5,324,951,119	P 76,380,034

- 1.2 One of the reasons for the unreconciled balance is the temporary reversal of the Undistributed Collections account at year end. Accumulated collections which remained undistributed to the proper ledger accounts at year-end are distributed using a distribution ratio. This distribution shall, however, be reversed on the first transaction day of the following year.
- 1.3 The SLs are maintained by the Accounts Management Department (AMD) while the GLs are maintained by Finance and Controllershship Department. Accounts in arrears for more than six months were reclassified by the AMD from Loans Installment Receivable to Past Due Loans Installment Receivable while accounts forwarded to the Legal Department were reclassified as Items in Litigation and Other Garnished/Foreclosed Assets. However, no corresponding reclassification entries were made in the GLs by the Finance and Controllershship Department (FCD).
- 1.4 The Insurance Receivable account balance transferred to the SHFC by NHMFC last September 2005 was not supported by a schedule or list of delinquent Community Mortgage Program (CMP) borrowers with the corresponding amount of insurance premiums advanced by NHMFC. For monitoring purposes, the schedule or list can be used as reference for the application of payments by borrowers against such premium advances.
- 1.5 We recommended that management expedite the reconciliation of the GLs maintained by the FCD with the SLs maintained by the AMD to ensure the validity and correctness of the accounts and the reliability of accounting records and reports to achieve fair financial statement presentation.
- 1.6 We also recommended that AMD and FCD coordinate with each other in the maintenance of the GLs and SLs.

1.7 Management commented that it will effect the necessary adjustments as soon as both the GL and SL balances are reconciled. Reconciliation is already ongoing between the FCD and AMD.

1.8 With regard to the Insurance Receivable balance transferred from NHMFC, Management shall be requesting a schedule or list of delinquent CMP borrowers that will correspond to the amount transferred.

2. The year-end balances of Due from NHMFC and Due to NHMFC accounts not reconciled by P43,723,058 and P5,671,300, respectively, with the books of NHMFC

2.1 The account "Due from NHMFC" pertains to the collection of servicing fee equivalent to 10% of total collections and processing fee equivalent to the actual cost of pre take-out operations plus 15% as stipulated in the Trust Agreement entered into by and between SHFC and NHMFC. As of December 31, 2006, the balance of this account did not reconcile by P43,723,058 with the recorded balance in the books of NHMFC, detailed as follows:

SHFC books	P	84,180,418
NHMFC books		<u>40,457,360</u>
	P	<u>43,723,058</u>

2.2 The account "Due to NHMFC" pertains to the expenses for personal services and maintenance and other operating expenses advanced by NHMFC to SHFC. The year-end account balance of Due to NHMFC did not also reconcile with the books of NHMFC in the amount of P5,671,300, details as shown below:

SHFC books	P	43,697,166
NHMFC books		<u>38,025,866</u>
	P	<u>5,671,300</u>

2.3 We recommended that management reconcile both accounts and effect the necessary adjustments, if any, to bring the two records in agreement as of December 31, 2006.

2.4 Management commented that it has already identified the reasons why the balances of the two accounts did not reconcile and the matter has already been discussed and agreed upon by representatives of both agencies during a meeting held last February 21, 2007. The Management will be designating personnel who will handle and coordinate with NHMFC the reconciliation of the said accounts.

3. The account Trust Liability – NHMFC not reconciled by P 31,743,213 with the Investments in SHFC account maintained in the NHMFC books

3.1 The Trust Liability account refers to the general ledger accounts relating to the Community Mortgage Program transferred to the SHFC in 2005. The said account is taken up in the books of NHMFC as "Investments in SHFC".

3.2 The total investments of NHMFC as of December 31, 2006 recorded in the books of SHFC including subscription to common stock of P 10,000,000 amounted to P 5,682,583,007. However, the amount recorded in the NHMFC books showed a total investment in SHFC of P5,650,839,794 or a difference of P 31,743,213. Details below:

	Amount
Books of SHFC	
Trust Liability-NHMFC	P 5,672,583,007
Paid-in Capital	10,000,000
	5,682,583,007
Books of NHMFC	5,650,839,794
Difference	P 31,743,213

3.3 Analysis of both accounts showed that the following were not recorded in the books of SHFC/NHMFC:

JEV No.	Date	Particulars	SHFC	NHMFC	Difference
6-180A	12/31/06	Income on amortization payment	P 81,196,499	P -	P 81,196,499
6-078	06/30/06	Amortization collections from Oct.-Dec. 2005	33,878,431	-	33,878,431
6-014	02/28/06	Amortization payment of NHMFC retained account	44,561	-	44,561
6-12-916	12/31/06	Loan proceeds of BASECO	-	80,000,000	(80,000,000)
6-02-074	02/28/06	Capitalized expenses for CMP projects taken out from 1994-2005	-	3,376,278	(3,376,278)
			P 115,119,491	P 83,376,278	P 31,743,213

3.4 We recommended that management reconcile both accounts and record the reconciling items to bring the two accounts in agreement as of December 31, 2006.

3.5 Management explained that analysis of transactions that were not recorded in both books is correct. This happened because of failure of both agencies to furnish documents to support recording of transactions.

4. Abnormal balance of the Insurance Payable account amounting to P5,676,785

4.1. The Insurance Payable account is used to record insurance premiums received from borrowers to be remitted to the insurers, for the mortgage redemption insurance (MRI) and fire insurance premiums of SHFC loan borrowers.

4.2. As of December 31, 2006, however, the account which normally should have a credit balance, reflected a debit balance of P5,676,785. Review of this account disclosed the following reasons for the abnormal balance:

- a. Collection from the borrowers for MRI and fire insurance premiums are still lodged in the Undistributed Collections account instead of immediately crediting the Insurance Payable account by the amount of insurance premium payments of the borrowers;
- b. Additional debit entries to this account represent enrollment/renewal for MRI and fire insurance of loan borrowers without a corresponding set-up of the payable account.
- c. On the other hand, the advances of insurance premiums made by SHFC for the account of the borrower are debited to Insurance Payable instead of Insurance Receivable- from the borrower.

4.3 We recommended that management adjust the accounts affected in order to achieve reliability of records/reports and fairness of financial statements presentation. Record to Insurance Receivable account the insurance premiums paid in advance by SHFC for the account of the borrowers instead of the Insurance Payable account.

4.4 Management commented that it has already coordinated and discussed the matter with the Insurance Department on what steps to take to eliminate the abnormal balance of the said account. Initially, to prevent the Insurance Payable account from having an abnormal balance, management started using the Insurance Receivable account instead of the Insurance Payable account to record MRI premiums advanced by SHFC to the MRI pool.