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

April 29, 2019

S H F C
OFFICE OF THE BOARD SECRETARY
RECEIVED
BY: Imu
DATE: MAY 02 2019

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

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Housing Finance Corporation (SHFC) and the Community Mortgage Program and Amortization Support and Developmental Financing Components of the Abot Kaya Pabahay Fund (AKPF) for the years ended December 31, 2018 and 2017.

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

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of the Social Housing Finance Corporation and the AKPF for the years ended December 31, 2018 and 2017 because the Undistributed Collections (UC) totaling P430.326 million and P374.503 million as at December 31, 2018 and 2017, respectively, remained unposted to Mortgage Contract Receivable (MCR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the MCR accounts are both overstated by the same amounts. Moreover, assets of SHFC amounting to P19.189 billion and P21.031 billion as at December 31, 2018 and 2017, respectively, were not stated at their fair value due to the absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39, thus, casting doubt on the reliability and valuation of the corporate assets.

For the above observations, we reiterated our prior year's audit recommendations that Management:

For Undistributed Collections

a. Prioritize allocation of payments of MBs who availed of the one-year updating and remedial accounts to MCR;

b. Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the Community Association (CA) account under the Finance and Comptrollership Department (FCD);

c. Submit work breakdown schedule to post and allocate UC for CY 2018 by at least:

   i. 65 percent of the UC by end of CY 2019; and
   ii. 35 percent of the UC by end of CY 2020;

d. Reconcile the variance between the SL and GL balances by at least:

   i. 65 percent of the UC by end of CY 2019; and
   ii. 35 percent of the UC by end of CY 2020;

e. Oblige the CAs to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;

f. Require the Information and Communication Technology Department (ICTD) to enhance the database to include the HDH Projects and all other accounts not yet in the database;

g. Require the NHMFC to submit listing of MBs relative to the transferred accounts amounting to P83.570 million;

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

i. Improve and update guidelines on substitution of MBs to avoid further accumulation of UC every year.

For assets that were not stated at fair value

We reiterated our prior year's audit recommendation that Management formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets for CY 2018 as required under PAS 36 and 39.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. A variance of P608.773 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances of the Mortgage Contracts Receivable - Community Mortgage Program (MCR-CMP) account as at December 31, 2018 casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) No. 1445 and Paragraph 15 of PAS 1.

   We recommended that Management:

   a. Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;

   b. Reconcile the variances between SL per CA and SL per MBs as well as SL and GL balances of P608.773 million by at least:

      i. 65 percent of the variance by end of CY 2019;
      ii. 35 percent of the variance by end of CY 2020; and

   c. Require the ICTD to assist the FCD in enhancing and developing an efficient and effective database.

2. A High Density Housing Project (HDHP) amounting to P725.379 million was not completed within the period stipulated in the Building Construction and Site Development Agreement dated June 8, 2015. It has a slippage of 857 days, or almost two and a half years, as of December 31, 2018, depriving the Informal Settler Families (ISF)-beneficiaries living in waterways and danger areas of affordable and decent housing, resulting in the non-attainment of the objectives of the Program, including the non-recovery of the Corporate investment in housing projects.

   We recommended that Management:

   a. Compute for and demand the payment of Liquidated Damages from the Contractor, pursuant to Article XI of the Building Construction and Site Development Agreement;

   b. Implement the following remedies provided in the Agreement against the Contractor:

      - Give written notice to the Contractor to proceed with such work and to perform such agreement; and

      - If the Contractor fails to do so within seven days from receipt thereof, the HOA and SHFC shall have the option to proceed against the bond and enter the premises and to employ any other contractor to complete the work at the expense of the Contractor; and

   c. As part of due diligence in future projects, ensure that SHFC undertake assessment of the contractor/developer and that loan releases are made only on the basis of duly validated Statement of Work Accomplishment pursuant to Sections 8 and 9 of Corporate Circular HDH No. 14-002 dated March 31, 2014.

3. Absence of month-to-month contract extension for janitorial and security services with expired contracts in CYs 2017 and 2018 is contrary to the Revised Guidelines on the Extension of Contracts for General Support Services issued by the General Procurement and Policy Board (GPPB) and RA No. 9184. Payments amounting to P98.219 million were made for the services rendered.

   We recommended and Management agreed to:

   a. Immediately subject the procurement of janitorial and security services to competitive bidding process; and

   b. Strictly comply with RA No. 9184 on the rules and regulations on the procurement of support services.

4. Collective Negotiation Agreement (CNA) incentive amounting to P5.658 million was granted by SHFC to its 230 officers and employees despite accomplishment below the required rating based on SHFC's Performance Scorecard on Key Performance Indicators approved by the Governance Commission for GOCCs (GCG), contrary to DBM Budget Circular No. 2018-05.

   We recommended that Management make representation with the GCG for the final score of the Corporation based on the GCG-approved Performance Scorecard.

5. Past due/in-default car loan amortizations amounting to P2.225 million of eight retired officers and former members of the Board of Directors remain uncollected as of December 31, 2018, contrary to the IRR of the SHFC Officers Vehicle Acquisition Assistance Program (VAAP), resulting in the non-recovery or loss of the funds expended for the car loan program.

   We recommended and Management agreed to:

   a. Immediately collect the total car loan obligation from the retired officers and former members of the Board;

   b. Extrajudicially enforce the Deed of Reconveyance or Deed of Sale and/or Chattel Mortgage Agreement and immediately repossess the motor vehicle from the Officers concerned; and

   c. Exercise immediately the legal remedies provided under the IRR of the SHFC Officers VAAP.

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 April 19, 2019, are discussed in detail in Part II of the report.

In a letter of even date, we requested the SHFC's President to take appropriate actions on the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt.

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

MA. LISA P. INGUILLO
Director III
Officer-in-Charge

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
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

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

For the Years Ended December 31, 2018 and 2017

EXECUTIVE SUMMARY

INTRODUCTION

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

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

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

The governing board of SHFC, which exercises its corporate powers and determines its policies, is composed of the following: (a) the Chairman of Housing Urban Development Coordinating Council (HUDCC); (b) the President of SHFC; (c) the Secretary of Department of Budget and Management (DBM); (d) the Undersecretary of Department of Finance (DOF); (e) the Assistant Governor of Bangko Sentral ng Pilipinas (BSP); (f) the President of NHMFC; (g) the Undersecretary of Department of Interior and Local Government (DILG); and (h) three private sector representatives.

The President is assisted in the management of SHFC by the Executive Vice-President, five Vice-Presidents, 12 Officer-in-Charge Vice-President, eight Department Managers and 29 Officer-in-Charge Department Manager. The personnel complement for current year 2018 is 513, with 234 regular and 279 agency-hired employees. To date, the SHFC has 11 Satellite/Regional Offices located in Bacoor Cavite, Isabela, Naga City, Puerto Princesa City in Palawan, Bacolod City, Iloilo City, Cebu City, Davao City, General Santos City, Cagayan de Oro City and Zamboanga City.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2018 and 2017 amounted to P2.761 billion and P5.995 billion, respectively, which was utilized as follows:

Particulars	2018		2017	
	Budget	Utilization	Budget	Utilization
	(In Thousand Pesos)			
Personal services	281,959	261,235	245,000	211,867
Maintenance and other operating expenses	350,285	267,722	417,944	231,531
Capital outlay	129,110	57,060	5,332,412	1,931,048
Loans Outlay	2,000,000	1,916,467	-	-
	2,761,354	**2,502,487**	**5,995,356**	**2,374,446**

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

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2018	2017 As restated	Increase (Decrease)
Assets	27,361,085,100	23,221,147,751	4,139,937,349
Liabilities	21,190,245,654	17,706,697,664	3,483,547,990
Equity	6,170,839,446	5,514,450,087	656,389,359

II. Comparative Results of Operations

Particulars	2018	2017 As restated	Increase (Decrease)
Total income	717,793,791	688,203,502	29,590,289
Total expenses	513,574,152	418,863,084	94,711,068
Profit before tax	58,070,563	177,598,441	(119,527,878)
Income tax expense	26,291,956	58,784,050	(32,492,094)
Profit after tax	177,927,683	210,556,368	(32,628,685)
Subsidy from National Gov't	590,247,183	1,221,669,800	(631,422,617)
Comprehensive income	768,174,866	1,432,226,168	(664,051,302)

OPERATIONAL HIGHLIGHTS

Performance Indicators	2018		
	Targets	Accomplishments	Wt.
Social Impact *Utilize Housing Subsidies for the Provision of Shelter Security and Improved Housing Quality* • *52,600 ISFs provided with shelter security (Number of ISFs Assisted)*	24,000	15,201	35%
Stakeholders *Percentage of Satisfied Customers* • *Number of Stakeholders who give a rating of at least Satisfactory - 90%*	90%	Survey will be completed by first week of March 2019. Initial results will be released on the second week of March 2019	10%
Financial *Improve Collection Efficiency Rate* • *Collection Efficiency Rating – 84%*	84%	69.05%	10%
Increase Net Operating Income (Before Tax and Subsidy)	P120million	P204.220 million	10%

Performance Indicators	2018		
	Targets	Accomplishments	Wt.
• *P120 million Net Revenue* *Improve Budget Utilization Rate* • *Total Disbursement of DBM Approved COB – 90%-100%*	Not less than 90% but not more than 100%	67.74%	10%
Internal Process *Improve Support Systems for Effective and Efficient Processes* • *DICT -approved ISSP* • *Implementation of Phase 1 of the DICT-approved ISSP*	DICT – approved ISSP	SHFC's Information System Strategic Plan (ISSP) was approved by the Department of Information and Communication Technology (DICT) on November 16, 2018	10%
	Implementation of Phase I of DICT-approved ISSP	ISSP Phase I fully implemented	
Learning and Growth *Attain Quality Management Certification* • *Attain ISO 9001:2015 Certification*	Attain ISO:2015 Certification (All or Nothing)	SHFC ISO 9001:2015 Certification was issued by AJA Registrar on August 6, 2018	10%
Percentage of Employees Meeting Required Competencies • *100% Completion of all Competency Based Job Description (Set Competency Baseline by 2019)*	100% Completion of all Competency Based Job Description (Note: Set Competency Baseline by 2019) (all or nothing)	SHFC Completed all 211 out of 211 position titles) it's Competency Based on Job description	5%

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC and the AKPF – Amortization Support and Developmental Financing Programs for the years ended December 31, 2018 and 2017 and were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Our audit was aimed to determine the fairness of presentation of the financial statements in accordance with Philippine Financial Reporting Standards and to assess the propriety of the financial transactions and compliance of SHFC with government laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the Social Housing Finance Corporation and the AKPF for the years ended December 31, 2018 and 2017 because the Undistributed Collections (UC) totaling P430.326 million and P374.503 million as at December 31, 2018 and 2017, respectively, remained unposted to Mortgage Contract Receivable (MCR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the MCR accounts are both overstated by the same amounts. Moreover, assets of SHFC amounting to P19.189 billion and P21.031 billion as at December 31, 2018 and 2017, respectively, were not stated at their fair value due to the absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39, thus, casting doubt on the reliability and valuation of the corporate assets.

For the above observations, we reiterated the prior year's audit recommendations that Management:

For Undistributed Collections

a. Prioritize allocation of payments of MBs who availed of the one-year updating and remedial accounts to MCR;

b. Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;

c. Submit work breakdown schedule to post and allocate UC for CY 2018 by at least:

   i. 65 percent of the UC by end of CY 2019; and
   ii. 35 percent of the UC by end of CY 2020;

d. Reconcile the variance between the SL and GL balances by at least:

   i. 65 percent of the UC by end of CY 2019; and
   ii. 35 percent of the UC by end of CY 2020;

e. Oblige the CAs to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;

f. Require the Information and Communication Technology Department (ICTD) to enhance the database to include the HDH Projects and all other accounts not yet in the database;

g. Require the NHMFC to submit listing of MBs relative to the transferred accounts amounting to P83.570 million;

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

i. Improve and update guidelines on substitution of MBs to avoid further accumulation of UC every year.

For assets that were not stated at fair value

We reiterated our prior year's audit recommendation that Management formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets for CY 2018 as required under PAS 36 and 39.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. A variance of P608.773 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances of the Mortgage Contracts Receivable - Community Mortgage Program (MCR-CMP) account as at December 31, 2018 casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) No. 1445 and Paragraph 15 of PAS 1.

   We recommended that Management:

   a. Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;

   b. Reconcile the variances between SL per CA and SL per MBs as well as SL and GL balances of P608.773 million by at least:

      i. 65 percent of the variance by end of CY 2019;
      ii. 35 percent of the variance by end of CY 2020; and

   c. Require the ICTD to assist the FCD in enhancing and developing an efficient and effective database.

2. A High Density Housing Project (HDHP) amounting to P725.379 million was not completed within the period stipulated in the Building Construction and Site Development Agreement dated June 8, 2015. It has a slippage of 857 days, or almost two and a half years, as at December 31, 2018, depriving the Informal Settler Family (ISF)-beneficiaries living in waterways and danger areas of affordable and decent housing, resulting in the non-attainment of the objectives of the Program, including the non-recovery of the Corporate investment in housing projects.

   We recommended that Management:

   a. Compute for and demand the payment of liquidated damages from the Contractor, pursuant to Article XI of the Building Construction and Site Development Agreement;

   b. Implement the following remedies provided in the Agreement against the Contractor:

- Give written notice to the Contractor to proceed with such work and to perform such agreement; and

- If the Contractor fails to do so within seven days from receipt thereof, the HOA and SHFC shall have the option to proceed against the bond and enter the premises and to employ any other contractor to complete the work at the expense of the Contractor; and

c. As part of due diligence in future projects, ensure that SHFC undertake assessment of the contractor/developer and that loan releases are made only on the basis of duly validated Statement of Work Accomplishment pursuant to Sections 8 and 9 of Corporate Circular HDH No. 14-002 dated March 31, 2014.

3. Absence of month-to-month contract extension for janitorial and security services with expired contracts in CYs 2017 and 2018 is contrary to the Revised Guidelines on the Extension of Contracts for General Support Services issued by the General Procurement and Policy Board (GPPB) and RA No. 9184. Payments amounting to P98.219 million were made for the services rendered.

   We recommended and Management agreed to:

   a. Immediately subject the procurement of janitorial and security services to competitive bidding process; and

   b. Strictly comply with RA No. 9184 on the rules and regulations on the procurement of support services.

4. Collective Negotiation Agreement (CNA) incentive amounting to P5.658 million was granted by SHFC to its 230 officers and employees despite accomplishment below the required rating based on SHFC's Performance Scorecard on Key Performance Indicators approved by the Governance Commission for GOCCs (GCG), contrary to DBM Budget Circular No. 2018-05.

   We recommended that Management make representation with the GCG for the final score of the Corporation based on the GCG-approved Performance Scorecard.

5. Past due/in-default car loan amortizations amounting to P2.225 million of eight retired officers and former members of the Board of Directors remained uncollected as at December 31, 2018, contrary to the IRR of the SHFC Officers Vehicle Acquisition Assistance Program (VAAP), resulting in the non-recovery or loss of the funds expended for the car loan program.

   We recommended and Management agreed to:

   a. Immediately collect the total car loan obligation from the retired officers and former members of the Board;

   b. Extrajudicially enforce the Deed of Reconveyance or Deed of Sale and/or Chattel Mortgage Agreement and immediately repossess the motor vehicle from the Officer concerned; and

c. Exercise immediately the legal remedies provided under the IRR of the SHFC Officers VAAP.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 91 audit recommendations for both SHFC and AKPF embodied in the CY 2017 Annual Audit Report, 47 were fully implemented, 17 were partially implemented, four were reconsidered, 21 were not implemented and two are for implementation in CYs 2019 and 2020. Out of the 21 not implemented recommendations, 17 were reiterated in this Report.

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PART I

AUDITED FINANCIAL STATEMENTS

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

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

Qualified Opinion

We have audited the accompanying financial statements of the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation, which comprise the statements of financial position as at December 31, 2018 and 2017, 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 and other explanatory information.

In our opinion, except for the possible effects of the matters described in the *Bases for Qualified Opinion* paragraphs, the financial statements present fairly, in all material respects, the financial position of SHFC as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

The Undistributed Collections (UC) amounting to P430.326 million and P374.503 million as at December 31, 2018 and 2017, respectively, remained unposted to Mortgage Contract Receivable (MCR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the MCR accounts are both overstated by the same amounts.

Moreover, assets of SHFC amounting to P19.189 billion and P21.031 billion as at December 31, 2018 and 2017, respectively, were not stated at their fair value due to the absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39, thus, casting doubt on the reliability and valuation of the corporate assets.

We conducted our audit 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 within the meaning of the Code of Ethics for Professional

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 planning and performance of 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 going concern; and

- 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 and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

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

March 28, 2019

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017 As Restated
ASSETS			
Current Assets			
Cash and cash equivalents	4	**4,043,304,515**	2,141,192,397
Financial assets	5	**4,079,763,312**	3,338,353,381
Other investments	6	**-**	50,359,743
Receivables	7	**109,828,543**	83,394,895
Inventories	8	**4,181,476**	2,855,826
Other current assets	9	**352,802,343**	423,979,033
		8,589,880,189	6,040,135,275
Non-Current Assets			
Receivables	7	**16,587,080,818**	15,111,507,752
Investment property	10	**1,405,524,803**	1,318,742,356
Property, plant and equipment	11	**182,338,824**	153,221,808
Intangible assets	12	**1,351,642**	860,459
Deferred tax assets	13	**45,034,947**	44,551,973
Other non-current assets	14	**549,873,877**	552,128,128
		18,771,204,911	17,181,012,476
TOTAL ASSETS		**27,361,085,100**	23,221,147,751
LIABILITIES AND EQUITY			
Current Liabilities			
Financial liabilities	15	**1,212,066,408**	1,164,573,332
Inter-agency payables	16	**24,782,248**	30,367,357
Trust liabilities	17	**4,670,960**	4,634,056
Deferred credits/unearned income	18	**249,636,799**	273,232,302
Other payables	19	**1,401,496,105**	1,156,051,482
		2,892,652,520	2,628,858,529
Non-Current Liabilities			
Financial liabilities	15	**58,547,281**	73,966,546
Trust liabilities	17	**18,239,045,853**	15,003,872,589
		18,297,593,134	15,077,839,135
TOTAL LIABILITIES		**21,190,245,654**	17,706,697,664
Retained earnings	20	**6,160,839,446**	5,504,450,087
Stockholders' equity	20	**10,000,000**	10,000,000
TOTAL EQUITY		**6,170,839,446**	5,514,450,087
TOTAL LIABILITIES AND EQUITY		**27,361,085,100**	23,221,147,751

The Notes on pages 9 to 51 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENT OF INCOME AND EXPENSES
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
INCOME			
Service and business income	21	**571,644,715**	596,461,525
		571,644,715	**596,461,525**
EXPENSES			
Personnel services	22	**251,714,762**	211,866,621
Maintenance and other operating expenses	23	**238,109,244**	184,042,275
Non-cash expenses	24	**17,939,222**	17,646,584
Financial expenses	25	**5,810,924**	5,307,604
		513,574,152	418,863,084
PROFIT/LOSS BEFORE TAX		**58,070,563**	177,598,441
Other non-operating income	26	**146,149,076**	91,741,977
		204,219,639	**269,340,418**
INCOME TAX EXPENSE/(BENEFIT)			
Current	27	**26,774,930**	**60,290,562**
Deferred tax	27	**(482,974)**	(1,506,512)
		26,291,956	58,784,050
PROFIT/LOSS AFTER TAX		**177,927,683**	**210,556,368**
Net assistance/subsidy	28	**590,247,183**	1,221,669,800
NET INCOME/(LOSS)		**768,174,866**	1,432,226,168
Other comprehensive income/(loss) for the period		-	-
COMPREHENSIVE INCOME/(LOSS)		**768,174,866**	1,432,226,168

The Notes on pages 9 to 51 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Receipt of inter-agency fund transfers		3,855,524,281	2,259,704,320
Collection of income/revenue		1,034,710,227	956,375,161
Trust receipts		93,551,355	155,294,364
Collection of receivables		6,488,000	6,431,590
Other receipts		2,041,178	4,150,978
Total cash inflows		4,992,315,041	3,381,956,413
Cash outflows			
Payment of expenses		218,723,237	316,905,364
Remittance of personnel benefit contributions and mandatory deductions		105,080,525	108,563,560
Refund of deposits		83,916,945	16,190,022
Payment for prepaid expenses		61,105,051	58,748,776
Release of inter-agency fund transfers		26,005,021	17,961,017
Grant of cash advances		13,434,963	-
Purchase of inventories		6,344,182	3,379,661
Other disbursements		1,805,693,662	2,152,516,794
Total cash outflows		2,320,303,586	2,674,265,194
Net cash provided by operating activities		2,672,011,455	707,691,219
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Proceeds from matured investments/redemption of long-term investments/return on investments		7,048,125,815	3,829,103,794
Receipt of interest earned		118,756,216	63,108,294
Total cash inflows		7,166,882,031	3,892,212,088
Cash outflows			
Purchase of investments		7,739,702,249	4,977,624,667
Purchase/construction of property, plant and equipment		42,612,594	22,645,423
Grant of loans		3,420,000	8,200,000
Purchase of intangible assets		50,659	-
Total cash outflows		7,785,785,502	5,008,470,090
Net cash used in investing activities		(618,903,471)	(1,116,258,002)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflows			
Payment of cash dividends		113,452,888	84,713,020
Payment of long-term liabilities		11,604,577	9,873,038
Payment of interest on loans and other financial charges		4,150,185	5,045,242
Payment of financial expenses for technical assistance		21,788,216	20,174,242
Total cash outflows		(150,995,866)	(119,805,542)
Net cash used in financing activities		(150,995,866)	(119,805,542)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,902,112,118	(528,372,325)
Cash and cash equivalents at beginning of the year		2,141,192,397	2,669,564,722
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	4,043,304,515	2,141,192,397

The Notes on pages 9 to 51 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Paid in Capital 20.1	Retained Earnings 20.2	Total Equity
Balance as at January 1, 2017	10,000,000	4,153,016,605	4,163,016,605
Adjustments:			
Other adjustments	-	3,920,334	3,920,334
Restated balance as at January 1, 2017	10,000,000	4,156,936,939	4,166,936,939
Comprehensive income for the year	-	1,432,226,168	1,432,226,168
Dividends	-	(84,713,020)	(84,713,020)
Ending balance as at December 31, 2017	10,000,000	5,504,450,087	5,514,450,087
Balance as at December 31, 2017	10,000,000	5,504,450,087	5,514,450,087
Comprehensive income for the year	-	768,174,866	768,174,866
Dividends	-	(113,452,888)	(113,452,888)
Adjustments:			
Other adjustments	-	1,667,381	1,667,381
Balance as at December 31, 2018	**10,000,000**	**6,160,839,446**	**6,170,839,446**

The Notes on pages 9 to 51 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly Owned Subsidiary of National Home Mortgage Finance Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Peso)

1. CORPORATE INFORMATION

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

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

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

On December 7, 2017 a Trust Agreement was entered into by and between the Department of Transportation (DOTr) and Social Housing Finance Corporation for the construction of Micro Medium Rise Building (MMRBs)/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.

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

The financial statements of SHFC as at and for the year ended December 31, 2018 (including the comparative financial statements as at and for the year ended December 31, 2017) were authorized for issue by SHFC's Board of Directors (BOD) on March 13, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the SHFC have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) applicable to Government Business Enterprises (GBEs), 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 deferred adoption of PFRS 9 as it intends to hire a consultant to guide its Finance and Comptrollership Department in formulating policies/guidelines for the assessment, classification, measurement and recognition of financial instruments, to include impairment losses.

In addition, the Commission on Audit resolved, under COA Resolution No. 2019 – 006 dated March 27, 2019, that all Government Corporations (GCs) classified as Government Business Enterprises (GBEs) that have not taken into consideration the early application of the provisions of PFRS 9 shall mandatorily apply the provisions of PFRS effective January 1, 2019.

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

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

In compliance with COA Circular No. 2016-006 dated December 29, 2016, SHFC adopted the RCA in its trial balance for CY 2017 and 2016. General Ledger and Subsidiary Ledger accounts were diligently analyzed and manually mapped to the RCA. SHFCs accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRSs.

c. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. SHFC presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

d. *Functional and Presentation Currency*

These financial statements are presented in Philippine peso, 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 <u>Adoption of New and Amended PFRS</u>

a. *Effective in 2018 that are relevant to the SHFC:*

(i) PFRS 9 (2014), Financial Instruments. This new standard on financial instruments replaces PAS 39, *Financial Instruments: Classification and Measurement,* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- An expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and

- A new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

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

(ii) PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property.* The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

(iii) PAS 28, *Investment in Associates (Amendments)* – Clarification on Fair Value through Profit or Loss Classification (effective from January 1, 2018). The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

b. *Effective in 2018 that are not relevant to the SHFC:*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the SHFC's financial statements:

(i) PFRS 15, *Revenue from Contract with Customers (effective from January 1, 2018)*. This standard will replace *PAS 18, Revenue, and PAS 11, Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee *(IFRIC) 13, Customer Loyalty Programmes, IFRIC 15, Agreement for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(ii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration (effective from January 1, 2018)*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

(iii) PFRS 2, *Share-based Payments (Amendments)* – clarification to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions form cash-settled to equity-settled. (effective from January 1, 2018).

(iv) PFRS 4, *Insurance Contracts (Amendments) – Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, *Financial Instruments* is applied before implementing PFRS 17, *Insurance Contracts* ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, *Financial Instruments: Recognition and Measurement* instead ('the deferral approach').

(v) Amendment to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E7 of PFRS 1, because it has now served its intended purpose.

c. *Effective subsequent to 2018 but not adopted early*

The following are the new standards that were issued but are not yet effective as at December 31, 2018. The SHFC intends to adopt the applicable issuances when these become effective.

Effective for reporting periods beginning on or after January 1, 2019:

(i) PFRS 16, *Leases (new)* - The new standard will eventually replace PAS 17, *Leases.*

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

(ii) IFRIC 23, *Uncertain over Income Tax Treatments.* The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(iii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation.* The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI.

(iv) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture.* The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(v) PAS 19 (Amendments), *Employee Benefits* – clarification on amendments, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remainder of the annual reporting period are calculated using updated actuarial assumptions- I.e. consistent with the calculation of a gain or loss on the plan amendment, curtailment or settlement.

Effective for annual periods beginning on or after January 1, 2020 and thereafter:

(i) PFRS 3 (Amendments), *Business Combinations and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation.* The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

(ii) PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

(iii) PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

(iv) PFRS 17 *Insurance Contracts supersedes PFRS 4 Insurance Contracts as at January, 1, 2021.* The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

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 to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, Business Combinations, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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 equivalent are short-term, highly liquid investments that are readily convertible to cash and or at a very near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash is measured at face value.

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 of doubtful accounts (now referred to as impairment).

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 P15,000 as prescribed under 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 the straight-line basis over the estimated useful lives of the assets as follows:

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

An item of 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 on 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 which is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.8 Intangible Assets

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 the 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:

i. 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.

ii. 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 balance sheet 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.

a. *Distinction Between Operating and Finance Leases*

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

b. *Recognition of Provisions and Contingencies*

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

c. *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. 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.

ii. *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, 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 Notes 11 and 12 respectively. Based on management's assessment as at December 31, 2018 and 2017, 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.

iii. 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, 2018 and 2017 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Notes 13 and 27.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2018	2017
Cash in bank	**3,753,077,714**	1,031,394,197
Short – term placements		
Treasury bills	**214,550,109**	852,309,458
Time deposits – local currency	**60,000,000**	250,101,667
Cash on hand		
Cash - collecting officers and supervising tellers	**15,103,623**	6,688,584
Petty cash	**573,069**	698,491
	4,043,304,515	2,141,192,397

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

4.2 Cash collecting officers/supervising tellers includes collection of P91,632 which was reported lost due to theft as alleged by the concerned employee. A request for relief from accountability was already filed with the Commission on Audit (COA) in December 2010. Appropriate action is put on hold pending receipt of COA decision on the matter. However, as at December 31, 2018, there was still no update regarding the said issue. Moreover, the significant increase of about P8 million was due to higher collections received at the end of the year.

4.3 Cash in bank consists of funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds, High Density Housing Program and for the PNR South Commuter Project (DOTr Project). Cash in bank earns interest at prevailing interest rates of 1.40 to 2.75 per cent per annum for the time deposit and 0.10 per cent for the current account. The increase represents primarily the P3B for DOTr Project and P612M Subsidy from National Government for HDH Projects.

4.4 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 deposit – local currency which 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. FINANCIAL ASSETS

This refers to Investments in Treasury Bills amounting to P4.080 billion and P3.338 billion as at December 31, 2018 and 2017, respectively. These are short term highly liquid investments with average prevailing interest rates of 2.02 percent per annum maturing from 91 days up from the date of placements.

6. OTHER INVESTMENTS

This refers to money placements in High Yield Savings Account (HYSA) with nil amount for the year 2018 and a comparative figure amounting to P50.360 million for the year 2017. It represents investment in time deposits classified as highly liquid investments maturing from over 91 days up from the date of placements.

7. RECEIVABLES

This account consists of:

	2018	2017
Current:		
Due from parent corporation	**59,345,804**	59,345,803
Interest receivable	**28,196,237**	13,207,231
Due from other funds – AKPF	**14,878,373**	6,572,888
Due from government corporations	**5,665,320**	1,237,622
Due from NGAs	**1,036,855**	783,143
Due from officers and employees	**600,243**	627,875
Receivables – disallowances/charges	**105,711**	1,620,333
	109,828,543	83,394,895

	2018	2017
Non-current:		
Mortgage contract receivable	**16,300,197,436**	14,840,618,631
Assets held in trust (AHT) – insurance receivables	**317,867,189**	295,382,323
Unamortized origination cost	**24,400,391**	26,099,312
Loans receivable	**23,635,110**	26,816,881
Assets held in trust (AHT) – interest receivables	**433,095**	433,095
	16,666,533,221	15,189,350,242
Less: Allowance for impairment	**79,452,403**	77,842,490
	16,587,080,818	15,111,507,752

7.1 Due from Parent Corporation

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

7.2 Interest Receivable

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

7.3 Due from Other Funds (AKPF)

This account refers to accumulated Personnel Services (PS) and other Administrative expenses of the fund paid in advance by SHFC during the year. The variance amounting to P254,221 in 2018 balance with the AKPF Due to Other Funds – SHFC, Note 8, Part IV of this Report, was due to timing difference in recording accrued salaries.

7.4 Due from Government Corporations

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

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

7.5 Due from National Government Agencies

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

7.6 Receivables – Disallowances/Charges

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. The remaining balance represents uncollected amount from resigned employees.

7.7 Mortgage Contract Receivable (MCR)

i. Current – This account amounting to P8.056 billion and P7.402 billion as at December 31, 2018 and 2017, respectively, which includes Community Mortgage Program (CMP) taken-out projects from the time of transfer up to the even date.

ii. High Density Housing (HDH) – The amount of P4.491 billion and P3.618 billion as at December 31, 2018 and 2017, 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.

iii. Past due – The account amounting to P2.813 billion and P2.817 billion as at December 31, 2018 and 2017, respectively, represents the past due portion of the loan at the time of transfer up to December 31, 2018. 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 P621M representing outstanding principal loan balances as at December 31, 2009. The transferred loan balances were based on the Community Association's ledger subject to adjustments upon the determination of the actual outstanding principal balance that should be based on the member beneficiaries (MBs) loan ledgers.

iv. Restructured interest – bearing principal – This account amounting to P675.413 million and P711.167 million as at December 31, 2018 and 2017, respectively, refers to delinquent borrowers who availed of the Restructuring Program offered by SHFC, in accordance to Republic Act (RA) No. 9507, otherwise known as the 2008 Socialized and Low Cost Housing Loan Restructuring Act of 2008, a rescue package for housing loan borrowers.

v. Restructured – noninterest – bearing principal – This account amounting to P214.065 million and P241.334 million as at December 31, 2018 and 2017, respectively, refers to loans with unpaid interests availed by delinquent borrowers who also availed the said Restructuring Program offered by SHFC.

vi. Items in litigation – This represent the outstanding balance of receivables from delinquent Community Associations transferred to the Legal Department for foreclosure and with petitions already filed in court.

Outstanding balance of this account represents the original amount transferred from NHMFC.

7.8 Assets held in trust (AHT) – insurance receivables

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

7.9 Unamortized Mortgage Origination Cost

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

7.10 Loans Receivable

This represents for the car and calamity loan availed by SHFC officers and employees in the amounts of P22.457 million and P1.177 million as at December 31, 2018 and P25.055 million and P1.762 million as at December 31, 2017, respectively, which are payable in 10 years.

7.11 Assets held in trust (AHT) – interest receivables

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

7.12 Allowance for impairment

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

	Balance, January 1, 2018	Additional Provision	Recovery/ Reversal	**Balance, December 31, 2018**
Mortgage contracts receivable				
Current accounts	7,286,143	192,898	-	**7,479,041**
Past due accounts				
> 3 months – 12 months	5,461,782	-	(626,174)	**4,835,608**
> 12 months – 3 years	11,902,425	-	(120,087)	**11,782,338**
> Over 3 years	48,496,976	2,163,276	-	**50,660,252**
Items in litigation	4,695,164	-	-	**4,695,164**
	77,842,490	2,356,173	746,261	**79,452,403**

8. INVENTORIES

This account consists of:

	2018	2017
Inventory held for consumption		
Office supplies inventory	**2,065,312**	1,771,401
Accountable forms, plates and stickers	**200,873**	479,069
Drugs and medicines inventory	**17,083**	8,566
Semi-expendable office equipment	**887,126**	578,412
Semi-expendable furniture and fixtures	**728,904**	14,996
Semi-expendable IT equipment	**249,496**	-
Semi-expendable communication equipment	**26,100**	-
Semi-expendable books	**6,582**	3,382
	4,181,476	2,855,826

9. OTHER CURRENT ASSETS

The account consists of:

	2018	2017
Advances to contractors	**346,870,596**	417,966,251
Guaranty deposits	**2,971,584**	1,715,608
Advances to special disbursing officer	**1,940,356**	3,516,594
Prepayments	**936,807**	363,232
Advances to officers and employees	**83,000**	417,348
	352,802,343	423,979,033

9.1 Advances to Contractors

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

9.2 Guaranty Deposits

This account represents guaranty fees for SHFC's rental of Regional Offices and warehouse amounting to P2.972 million and P1.716 million as at December 31, 2018 and 2017, respectively.

9.3 Advances to Special Disbursing Officer

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

9.4 Prepayments

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

9.5 Advances to Officers and Employees

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

10. INVESTMENT PROPERTY

The account balances amounting to P1.406 billion and P1.319 billion as at December 31, 2018 and 2017, respectively, represents land acquired for building construction and site development for use of ISFs under usufruct arrangement with HDH program beneficiaries. These are carried at acquisition cost plus costs incurred for site development and home building. Disclosure for the current Fair value of the investment property where not possible due to lack of appraiser. The Management already committed to get the services of external appraisers for fair value measurements and disclosures in the financial statements.

SHFC Corporate Circular No. 13-026 on HDH guidelines provides for the implementation framework of SHFC's participation in the priority Php50-Billion Informal Settler Families (ISF) Housing Program for the relocation of ISF residing in danger areas and waterways in Metro Manila. To further strengthen said corporate objective, Corporate Circular HDH No.14-005 Series of 2014 was made pertaining to the acquisition of property by SHFC and usufruct under the HDH Program. Through these circulars, as affirmed through Board Resolution No. 391, series of 2014 and under its Articles of Incorporation and by-laws, SHFC is fully empowered to pursue the acquisition of property in its own name and for the eventual disposition to the CAs, or entering into a usufruct arrangement, for the implementation of the HDH program.

11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2018 and 2017 are shown below:

	Buildings and Other Structures	Leased Assets Improvements, Buildings	Furniture, Fixtures & Books	Machinery and Equipment	Motor Vehicles	Total
Cost						
January 1, 2018	201,330,000	19,522,839	3,216,437	37,849,245	20,289,918	282,208,439
Adjustments	-	(20,000)	-	-	-	(20,000)
Additions	-	7,180,165	410,816	30,351,438	7,213,870	45,156,289
December 31, 2018	201,330,000	26,683,004	3,627,253	68,200,683	27,503,788	327,344,728
Accumulated Depreciation						
January 1, 2018	(73,241,215)	(12,789,807)	(1,393,241)	(26,348,804)	(15,213,564)	(128,986,631)
Depreciation	(6,781,868)	(1,006,214)	(248,885)	(6,150,763)	(1,831,543)	(16,019,273)
December 31, 2018	(80,023,083)	(13,796,021)	(1,642,126)	(32,499,567)	(17,045,107)	(145,005,904)
Net Book Value						
December 31, 2018	**121,306,917**	**12,886,983**	**1,985,127**	**35,701,116**	**10,458,681**	**182,338,824**

	Buildings and Other Structures	Leased Assets Improvements, Buildings	Furniture, Fixtures & Books	Machinery and Equipment	Motor Vehicles	Total
Cost						
January 1, 2017	201,330,000	19,239,119	3,537,484	34,948,327	20,289,918	279,344,848
Adjustments	-	(92,500)	(995,209)	(760,910)	-	(1,848,619)
Additions	-	376,220	674,162	3,661,828	-	4,712,210
December 31, 2017	201,330,000	19,522,839	3,216,437	37,849,245	20,289,918	282,208,439
Accumulated Depreciation						
January 1, 2017	(66,459,347)	(11,738,544)	(1,682,579)	(23,751,311)	(13,765,271)	(117,397,052)
Depreciation	(6,781,868)	(1,060,995)	(960,311)	(3,013,647)	(1,448,293)	(13,265,114)
Adjustments	-	9,732	1,249,649	416,154	-	1,675,535
December 31, 2017	(73,241,215)	(12,789,807)	(1,393,241)	(26,348,804)	(15,213,564)	(128,986,631)
Net Book Value						
December 31, 2017	**128,088,785**	**6,733,032**	**1,823,196**	**11,500,441**	**5,076,354**	**153,221,808**

12. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of 2018 and 2017 are shown below:

	Computer Software
December 31, 2018	
Cost	6,917,129
Accumulated amortization	5,565,487
Net carrying amount	**1,351,642**
December 31, 2017	
Cost	6,115,910
Accumulated amortization	5,255,451
Net carrying amount	**860,459**

13. DEFERRED TAX ASSETS

This account refers to the P45.035 million and P44.552 million deferred taxes for the year 2018 and 2017, respectively, computed after adjustments effecting the temporary and permanent differences during each year.

14. OTHER NON-CURRENT ASSETS

This account amounting to P549.874 million and P552.128 million for the years 2018 and 2017, respectively, refers to assets held in trust on Abot Kaya Pabahay Fund (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 was transferred to SHFC in 2005.

15. FINANCIAL LIABILITIES

This account consists of:

	2018	2017
Current:		
Accounts payable	**1,164,729,067**	1,122,522,569
Insurance/reinsurance premium payable	**47,227,140**	41,887,787
Due to officers and employees	**110,201**	162,976
	1,212,066,408	**1,164,573,332**
Non-current:		
Loans payable – domestic (office building and parking space)		
SHFC	**30,756,112**	39,758,708
Housing and Urban Development Coordinating Council (HUDCC)	**13,032,349**	16,847,038
3RD Floor	**12,025,541**	14,258,585
Parking Space (8)	**1,765,967**	1,986,571
Parking Space (5)	**967,312**	1,115,644
	58,547,281	73,966,546

15.1 Accounts payable

This refers to the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements. The 50 per cent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of Y2001. This account also includes perfected contracts with suppliers amounting to P13.775 million and P2.254 million as at December 31, 2018 and December 31, 2017, respectively.

15.2 Insurance/reinsurance premium payable

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

15.3 Loans payable – domestic

This account amounting to P58.547 million and P73.967 million for the years 2018 and 2017 represents set up of long-term payable for the acquisition of office building and other structures from Bangko Sentral ng Pilipinas (BSP) which is carried at cost less principal portion of the amortization payments.

16. INTER-AGENCY PAYABLES

This account consists of:

	2018	2017
Due to parent corporation (NHMFC)	**18,867,978**	18,871,043
Due to BIR	**5,468,410**	11,128,307
Due to Pag-IBIG	**188,010**	161,133
Due to SSS	**140,932**	126,215
Due to Philhealth	**116,918**	80,659
	24,782,248	30,367,357

16.1 Due to Parent Corporation (NHMFC)

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

16.2 Due to BIR

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

17. TRUST LIABILITIES

The account consists of:

	2018	2017
Current:		
Performance warranty	**4,167,564**	4,151,996
Bidders bonds	**503,396**	482,060
	4,670,960	4,634,056
Non-current:		
NHMFC	**14,328,811,976**	14,091,402,975
DOTr	**3,000,000,000**	-
AKPF	**549,873,877**	552,109,614
Other trust liabilities	**360,360,000**	360,360,000
	18,239,045,853	15,003,872,589

17.1 National Home Mortgage Finance Corporation (NHMFC)

The transfer of the CMP accounts to the 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 P621M as at December 31, 2009, which were retained by NHMFC, were eventually transferred to SHFC. This amount is temporarily lodged under the LIR – current account but was later reclassified to LIR – past due account in compliance to COA recommendations. Details of this account are as follows:

	2018	2017
Cash	**467,928,931**	1,248,396,255
Loan installment receivable	**11,107,100,650**	10,207,702,370
Past due loan installment receivables	**2,750,042,775**	2,750,042,775
Notes receivable - National Housing Authority	**200,000,000**	200,000,000
Land	**152,666,993**	81,458,667
Interest income	**165,678,128**	165,678,128
Origination and appraisal cost	**140,008,915**	102,081,484
Insurance receivable	**119,762,108**	119,762,108
Interest receivables	**72,873,957**	72,873,956
Advances to contractors	**52,302,537**	32,867,482
Items in litigation	**50,925,357**	50,925,357
Unamortized mortgage origination cost	**50,479,961**	50,090,716
Origination fee payable	**22,177,170**	(17,125,893)
Service fee incentives	**5,648,600**	5,648,600
Technical subsidy	**687,000**	-
Other professional fees	**3,500**	3,500
Accounts payable - MCR	**(797,927,140)**	(751,526,457)
Undistributed collections	**(150,012,482)**	(150,012,482)
Guaranty deposits payable	**(70,720,845)**	(67,095,632)
Insurance payable	**(4,647,805)**	(4,647,805)
BIR	**(3,475,119)**	(3,028,939)
Advances from borrowers	**(1,598,646)**	(1,598,646)
Performance warranty payable	**(1,092,569)**	(1,092,569)
	14,328,811,976	14,091,402,975

This also consists of the CMP fund transferred from NHMFC.

17.2 Department of Transportation (DOTr)

The Trust Agreement was entered into by and between the Department of Transportation (DOTr) and Social Housing Finance Corporation 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.

17.3 Abot-Kaya Pabahay Fund (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 in 2005.

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

	2018	2017
Cash and cash equivalents	**310,755,953**	302,023,123
Receivable – current	**10,676,632**	7,398,005
Receivable – non - current	**68,493,490**	74,960,882
Property and equipment, net	**179,310**	207,788
Other non-current assets	**180,869,876**	178,534,790
Inter-agency payables	**(4,734,684)**	(4,293,997)
Intra-agency payables	**(15,132,593)**	(6,591,402)
Other payables	**(1,234,107)**	(129,575)
	549,873,877	**552,109,614**

17.4 Other Trust Liabilities

This account pertains to a fund granted by DILG and DSWD released to SHFC amounting to P350 million and P10.36 million, respectively. The funds from DILG was intended for HDHP projects and was deposited and maintained in a separate fund account (HDHP II) in order not to co-mingle with other funds. The fund from the Emergency Assistance Program of DSWD was earmarked for the 148 ISF victims of typhoon Sendong in Cagayan de Oro City to be used solely for the purchase of housing materials.

18. DEFERRED CREDITS/UNEARNED INCOME

This account consists of:

	2018	2017
Deferred income	**213,923,764**	241,333,955
Deferred credits	**35,713,035**	31,898,347
	249,636,799	**273,232,302**

18.1 Deferred Income

This account pertains to unpaid interests as of date of application of restructuring that are capitalized as MCR but are non-interest bearing. Set-up of capitalized MCR is credited. Where this is collection applied to MCR-NIBP, Deferred Income is debited and Interest Income is recognized (credit).

18.2 Deferred Credits

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

19. OTHER PAYABLES

This account consists of:

	2018	2017
Undistributed collections	**430,326,320**	374,502,828
Other payables	**971,169,785**	781,548,654
	1,401,496,105	1,156,051,482

19.1 Undistributed Collections

This consists of accounts for clearing under the following categories:

	2018
Un-posted amortization payments from remedial accounts	131,033,287
Collections from MBs who availed of the 1-year updating scheme	98,854,050
Un-categorized amortization payments	83,570,463
Un-posted amortization payments from HDH projects	54,897,907
Payments with no abstract of collections (AOC)	31,934,178
Non-transmittal of collection documents by NHMFC	14,878,645
Payments of MBs not in master list	8,627,171
Un-posted amortization payments from express lane projects	5,272,040
Un-posted amortization payments from restructured accounts	437,377
Others	821,202
	430,326,320

It refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related concerns.

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

19.2 Other Payables

a. Guaranty Deposits Payable

This account refers to three months and six months cash deposits required for old and new originators respectively, pursuant to Corporate

Circular CMP No. 003, which is calculated based on the total monthly amortization payment plus one – year MRI premiums.

Without prejudice to the first amortization to be paid by the Community Association/Member Beneficiaries 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 to requirements.

d. Insurance Payable

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

20. EQUITY

20.1 Capital Stock

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

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

20.2 Retained Earnings

Unappropriated retained earnings include (a) retained earnings due for transfer to NHMFC as addition to Trust Liability pursuant to the amended Trust Agreement; (b) payment for dividends due to the Bureau of Treasury; and (c) investment income from HDH Program amounting to P5.216 million which does not form part of the amount to be transferred to NHMFC.

21. SERVICE AND BUSINESS INCOME

This account consists of:

	2018	2017
Service income		
Service fee income	**12,950,768**	11,929,118
	12,950,768	11,929,118
Business income		
Interest income – loans and receivables	**342,212,686**	377,083,433
Fines and penalties – business income	**215,910,547**	206,624,624
Other business income	**570,714**	824,350
	558,693,947	584,532,407
	571,644,715	596,461,525

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

Other business income account amounting to P0.571 million and P0.824 million for the years 2018 and 2017 includes:

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

22. PERSONAL SERVICES

This account consists of:

	2018	2017
Salaries and wages - regular	**120,389,086**	104,083,822
Other compensation		
Year-end bonus	**10,189,640**	8,910,122
Overtime and night pay	**5,383,958**	3,893,990
Personnel economic relief allowance	**5,297,097**	5,077,347
Representation allowance	**4,785,772**	4,827,863
Transportation allowance	**4,390,827**	3,972,099

	2018	2017
Clothing/uniform allowance	**1,311,600**	1,055,000
Cash gift	**1,110,500**	1,078,000
Honoraria	**59,042**	-
Other bonuses and allowances	**65,897,901**	54,913,868
	98,426,337	83,728,289
Personnel benefit contributions		
Provident/welfare fund contributions	**17,540,639**	15,647,075
Retirement and life insurance premiums	**3,399,587**	2,905,734
PhilHealth contributions	**1,341,187**	960,450
Pag-IBIG contributions	**514,379**	258,400
Employees compensation insurance premiums	**79,217**	69,930
	22,875,009	19,841,589
Other personnel benefits		
Terminal leave benefits	**7,699,620**	4,212,921
Retirement gratuity	**2,324,710**	-
	10,024,330	4,212,921
	251,714,762	211,866,621

23. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2018	2017
Traveling expenses		
Traveling expenses-local	**23,112,146**	12,559,695
Traveling expenses-foreign	**2,185,308**	1,235,149
	25,297,454	13,794,844
Training and scholarship expenses		
Training expenses	**9,616,075**	4,027,934
	9,616,075	4,027,934
Supplies and materials expenses		
Office supplies expenses	**6,552,166**	5,918,194
Fuel, oil and lubricants expenses	**2,361,215**	1,475,869
Accountable forms expenses	**278,196**	327,119
Drugs and medicines expenses	**57,007**	41,856
Semi-expendable furniture, fixtures and books expenses	**23,631**	310,512
Semi-expendable machinery and equipment expenses	**8,595**	376,910
Other supplies and materials expenses	**357,366**	405,536
	9,638,176	8,855,996

	2018	2017
Utility expenses		
Electricity expenses	**7,026,359**	5,670,295
Water expenses	**694,525**	595,360
	7,720,884	6,265,655
Communication expenses		
Telephone expenses	**2,303,902**	2,095,547
Postage and courier services	**1,698,720**	1,736,553
Internet subscription expenses	**1,247,770**	1,035,007
	5,250,392	4,867,107
Confidential, intelligence and extraordinary Expenses		
Extraordinary and miscellaneous expenses	**670,504**	634,957
	670,504	634,957
Professional services		
Consultancy services	**6,667,820**	12,750,304
Legal services	**280,650**	84,000
Auditing services	**-**	2,000
Other professional services	**55,943,523**	36,123,924
	62,891,993	48,960,228
General services		
Other general services	**9,490,054**	3,868,223
Security services	**7,786,792**	6,038,539
Janitorial services	**2,713,469**	2,866,137
	19,990,315	12,772,899
Repairs and maintenance		
Repairs and maintenance-transportation equipment	**2,452,232**	1,426,313
Repairs and maintenance-machinery and equipment	**249,680**	249,095
Repairs and maintenance-furniture and fixtures	**5,500**	5,820
Repairs and maintenance-semi-expendable information and communication technology equipment	**2,800**	-
Repairs and maintenance-leased assets improvements	**-**	956,129
Repairs and maintenance-buildings and other structures	**-**	61,450
	2,710,212	2,698,807
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	**42,363,220**	31,259,387
Insurance expenses	**739,109**	982,369

	2018	2017
Fidelity bond premiums	**330,727**	689,460
	43,433,056	32,931,216

Other maintenance and operating expenses		
Rent/lease expenses	**8,610,609**	5,865,319
Major events and conventions expenses	**6,069,869**	3,693,993
Representation expenses	**5,891,358**	4,910,758
Advertising, promotional and marketing expenses	**3,928,968**	1,958,142
Directors and committee members' fees	**2,181,000**	1,302,000
Printing and publication expenses	**250,477**	815,198
Subscription expenses	**171,401**	169,230
Litigation/acquired assets expenses	**98,417**	1,582,727
Transportation and delivery expenses	**77,005**	350,164
Donations	**20,000**	2,995,546
Membership dues and contributions to Organizations	**1,200**	11,345
Other maintenance and operating expenses	**23,589,879**	24,578,210
	50,890,183	48,232,632
	238,109,244	184,042,275

24. NON-CASH EXPENSES

This account consists of:

	2018	2017
Depreciation		
Depreciation-buildings and other structures	**6,781,868**	6,781,868
Depreciation-machinery and equipment	**6,150,762**	2,597,493
Depreciation-transportation equipment	**1,831,544**	1,448,293
Depreciation-leased assets improvements	**1,006,214**	1,060,995
Depreciation-furniture, fixtures and books	**248,885**	184,683
	16,019,273	12,073,332
Amortization		
Amortization - intangible assets	**310,036**	551,547
	310,036	551,547
Impairment loss		
Impairment loss - loans and receivables	**1,609,913**	5,021,705
	1,609,913	5,021,705
	17,939,222	17,646,584

25. FINANCIAL EXPENSES

This account consists of:

	2018	2017
Interest expenses	**3,916,860**	5,264,149
Bank charges	**1,894,064**	43,455
	5,810,924	5,307,604

26. OTHER NON-OPERATING INCOME

This account consists of:

	2018	2017
Interest income – notes	**140,138,443**	28,817,135
Interest income – bank deposits	**6,010,633**	62,924,842
	146,149,076	91,741,977

26.1 Interest income – notes

This account represents interest earned at an average prevailing interest rates of 2.02 percent per annum for Investments in Treasury Bills.

26.2 Interest income – bank deposits

This account represents interest earned at prevailing interest rates of 1.40 to 2.75 per cent per annum for the time deposit and 0.10 per cent for the current account.

27. CURRENT AND DEFERRED TAXES

This account consists of:

27.1 Regular Corporate Income Tax (RCIT)

The components of RCIT for CY 2018 are as follow:

	2018	2017
Net income (loss) before income tax	**204,219,639**	269,340,418
Non-deductible expense	**29,569,291**	18,348,395
Interest income on investment/bank deposits	**(146,149,076)**	(91,741,977)
Accounting Income subject to tax	**87,639,854**	195,946,836
Loan loss provision	**1,609,912**	5,021,705
Net taxable income	**89,249,766**	200,968,541
Tax rate	**30%**	30%
Current tax expense	**26,774,930**	60,290,562

27.2 Deferred Tax Asset

Income tax benefit was computed as follows:

	2018	2017
Deferred tax asset – beginning	**44,551,973**	43,045,461
Temporary differences	**1,609,912**	5,021,705
Tax rate	**30%**	30%
	482,974	1,506,512
Deferred tax asset – ending	**45,034,947**	44,551,973

Income tax expense	**26,291,956**	58,784,050
As reported based on 30% of net taxable income	**26,774,930**	60,290,562
Income tax benefit	**482,974**	1,506,512

In CY 2018 and CY 2017, SHFC claimed itemized deductions in computing for its income tax due.

28. NET ASSISTANCE/SUBSIDY INCOME FROM NATIONAL GOVERNMENT

The HDH program window is a new program which enables SHFC to extend financing assistance to organized communities living in danger areas in the NCR. There were four and three approved HDH projects in various phases in 2018 and 2017, respectively, with the following approved funding allocation and releases from the Department of Budget and Management (DBM):

	2018	2017
Approved funding allocation from DBM		
Fund releases during the year	**612,462,120**	1,246,204,521
Less: Financial assistance to Non-Government Organizations (NGOs) and People's Organizations (POs) for technical assistance and service fee	**22,214,937**	24,534,721
Net assistance/Subsidy income from National Government	**590,247,183**	1,221,669,800

This is apart from the CMP funding received from NHMFC.

29. LEASES

The related rent expense amounted to P8.611 million and P5.865 million for the year ended December 31, 2018 and December 31, 2017 (see Note 24).

Operating Lease

SHFC is a lessee consisting of rental of office space for Regional Extension Units (REUs) 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, 2018 as follows:

	2018
Within one year	7,938,408
Beyond one year but not later than three years	10,625,161

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 on the balance sheet as plant 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 rentals payable under these non-cancellable operating lease as at December 31, 2018 as follows:

	2018
Within one year	20,779,355
Beyond one year but not later than five years	45,983,874
Beyond five years but not later than 10 years	1,888,751

30. RELATED PARTY DISCLOSURE

As of December 31, 2018, the composition of the Board of Directors is as follows:

Board Position	Name	Position from Other Agencies
1. Chairman	Eduardo D. Del Rosario	Chairman, Housing and Urban Development Coordinating Council
2. Vice-Chairman	Atty. Arnolfo Ricardo B. Cabling	President, Social Housing Finance Corporation
3. Member	Asec. Epimaco V. Densing III	Under Secretary, Department of the Interior and Local Government
4. Member	Grace Karen G. Singson, CFA	Under Secretary, Department of Finance
5. Member	Pia Bernadette R. Tayag	Managing Director, Bangko Sentral ng Pilipinas
6. Member	Dr. Felixberto Bustos, Jr.	President, National Home Mortgage Finance Corporation
7. Member	Atty. Ryan S. Lita	Director, Department of Budget and Management

Board Position	Name	Position from Other Agencies
8. Member	Lyndon B. Catulong, Sr.	Private Sector
9. Member	Atty. Emiliano C. Reyes	Private Sector

Key Management Personnel Remuneration and Compensation

The key management personnel of the SHFC are the President, Executive Vice-President, five Vice-Presidents, the various Managers and Division Chiefs of the operating and support groups. The remuneration of key management personnel during the year is as follows:

	2018	2017
Salaries	**48,234,459**	40,068,964
Other allowance and benefits	**89,038,492**	77,722,522
	137,272,951	117,791,486

Meanwhile, the total remuneration received by the Board of Directors is as follows:

	2018	2017
Remuneration (per diem)	**2,181,000**	1,302,000

31. COMMITMENTS AND CONTINGENCIES

Legal Claims

The account consists of the garnished peso time deposit at DBP amounting to P70.931 million enforced by an Urgent Ex parte Motion from case AC-973-RCMB-NCR-LVA-024-01-09-2014 titled SOHEAI vs. SHFC in 2015. This was disclosed in the CY2015 notes under contingencies.

None of these contingencies are discussed here in detail so as not to prejudice SHFC's position in the related disputes.

32. 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 (Community Mortgage Program 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 Community Associations (CA) 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 carrying value of its financial assets.

Insurance

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

Security

The 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 (Community Mortgage Program Loans) are covered by a collection agreement with the CAs. The CAs collects the monthly amortizations from its members and remits these to SHFC.

The credit quality by class of MCR based on SHFC's aging of provisions are as follows:

	Balance, January 1, 2018	Additional Provision	Recovery/ Reversal	**Balance, December 31, 2018**
Mortgage contracts receivable				**16,300,197,436**
Current accounts	(7,286,143)	(192,898)	-	**(7,479,041)**
Past due accounts				
> 3 months – 12 months	(5,461,782)	-	626,174	**(4,835,608)**
> 12 months – 3 years	(11,902,425)	-	120,087	**(11,782,338)**
> Over 3 years	(48,496,976)	(2,163,276)	-	**(50,660,252)**
Items in litigation	(4,695,164)	-	-	**(4,695,164)**
	(77,842,490)	(2,356,174)	746,261	**(79,452,403)**
				16,220,745,033

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, 2018 and 2017 are as follows:

	2018	2017
Financial liabilities	**1,212,066,408**	1,164,573,332
Deferred credits/unearned income	**249,636,799**	273,232,302
Other payables	**58,547,281**	73,966,546
	1,520,250,488	1,511,772,180

SHFC monitors its risk to a shortage of fund through 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 Securities and Exchange Commission (SEC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

33. 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.

	2018	2017
Taxes and licenses		
Final tax paid on income	**29,569,291**	18,348,395
Corporate income tax	**26,774,930**	60,290,563
Income taxes withheld on compensation and final withholding taxes (1604-CF)	**23,201,212**	28,613,932
Percentage tax	**10,111,024**	10,237,476
Creditable income taxes withheld (expanded)/ income payments exempt from withholding tax (1604-E)	**4,253,816**	3,744,284
Real property tax	**2,531,044**	1,235,900
BIR registration	**500**	500
	96,441,817	122,471,050

The President signed into law the Package 1 of the Tax Reform Acceleration and Inclusion Law in December 19, 2017, otherwise known as the "TRAIN Bill" under Republic Act (RA) No. 10963. One of the salient features of the TRAIN Bill is the increase of the nontaxable personal income to P250,000 per year for compensation income earners and self-employed and/or professionals. The result of which is the decrease in monthly withholding tax for employees' compensation as shown above. This act took effect starting January 2018.

Requirements under Revenue Regulation No. 19-2011

Revenue Regulation 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2018 statement of comprehensive income.

Taxable Revenues

The composition of SHFC's taxable revenues for the period ended December 31, 2018 is presented below:

	2018	2017
Sale of services	**571,644,696**	596,461,525

Cost of Services

The amounts of SHFC's cost of services for the year ended December 31, 2018 are as follows:

	2018	2017
Salaries and employee benefits	**251,714,762**	211,866,621

Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2018 are as follows:

	2018	2017
Traveling expenses	**25,297,454**	13,794,844
Training and scholarship expenses	**9,616,075**	4,027,934
Supplies and materials expenses	**9,638,175**	8,855,996
Utility expenses	**7,720,885**	6,265,655
Communication expenses	**5,250,392**	4,867,106
Confidential, intelligence and extraordinary expenses	**670,504**	634,957
Professional services	**62,891,993**	48,960,228
General services	**19,990,314**	12,772,900
Repairs and maintenance	**2,710,213**	2,698,807
Taxes, insurance premiums and other fees	**13,863,765**	14,582,821
Other maintenance and operating expenses	**50,890,182**	48,232,632
Amortization - intangible assets	**310,036**	551,547
Depreciation	**16,019,273**	12,073,332
Financial Expenses	**5,810,924**	5,307,604
	230,680,185	183,626,363

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AUDIT

1. **Undistributed Collections (UC) totaling P430.326 million remained un-posted to Mortgage Contract Receivable (MCR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the MCR accounts are both overstated by the same amounts. Moreover, the General Ledger (GL) or controlling account for UC was not reconciled with the Subsidiary Ledger (SL) balances, resulting in a variance of P67.213 million, or 84 per cent of the GL balance. Both the overstatement and variance affect the fair presentation of the account balances in the financial statements, contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1.**

1.1 Paragraph 15 of PAS 1 – Presentation of Financial Statements states that:

> *Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

1.2 Note 19.1 on the Notes to Financial Statements (FS) disclose the UC account as amortization payments since CY 2008 up to reporting date that remain un-posted/unapplied to MCR and other affected accounts. It refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related reasons, such as:

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

1.3 The one-year updating scheme which is based on Republic Act (RA) No. 9507, otherwise known as the Socialized and Low-Cost Housing Loan Restructuring Act of 2008, was adopted by the Board as an in-house restructuring program on May 24, 2013 and implemented through Corporate Circular No. 13-027 series of 2013. The approval of the said scheme serves as guidelines for remedial accounts to begin the process of documentation up to posting and reversal of amortization payments. In the said scheme, collections from MBs will be posted upon completion of the billing and posting modules of the newly developed program.

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

1.5 Review of the balances of the accounts under UC as at December 31, 2018 showed the following movements:

Particulars	December 31 2018	2017	Increase/(Decrease) Amount	%
MBs who availed of the one-year updating scheme (Condonation under RA 9507)	98,854,050	83,830,743	15,023,307	18
Payments without abstract of collection	31,934,178	32,069,797	(135,619)	-
MBs not in master list	8,627,171	7,577,741	1,049,430	14
Accounts with site development loan component	10,058	10,058	-	-
Collections from:				
NHMFC	14,878,645	14,878,645	-	-
Express lane projects CMP (not in the database)	5,272,040	7,127,125	(1,855,085)	(26)
Restructured accounts	437,377	1,721,577	(1,284,200)	(75)
Remedial accounts	131,033,287	121,784,533	9,248,754	8
High Density Housing (HDH) project (not in database)	54,897,907	20,961,795	33,936,112	162
Unaccounted	83,570,463	83,570,463	-	-
Others	811,144	970,351	(159,207)	(16)
	430,326,320	**374,502,828**	**55,823,492**	**14.91**

1.6 As shown in the above tabulation, the balance of the UC account increased by P55.823 million or 14.91 per cent from that of last year's UC of P374.503 million.

1.7 Details of the 2018 UC are accounted for as follows:

UC Balance - December 31, 2017	374,502,828
Less: 2017 UC Distributed/allocated in 2018	(153,503,383)
Balance	220,999,445
Add: Undistributed for 2018	1,037,385,214
2018 UC Allocated in 2018	(828,058,339)
Undistributed Collection	**430,326,320**

1.8 The table shows that only P153.503 million or 41 per cent of the UC for 2017 was allocated in CY 2018, which is below the 65 per cent that should have been allocated based on the audit recommendation of the previous year. The UC account for CY 2017 has still a remaining balance of P220.999 million.

1.9 One of the reasons for the UC is that not all payments are supported by a Remittance Report and Abstract of Collection reflecting the individual monthly payment by all the MBs. This is contrary to the Collection Agreement entered into by the Community Associations (CAs) and SHFC.

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

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

1.12 The MB accounts not in the Master List increased by P385,069 and P1.049 million in 2018 and 2017, respectively, or an increase of 5 and 14 per cent, respectively, as shown below:

Particulars	December 31 2018 (a)	2017 (b)	2016 (c)	Increase/(Decrease) Amount (b-c)	%	Amount (a-b)	%
MBs not in master list	8,627,171	7,577,741	7,192,672	1,049,430	14	385,069	5

1.13 Further verification revealed that subsidiary ledger balances in 2018 amounting to P363.114 million maintained by the Accounting Division were not reconciled with the controlling account or the general ledger balance of P430.326 million, resulting in a variance of P67.213 million or 16 per cent far better from the P174.797 million difference or 53 per cent in 2017. Details of the 2018 variance are shown below:

General ledger balance		P430,326,320
Subsidiary ledger (database):		
One year updating of remedial accounts	P113,673,924	
Remedial accounts	159,486,874	
Express lane	1,675,410	
High density project – no database	61,705,768	
Accounts with site development loan component	10,058	
Payments without Abstract of Collections	18,733,643	
MBs not in the Master List	5,449,019	
Restructured accounts	2,378,823	363,113,519
Variance		P 67,212,801
		16%

1.14 Validation disclosed that SHFC still has no established policy for the distribution/allocation of collections to the individual ledgers of MBs. As stated in the Management comments in CY 2017, their new program, which will help them to properly and timely allocate/distribute the collections to avoid accumulation of UC accounts, is expected to be available by the end of the second semester of CY 2018.

1.15 The non-posting of the UC accounts amounting to P430.326 million to the MCR has overstated both accounts by the same amounts, and the variance of P67,213 million between the GL and the SL balances affect the fair presentation of the accounts in the financial statements, contrary to Paragraph 15 of PAS 1.

1.16 **We reiterated our prior year's recommendations that Management:**

a. **Prioritize allocation of payments of MBs who availed of the one-year updating and remedial accounts to MCR;**

b. **Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;**

c. **Submit work breakdown schedule to post and allocate UC for CY 2018 by at least:**

   i. **65 percent of the UC by end of CY 2019; and**
   ii. **35 percent of the UC by end of CY 2020;**

d. **Reconcile the variance between the SL and GL balances by at least:**

   i. **65 percent of the UC by end of CY 2019; and**
   ii. **35 percent of the UC by end of CY 2020;**

e. **Oblige the CAs to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;**

f. **Require the Information and Communication Technology Department (ICTD) to enhance the database to include the HDH Projects and all other accounts not yet in the database;**

g. **Require the NHMFC to submit listing of MBs relative to the transferred accounts amounting to P83.570 million;**

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

i. **Improve and update guidelines on substitution of MBs to avoid further accumulation of UC every year.**

1.17 Management commented that the ICTD implemented the Community Association Information System (CAIS) Kiosk and SHFC Portal facilities to generate Statement of Account (SOAs) and Abstracts of Collection (AOCs) online. This will prevent accumulation of UC with regard to abstract discrepancies that contribute to the buildup of UC. Furthermore, the Management opts to perform the following:

- Reclassify the UC under remedial collections to Customers Deposits/Advances, a liability account, due to remedial collections during the rehabilitation stage to reflect the effects of actual transactions, events and conditions;

- Reclassify the accounts under the One-Year Updating scheme to Deferred Credits accounts;

- For UC under HDH, request two programmers to handle HDH system and will incorporate the graduated amortization scheme into the current CMP system;

- For UC under Express Lane, concerning the Sendong projects in Cagayan de Oro (CDO), commit to send out list of receipts to CDO office in compliance with AOC requirements;

- For NHMFC accounts, coordinate with NHMFC on the appropriate reconciliation previously done before and require submission of electronic or photocopy of Daily Collection Report (DCR).

- For other related UCs, prepare periodic reversal; send out list of names and receipts to branches/collection units; and inform branches/collection unit to advise community associations or would-be-substitute to use original MBs account number.

1.18 As a rejoinder, we stand by our recommendations that Management expedite the reconciliation and posting of UC account to individual ledgers of the MBs and formulate a policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC instead of reclassifying UC to other liability accounts. The reclassification of the UC under remedial collections to Customers Deposits/Advances is just a transfer of the balance to the same liability account which will not cure the accumulation of UC accounts.

2. Assets of SHFC amounting to P19.189 billion were not stated at their fair value due to the absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39 for CY 2018, thus, casting doubt on the reliability and valuation of the corporate assets.

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

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

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

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

2.3 Paragraph 12 of the same standard provides that:

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

External sources of information:

a. there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

b. significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which an asset is dedicated.

c. market interest rates or other market rates of returns on investment have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

d. the carrying amount of the net assets of the entity is more than its market capitalization.

Internal sources of information:

a. evidence is available of obsolescence or physical damage of an asset.

b. *Significant changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or in manner in which, an asset is used or expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.*

c. *evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.*

2.4 As at December 31, 2018, the Corporation has reported the following assets:

Particulars	Amount	% over Total Assets
Financial Assets		
Receivables, current (net of mandatory accounts)	109,828,543	0.40
Other current assets	352,802,343	1.29
Receivable, non-current	16,587,080,818	60.62
Other non-current assets	549,873,877	2.01
	17,599,585,581	**64.32**
Non-Financial Assets		
Investment property	1,405,524,803	5.14
Property, plant and equipment	182,338,824	0.67
Intangible assets	1,351,642	0.01
	1,589,215,269	**5.82**
	19,188,800,850	**70.14**

2.5 The financial and non-financial assets amounting to P17.600 billion and P1.589 billion, respectively, account for 70 per cent of the total assets of SHFC amounting to P19.189 billion.

2.6 The above accounts are defined in Notes 7, 9, 10, 11, 12, and 14 of the Notes to FS of the Corporation.

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

2.8 The Commission resolved under COA Resolution No. 2019-006 dated March 27, 2019, that all Government Corporations (GCs) classified as Government Business Enterprises (GBEs) that have not taken into consideration the early application of the provisions of PFRS 9, which should have superseded PAS 39 as cited in the aforementioned criteria, shall mandatorily apply the provisions of PFRS effective January 1, 2019.

2.9 Validation of the status of the prior year's recommendation regarding assessment, measurement and recording of impairment losses revealed that Management, in a letter dated July 24, 2018 to the Government Accountancy Sector (GAS) of the Commission on Audit, has already sought permission on the hiring of a consultant to guide the Finance and Comptrollership Department of SHFC in formulating policies/guidelines for the assessment and recording of impairment losses.

2.10 The failure of Management to provide policy/guidelines to assess whether there is an indication or objective evidence of impairment on the recorded assets at the end of each reporting period casts doubt on the accuracy and valuation of the assets and possible misstatement of the financial statement, and are contrary to the above stated provisions of PAS 36 and 39.

2.11 **We reiterated our prior year's audit recommendation that Management formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets for CY 2018 as required under PAS 36 and 39.**

3. **A variance of P608.773 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances of the Mortgage Contracts Receivable - Community Mortgage Program (MCR-CMP) account as at December 31, 2018 casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) No. 1445 and Paragraph 15 of PAS 1.**

3.1 Section 111 of PD No. 1445 on the keeping of accounts states that:

> a. *The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*
>
> b. *The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

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

3.3 The said account is defined in Note 7.7 of the Notes to FS of the Corporation.

3.4 Review of the Consolidated Aging of MCR account for CMP as at December 31, 2018 based on the SL of the MBs showed a total balance of P11.201 billion, aged as follows:

Age	Number of Accounts	Amount	% over Total
Fully paid accounts	58,522	(7,199)	0.00
0 month to 3 months	67,877	3,231,048,673	28.85
More than 3 months to 1 year	21,625	977,613,142	8.73
More than 1 year to 2 years	17,057	852,786,850	7.61
More than 2 years to 3 years	13,170	694,823,352	6.20
More than 3 years to 4 years	11,376	581,578,997	5.19
More than 4 years to 5 years	9,840	495,097,253	4.42
More than 5 years and above	98,546	4,092,601,055	36.54
Not yet in Database & other reconciling items	-	275,110,784	2.46
Total – SL per MBs' account	**298,013**	**11,200,652,907**	**100**
Total – SL per CA account		11,200,634,870	
Discrepancy/variance		*** 18,037**	**0.00**

**immaterial amount*

3.5 SL of the CA differed from MBs' individual accounts by only P18,037. However, comparison of the two SLs was made since inquiry with the Finance and Comptrollership Department (FCD) disclosed that the SL balance of the CA was used in lieu of individual accounts in preparing the trial balance and financial statements for the MCR amounts. FCD also confirmed that these amounts were used in consideration of the transferred loan balances from the NHMFC that were based on the CAs ledger balance which was not yet individualized, as discussed also in the aforementioned Notes to FS.

3.6 The MCR-CMP's SL balance of the CA amounting to P11.201 billion consisting of 2,688 associations represents only 94.85 per cent of the GL balance of P11.809 billion, reflecting a discrepancy of P608.773 million, or an unaccounted difference of 5.15 per cent, as shown below:

Account Name	Per CA Account	Per GL Amount	Variance Amount	% of variance over GL
MCR - Current	8,142,301,206	8,056,115,548	(86,185,658)	
MCR - Past Due	2,060,278,799	2,812,888,697	752,609,898	
MCR - Restructured Interest-Bearing Principal	711,106,346	675,412,874	(35,693,472)	
MCR - Non-Interest Bearing Principal	236,023,162	214,065,314	(21,957,848)	
MCR - Items in Litigation	50,925,357	50,925,357	-	
	11,200,634,870	**11,809,407,790**	**608,772,920**	**5.15**

3.7 The existence of discrepancy/variance casts doubt on the accuracy, reliability and validity of the MCR-CMP account, contrary to Section 111 of PD No. 1445 and Paragraph 15 of PAS 1 as cited under Paragraph 1.1, Part II of this Report.

3.8 **We recommended that Management:**

a. **Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;**

b. **Reconcile the variances between SL per CA and SL per MBs as well as SL and GL balances of P608.773 million by at least:**

   i. **65 percent of the variance by end of CY 2019;**
   ii. **35 percent of the variance by end of CY 2020; and**

c. **Require the ICTD to assist the FCD in enhancing and developing an efficient and effective database.**

3.9 Management commented that the reconciliation of the GL and SL balances of the subject account is dependent on the completion of the collection and ledgering system through the implementation of the Information Systems Strategic Plan or the ISSP. Management informed the Team that the system has now been rolled out for use in the first week of March 2019.

3.10 Management committed to complete the documentation process within six months or before the end of August 2019. The output of this process will serve as their concrete basis for working with NHMFC as it will support entries in the books of accounts of SHFC and NHMFC that will eventually reconcile the GL and SL balances of affected accounts.

COMPLIANCE AUDIT

4. A High Density Housing Project (HDHP) amounting to P725.379 million was not completed within the period stipulated in the Building Construction and Site Development Agreement dated June 8, 2015. It has a slippage of 857 days, or almost two and a half years, as at December 31, 2018, depriving the Informal Settler Family (ISF)-beneficiaries living in waterways and danger areas of affordable and decent housing, resulting in the non-attainment of the objectives of the Program, including the non-recovery of the Corporate investment in housing projects.

4.1 The Corporation is mandated to be the lead agency to undertake social housing programs that will cater to the formal and informal sectors of the low-income bracket and shall take charge of developing and administering social housing schemes. To achieve this mandate, the Corporation can participate in the ISF housing projects to extend financial assistance to organized communities for the construction of HDHP where the beneficiaries are the families living in danger areas and along the waterways in highly urbanized cities.

4.2 High Density Housing Project refers to a slum redevelopment strategy wherein a significant number of ISFs are accommodated in multi-storey buildings. This is implemented either by an in-city or near site relocation or a land sharing arrangement.

4.3 The Building Construction and Site Development Agreement executed by and between the Contractor, known as the First Party, and Homeowners Association (HOA) Phase 1 A to H, known as the Second Party, states that:

> *WHEREAS, SECOND PARTY desires to engage the services of the FIRST PARTY for the construction of buildings and site development for its member-beneficiaries;*
>
> *WHEREAS, the FIRST PARTY warrants that it is licensed in the Republic of the Philippines to develop the property, and represents itself to be skilled, competent, capable, and qualified to undertake and complete the works herein provided;*

4.4 The following Articles of the same Agreement provide that:

> ***Article III*** *- The scope of work to be performed under this agreement shall be fully completed within one (1) year from the release of the 15% mobilization fund from the government financing institution, the Social Housing Finance Corporation (SHFC)*
>
> ***Article XI*** *- It is understood that time is an essential feature of the Contract and upon failure of the FIRST PARTY to complete Scope of Work of the Project on the scheduled completion date, or any extension thereof mutually agreed upon in writing prior to the targeted completion date, the FIRST PARTY shall pay the SECOND PARTY liquidated damages equivalent to one-tenth of one percent (1/10 of 1%) of the value of unfinished scope of work per day of delay until completion. SHFC is authorized to deduct from any sum due or will become due to the FIRST PARTY all sums accruing as liquidated damages in accordance with this paragraph. The payment of deduction of such damages shall not relieve the FIRST PARTY from its obligation and liabilities under this Contract.*
>
> ***Article XIII*** *- In the event that the FIRST PARTY shall in any manner neglect or fail to perform any agreement herein (including but not limited to delay), the SECOND PARTY shall give written notice to the FIRST PARTY to proceed with such work and to perform such agreement, and if the FIRST PARTY SHALL FAIL TO DO SO ACCORDINGLY within seven (7) days from receipt thereof, the SECOND PARTY and SHFC shall have the option to proceed against the bond and enter the*

premises and to employ any other contractor to complete the work at the expense of the FIRST PARTY.

4.5 Paragraph 8 of Board Resolution No. 442, Series of 2015 states:

NOW THEREFORE, be it resolved as it is hereby resolved, that the Board approves as it has hereby approved, the issuance of the Letter of Guaranty (LOG) for Site Development and Building Construction in favor of the HOMEOWNERS ASSOCIATION, Phase 1 as herein presented;

4.6 Corporate Circular HDH No. 14-002 dated March 31, 2014 on the Implementing Rules and Regulations (IRRs) for Building Construction and Site Development Loans for High Density Housing (HDH) Program states that:

xxxx

Section 8. Assessment of the Contractor/Developer

As part of due diligence, SHFC will assess the Contractor/Developer hired by the Community Association based on financial stability, managerial capability, organizational structure, technical expertise, and delivery capability and experience as outlined in the Contractor's evaluation.

Section 9. Loan Release for Building Construction and Site Development

Release of the loan shall be made in progress billing and in accordance with the approved work schedule. Releases shall be made up to a maximum of four (4) tranches (exclusive of the 15% mobilization fund.) For every payment of loan release, submission of the following requirements shall be made:

a. Statement of Work Accomplishments (SWA) indicating the percentage of work progress signed by the developer/contractor, the Community Association, Construction Project Management and SHFC Inspection Team;
b. Pictures of the projects (showing actual progress);
c. Billing requirements; and
d. Certificate of Completion and Acceptance (for completed building)

Prior to the release of each drawdown, SHFC shall determine if the collateral value of the land, including its improvement is sufficient to cover the loans based on the reports submitted by the HDH Team.

4.7 A housing project was proposed by the HOA to DILG in response to the government's initiative and effort to provide a safe, decent and affordable housing to ISFs living along the three-meter easement of identified waterways and those in danger areas in Metro Manila under the SHFC-HDH program for the ISFs.

4.8 Under Board Resolution No. 420, series of 2014, the Corporation approved the purchase of the 54,156.75 square meters lot located at Brgy. Gaya Gaya, City of San Jose Del Monte, Bulacan through the assistance of the Civil Society Organization (CSO) partner and the initiative of the HOA. The lot will be used to build houses for the relocation of 1,504 families living along the tributaries Dahlia Creek, Dario River, San Juan River, Tullahan River, Diliman Creek, and Payatas Dumpsite. The arrangement between the CA and SHFC is through a usufruct agreement for the use and enjoyment of the properties for a period of 50 years wherein the latter is the owner of the lot.

4.9 The total purchase cost of the lot is P127.599 million which includes direct, indirect and administrative costs as approved under Board Resolution No. 420, series of 2014. In 2015, 80 per cent of the direct cost amounting to P93.150 million was already paid while the remaining 20 per cent, or P23.287 million, was paid in September 2017 upon transfer of the two Transfer Certificates of Title (TCTs) in the name of SHFC on February 15, 2017.

4.10 Under Board Resolution Nos. 420 and 442, the Board of Trustees approved the project for the lot acquisition, site development and building construction for a total direct cost of P661.760 million which will house 1,504 ISFs through loan amounting to P440,000 per ISF, broken down as follows:

Cost		Amount	Share per ISF
Site Development		62,100,000	
Building		483,222,988	
Lot (direct cost)		116,437,012	
Total Direct Costs		**661,760,000**	**440,000**
Indirect Costs Land		**11,161,883**	
Transfer Taxes	5,825,143		
CSO Incentive	2,328,740		
Admin Subsidy	3,008,000		
Indirect Costs Site and Building		**52,457,317**	
CSO Incentive	2,105,600		
Taxes, Permits & related fees	14,027,657		
Insurance Subsidy	3,812,089		
Professional Fees	16,544,000		
Capacity Building & Estate Management	14,288,000		
Excess Subsidy	1,679,971		
Total		**725,379,200**	

4.11 Verification from the Building Construction and Site Development Agreement disclosed that the site development and construction of 47 two-storey buildings amounting to P545.323 million were undertaken by the Contractor. The said amount was received by the contractor on August 26, 2015, but the project remained unfinished, incurring delays of 857 days, or almost two and a half years, as at December 31, 2018 as shown below:

Description	Date	No. of Days Delayed
Receipt of 15% Mobilization Fee (MB)	August 26, 2015	
1 year Agreed Period of Completion	August 26, 2016	
2016		127 days
2017		365 days
2018		365 days
		857 days

4.12 The Audit Team conducted an ocular inspection on the project site in Bulacan on June 22, 2018. It was found out that the project was still very far from completion. Site development such as road networks, drainage works, water layout and electricity lines were not yet installed. The engineer of the construction site informed the Audit Team that the building construction has stopped since March 2018 primarily due to lack of funds and manpower. Some of the construction materials were covered with vines and grasses to reduce exposure from elements while some hollow blocks are gradually eroding and seem no longer usable. The continuous work stoppage may eventually lead to the deterioration of the unfinished structures, resulting in the loss of government funds.

4.13 At the project site, it was also observed that some of the unfinished buildings are located near the creek, which may pose risks on the welfare and safety of the ISF-beneficiaries. Although the choice of the housing project is through the People's Plan, SHFC Management should have assessed if the property chosen by the HOA is fit for a housing community in order to ensure the safety and health of the ISF-beneficiaries.

4.14 Examination of the consolidated reports on the status of HDH Projects submitted by the HDH Division as at December 31, 2018, disclosed that the total cost incurred to date amounted to P410.628 million, or 75.30 per cent of the project cost (site development and building structures) as detailed below:

Draw down	Date	Check Number	Net Amount	Gross Running Amount	Per cent of Completion
1st	02/11/2016	62183	38,479,537	51,306,049	9.08
2nd	05/11/2016	62215	9,729,445	64,293,580	11.79
3rd	07/15/2016	62260	14,676,479	83,847,281	15.38
4th	09/19/2016	62305	4,261,056	89,528,689	16.42
5th	12/29/2016	62334	36,388,214	138,046,308	25.31
6th	09/07/2017	74326	108,016,850	282,067,775	51.73

Draw down	Date	Check Number	Net Amount	Gross Running Amount	Per cent of Completion
7th	01/18/2018	74386	40,000,000	410,628,210	75.30
			251,551,581		

4.15 On January 18, 2018, the amount of P40 million was partially released from the 7th drawdown totaling P96.418 million.

4.16 Despite the prolonged non-completion of the project by Contractor, SHFC did not impose liquidated damages nor implemented the remedies available under Articles XI and XIII, respectively, of the Building Construction and Site Development Agreement to cause immediate completion of the project.

4.17 The continuous delay in the completion of the project deprives the ISF-beneficiaries of having affordable and decent housing units. It likewise exposes the unfinished structures to a hastened wear and tear. This condition may result in the non-attainment of the objectives of the Program, and even non-recovery of the Corporate investment in housing.

4.18 **We recommended that Management:**

a. **Compute for and demand the payment of liquidated damages from the Contractor, pursuant to Article XI of the Building Construction and Site Development Agreement;**

b. **Implement the following remedies provided in the Agreement against the Contractor:**

- **Give written notice to the Contractor to proceed with such work and to perform such agreement; and**

- **If the Contractor fails to do so within seven days from receipt thereof, the HOA and SHFC shall have the option to proceed against the bond and enter the premises and to employ any other contractor to complete the work at the expense of the Contractor; and**

c. **As part of due diligence in future projects, ensure that SHFC undertake assessment of the contractor/developer and that loan releases are made only on the basis of duly validated Statement of Work Accomplishment pursuant to Sections 8 and 9 of Corporate Circular HDH No. 14-002 dated March 31, 2014.**

4.19 Management commented that the HOA project is already considerably delayed and that they have compelled the Contractor to finish or complete the project at the soonest possible time. In addition, Management, under the present administration discovered anomalous transactions that compelled the Board to order the temporary stoppage of the construction until the resolution of prejudicial issues, such as:

- The engineer known to the SHFC as the authorized representative of the contractor is not really an employee of the Contractor but is actually a mere representative of a Subcontractor A without SHFC's knowledge;

- The engagement of Subcontractor A and other secondary subcontractors who now allege that they were not properly paid by Subcontractor A for the services they rendered; and

- A technical validation was likewise conducted by SHFC, wherein the actual accomplishment was much less than the progress billing reports submitted by the Subcontractor A.

4.20 SHFC cannot legally entertain the claims of the subcontractors for it can only recognize the Contractor engaged by the HOA. But given the gravity of the allegations, SHFC Management was constrained to elevate the matter to the SHFC Governing Board and filed a case for interpleader on March 23, 2018 and deposit the check, portion of the seventh billing of P56,417,067, in court through judicial consignation. However, the said interpleader case was dismissed upon SHFC's instance in order for it to file the proper legal remedy.

4.21 Management had already made a tentative computation on the liquidated damages as reviewed by the SHFC Department of Engineering. A final computation will be undertaken at the time of the actual demand to pay the said liquidated damages.

4.22 Further, in order to prevent the same irregularities from happening again, SHFC has made the necessary reforms and amendments in its loan documents and revised its Building Construction and Site Development Agreement which includes a provision that expressly prohibits subcontracting of SHFC housing projects.

4.23 As a rejoinder, we stand by our recommendation that Management demand payment of liquidated damages and immediately avail of the remedies provided in the Agreement against the Contractor.

5. Absence of month-to-month contract extension for janitorial and security services with expired contracts in CYs 2017 and 2018 is contrary to the Revised Guidelines on the Extension of Contracts for General Support Services issued by the General Procurement and Policy Board (GPPB) and RA No. 9184. Payments amounting to P98.219 million were made for the services rendered.

5.1 To ensure continuous operations and avoid service interruptions, the GPPB issued Resolution No. 23-007 dated September 28, 2007 on the Revised Guidelines on the Extension of Contracts for General Services with the following provisions:

4.0 GENERAL CONDITIONS FOR EXTENSION

Procuring entities may extend the duration or effectivity of an on-going contract about to expire, under the following conditions:

4.1 No contract extension shall exceed one (1) year;

4.2 The original contract subject to the extension was awarded in accordance with the provisions of RA 9184 and its Implementing Rules and Regulations Part A (IRR-A);

4.3 The procuring entity concerned has substantially undertaken the procurement activities required prior to award of the new contract under Republic Act (RA) No. 9184 and its IRR-A;

4.4 The aforesaid contract extension is undertaken due to circumstances beyond its control and the procuring entity concerned cannot award a new contract within a month after the expiration of the term of the original contract;

4.5 The contemplated extension is merely an emergency measure to maintain status quo in the operations of the Procuring Entity and to avoid interruption of service;

4.6 The current service provider has not violated any of the provisions of the original contract;

4.7 The terms and conditions of the original contract shall not be changed or modified, except when changes or modifications will redound to the advantage of the government at no additional cost to the Procuring Entity.

5.0 PROCEDURAL REQUIREMENTS

All contract extensions shall be subject to the prior approval of the Head of the Procuring Entity or his/her duly authorized representative upon the recommendation of the Bids and Awards Committee.

In addition to the foregoing, if the proposed contract extension exceeds six (6) months, the Head of the Procuring Entity or his/her duly authorized representative shall immediately report to the Government Procurement Policy Board in writing of its intent to extend beyond six months.

5.2 RA No. 9184, or the Government Procurement Reform Act, provides the guidelines in the implementation of awarded contracts as a result of the procurement processes. Article IV, Section 10 thereof states that all procurements shall be done through Competitive Bidding except as provided for in Article XVI of the Act (Alternative Methods of Procurement).

5.3 Records show that contracts entered into by and between the SHFC anc the service providers for janitorial and manpower and general support, and the security services have expired on March 23, 2017 and June 22, 2017, respectively, with the following details:

General Service	Contract		Service Provider	Remarks
	Coverage	Amount		
Janitorial Services and Manpower & General Support	03/23/2016 to 03/23/2017	52,678,073	DBP Service Corporation	- no public bidding conducted after expiration of the contract - no extension was recommended by the BAC for approval of HoPE and no notification to GPPB was made after six months' extension
Security Services	06/22/2016 to 06/22/2017	6,021,616	DBP Service Corporation	- no public bidding conducted after expiration of the contract - no month-to-month extension was recommended by the BAC to HoPE and no notification to GPPB after 6 months' extension

5.4 Verification disclosed that as at December 31, 2018, no public bidding was conducted on the expired contracts. Continuous payments totaling P88.838 million for janitorial and manpower and general support services and P9.380 million for security services. Details of payment follow:

Payments After Expiration of Contract	Amount	
	Janitorial and Manpower and General Support Services	Security Services
April 2017	1,033,033	-
May 2017	7,201,607	-
June 2017	7,039,221	-
July 2017	7,034,336	505,053
August 2017	4,554,107	920,581
September 2017	300,944	322,974
October 2017	1,794,366	319,931
November 2017	1,259,234	714,365
December 2017	3,597,573	610,480
January 2018	-	-
February 2018	4,701,827	532,571
March 2018	4,733,599	666,700
April 2018	8,475,395	203,310
May 2018	7,230,393	-
June 2018	8,092,193	260,389
July 2018	2,571,596	1,474,842
August 2018	5,980,579	806,952
September 2018	3,808,000	835,037
October 2018	3,407,814	1,033,631
November 2018	6,022,641	203,479
December 2018	-	-
	88,838,458	**9,410,295**

5.5 Interviews with the Procurement Department disclosed that no contract extension on a month-to-month basis had been undertaken since they were not aware that the contracts with the service provider had already expired. Further, the Head of the Procuring Entity or his duly authorized representative did not notify the GPPB in writing of their intention to extend the contract beyond six months as a procedural requirement.

5.6 The month-to-month maximum allowable extension was merely an emergency measure to avoid interruption of services whereby SHFC could have substantially undertaken the procurement activities required prior to award of a new contract. Non-compliance with the prescribed procedure has defeated the principle of a competitive bidding where equal opportunity is given to private contracting parties who are eligible and qualified to participate.

5.7 Thus, payments totaling P98.249 million for the janitorial and security services in CYs 2017 and 2018 with no covering contracts are contrary to the Revised Guidelines on the Extension of Contracts for General Support Services issued by the GPPB and RA No. 9184, rendering the transactions irregular pursuant to COA Circular No. 2012-003.

5.8 **We recommended and Management agreed to:**

a. **Immediately subject the procurement of janitorial and security services to competitive bidding process; and**

b. **Strictly comply with RA No. 9184 on the rules and regulations on the procurement of support services.**

5.9 Management commented that the procurement of support services (manpower and general services which include janitorial) was already conducted and the same has been awarded to DBP Services Corporation. The procurement for security services is still ongoing. The terms of reference for the procurement of security services was submitted to the BAC Secretariat on February 04, 2019, and the procurement activities for this project will be expedited commencing on March 21, 2019 and is expected to be completed on April 16, 2019.

6. **Collective Negotiation Agreement (CNA) incentive amounting to P5.658 million was granted by SHFC to its 230 officers and employees despite accomplishment below the required rating based on SHFC's Performance Scorecard on Key Performance Indicators as approved by the Governance Commission for GOCCs (GCG), contrary to DBM Budget Circular No. 2018-05.**

6.1 Section 4.1 of DBM Budget Circular No. 2018-05 dated November 14, 2018 provides the following guidelines on the grant of Collective Negotiation Agreement (CNA) Incentive for FY 2018, and providing for the conditions for the grant, thus:

4.1.2 Conditions for the Grant of the CNA Incentive

Accomplishment of Targets

xxx

b. GOCCs covered by RA No. 10149, s. 2011 should have accomplished, by September 30, 2018, at least an average of 70% of all the targets under their respective Performance Scorecard, as agreed upon between the Governance Commission for GOCCs (GCG) and the GOCC pursuant to GCG Memorandum Circular No. 2017-02 dated June 30, 2017.

6.2 The Board of Directors, through Board Resolution No. 695, series of 2018, approved the grant of CNA Incentives to Management and rank-and-file employees for CY 2018.

6.3 Review of the payroll for the CNA incentives revealed that each of the 230 qualified officials and employees received P25,000, except for other personnel who were given pro-rated equivalents, depending on their length of employment in the Corporation. Summary of payments is shown below:

Length of Service	No. of Employees	Gross Amount	Tax Due	Agency Fee	Net Amount
Full (100%)	224	5,600,000	1,300,465	48,000	4,251,535
3-4 months (50%)	1	12,500	3,125	750	8,625
2-3 months (40%)	3	30,000	-	1,800	28,200
1-2 months (30%)	2	15,000	-	1,500	13,500
Less than 1 month (20%)	-		-	-	-
	230	**5,657,500**	**1,303,590**	**52,050**	**4,301,860**

6.4 Verification of the disbursements and the supporting documents revealed that SHFC has accomplished only an average of 57 per cent of its targets based on the Updated Status of Accomplishment under its Performance Scorecard as approved by the GCG for CY 2018 and which was communicated in a letter dated 06 March 2019. As at December 31, 2018, Management has not yet received the final scoring from GCG. The status of accomplishment showing an average of 57 per cent is presented below:

Performance Indicator	Weight	Accomplishment Rate	Weighted Rating
SM 1: Utilization of Housing Subsidies for the Provision of Shelter Security and Improved Housing Quality	35%	63.34%	22.17%
Sub-Total	**35%**		**22.17%**
STAKEHOLDERS			
SM 2: Percentage of Satisfied Customers	**10%**	60.00%	0.00%
Sub-Total	**10%**		**0.00%**
FINANCE			
SM 3: Improve Collection Efficiency	**10%**	82.20%	0.00%
SM 4: Increase Net Operating Income (Before Tax and Subsidy)	**10%**	184.44%	10.00%
SM 5: Improve Budget Utilization Rate	**10%**	75.27%	0.00%
Sub-Total	**30%**		**10.00%**
INTERNAL PROCESS			
SM 6: Improve Support Systems for Effective and Efficient Processes	**10%**	100.00%	10.00%
Sub-Total	**10%**		**10.00%**
LEARNING AND GROWTH			
SM 7: Attain Quality Management Certification	**10%**	100%	10.00%
SM 8: Percentage of Employees Meeting Required Competencies	**5%**	100.00%	5.00%
Sub-Total	**15%**		**15%**
TOTAL	**100%**		**57.17%**

6.5 Thus, the payment of CNA incentive is contrary to Section 4.1 of DBM Budget Circular No. 2018-05 requiring SHFC to have accomplished by September 30, 2018 at least an average of 70% of all the targets under its Performance Scorecard as approved by GCG and thus constitutes an irregular disbursement under COA Circular No. 2012-003.

6.6 **We recommended that Management make representation with the GCG for the final score of the Corporation based on the GCG-approved Performance Scorecard.**

6.7 Management commented that SHFC has an average accomplishment rate of 82.92 percent for all its targets as declared in the Performance Scorecard. As at September 2018, SHFC had already achieved an accomplishment rate of 70.75 per cent and was declared to the SHFC Board of Directors on December 14, 2018 when it gave its approval to the request of the SHFC Employees Association Incorporated, for the grant of CNA cash incentive.

6.8 Management also commented that the updated status of accomplishment is not yet final and at the same time still unofficial for several reasons:

a. The results of the accomplishments in some of the targets were not yet fully completed at the time of submission on March 6, 2019;

b. The accomplishment reports and ratings are submitted to GCG regularly however crucial questions regarding the GCG's evaluation framework remained unresolved.

6.9 SHFC Management at this point takes the position of the time honored Constitutional principle of social justice as repeatedly affirmed by the Supreme Court in countless instances that any ambiguities or insufficiencies in the application of laws/circumstances concerning employees' welfare shall be resolved in favor of labor.

6.10 As a rejoinder, Management has to submit its final score based on the Performance Scorecard approved by the GCG. SHFC, in a letter dated 06 March 2019, communicated to the GCG its status of accomplishment as at December 31, 2018 with an average score of 57.17 per cent, using the target of 24,000 Informal Settler Families (ISFs) under Strategic Measure (SM) 1, corresponding to the utilization of housing subsidy for the provision of shelter security and improved housing quality, although GCG approved the target of 52,600 ISFs under its Performance Indicator. If based on the latter, the average score would be 35 per cent. Further, SHFC is yet to submit its accomplishment on SM 2, or customers' satisfaction, which is equivalent to ten per cent of the weighted average.

7. Past due/in-default car loan amortizations amounting to P2.225 million of eight retired officers and former members of the Board of Directors remain uncollected as at December 31, 2018, contrary to the IRR of the SHFC Officers Vehicle Acquisition Assistance Program (VAAP), resulting in the non-recovery or loss of the funds expended for the car loan program.

7.1 The SHFC Officers VAAP, approved through Board Resolution No. 169, series of 2009, involves the granting of assistance, by way of Chattel Mortgage Loan, to the eligible SHFC Officers for them to acquire their own vehicles to afford them adequate support and efficiency in carrying out their official functions. SHFC established a Fund from the corporate general fund to finance the grant of loans.

7.2 Paragraph III of the IRR for the SHFC Officers, VAAP defines Officers which shall mean the Chairman and members of the governing SHFC Board of Directors and all permanent SHFC personnel occupying positions of Salary Grade 22 and above and shall not include casuals, consultants, retainers or contractual employees and other engagements of similar nature.

7.3 Paragraph VIII of the same IRR on the Termination of Officers Employment from the Corporation states that:

> *In case of separation from the service of the Officer-Availee, the Chattel Mortgage Agreement shall continue to be in force and effect until such time the Officer concerned is declared by the Corporation to be in default, as such, the total loan obligation shall become due and demandable and/or the Corporation can proceed to exercise the remedies enumerated under these rules:*
>
> a. *Declare the obligation due and demandable;*
>
> b. *Forfeiture of last salary, benefits and other receivables from its Corporation including proceeds from Provident Fund;*
>
> c. *Extrajudicially enforce the Deed of Reconveyance or Deed of Sale and/or Chattel Mortgage Agreement and immediately repossess the motor vehicle from the Officer concerned.*

7.4 Verification of the subsidiary ledgers of the car loan officer-availees revealed that five retired SHFC officers and three former members of the Board who have availed of the car loan program were with defaulted/unpaid amortizations for five months to more than five years as detailed below:

	Availee	Position	Date of Loan Approval	Maturity of Loan	Loan Value	Loan Balance 12/31/2018	Last loan Payment	Past Due	Status
1.	A	Member of the Board	7/2009	6/2019	500,000	300,000	6/2013	5 yrs./6 mos.	Expired Term
2.	B	Member of the Board	1/2010	12/2019	1,180,000	662,500	4/2014	4 yrs./8 mos.	Expired Term
3.	C	Member of the Board	7/2009	6/2019	480,000	172,000	1/2016	2 yrs./11 mos.	Expired Term
4.	D	Officer	7/2009	6/2019	793,000	270,942	1/2016	2 yrs./11 mos.	Retired
5.	E	Officer	8/2009	7/2019	1,110,000	250,550	3/2017	1 yr./9 mos.	Retired
6.	F	Officer	6/2010	5/2020	1,200,000	270,000	2/2018	10 mos.	Retired
7.	G	Officer	7/2011	6/2021	815,000	250,144	5/2018	7 mos.	Retired
8.	H	Officer	9/2009	8/2019	500,000	49,167	7/2018	5 mos.	Retired
						2,225,303			

7.5 Inventory of the post-dated checks (PDC) issued by the officer-availees disclosed that checks with alterations and drawn against insufficient funds (DAIF) were not replaced. Details follow:

	Availee	Bank	Check date	Check No.	Amount	Remarks
1.	F	PBB	1/30/19	361311	10,000	With alteration
2.	I	PNB	2/1/19	1046067	10,000	With alteration
3.	H	RCBC	12/18	365864	5,000	Drawn against insufficient funds (DAIF)

7.6 The IRR of the car loan program provides that the Administration Department and Controllership Department shall collect the monthly amortization payments from the Officers-availees through salary deduction. Inquiry from Management disclosed that post-dated checks were allowed as payment after the retirement of the officers, hence, clearance were given to said officers, without deducting the loan balances from their last money claims.

7.7 Further, the IRR of the car loan program as earlier mentioned, provides that, in case of default, the total loan obligation shall become due and demandable and the Corporation can proceed to exercise remedies.

7.8 Further inquiry with Management disclosed that no demand letters were sent to the defaulting officer-availees, nor actions were initiated to collect the amortizations due. Verification revealed that there was no forfeiture of last salary, benefits and other receivables from SHFC including proceeds from Provident Fund, or enforcing extrajudicially the Deed of Reconveyance or Deed of Sale and/or Chattel Mortgage Agreement and immediate repossessing of the motor vehicle from the Officer concerned, as provided under the said IRR.

7.9 Non-collection of past due car loan amortizations and inaction by Management to enforce collection resulted in the non-recovery or loss of funds expensed by SHFC in the car loan program.

7.10 **We recommended and Management agreed to:**

a. **Immediately collect the total car loan obligation from the retired officers and former members of the Board;**

b. **Extrajudicially enforce the Deed of Reconveyance or Deed of Sale and/or Chattel Mortgage Agreement and immediately repossess the motor vehicle from the Officer concerned; and**

c. **Exercise immediately the legal remedies provided under the IRR of the SHFC Officers VAAP.**

7.11 Management commented that the names of the defaulting Officer-availees will be endorsed to Legal Department for sending of final demand letters within March 2019. Also, after communicating the observations to the officers concerned, Officers E and G immediately updated their amortizations/payments by paying the total amounts of P222,000 and P54,333, respectively.

7.12 For items b and c, Management will pursue the immediate implementation of legal remedies stipulated in the IRR for SHFC Officers VAAP which is initially to issue final demand letter/s to the six Officer-availee/s who are in-default and to implement strict monitoring of amortizations/payments in order to immediately act on accounts that will become due and demandable. And if necessary, Management will enforce the signed Deeds of Reconveyance to repossess the motor vehicles in favor of the Corporation by the 2nd quarter of 2019.

8. **Unserviceable equipment items with acquisition cost of P1.567 million which have long been stored and occupying space in the office, remain undisposed, contrary to Section 79 of PD No. 1445 and COA Circular Nos. 89-296 and 2004-008, resulting in their further deterioration.**

8.1 Section 79 of PD No. 1445 on the destruction or sale of unserviceable property, provides that:

> *When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, such price as may be fixed by the same committee or body concerned and approved by the Commission.*

8.2 COA Circular No. 89-296 dated January 27, 198, on the other hand, provides the guidelines on the different modes of disposition/divestment of assets and properties, such as public auction, sale thru negotiation, barter, transfer to other government agencies and destruction/condemnation.

8.3 Further, COA Circular No. 2004-08 states that the value of obsolete and unserviceable property awaiting final disposition as well as those assets still serviceable but are no longer being used, should be reclassified to Other Assets account.

8.4 Review of the report on physical inventory as at December 31, 2018 disclosed that there are various unserviceable assets with a total acquisition cost of P1.567 million. During the conduct of physical inventory, the concerned personnel were able to segregate the unserviceable items in the said report. However, these items remain undisposed for a number of years already.

8.5 The summary of unserviceable assets is shown below:

Description	Amount
Office Equipment	188,360
IT Equipment and Software	1,378,488
	1,566,848

8.6 Inquiry from Management disclosed that non-disposal was due to the unavailability of records pertaining to the properties to support the disposal.

8.7 Thus, unserviceable property and equipment that remained undisposed for several years is contrary to Section 79 of PD No. 1445, exposing them to further deterioration that would preclude getting better prices for its disposal. Aside from the non-realization of possible income from sale, said unserviceable assets occupy space that could have been used for other better uses, such as to store official records.

8.8 **We recommended that Management gather/restructure available data required for the immediate disposal of all unserviceable property and equipment in accordance with the modes prescribed under COA Circular No. 89-296.**

8.9 Management commented that they will account all unserviceable property and immediately submit to the Technical Service Department for immediate appraisal as the basis for determining the minimum bid price as the first step in the disposal of property.

9. Cashiers/Tellers

a. The two Collecting Tellers were outsourced personnel, not officially designated and not accordingly bonded, contrary to Section 101 of PD No. 1445 and Sections 4.1 and 6.2 of Treasury Circular No. 02-2009, exposing the Corporation to the risk of non-replacement/recovery of government funds in case of shortages, defalcations and unrelieved losses.

9.1 Section 101 on Accountable officers and bond requirements, of PD No. 1445 provides the following:

> 1. *Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.*
>
> 2. *Every accountable officer shall be properly bonded in accordance with law.*

9.2 Sections 4.1, 6.1 and 6.2 of Treasury Circular No. 02-2009 provides the following:

> 4.1 *Public Officers Covered - Every officer, agent, and employee of the Government of the Philippines or the companies or corporations of which the majority of the stock is held by the National Government (NG), regardless of the status of their appointment, shall whenever the nature of the duties performed by such officer, agent or employee permits or requires the possession, custody or control of funds or properties for which he is accountable, be deemed a bondable officer and shall be bonded or bondable and his fidelity insured.*
>
> *xxx*
>
> 6.1 *Primary Liability – The head of any government agency at all levels, whether national corporate or local is primarily responsible and accountable for all government funds and property pertaining to his agency.*
>
> 6.2 *Duty to Notify – All Heads of Agency shall, upon appointment or lawful accession by any accountable public officer to a bondable position or office pertaining to their respective jurisdiction, or separation therefrom of any such public officer, notify in writing the Treasurer of the Philippines, through the BTr Provincial Office (PO)/District Office (DO) having jurisdiction over the agency/office /GOCC/LGU/SUC within five (5) days such appointment, lawful accession or separation and to submit the required application for bond or cancellation thereof, as applicable.*

9.3 From the moment he assumes the duties of the office, an Accountable Officer whose fidelity is insured in the Fidelity Fund Division of the BTr is considered bonded to the Government for the faithful performance of all duties imposed upon him by law and for the faithful accounting of all funds and public properties that come into his possession, custody or control by appropriation, collection transfer or otherwise, as well as for the lawful payment, disbursement and expenditure or transfer of all such funds or public properties in his custody, possession or under his control as accountable or responsible officer.

9.4 The Fidelity Fund shall be available for the purpose of replacing defalcations, shortages, unrelieved losses in the accounts of bonded public officers, for the payment of fees and costs incident to civil proceedings brought against them to recover sums paid on their account from said Fund.

9.5 During the conduct of cash examination, the two personnel acting as Tellers were not able to present the Office/Special Order or any document officially designating them as collecting officers, and both were not bonded. They are outsourced personnel with the positions of Technical Staff III and IV who started performing collection functions in September 2017 and May 2018, respectively, replacing permanent and regular employees who were designated to other departments.

9.6 The accountability of one teller, during the conduct of cash examination, posted a daily average collection of P800,000. The Tellers perform over-the-counter collections which are turned-over to the Head Cashier at the end of the day to form part of his accountability to be deposited on the next banking day. The Head Cashier oversees the over-the-counter collections and is primarily responsible for the administration of collections and deposits. He is officially designated and a bonded permanent employee of the Corporation.

9.7 Collection functions being performed by the two outsourced personnel who are neither officially designated nor bonded with the BTr are contrary to PD No. 1445 and Treasury Circular No. 02-2009, thus, exposing the Corporation to the risk of non-recovery of funds in case of loss.

9.8 **We recommended and Management agreed to properly designate and secure approved bond from the BTr for employees whose duties require the possession or custody and control of government funds or property.**

9.9 Management commented that the Treasury Group has submitted their request for additional plantilla position for cashiers/tellers. In the meantime, they have no choice but to utilize contractual personnel to do tellering/cashiering function. Nevertheless, the accountability was retained and assumed by the authorized bonded officer in favor of the outsourced employees to mitigate the risk of non-replacement/recovery of government funds in case of shortages, defalcations and unrelieved losses. As recommended, Management will issue corresponding official designation as accountable collecting officers and respective fidelity bonds will be secured from the BTr.

b. **Fidelity bonds of two former Accountable Officers of the Treasury Department were still renewed, despite their having been transferred to other departments and whose functions do not require the possession, custody or control of funds or properties, contrary to Section 7.4 of Treasury Circular No. 02-2009, thus, entailing unnecessary expenses in the form of premium payments.**

9.10 Section 7.4 of Treasury Circular No. 02- 2009 provides that:

> *The Head of Agency or authorized representative shall immediately submit a written request for bond cancellation to the concerned BTr involving accountable public officers who are no longer accountable by reason of retirement, separation from service, promotion, transfer, suspension from office or any cause rendering them not to be bondable to their present position.*

9.11 In May 2018, the Cashier III/Collecting Officer, was transferred to Human Resource Department, while the Account Examiner III/Collecting Officer, was transferred to FCD in June 2018. However, their bonds were still renewed for the period June 4, 2018 to June 4, 2019, instead of having them cancelled.

9.12 The former accountable officers, who were already transferred to other departments, carried with them their existing positions as Cashier and Account Examiner III but their respective functions do not require possession or custody and control of funds.

9.13 Non-cancellation of the fidelity bond of former Accountable Officers is contrary to Section 7.4 of Treasury Circular No. 02-2009 cited above, entailing unnecessary expenses to the Corporation in the form of premium payments.

9.14 **We recommended that Management:**

a. **Submit the request for the cancellation of the Fidelity Bond of the two Accountable Officers who no longer function as such pursuant to Section 7.4 of Treasury Circular No. 02-2009; and**

b. **Strictly monitor the period of effectivity of the Fidelity Bonds of Accountable Officers and do not renew the bond on its expiration of those whose function no longer require the possession, custody and control of government funds.**

9.15 Management commented that the transfer of these accountable officers is not final and may at any time return to their former positions so they have deferred cancellation of their fidelity bonds. They have also coordinated with the Administrative Department to strictly monitor the effectivity of Fidelity Bonds of Accountable Officers and recommended not to renew the Fidelity Bond upon expiry date.

9.16 As a rejoinder, we stand by our recommendation that Management applies for the cancellation of the Fidelity Bond of officers who no longer require the possession, custody and control of government funds.

c. **Eight pieces/set of unused Community Mortgage Receipts (CMRs) and two pieces/set of unused Official Receipts (ORs) were detached from the booklet currently being used by the Tellers during the cash count, contrary to Section 123 of PD No. 1445 which may result in the possible misplacement or loss of unused CMRs/ORs or even unauthorized/fraudulent collection of funds.**

9.17 Section 123 of PD No. 1445 on the Definition of Internal Control states:

> *Internal Control is the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.*

9.18 Conduct of count on the unused accountable forms disclosed that eight pieces of CMRs (numbers 0789404 to 0789411) and two pieces of ORs (numbers 2609056C and 2609057C) were already detached from the booklet. According to the Teller, it is for efficiency purposes/saving time in the issuance of accountable forms.

9.19 The practice of detaching the unused accountable forms when not yet for immediate issuance is not a sound internal control, risking misplacement or loss of the CMRs/ORs or may result in possible unauthorized or fraudulent collection of funds.

9.20 **We recommended and Management agreed to require the Tellers to:**

a. **Stop the practice of detaching CMRs/ORs from the booklet if not for immediate issuance; and**

b. **Exercise due care and keep the unissued accountable forms intact and attached to the booklet.**

d. **One piece of CMR and one piece of OR were pre-signed by one Teller who was on leave of absence for the period July 3, 2018 up to July 29, 2018, defeating the objectives of internal control, thus, exposing the Corporation to the risk of unauthorized or fraudulent collection and possible loss of public funds.**

9.21 Validation of the Monthly Statement of Accountability for Accountable Forms without Money Value disclosed that the last CMR and OR that the Teller issued before going on leave of absence was CMR No. 0789403 and OR No. 2609054C. However, verification of the unused accountable forms of the Cashier II/ Collecting Officer, disclosed two detached CMR No. 0789404 and OR No. 2609055C which were already signed by him despite his leave for two weeks.

9.22 The practice of pre-signing accountable forms is exposing the Corporation to the risk of unauthorized or fraudulent collections and possible loss of public funds.

9.23 **We recommended and Management agreed to:**

a. **Immediately discontinue the practice of pre-signing CMRs and ORs; and**

b. **Strictly implement sound internal control, especially on the issuance of accountable forms.**

e. **There were 28 CMRs cancelled due to various deficiencies of information on the checks received by the Tellers/Cashiers for payment, contrary to Clearing House Operation Memorandum (CHOM) No. 15-460A issued by the**

Philippine Clearing House Corporation, resulting in the accumulation of unpaid housing loan amortizations and additional cost to the Corporation for the cancelled CMRs.

9.24 CHOM No. 15-460A provides that:

> *Effective January 4, 2016, any check that shows or indicates on its face any erasures or alterations regardless of any signature or initials that appear to indicate authorization of the alteration or erasure shall no longer be eligible or acceptable for clearing except post-dated checks bearing the bank stamped specified warehouse check.*

9.25 Verification of cancelled CMRs disclosed the following deficiencies of checks received for payment of loan amortizations when presented to the bank for deposit:

Reasons	No. of CMRs
Checks in old format	15
Error/alteration in amount of words/figures	8
Lack of signature	2
Post-dated checks	2
Wrong payee	1
	28

9.26 These could have been avoided had the Teller/Cashiers scrutinized the accuracy and completeness of information written on the checks received for payment before the issuance of CMRs.

9.27 **We recommended and Management agreed to exercise due care in scrutinizing the checks presented for payment to ensure completeness and correctness of information on the face of the check.**

f. **A total of 155 ORs and CMRs were cancelled due to laxity in the preparation of Order of Payment and the preparation and printing of the receipts, resulting in the incurrence of additional cost to the Corporation for the replacement of spoiled accountable forms.**

9.28 Verification of the report of cancelled accountable forms revealed that there were 139 CMRs and 16 ORs that were cancelled for the following reasons:

Reasons	No. of CMRs	No. of ORs	Total
Error in the preparation of Order of Payment	71	8	79
Encoding Error of Teller	46	8	54
Printing Defect	19	0	19
Skip Printing	3	0	3
Total	**139**	**16**	**155**

9.29 Cancellation of CMRs and ORs could have been avoided or minimized had the Tellers/Cashiers and the personnel-in-charge in the preparation of Order of Payment been cautious in the preparation and in the printing of the receipts. The deficiency results in incurrence of additional cost to the Corporation for the replacement of spoiled accountable forms.

9.30 Moreover, summary of Cancelled CMRs/ORs including all copies of the cancelled accountable forms is not submitted to COA on a monthly basis for verification in audit.

9.31 **We recommended that Management:**

a. **Require the Accounts Management Department to exercise utmost due care in the preparation of Order of Payment and in the printing of CMRs and ORs and to verify correctness of information in the Order of Payment to avoid spoilage; and**

b. **Require the tellers of the Cash Management Department to submit monthly report of cancelled accountable forms stating the reasons for cancellation, including the complete set of all the cancelled accountable forms.**

9.32 Management commented that most of the defects occurred during the transition to the new IT program installed by ISD which were rectified thereafter. The Treasury Group (TG) Officers will coordinate with the department in charge of the processing of Order of Payment, as well as remind the Tellers/Cashiers to exercise due care in the preparation and printing of receipts.

g. Monthly Reports of Accountability for Accountable Forms (MRAAF) Without Money Value by each Cashier were not prepared and submitted to COA, contrary to Section 100 of PD No. 1445, resulting in the delay in the conduct of the mandatory audit and difficulty in the reconciliation and monitoring of accountable forms received and issued at any given month.

9.33 Section 100 of PD No. 1445 provides that:

> *Disbursing officers in any government agency shall render monthly reports of their transactions pursuant to regulations of the Commission to be submitted not later than the fifth day of the ensuing month to the auditor concerned who shall conduct the necessary examination and audit within thirty days from receipt thereof.*

9.34 Verification of the MRAAF from the Treasury Department disclosed that only the reports of accountability issued by the Cashier to various accountable officers nationwide were submitted to COA. The Cashiers/Tellers performing collecting/cashiering functions do not prepare MRAAF for their receipt and issuance of accountable forms.

9.35 Thus, non-submission of monthly MRAAF without money value by the Tellers/Cashiers resulted in delay in audit, especially in the reconciliation and the monitoring of the movement of the accountable forms.

9.36 **We recommended and Management agreed to immediately require all Cashiers to prepare the MRAAF every fifth of the following month and submit to COA for the mandatory audit.**

h. The Head Cashier also acts as the Petty Cash Custodian, contrary to Section 123 of PD No. 1445, defeating the purpose of internal control on the proper segregation of duties and responsibilities to reduce the risk of error or fraud. Likewise, replenishments were not properly recorded in the cashbook, resulting in incomplete recording of transaction details for easy monitoring and reconciliation.

9.37 Section 123 of PD No. 1445 states that:

> *Internal control is the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.*

9.38 The Internal Control Structure Manual on control activities states:

> *Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.*

9.39 During the cash examination, the Audit Team learned that the Head Cashier was also the Petty Cash Custodian. This is contrary to sound internal control system and defeats the purpose of proper segregation of duties for check and balance as these are incompatible functions.

9.40 Verification of the Cashbook of the Petty Cash Custodian disclosed that entries were not properly recorded, such that amounts of replenishments were posted directly in the running balance column, instead of posting first under the debit column, hence not reflecting the details of the transactions (like check number and date) for easy monitoring and reconciliation.

9.41 **We recommended and Management agreed to:**

a. **Segregate the functions of the Head Cashier and Petty Cash Custodian to two employees for sound internal control; and**

b. **Require the Accountable Officer to properly accomplish the cashbook by recording transactions chronologically, showing in the Particulars column the details of the transactions and posting the corresponding amounts in the debit and credit columns before showing the balance.**

i. **There were 380 General Fund 1 (LBP) checks with covering serial numbers 468921 to 469300 which were printed in the old format that is no longer acceptable to banks, contrary to Memorandum Circular No. 3126 of the Philippine Clearing House Corporation (PCHC).**

9.42 Philippine Clearing House Corporation Memorandum Circular No. 3126 states that:

> *Banks should no longer accept checks with the old format design effective July 1, 2017. As most old format Checks lack the security features embedded in the new format, non-acceptance will mitigate if not avoid fraud that may be attempted within an image clearing environment. PCHC will only accept and process Checks that comply with the New Check Design Standards and Specifications.*

9.43 Inventory of unused accountable forms disclosed that there were still 380 General Fund 1 LBP Checks which were already considered in the old format and no longer accepted by the banks that are in the custody of the accountable officers.

9.44 The LBP Checks originated from NHMFC, way back in 2006, when the CMP account was transferred to SHFC.

9.45 **We recommended and Management agreed to cancel all checks in the old format and submit to the Office of the Auditor with proper report as corroborating evidence for proper disposal.**

10. **Public bidding was not conducted for the acquisition of insurance provider to manage the Group Mortgage Redemption Insurance (MRI) of loan borrowers of the CMP and other similar home financing programs of SHFC, contrary to RA No. 9184, otherwise known as the Government Procurement Reform Act, thus, defeating the principles of transparency, accountability, equity, efficiency and economy.**

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

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

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

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

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

10.6 All borrowers of the CMP and such other similar home financing programs who are not beyond the age of sixty-five at take-out/date shall be eligible for the Group MRI, including duly approved substitute member-beneficiary who was subjected to the mandated underwriting requirements.

10.7 The insurance pool, a private entity, is the insurance provider of the NHMFC, thus, when SHFC took over the administration of the social housing program for the formal and informal sectors in the low-income bracket, the existing insurance provider of NHMFC also took charge of the administration of the turned-over accounts by the NHMFC and the current accounts maintained by SHFC without undergoing public bidding. Verification disclosed that no public bidding was conducted in the acquisition of the insurance provider of the SHFC for its member-borrowers since its creation on January 20, 2004.

10.8 For the year 2018, SHFC had remitted to the insurance pool, Inc. the amount of P42.393 million for the MRI premiums of the housing loan member-beneficiaries.

10.9 Further verification disclosed that the MOA is silent as to the duration or validity of the Agreement. Article VIII of the Agreement on the effectivity/termination only states that the MOA shall be subject to termination by either party by giving notice to the other within 90 days prior to termination and it is understood that it shall include/cover those previously enrolled by the NHMFC.

10.10 Previously, Management commented that the selection of insurance provider was done through Quotations and Proposals which were submitted to the Chairman and Members of the Board. Further, upon review and based on the representation of the responsible officers of the SHFC, it would appear that the proposal of the insurance pool is the most viable and advantageous among the five insurance companies that submitted their proposals.

10.11 We then stressed that pursuant to Section 52.1 of RA No. 9184, Shopping is a method of procurement of goods whereby the Procuring Entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method shall be employed in the following cases:

a. when there is an unforeseen contingency requiring immediate purchase, the amount shall not exceed P200,000; and

b. procurement of ordinary or regular office supplies and equipment not available in the DBM-PS, in the amount not to exceed P1,000,000.

10.12 The process of only submitting price quotations is not applicable for the procurement of MRI coverage provider considering that for CY 2018 alone, SHFC disbursed P42.393 million to the insurance pool. The procurement should still be done through public bidding so that Management could secure the best provider at the lowest practicable price, for the benefit of the member-borrowers.

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

10.14 **We reiterated our prior year's audit recommendation that Management strictly complies with the provision of RA No. 9184 to conduct public bidding for the provisions of the group MRI to loan borrowers.**

10.15 Management commented that they sought the opinion of the Office of the Government Corporate Council (OGCC), on the possible termination of the present insurer which the OGCC opined that it would be premature to terminate the services of the insurance pool, for reason that it may cause confusion on the provision of insurance coverage to the outstanding member-beneficiaries and may result in provocation of a negative action on the part of the insurer considering that they have a long standing smooth business relationship with the insurance pool.

10.16 The Board, in a meeting on December 27, 2018, instructed Management to proceed with the termination of services of the present insurer and acquire a new one through public bidding in compliance with RA No. 9184. As part of the action taken, Management will consult with HDMF on the Terms of Reference (TOR), agreements and benefits attached to the insurance coverage the latter has implemented after procurement of its new insurer.

11. A total of 161 Disbursement Vouchers (DVs) amounting to P76.963 million for CY 2018 remained un-submitted as of audit date, contrary to Section 107 of PD No. 1445, Sections 7.1.1 and 7.2.1 (a) of COA Circular No. 2009-006 and Section 6.5 of COA Circular No. 95-006, delaying the conduct of mandatory post-audit and the timely implementation of audit recommendations should there be audit observations noted.

11.1 PD No. 1445, also known as the Government Auditing Code of the Philippines, provides that:

> *SECTION 107. Time and mode of rendering account – In the absence of specific provision of law, all accountable officers shall render accounts, submit their vouchers, and make deposits of money collected or held by them at such times and in such manner as shall be prescribed in the regulations of the Commission.*

11.2 COA Circular No. 2009-006 dated September 15, 2009 provides that:

> *Sec. 7.1.1 The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that; (a) the required financial and other reports and statements are submitted by the concerned agency officials in such form and within the period prescribed by the Commission; xxx*

> *Sec. 7.2.1 The Chief Accountant, Bookkeeper and other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that; (a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the auditor within the first ten (10) days of the ensuing month,*

11.3 COA Circular No. 95-006 dated May 18, 1995 also states that:

> *6.5 The officials involved in the daily recording of transactions in the books of accounts shall turn over the receipts and disbursement records with all paid vouchers and documents evidencing the transaction to the Auditor within ten (10) days from date of receipt of said documents.*

11.4 Inventory of DVs submitted to this Office revealed that as at December 31, 2018, SHFC processed a total of 3,813 DVs with a total amount of P2.607 billion of which only 3,652 DVs amounting to P2.530 billion were turned-over to the Audit Team for the mandatory post-audit, thus, leaving 161 DVs amounting to P76.963 million un-submitted as detailed below:

Month	Processed		Received by COA		Unsubmitted	
CY 2018	Qty.	Amount	Qty.	Amount	Qty.	Amount
January	344	380,246,394	344	380,246,394	-	-
February	339	311,106,840	339	311,106,840	-	-

Month CY 2018	Processed Qty.	Processed Amount	Received by COA Qty.	Received by COA Amount	Unsubmitted Qty.	Unsubmitted Amount
March	368	190,369,963	368	190,369,963	-	-
April	373	125,147,281	373	125,147,281	-	-
May	230	201,069,061	230	201,069,061	-	-
June	310	308,520,090	304	308,456,232	6	63,858
July	308	238,656,723	293	232,037,194	15	6,619,529
August	372	144,217,918	354	143,611,032	18	606,886
September	352	247,224,365	336	233,935,658	16	13,288,707
October	332	212,646,433	320	201,155,133	12	11,491,301
November	259	226,265,461	205	184,900,638	54	41,364,823
December	226	21,295,188	186	17,767,068	40	3,528,120
	3,813	**2,606,765,716**	**3,652**	**2,529,802,494**	**161**	**76,963,224**

11.5 Management explained that the delay was due to transmittal lag time to and from the Regional Offices.

11.6 Timely exercise of mandatory post-audit of the 161 DVs was not conducted as these remained un-submitted as of the AOM date, which may consequently result in the delay of timely implementation of audit recommendations should there be audit observations noted.

11.7 **We recommended that Management:**

a. **Immediately submit the 161 DVs with complete supporting documents for the conduct of mandatory post-audit; and**

b. **Strictly adhere to the provisions of PD No. 1445, COA Circular Nos. 2009-06 and 95-006 on the submission of DVs to COA.**

11.8 Management committed to issue office order instructing every Department to strictly adhere to the required timeline for the return of paid vouchers to the Treasury Group.

12. Acquisition of four drones, or remote-controlled system aircraft, amounting to P260,000 intended for SHFC's Regional Operations Offices for the survey of project sites was not supported with proper documentation, contrary to the Philippine Drone Regulatioinsuranns and the Manual of Standards for Aerodromes by the Civil Aviation Authority of the Philippines (CAAP). Moreover, in addition to the Environment Compliance Permit (ECC), DENR requires all project proponents to undertake an Engineering Geological and Geohazard Assessment.

12.1 Section 11.11.5 on Remote Piloted Aircraft System (RPAS) of the Philippine Civil Aviation Regulations under the Requirement for Certificate of Registration and Special Certificate of Airworthiness states that:

a. All RPA used for commercial operations are required to be registered with the Authority regardless of weight.

b. *Non-commercial Large RPA shall be duly registered with the Authority.*

c. *RPAs with a gross weight of 150 kgs and above are required to obtain a Special Certificate of Airworthiness (SCA) or an Experimental Certificate (EC) in accordance with PCAR Part 5.*

12.2 Section 11.11.6.2 RPAS Operator Certificate & Section 11.11.6.3 Pre-Application Requirements state that:

A. *An applicant for RPA Operator Certificate shall submit the following documents with the Authority:*

1. *A Letter of Intent*

2. *Duly Accomplished Pre-application Statement of Intent (PASI) Form for RPA operator certificate which shall include:*

(i) *details of:*
a. *the applicant's structure and organization;*
b. *its staff and their qualifications and experiences (including, in particular, the names, qualifications, experiences, duties and functions of the persons who are to be applicant's chief RPA controller and maintenance controller);*
c. *its facilities and equipment;*
d. *its practices and procedures; and*

(ii) *a general description of the proposed operations, including the type or types of RPA to be used.*

3. *The application shall be accompanied by a copy of each of the applicant's Manuals relevant to the operation of RPAs.*

4. *If the Authority reasonably needs more information about the applicant, or a document to arrive at a decision whether to certify the applicant as a RPA operator, it may ask the applicant in writing for information or a copy of the document.*

B. *The Authority may refuse to consider, or cease considering, the application until the applicant furnishes the information or copy of the document.*

12.3 Section 11.11.6.4 Application Requirements states that:

> a. *No person may operate an RPA for commercial operations unless the person holds an RPAs Operator Certificate.*
>
> b. *The applicant for RPAs Operator Certificate must hold the following documents:*
> *(i) User's manual issued by the Manufacturer;*
> *(ii) RPA Insurance/Third Party Liability (TPL);*
> *(iii) Special Certificate of Airworthiness (if applicable); and*
> *(iv) RPA Certificate of Registration issued by the Authority.*

12.4 Further, Section 3.1, Chapter 3 on the CAAP Manual of Standards for Aerodromes states that:

> *3.1.1.1 Under the provisions of CAR - Aerodromes 2.2.005*
>
> *a. Operators of aerodromes must hold an aerodrome certificate where:*
> *xxx*
> *(iii) the aerodrome is available for public use and has published non-precision or precision approach procedure and is not registered*
>
> *3.1.1.2 The applicant shall be owner of the aerodrome site, or have obtained permission from the owner to use the site as an aerodrome.*
>
> *3.1.1.3 The CAAP aerodrome certification process only addresses the aviation safety aspects of the aerodrome. It is the responsibility of the applicant to ensure that the use of the site as an aerodrome is in compliance with other national, provincial and local statutory requirements. The aerodrome certificates does not absolve the applicant from observing such requirements.*
>
> *3.1.1.4 Before submitting an application, an aerodrome operator (or intending aerodrome operator) must prepare an Aerodrome Manual, in accordance with the requirements set out in CAR-Aerodromes 2.2.065.*

12.5 Section 4 of COA Circular No. 2012-003 on Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures, states that:

> *Unnecessary expenditure pertains to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation.*

12.6 Section 53 of RA No. 9184 provides that:

> *Negotiated Procurement is a method of procurement of goods, infrastructure projects and consulting services, whereby the Procuring Entity directly negotiates a contract with a technically, legally, and financially capable supplier, contractor or consultant in any of the following cases:*
>
> a. *Two failed biddings- there has been failure of competitive bidding or limited source bidding for the second time;*
> b. *Emergency cases – in case of imminent danger to life or property during the state of calamity xxx*
> c. *Take-over of contracts;*
> d. *Adjacent or contiguous;*
> e. *Agency to agency;*
> f. *Scientific, scholarly or artistic work, exclusive technology and media services*
> g. *Xxx*

12.7 Drones are more formally known as unmanned aerial vehicles (UAVs) or unmanned aircraft systems that can be remotely controlled or fly autonomously through software-controlled flight plans in their embedded systems, working in conjunction with onboard sensors and Global Positioning System (GPS).

12.8 The Corporation purchased four drones amounting to P260,000 paid under Disbursement Voucher No. 2018103562 and Check No. 92523 dated November 13, 2018 with PO No. 2018-09-158 dated September 21, 2018, for the use of its four operational groups in the National Capital Region, Luzon, Visayas and Mindanao.

12.9 The four drones were procured under negotiated mode with a justification that these will be used by its operational groups for faster and more accurate survey of the project sites rather than depending on the current available resources on line. Management further stated that the drones will also help in assessing the current suitability of the specific lot area of the Corporation's projects as regards to land hazards such as landslide, flooding and storm surge by providing aerial footage that can be used in addition to GEO-hazard assessment reports from the Mines and Geosciences Bureau (MGB)/Department of Science and Technology (DOST).

12.10 The DENR, under Administrative Order (AO) No. 2000-28 dated March 14, 2000, provides that in order to adequately and comprehensively address and mitigate the possible effects/impacts of geologic hazards, it is required that in addition to the requirement for the issuance of ECC, all proponents of subdivision development projects, housing projects and other land development and infrastructure projects private or public, shall undertake an Engineering Geological and Geohazard Assessment. The MGB-DENR and DOST are government agencies responsible for the issuance of GEO-Hazard Assessment report.

12.11 In the aforementioned AO, each Regional Office of the MGB-DENR shall organize an Urban Geology Unit and shall be responsible for the geological site scoping, review and verification/validation of the Engineering Geological and Geohazard Assessment Report and shall provide expertise to the Environmental Impact Assessment Review Committee of the MGB-DENR.

12.12 Review of available documents disclosed that the Corporation purchased the drones without complying with the requirements prescribed under the Philippine Civil Aviation Regulations and CAAP Manual of Standards cited above.

12.13 Further verification disclosed that the four drones purchased are still in the Head Office of SHFC and have not been forwarded yet to the four Regional Operations Groups for the intended use.

12.14 Thus, the acquisition of four drones not supported with proper documentation from the authorized government agencies and unnecessary Drone-taken surveys for the engineering geological and geohazard assessment are contrary to the above-cited provisions of the Philippine Civil Aviation Regulations and the CAAP Manual of Standards, rendering the disbursement irregular and unnecessary.

12.15 **We recommended that Management**

a. **Submit the documents on the planning for the purchase of the drones including the specifications and intended benefits of the equipment purchased to justify its necessity; and**

b. **Issue the equipment to the concerned unit for the immediate use in accordance with the intended purpose.**

12.16 Management commented that they will verify if they are exempt from the requirements of the Philippine Civil Aviation Regulations and the Manual Standards for Aerodromes by the Civil Aviation Authority, given the technical specifications of the drones purchased, otherwise, they will submit to the audit recommendations on the proper documentation and training.

12.17 SHFC projects undertake Geohazard assessment before project approval to ensure that the site is suitable for housing and safe from hazard. The use of drones will facilitate the process of assessment and will complement the said Geohazard assessment through aerial view of the site, which may not be visible in satellite images or even in actual visits given the limits of human perception. There are physical conditions in the site that may be missed unless you get an aerial view.

12.18 Further, the drones are essential in providing aerial inspection of their clientele's current state of blightedness, which will support the need for the approval of a housing loan, considering that their mandate is not just to provide housing units in safe areas but also to improve the quality of lives and access to services of the families they assist.

12.19 The drones were not yet distributed for use as they are still arranging for compliance with these regulations, if necessary.

12.20 As a rejoinder, we stand by our audit recommendation that Management submit the planning documents prior to the purchase of drones, as well as the specifications of the said equipment.

13. Travel expenses amounting to P70,884 incurred for the Learning Exchange Program were not in accordance with the mandate of SHFC as provided under Executive Order No. 272. Moreover, airline ticket rebooking and other fees amounting to P13,212 were charged to travel expenses.

13.1 Section 2. Mandate under Executive Order No. 272 states that:

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

13.2 Item 3 of COA Circular No. 2012-003 dated October 29, 2012, provides that:

> *Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline.*

13.3 Learning Exchange Program welcomes Local Government Units (LGUs) who are interested to learn more about the programs of SHFC and to have an up-close and personal experience of its successful projects in Metro Manila for benchmarking.

13.4 Review of available documents disclosed that the purpose of the cash advance amounting to P206,000 was for the hotel accommodation, transportation, food and other expenses on November 2-3, 2017 by representatives/partners from the LGUs of Kapalong, Davao del Norte, Tagum City and Davao City, in the Learning Exchange Activity on the High Density Housing Program (HDHP) and Community Mortgage Program (CMP).

13.5 The invitation letters as approved by the Agency Head and sent to four Barangay Councilors stated that the expenses shall cover only the overnight accommodation and meals for the two-day activity.

13.6 Details of the travel expenses are shown below:

Particulars	Amount
Airfare from Davao City to Manila and vice-versa of 4 Barangay Councilors, including meals, lodging and incidental expenses for 2 days (P11,721 x 4)	46,884
Penalty fee due to double-booking. Initially booked for 8 passengers (P3,000 x 8)	24,000
	70,884

13.7 Further verification disclosed that penalty fees amounting to P24,000 for double booking of airline tickets was charged against corporate funds. This was due to miscommunication and lack of proper coordination of the officers who booked the tickets of the Barangay Councilors who attended the two-day activity.

13.8 Verification of documents also disclosed that rebooking and additional fees amounting to P13,212, considered as personal in nature, were charged against the corporate funds, to wit:

Check Number	Check Date	Amount	Particulars
81523	3/12/2018	2,616	Originally bound for Davao City but rebooked to Cotabato due to meeting with LGU – T'Boli on March 2, 2018
81986	4/26/2018	8,596	Failed to catch flight on time (6:00 AM. April 15, 2018)
91529	7/31/2018	2,000	Originally bound for Manila on July 1, 2018 but rebooked for July 2, 2018 due to a breakfast meeting in Davao City
		13,212	

13.9 Thus, travel expenses for the Learning Exchange Program totaling P70,884 which were not in accordance with the mandate of SHFC and the rebooking and other fees amounting to P13,212 which are personal in nature constitute irregular disbursements under COA Circular No. 2012-003.

13.10 **We recommended that Management demand for the refund of the travel expenses totaling P84,096, otherwise, the disbursement shall be disallowed in audit.**

13.11 Management commented that the conduct of learning exchange is within their mandate. They do learning exchange activities for their partners, namely the LGUs, communities, National Government Organizations, CMP Mobilizers the academe and others in order for the SHFC to deliver and reach their targets, the Informal Settler Families. This strategy is encapsulated in the Sustainability Development Framework in capacitating SHFC's partners.

13.12 Before Management can efficiently perform their role as partners, they do Capacity Building wherein they arrange their partners to make actual visits in successful communities who previously availed of the projects. In these visits, the communities discuss the history of the project and the challenges they encounter including the best practices.

13.13 The learning exchange is also a crucial tool for implementing Barangay-based City-wide Community upgrading approach to scale up and speed up its programs to more significantly make a dent on the enormous housing need.

13.14 On the issue of rebooking and additional fares amounting to P13,212, these were incurred due to an urgent call for a meeting with the LGU-T'boli requesting for site visits as well as meetings with the tribal leaders and members as part of expansion initiatives for the CMP.

13.15 As a rejoinder, we stand by our recommendation that Management refund the travel expenses totaling P84,096, otherwise, the disbursement shall be disallowed in audit.

14. Procurement of airfare tickets was still made through direct booking or travel agencies, instead of procuring them from the Department of Budget and Management-Procurement Service (DBM-PS) under the Government Fares Agreement (GFA) using the Philippine Government Electronic Procurement System (PhilGEPS), contrary to the Government Procurement Policy Board (GPBB) Resolution No. 11 -2017 and Sections 1, 2 and 6(b) of Administrative Order (AO) No. 17, series of 2011.

14.1 Administrative Order No. 17, s. 2011 dated July 28, 2011 on the use of the procurement service and the PhilGEPS in the procurement activities in accordance with Republic Act (RA) No. 9184, and improving the operation of the Procurement Service (PS), states:

> *Section 1 Reiteration of Policy. xxx... all government agencies shall procure their common-use supplies from the PS and use the PhilGEPS in all their procurement activities, including publishing all their bid opportunities and posting all their awards and contracts in it, in accordance with R.A. No. 9184.*
>
> *Section 2. Coverage. This Administrative Order shall apply to all National Government Agencies, including Military and Police Units; Government-Owned and/or –Controlled Corporations (GOCCs); Government Financial Institutions (GFIs); State Universities and Colleges (SUCs); and Local Government Units (LGUs).*
>
> *Expansion of Product List. Regularly conduct a survey to determine other products commonly purchased by procuring entities for addition to the list of common use supplies.*

14.2 GPPB Resolution No. 11-2017 dated March 10, 2017 states that:

> *Airline tickets will be treated as a Common-use Supplies and Equipment item to be purchased from the DBM-PS, subject to reasonable advance payment terms to be set by the DBM-PS.*

14.3 Validation of the liquidations of cash advances for travel disclosed that procurement of airfare tickets was still made through direct booking with various airline companies or travel agencies, instead of procuring them from the DBM-PS under the GFA using the PhilGEPS.

14.4 Inquiry with Management disclosed that the MOA between SHFC and DBM-PS is yet to be drafted, although SHFC has already undergone a series of coordination with the DBM-PS and prepared a draft Office Order for the implementing guidelines for the GFA to be presented to the Board. Search from the website of DBM on the frequently asked questions disclosed that all government procuring entities should be enrolled in the GFA through the PS-PhilGEPS by March 31, 2017.

14.5 Thus, procurement of airfare tickets made through direct booking or through travel agencies is not in accordance with Administrative Order No. 17.

14.6 **We recommended and Management agreed to comply with the requirements of PhilGEPS in adopting the GFA.**

15. The amount allocated for Gender and Development (GAD) programs, projects, and activities (PPAs) was only P7.716 million or .003 per cent, instead of P138.068 million which is five per cent of the approved Corporate Operating Budget (COB) amounting to P2.761 billion, contrary to Joint Circular No. 2012-01 issued by the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM). Out of the total allocation, only P2.931 million or 38 per cent was utilized, reducing the opportunity of women and other concerned parties to participate and benefit from the GAD PPAs. Moreover, two out of the 12 planned GAD activities were not implemented.

15.1 GAD refers to the development perspective and process that is participatory and empowering, equitable, sustainable, free from violence, respectful of human rights, supportive of self-determination and actualization of human potentials. It seeks to achieve gender equality as a fundamental value that should be reflected in development choices and contends that women are active agents of development, not just passive recipients of development.

15.2 Joint Circular No. 2012-01 issued by the PCW, NEDA and DBM prescribes the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GAD plan and budget (GPB), and GAD accomplishment report (AR).

15.3 Paragraph 2.3 of the above Joint Circular states that:

> *Pursuant to the MCW and the General Appropriations Act (GAA), all government departments, including their attached agencies, offices, bureaus, state universities and colleges (SUCs), government-owned and controlled corporations (GOCCs), local government units (LGUs) and other government instrumentalities shall formulate their annual GPBs within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. GAD Planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five percent (5%) of their total budgets. The computation and utilization shall be implemented in accordance with the specific guidelines provided therein.*

15.4 Considering that the total COB of the Corporation for CY 2018 amounted to P2.761 billion, the budget allocated to GAD should have been P138.068 million which is five per cent, instead of P7.716 million and which could have been allocated or attributed to GAD PPAs.

15.5 For CY 2018, audit revealed that out of the approved budget of P7.716 million for GAD, AR showed that only P2.931 million or 38 per cent was utilized for GAD actual expenditures as shown below:

Programs, Projects and Activities	Implemented	Unimplemented	Budget Allocation	Utilization	%
Client-Focused Activities	4	1	5,054,000	1,729,646	34%
Organization-Focused Activities	6	1	2,662,144	1,201,712	45%
	10	**2**	**7,716,144**	**2,931,358**	**38%**

15.6 Out of 12 planned GAD activities included in the endorsed Annual GPB, two were not implemented and the said activities were deferred due to lack of participants and unavailability of schedule.

15.7 Thus, the low utilization and partial implementation of the Annual GPB for CY 2018 has reduced the opportunity of women and other concerned parties to participate and benefit from the GAD PPAs.

15.8 **We recommended that Management:**

a. **Properly allocate or attribute GAD-related expenses to maximize the use of the budget required to be allocated for GAD activities to conform strictly with the provisions under Paragraph 2.3 of Joint Circular No. 2012-01 issued by PCW-NEDA-DBM; and**

b. **Monitor properly the implementation of the planned GAD PPAs, which should be done as per schedule within the budget year, as approved by PCW.**

15.9 Management commented that the utilization rate of 2.36 per cent for CY 2017, was increased to 38 percent for CY 2018 or an increase of 35.64 percent. Management also commented that they continuously conduct seminars on gender sensitivity training to newly hired head office/regional personnel, gender sensitivity training for SHFC member beneficiaries and Quarterly GAD meeting and evaluation will be held among the focal point system committee and gender champions

15.10 Management had also reconstituted the GAD Focal Point System Committee to regularly review SHFC mandate, objectives, budget, policies and programs to ensure its GAD responsiveness.

ABOT - KAYA PABAHAY FUND (AKPF)

16. Assets of AKPF amounting to P260.219 million were not stated at their fair value for CY 2018 due to absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39, thus, casting doubt on the reliability and valuation of the Fund's assets.

16.1 Records showed that as at December 31, 2018, the AKPF has reported the following financial and non-financial assets in its books of accounts:

Particulars		Amount
Financial Assets		
Receivables, current		10,676,632
Sales contracts	4,522,629	
Interest	6,154,003	
Receivable, non-current		68,493,490
Loans	67,441,124	
Sales contracts	1,052,366	
		79,170,122
Non-Financial Assets		
Other non-current assets		180,869,876
Foreclosed Properties	119,294,628	
Other Assets (Dacion en Pago)	61,575,248	
Property, plant and equipment		179,310
		181,049,186
		260,219,308

Financial Assets:

- Sales Contracts Receivable are amortizations due from the sale of Acquired Assets.

- Loans Receivable are past due accounts from loans granted to developers, some of which are items under litigation.

Non-Financial Assets:

- Foreclosed Properties refer to the following properties which were reclassified from Acquired Assets:

Project	Book Value
A	P27,609,301
B	22,236,576
C	18,396,665
D	16,257,048
E	11,500,827
F	10,339,181
G	6,836,724
H	6,118,306
	119,294,628

- Other Assets account pertains to the following properties acquired from settlement of accounts through Dacion en Pago.

Project	Book Value
I	18,181,155
J	17,382,383
K	11,586,144
L	9,334,752
M	5,090,814
	61,575,248

16.2 AKPF has no existing policy/guidelines to assess whether there is indication or objective evidence of impairment for the above-mentioned assets.

16.3 Failure of the Management to provide policy/guidelines to assess whether there is an indication or objective evidence of impairment on the recorded assets casts doubt on the accuracy and valuation of the assets and possible misstatement of the financial statement, and is contrary to the above stated provisions of PAS 36 and 39 as cited under Paragraph 2.1, Part II of this Report.

16.4 **We recommended and Management agreed to formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS 36 and 39 for CY 2018.**

17. Other Non-Current Assets composed of Foreclosed and Dacion en Pago Properties totaling P180.870 million were presented in the Statement of Financial Position under the line item of Other Non-Current Assets, instead

of a separate line item of Investment Property, contrary to International Accounting Standards (IAS) 40, which may lead to misinterpretation of financial information that is relevant to economic decision of stakeholders.

17.1 Paragraph 7 of IAS 40 states that:

> *Investment Property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguished investment property from owner-occupied property. The production or supply of goods and services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process, IAS 16 applies to owner-occupied property.*
>
> *The following are examples of investment property:*
>
> *a. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.*
> *b. Land held for currently undetermined future use (if an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.*
>
> *xxx*

17.2 Paragraph 54 of IAS 1 states that:

> *As a minimum, the statement of financial position shall include line items that present the following amounts:*
>
> *a. property, plant and equipment;*
> *b. investment property;*
> *c. intangible assets;*
> *d. financial assets*
> *e. investment accounted for using the equity method;*
> *xxx*

17.3 The Statement of Financial Position of the SHFC-AKPF as at December 31, 2018 is presented as follows:

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	xxx	
Receivable-Current	xxx	
		xxx
NON-CURRENT ASSETS		
Long-Term Receivable	xxx	
Property, Plant and Equipment	xxx	
Other Non-Current Assets	xxx	
		xxx

17.4 Review of the Statement of Financial Position of the AKPF disclosed that the Other Non-current Assets totaling P180.870 million is composed of the Foreclosed Assets amounting to P119.295 million and Other Assets (Dacion en Pago) amounting to P61.575 million. This is despite the fact that they meet the foregoing provision of IAS 40, hence, should be presented as Investment Property which is a separate line item.

17.5 Foreclosed Properties/Assets and Other Assets were reclassified from Acquired Assets. Foreclosed Properties/Assets account pertains to eight foreclosed projects, while five projects are properties acquired from settlement of accounts through Dacion en Pago as stated in observation No. 16 17 of this report.

17.6 Non-presentation of the Other Non-Current Assets account in a separate line item as Investment Property may lead to misinterpretation of financial information that is relevant to economic decision of the stakeholders.

17.7 **We recommended that Management properly classify the Other Non-Current Assets composed of Foreclosed and Dacion en Pago Properties to Investment Property, in compliance with IAS 40.**

17.8 Management commented that these accounts were previously classified under Acquired Assets account, however, said account is no longer in the Revised Chart of Accounts for Government Corporations. This concern was raised during the seminar on Philippine Financial Reporting Standards (PFRS) and Revised Chart of Accounts (RCA) for Government Corporations (GC) on what appropriate classification must these accounts be presented in, but no specific answer was given.

17.9 As a rejoinder, we stand by our recommendation that Foreclosed and Dacion en Pago Properties be reclassified as Investment Property.

18. The House and Building Structures with appraised value of P20.789 million lodged under the Other Non-Current Assets account of the AKPF were not enrolled for Fire and Other Allied Perils Insurance (FAPI) coverage with the Government Service Insurance System (GSIS), contrary to Section 5 of RA No. 656, Memorandum Circular No. 634, s. 1973 of the Office of the President, and Section 3 of COA Circular No. 2018-002, thus, exposing SHFC to the risk of non-indemnification of insurable assets in case of loss arising from fire, theft, earthquake, storm and other fortuitous events.

18.1 Section 5 of RA No. 656 provides that:

> *Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies xxx.*

18.2 Memorandum Circular No. 634, s. 1973 of the Office of the President provides that:

> *In order to conserve the resources of the Government, all departments, bureaus, offices, agencies and instrumentalities of the Government, all provincial, city and municipal governments, and government-owned or controlled corporations are hereby directed to insure all property and other assets belonging to the Government, its agencies, and political subdivisions in accordance with the Property Insurance Law.*

18.3 Section 3 of COA Circular No. 2018-002 dated May 31, 2018 provides that:

> *The coverage of all insurable government assets and other assets such as contracts, rights of action, and other insurable risks of government agencies, departments, bureaus, boards, commissions, state universities and colleges, local government units, government-owned or controlled corporations and their subsidiaries/affiliates, including all others in which these agencies or offices have an insurable risk or an insurable interest, such as but not limited to, loss or damage of the government assets.*
>
> *It further provides that it is only when such property or part thereof are not acceptable to the GIF that these may be insured with a private insurance company at a cost most advantageous to the government, subject to the applicable provisions of the Revised Implementing Rules and Regulations of RA No. 9184 or the Government Procurement Reform Act.*

18.4 The two components of the AKPF representing 60 per cent of the Fund are a) the Liquidity support and interest subsidy component (LSISC) - used exclusively for enhancing affordability of low-cost housing by low income families by means of subsidized monthly amortization for five years and b) the Amortization support and developmental financing component (ASDFC) – used to extend developmental financing loans up to 80 per cent of the total project cost to proponents of low-cost housing projects. AKPF was placed under the trusteeship of the NHMFC under the SHFC a wholly-owned subsidiary of the NHMFC.

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

18.6 The Schedule of Non-Current Assets of the AKPF showed Foreclosed Properties and Other Assets with a total appraised value of P296.082 million, consisting of Land and Land Improvements appraised at P275.293 million and House/Building Structures appraised at P20.789 million with the following details:

Project	Appraised Value		Date of Appraisal	Date Foreclosed
	Land & Improvements	House/ Building Structures		
A	1,479,125	-	08/29/2008	11/30/2003
B	5,757,974	968,770	11/12/2012	07/03/2002
C	9,738,120	936,000	07/06/2016	07/04/2017
D	50,908,200	-	01/24/2017	12/20/2016
E	7,119,920	1,865,080	03/29/2017	01/27/2014
F	21,493,800	6,049,200	03/28/2017	01/27/2014
G	21,239,000	-	03/27/2017	02/28/2014
H	62,901,721	2,473,200	04/25/2017	08/07/2008
I	4,648,600	-	11/09/2017	05/02/2002
J	21,528,300	7,115,600	11/09/2017	12/29/2016
K	21,514,809	-	03/05/2018	05/02/2002
L	14,166,519	1,381,240	03/21/2018	02/28/2014
M	32,796,759	-	03/21/2018	05/02/2002
	275,292,847	**20,789,090**		
Total	**P296,081,937**			

18.7 Verification of the account revealed that the foreclosed Buildings and Structures were not enrolled for FAPI coverage with the GSIS, contrary to RA No. 656, Memorandum Circular No. 634, s. 1973 of the Office of the President and COA Circular No. 2018-002.

18.8 Thus, the non-provision of insurance on the house and building structures of the foreclosed assets exposed the AKPF to the risk of non-recovery in case of damage to, or loss of, properties due to fire, earthquake, storm, and other fortuitous events.

18.9 **We recommended and Management agreed to:**

a. **Immediately enroll the House and Building Structures component of the Foreclosed Properties and Other Assets for FAPI Coverage with the GSIS; and**

b. **Adhere strictly to the provisions of RA 656, MC 634 and COA Circular No. 2018-002.**

18.10 Management commented that enrollment for FAPI coverage with the GSIS will be within the last quarter of 2019 where the following activities are to be undertaken by the Trust Administration Department:

a. Validation of the extent of development of house and building structures in the AKPF projects to ensure insurability. This will be done within the second quarter of 2019; and

b. Coordination with GSIS on the requirements and processes to facilitate the insurance of the projects.

19. **A total of 2,205 Transfer Certificates of Title (TCTs) of the Foreclosed and Dacion en Pago Properties booked under Other Non-Current Assets are not yet consolidated in the name of SHFC, considering that foreclosure proceedings and settlements in kind had been undertaken as early as 2002, or more than 16 years, causing delay in the disposal of the property and exposing the housing structures to further deterioration.**

19.1 Records showed that AKPF has in its books of accounts Foreclosed Properties and Other Assets acquired through Dacion en Pago totaling P170.531 million composed of 2,205 TCTs.

19.2 Aging of the Non-Current accounts with TCTs that remained unconsolidated in the name of SHFC as at December 31, 2018 showed the following:

Project	Book Value	Date Foreclosed	Total TCTs	Age Years/ Mos.	Remarks
Foreclosed Assets					
A	11,500,827	11/30/2003	129	15/1	
B	27,609,301	08/07/2008	31	10/4	
C	6,836,724	01/27/2014	33	4/11	
D	18,396,665	01/27/2014	85	4/11	
E	22,236,576	02/28/2014	561	4/10	
F	16,257,048	02/28/2014	331	4/10	Borrowed by Trust Administration Department of SHFC for annotation and registration of Certificate of Sale
G	6,118,306	07/04/2017	150	1/5	Borrowed by Trust Administration Department of SHFC for presentation to RTC, Daet in relation to the application for extrajudicial foreclosure sale
	108,955,447		**1,320**		
Dacion En Pago					
H	17,382,383	05/02/2002	338	16/6	
I	9,334,751	05/02/2002	173	16/6	
J	5,090,814	05/02/2002	54	16/6	
K	11,586,144	12/29/2016	120	2/0	
L	18,181,155	12/20/2016	200	2/0	
	61,575,247		**885**		
	170,530,694		**2,205**		

19.3 As gleaned from the above table, non-current accounts are aged from more than one year to more than 16 years from the date these were foreclosed, but as of audit date the TCTs are not yet transferred in the name of the Corporation.

19.4 Only the TCTs of Project M consisting of 78 TCTs have been consolidated in the name of the SHFC.

19.5 Further verification disclosed that for the Projects C and D, a Certificate Authorizing Registration (CAR) has been secured and already in the process of submitting the requirements for the computation of Transfer and Capital Gains Tax.

19.6 On the other hand, Projects E, I and H are still in the process of securing the documentary requirements for the issuance of CAR, despite having been foreclosed/acquired for a period longer than 16 years.

19.7 The non-consolidation of the 2,205 TCTs in the name of SHFC hampers the prompt disposal of the acquired assets and exposes the structures to further deterioration.

19.8 **We recommended and Management agreed to:**

a. **Prioritize the transfer of the TCTs of the Foreclosed and Dacion en Pago Properties in the name of the SHFC; and**

b. **Facilitate disposal of the properties to recover the funds invested into housing.**

19.9 Management commented that the Trust Administration Department has been prioritizing the transfer of titles to SHFC's name since the last quarter of 2017. However, delay of transfer was due to the slow processes in other government agencies, like Registry of Deeds, the Bureau of Internal Revenue and the Assessor's Office. In the case of Cristina Homes 1, it took them 7 months to process the CARs (BIR) for 31 TCTs. Moreover, request for certified true copies of titles as one of the requirements for the assessment of Capital Gain Tax (CGT)/Expanded Withholding Tax (EWT) is limited only to at most 20 titles per day on all projects.

19.10 In the face of the above challenges, Management committed to dispose of these projects at the soonest possible time to eliminate the risk on the Corporate funds invested in housing. For the Project M, titles were already consolidated in the name of SHFC in July 2018, however, the expropriation case involving some lots in said subdivision affected by the Subic-Clark-Tarlac Expressway is still pending with the Court, hence, the same cannot be disposed of at this time.

20. Real Property Taxes (RPT) amounting to P4.735 million under the Due to LGUs account remained unpaid as at December 31, 2018, despite having been accrued for one year to over seven years, contrary to RA No. 7160, or the Local Government Code of 1991. This may result in the delay of consolidation of titles in the name of SHFC as this constitutes lien on the property, or SHFC may even lose the property if the LGU concerned avails of the remedies by administrative action thru levy on real property or by judicial action.

20.1 Sections 246, 255 to 257 of RA No. 7160 provides the following, respectively:

> *The real property tax for any year shall accrue on the first day of January and from that date it shall constitute a lien on the property which shall be superior to any other lien, mortgage, or encumbrance of any kind whatsoever, and shall be extinguished only upon the payment of the delinquent tax.*
>
> *In case of failure to pay the basic real property tax or any other tax levied under this Title upon* the expiration of the periods as provided in Section 250, or when due, as the case may be, shall subject the taxpayer to the payment of interest at the rate of two percent (2%) per month on the unpaid amount or a fraction thereof, until the delinquent tax shall have been fully paid: Provided, however, That in no case shall the total interest on the unpaid tax or portion thereof exceed thirty-six (36) months.
>
> *For the collection of the basic real property tax and any other tax levied under this Title, the local* government unit concerned may avail of the remedies by administrative action thru levy on real property or by judicial *action.*
>
> *The basic real property tax and any other tax levied under this Title constitutes a lien on the property subject to tax, superior to all liens, charges or encumbrances in favor of any person, irrespective of the owner or possessor thereof, enforceable by administrative or judicial action, and may only be extinguished upon payment of the tax and the related interests and expenses.*

20.2 The Due to LGU account represents unpaid RPTs on AKPF projects accrued for one year to over seven years as shown below:

Project	Book Value	Date of Tax Accrual	Due to LGU	Past Due (Age)
A	21,011,616	12/31/2014	198,340	4 years
		12/31/2013	330,666	5 years
		12/28/2012	275,555	6 years
		12/29/2011	1,377,776	7 years
			2,182,337	
B	29,791,950	12/31/2018	928,167	Current
		12/31/2017	317,500	1 year
		12/31/2016	317,500	2 years
			1,563,167	

Project	Book Value	Date of Tax Accrual	Due to LGU	Past Due (Age)
C	27,609,301	12/31/2013	168,000	5 years
		12/28/2012	140,000	6 years
		12/29/2011	700,000	7 years
		Total	**1,008,000**	
		Adjustment	(18,881)	
			989,119	
			4,734,623	

20.3 Projects A and B are recorded under Loans Receivable, and past due accounts arising from loans granted to developers and those accounts under items in litigation. On the other hand, Project C is a foreclosed account, hence, recorded under Other Non-Current Assets.

20.4 Verification from Management disclosed that Project A had been issued a warrant of distraint and levy by the LGU of Bataan in 2007 due to non-payment of RPT. Renegotiation by the Technical Working Group with the LGU for the repurchase of the property has been undertaken.

20.5 On the other hand, Project C has an on-going judicial dispute filed by one of the owners requesting for the buyback of the property at the price pegged by SHFC but was denied by the Corporation.

20.6 Further, Project B was endorsed to the Legal Department for foreclosure in March 2015 and is awaiting resolution of the case filed by the developer against SHFC before the RTC of Quezon City assailing SHFC's decision of disapproval on the requested waiver of interests prior to filing of foreclosure.

20.7 Non-payment of the basic real property tax will subject SHFC to the payment of interest rate of two per cent per month until the delinquent tax shall have been fully paid, but not to exceed 36 months. This constitutes a lien on the property, irrespective of its owner or possessor.

20.8 The failure of SHFC to pay the RPT constitutes lien on the property, delaying its disposal, or SHFC may even lose the property if the LGUs concerned avail of the remedies by administrative action thru levy on real property or by judicial action.

20.9 **We recommended that Management:**

a. **Immediately pay the required RPT to avoid:**

   i. **accumulation of interests and penalties;**
   ii. **losing the property if LGU avails of remedies by administrative action thru levy on real property or by judicial action;**
   iii. **delay in the consolidation of titles in the name of SHFC to facilitate disposal; and**

b. **Follow-up status of the ongoing cases filed for speedy disposition of the properties.**

20.10 Management commented that one of the priorities of the Trust Administration Department is to update the payment of RPT on all AKPF projects.

20.11 There are still three projects that remain under the Due to LGUs account with the following status:

20.12 For Project A, the attempt to secure assessment on updated RPT was not successful made due to the issue on ownership. The property was foreclosed by the LGU due to non-payment of RPT. The Notice of Delinquency of RPT dated August 13, 2004 was sent by the Office of the Provincial Treasurer to the landowner, but not to NHMFC, the mortgagee. Neither was NHMFC notified of sale at public auction. Thus, the property was foreclosed by the LGU without due notice to the mortgagee NHMFC. The negotiation with the Governor of Bataan for the buyback of the property was undertaken but did not prosper due to the claim of the Authority of the Freeport Area of Bataan (AFAB).

20.13 For Project B, Management has started securing the requirements for assessment of RPT in December 2018 and filed the request for updated assessment in January 2019. However, the assessment has not been made available despite constant follow-ups as the LGU is still validating the payments made by the developer in 2005.

20.14 For Project C, payment of RPT was held in abeyance pending the resolution filed by the landowner on the case of buyback. The case is now pending for trial in court, despite their earnest efforts to negotiate a compromise.

20.15 As a rejoinder, we stand by our recommendation that Management pays the corresponding RPT and follow up the status of the on-going cases filed by third party for the speedy disposition of the properties.

21. Status of Suspensions, Disallowances and Charges

21.1 The total audit suspensions, disallowances and charges and settlements as at December 31, 2018 are shown below:

Particulars	Balance, 1/1/2018	Issued This Period (January to December 2018)	Settlement This period (January to December 2018)	Balance, 12/31/2018
Notice of Suspension (NS)	71,030,478	-	-	-
Notices of Disallowance (ND)	1,643,417	71,030,478	1,506,583	71,167,312
Notice of Charge	-	-	-	-

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

21.3 The ND issued for the payment of grocery subsidy, additional cash gift and 13th month pay are being settled through salary deduction with a balance of P136,834.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 91 audit recommendations for both SHFC and AKPF embodied in the CY 2017 Annual Audit Report, 47 were fully implemented, 17 were partially implemented, four were reconsidered, 21 were not implemented and two are for implementation in CYs 2019 and 2020. Out of the 21 not implemented recommendations, 17 were reiterated in this Report. Details are presented below:

Observations and Recommendations	Actions Taken
A. Social Housing Finance Corporation	
<u>2017</u>	
1. The Undistributed Collections (UC) in the total amount of P374.503 million remain unposted to Loan Installments Receivable (LIR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the LIR accounts were overstated and understated, respectively, by the same amount. Moreover, the General Ledger (GL) or controlling account for UC was not reconciled with the Subsidiary Ledger (SL) balances, resulting in a variance of P174.797 million, or 53 per cent of the GL balance. Both the over/understatement and variance affect the fair presentation of the account balances in the financial statements, contrary to paragraph 15 of Philippine Accounting Standards (PAS) 1.	
We reiterated our prior years' audit recommendations that Management:	
a. Submit a work breakdown schedule to post and allocate UC for CY 2017 by at least: i. 65 per cent of the UC by CY 2018 ii. 35 per cent of the UC by CY 2019	Not implemented Reiterated under Observation No. 1, Part II of this Report.
b. Reconcile the variances between SL and GL balances by at least: i. 65 per cent of the variance by CY 2018 ii. 35 per cent of the variance by CY 2019	Not implemented Reiterated under Observation No. 1, Part II of this Report.

Observations and Recommendations	Actions Taken
c. Oblige the CAs to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;	Not implemented Reiterated under Observation No. 1, Part II of this Report.
d. Require the Information Systems Department (ISD) to enhance the database to include the Express Lane Projects, HDH Projects, Remedial Accounts and all other accounts not yet in the database;	Not implemented Reiterated under Observation No. 1, Part II of this Report.
e. Require the NHMFC to submit to database listing of MBs relative to the transferred accounts amounting to P83.570 million; and	Not implemented Reiterated under Observation No. 1, Part II of this Report.
f. Formulate policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.	Not implemented Reiterated under Observation No. 1, Part II of this Report.
2. Assets of SHFC amounting to P21.031 billion were not stated at their fair value due to absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39 for CY 2017, thus casting doubt on the reliability and valuation of the corporate assets.	
We recommended that Management formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS 36 and 39 for CY 2017.	Partially implemented Reiterated under Observation No. 2, Part II of this Report.
3. CMP accounts totaling P88.154 million transferred by the NHMFC without the corresponding supporting documents and 638 accounts with negative balances amounting to P8.818 million cast doubts on the accuracy of the Insurance Receivable - MBs account balance of P295.382 million under the CMP, contrary to paragraph 15 of PAS 1.	
We recommended that Management:	
a. Analyze and reconcile the accounts with lapsed MRI premiums and immediately apply	Partially implemented

Observations and Recommendations	Actions Taken
the negative balances to future periods of insurance coverage or to the loan balances or refund to the MBs if loan is already fully paid; and	The Head of Finance and Comptrollership Department (FCD) wrote a letter to NHMFC in November 2015, but the reply of NHMFC insisted that all documents had already been forwarded to SHFC. Management has proposed to ITCD the inclusion of these accounts for one time reconciliation through the Operation Support Information System (OSIS) and once included, the necessary adjustment will be effected before the end of CY 2019.
b. Strictly adhere to Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137.	Partially implemented FCD is in the process of completing the working papers regarding the one-time reconciliation using the OSIS system.
4. Funds amounting to P350 million transferred by the DILG to SHFC, sourced from the 2015 General Appropriations, remain unutilized since the time it was received on September 28, 2016 due to the non-execution of Trust Agreement as required in the Memorandum of Agreement (MOA), contrary to Executive Order (EO) No. 292 on Special Fiduciary and Trust Funds, thus defeating the purpose of providing decent and safer housing sites to primarily benefit ISFs living in waterways and danger zones within Metro Manila. Moreover, the fund is being invested in high yield savings with interests earned amounting to P1.697 million which was not remitted to the National Treasury as required under Section 4 of the General Provisions of the General Appropriations Act (GAA) for FY 2017, Section 65 (1) of Presidential Decree No. 1445 and Section 4.1 of DBM-DOF-COA Joint Circular No. 9-81, thus depriving the national government of the income.	
We recommended that Management:	
a. Return the funds which remain unutilized since the time it was received in September	Fully implemented

Observations and Recommendations	Actions Taken
2016 or coordinate with the DILG on the execution of TA to initiate the immediate implementation of the project; and	
b. Remit immediately to the BTr the interests earned amounting to P1.697 million from the savings account of the Trust Fund.	Fully implemented
5. MCR – Past Due account balance per GL of P2.854 billion for the 27,257 accounts differed by P1.533 billion or 54 per cent against the SL balances totaling to P1.321 billion, contrary to Section 111 of PD No. 1445 and Paragraph 15 of PAS 1, thus, casting doubt on the accuracy and reliability of the account. Moreover, the MCR – Past Due account has remained past due and uncollected for a period ranging from four months to more than ten years and without a single payment after take out.	
a. We reiterated our prior years' audit recommendation and Management agreed to reconcile and adjust the MCR-Past Due account by at least: • 30 per cent by 2018. • 30 per cent by 2019. • 40 per cent by 2020.	Partially implemented Management is still in the process of reconciliation and the corresponding adjustment will follow after reconciliation.
b. Monitor and issue demand letters to the MBs with past due accounts who have not availed any plan of payment offered by the SHFC;	Fully implemented
c. Offer restructuring plan of payment to ensure prompt collection to bring the account to its current status;	Fully implemented
d. Substitute delinquent accounts with new borrowers who have the capacity to pay; and	Fully implemented
e. Foreclose the delinquent accounts specially those of more than ten years and without a single payment after take out, after exhausting all remedies, and consolidate in the name of SHFC as prescribed under R.A. 9507.	Partially implemented The 8,560 MBs delinquent accounts were transferred to Remedial Accounts wherein the accounts have been given priority by the GSATs until the accounts become active.

Observations and Recommendations	Actions Taken
	As of December 31, 2018, out of the restructured accounts, 2,325 MBs availed of the restructuring program and 224 availed of the one-year updating. Foreclosure is the last resort to be implemented by SHFC. As of December 31, 2018, three projects have been foreclosed and already in the process of securing Certificate of Sale.
6. A High-Density Housing (HDH) project amounting to P414.049 million was approved by the Board and payment amounting to P100.329 million was made despite Greater Metro Manila Area (GMMA) Hazard Map result that the lot is susceptible to moderate flooding, within the tsunami inundated area, susceptible to moderate liquefaction, thereby not suitable for relocation contrary to EO No. 272 and Corporate Circular No. 13-026. We recommended that Management:	
a. Submit the result of soil testing of the subject property to ensure the safety of constructing the 18 three-storey housing structures;	Fully implemented
b. If the result of the test is not favorable for the construction for the housing unit, require the refund of the P100.329 million;	Reconsidered Boring testing was conducted in January 2019 by Universal Testing Laboratory and Inspection certifying that the property is suitable for housing but with certain conditions, such as, no construction of deep wells and no planting of trees.
c. If the result is favorable, demand the contractor to complete the project; and	Partially implemented Management has submitted to the President for approval and presentation to the Board the Terms of Reference (TOR) for the conduct of

Observations and Recommendations	Actions Taken
	Environmental Impact Assessment (Air Pollution Test).
d. Prospectively, before approval of the project, ensure that the project sites are suitable for housing projects and safe for the MBs who will be dwelling on the property.	Fully implemented
7. Of the total amortizations of P2.590 million due from 109 MBs of the Cooperative for an HDH Project, only the amount of P1.221 million was remitted by the Cooperative or a remittance efficiency rate of 47 per cent. The check collection for the monthly amortizations amounting to P584,882 remitted by the Cooperative for the said project was dishonored by the bank as this was Drawn Against Insufficient Funds (DAIF) of which only P213,838 (net of interest and penalties) was replaced by cash as of December 31, 2017, resulting in the poor recovery of the corporate investment in housing and the existence of past due accounts of the MBs.	
We recommended that Management:	
a. Demand from the Chairman or from the representative of the Cooperative assigned as collecting officer the immediate restitution of cash amounting to P584,882 to replace the dishonored check;	Fully implemented
b. Demand for the collection and remittance of P1.368 Million representing the amortization due as of December 31, 2017;	Fully implemented
c. Never accept private checks from the Cooperative for succeeding amortization payments, except for bank certified check;	Fully implemented
d. Investigate and file appropriate charges against the Cooperative Chairman or its representative for the unremitted collections;	Fully implemented
e. Cancel the Collection Agreement with the Cooperative and require the MBs to pay their monthly amortizations directly to SHFC, pursuant to the provisions of the Collection Agreement with the Cooperative; and	Fully implemented

Observations and Recommendations	Actions Taken
f. Require all Chairmen or all representatives of the Community Associations assigned as collecting officer of HDH projects to post Surety Bond.	Fully implemented
8. The 546 MBs have not moved-in yet to the completed and accepted HDH Project due to non-availability of water supply system, contrary to Section 21 of RA No. 7279 and Section 14 of HDH Circular No. 14-002, resulting in the poor or even non-recovery of the corporate investment in the project amounting to P214.016 million and the non-attainment of the objectives of the program.	
We recommended that Management:	
a. Require the HOA to make representation with the Local Government Unit of Bulacan to provide water connections for HOA housing units or construct an alternative water supply, such as installation of deep well or water rationing pending the connection to the water district;	Fully implemented
b. Demand from the HOA the collection of monthly amortizations from its MBs and remittance of the same to SHFC, as the COCA has already been issued by the Association;	Fully implemented
c. Require the MBs, through their HOA, to move-in so as to prevent other organization/ISF from illegally occupying the completed housing project;	Fully implemented
d. Prospectively, strictly require the HOA to submit certification or approval from utility/service agencies concerned for the availability of basic utilities/services required of the project; and	Fully implemented
e. Prospectively, strictly instruct the HOA to accept only housing projects that are fully completed in accordance with the plans and conditions on the site development and building construction.	Fully implemented

Observations and Recommendations	Actions Taken
9. Payment amounting to P11.330 million, equivalent to 20 per cent of the total acquisition cost of P56.652 million for the land, which TCTs are not free from liens/encumbrances, is contrary to Section 6 of Corporate Circular No. 13-026 on the HDH Project Guidelines, thus, exposing SHFC to the risk of the non-recovery of its financial exposure to the project or loss of corporate funds.	
We recommended that Management:	
a. Coordinate with the DOF for the immediate cancellation and issuance of the new title in favor of SHFC;	Fully implemented
b. Request DOF to return the original TCTs borrowed a year ago pending the cancellation of encumbrance; and	Fully implemented
c. Strictly comply with Section 6 of Corporate Circular No. 13-026 on HDH Guidelines, specifically on land acquisition free from liens and encumbrances.	Fully implemented
10. Double availment and inconsistencies and incomplete information were noted in the database/masterlist of MBs who availed under the CMP and HDH Projects, contrary to Section 16 (c) of RA No. 7279 and Section 4 (6) of PD No. 1445 and Corporate Circular No. HDH 14-001, Series of 1989. Thus, the authenticity of the intended rightful MBs of the projects is doubtful, which may result in the non-attainment of the objectives of the CMP and HDH Projects.	
We recommended that Management:	
a. Require the CA to ensure submission of complete and accurate personal information of MBs;	Fully implemented
b. Require the SHFC department in charge to validate and correct the deficiencies noted in the database to establish authenticity of the intended rightful MBs of the CMP and HDH Projects;	Fully implemented

Observations and Recommendations	Actions Taken
c. Provide/emphasize provision in the LAs on the imposition of sanctions/penalties for MBs found to have double availments of any other housing project;	Fully implemented
d. Require from member-applicants the submission of Certificate of No Availment of Housing Unit/Project from any Shelter Agencies to prevent double availment of the housing units; and	Partially implemented The enhancement of the Alphalist of HUDCC minimized and prevented double availments.
e. We reiterate our prior year's audit recommendation to coordinate with HUDCC for the establishment of the database for all housing agencies to avoid double availment.	Partially implemented The HUDCC, with the assistance of the DOST, is currently in the process of developing/enhancing the system wherein SHFC has participated in the related trainings.
11. Capital Gains and Documentary Stamp Taxes amounting to P38.961 million for the acquisition of lands intended for the HDH Projects under the Usufruct Agreement were paid in advance by SHFC in favor of the landowners and were recouped on the 20 per cent payment instead of the 80 per cent, contrary to Section 4 (1) of PD No. 1445 and Section 7 of Corporate Circular HDH No. 14-005, thus, depriving the SHFC the immediate use of the funds for other HDH projects that could have benefited more HOA MBs.	
We recommended and Management agreed to revisit and amend the policy on land acquisition for the HDH projects to deduct the mandatory tax obligations of the landowners from the initial payment of 80 per cent of the acquisition cost.	Fully implemented
12. No coverage for Mortgage Redemption Insurance (MRI) and Fire and Allied Peril Insurance (FAPI) was provided on the 13 completed and accepted HDH and 87 CAs of CMP projects with a total cost P1.375 billion, contrary to HDH Corporate Circular Nos. 16-008, 15-007 and 14-003 and Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137. Thus, 3,486 MBs may be deprived of the benefit of having fully paid housing loans in case of death or occurrence of fire and allied	

Observations and Recommendations	Actions Taken
perils and posing risk on the non-recovery of SHFC's investment into housing.	
We recommended that Management:	
a. Expedite the enrollment of the 2,932 MBs for HDH and 87 HOAs/CAs MBs occupying the 100 per cent completed and accepted CMP and HDH projects for both the life and non-life insurance coverage; and	Partially implemented A demand letter for the payment of one-year insurance premium was sent to the President of SMV HOA. Management is gathering the documents for the enrollment of the Pascualer HOA MBs and will be insured by the end of April 2019 while ALPAS 1 was not insured due to the request of moratorium due to water problems.
b. Adhere strictly to the provisions of CMP and HDH Corporate Circulars on the MRI/FAPI insurance coverage, on the completed and accepted projects by the HOA/CA to protect the interest of the Corporation.	Fully implemented
13. Real Estate Mortgages (REM) in favor of SHFC were not annotated on 62 TCTs held as collateral to secure the CMP Loans while 33 TCTs were still in the name of the landowners, contrary to the Loan Agreement, Corporate Circular Nos. CMP-018 and HDH 14-005 and 41 TCTs as collateral to HDH loans were not accounted for during the physical count, thus, exposing SHFC to unprotected rights against third party claimants, priority in property disposal or non-payment of loans.	
We recommended that Management:	
a. Strictly adhere to the provisions of Corporate Circular No. CMP-18, HDH 04-005 and Loan Agreement;	Fully implemented
b. Require the CAs to transfer the TCTs in their name, or individualized TCTs to MBs and effect annotation of REM in favor of SHFC for the total amount of loan by the HOAs;	Fully implemented

Observations and Recommendations	Actions Taken
c. Ensure that all original TCTs held as collaterals are entrusted to the DCCD; and	Fully implemented
d. Require that borrowed TCTs should be accompanied by duly approved Mortgage Withdrawal Form.	Fully implemented
14. Special Counsel/Legal Service Allowance amounting to P134,000 for CY 2017 was paid directly to five lawyers assigned for SHFC, instead of remitting to the Office of the Government Corporate Council (OGCC), the mother agency of the recipient-lawyers, for monitoring purposes on the allowable limitation of the total extra or additional compensation as required under COA Circular No. 85-25E.	
We recommended and Management agreed to submit a Notice of Payment and Monthly Report of the extra compensation to OGCC for monitoring purposes.	Fully implemented
15. The MOA for the Group Mortgage Redemption Insurance (MRI) of loan borrowers with the insurance provider was automatically renewed for a period of 12 years without the benefit of public bidding, contrary to RA No. 9184, otherwise known as the Government Procurement Reform Act, thus, defeating the principles of transparency, accountability, equity, efficiency, and economy.	
We recommended that Management strictly comply with the provision of RA No. 9184 in the conduct of public bidding for the provisions of the Group MRI to loan borrowers.	Not implemented Reiterated under Observation No. 10, Part II of this Report.
16. The Chattel Mortgage Agreements (CMA) entered into by and between the SHFC and the 11 CAs with approved loans in the aggregate amount of P4.016 billion are contrary to the Chattel Mortgage Law (Act No. 1508), Article 2125 of the Civil Code of Philippines and relevant jurisprudence decided by the Supreme Court (SC), thus, the interest of the SHFC is put to risk against third party claimants in case of default by the MBs and the alienation or disposal of the housing units.	

Observations and Recommendations	Actions Taken
We recommended that Management:	
a. Exercise its right to demand the execution and the recording of the CMA with the RD in which the mortgage is formalized in order to protect its interest;	Partially implemented Real Property tax for SMV amounting to P646,740 has already been paid on December 12, 2018. The annotation process by Management was stopped due to the issue on non-issuance of Tax Clearance by the BIR due to tax exemption issue.
b. Revisit the conditions of the CMA and revise to conform with the Chattel Mortgage Law and relevant jurisprudence; and	Fully implemented
c. Review its guidelines with respect to the security of the loan since the collateral provided was not yet in existence at the time of the execution of the mortgage.	Fully implemented
17. The SHFC has allocated only P7.060 million for its Gender and Development (GAD) programs, activities and projects (PAPs) or two percent of the approved Corporate Operating Budget (COB), contrary to the Philippine Commission for Women-National Economic and Development Authority - Department of Budget and Management (PCW-NEDA-DBM) Joint Circular 2012-01. Moreover, only P2.081 million or 29 per cent of the allocated amount, was actually utilized, thus reducing the opportunity of SHFC women and other concerned parties to participate and be benefited by the GAD programs, activities and projects.	
We recommended that Management:	
a. Conform strictly with the provisions of Section 6 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the costing and allocation of the GAD budget; and	Not implemented Reiterated under Observation No. 15, Part II of this Report.
b. Properly attribute GAD-related activities/expenses in the GAD planning and budget phase to maximize the budget allocated for GAD programs, activities and projects in	Not implemented Reiterated under Observation No. 15, Part II of this Report.

Observations and Recommendations	Actions Taken
accordance with PCW-NEDA-DBM Joint Circular 2012-01.	
2016	
18. Advances from Member Borrowers (MBs) amounting to P216 million as of December 31, 2016 are not supported with schedules and not reconciled with Individual Subsidiary Ledger of MBs, contrary to Section 111 of PD 1445 and Paragraph 15 of PAS 1, thus, casting doubt on the reliability and fair presentation of the account balance and not beneficial to MBs.	
We recommended that Management:	
a. Prepare the schedule supporting the Advances from Borrowers account to properly monitor and expedite the reconciliation;	Fully implemented
b. Determine individually the property being paid for, to identify the MB-payor and record unposted payments to MBs individual ledgers;	Partially implemented Management is still in the process of reconciliation. The OSIS had already been rolled out by ISD, however, there are reports which cannot be generated by the system such as the aging of the Accounts, which is needed by the FCD for the one-time reconciliation of the account.
c. Update the existing system to ensure that all excess payments are posted and applied to their individual outstanding obligations; and	Fully implemented
d. Adjust Receivable account and the related accounts accordingly.	Not implemented
19. Thirty-one Transfer Certificate of Title (TCTs) under Usufruct Agreement of HDH lot acquisition project valued at P392.284 million are still not transferred in the name of SHFC, thus, contrary to Section 6 of Corporate Circular No. 14-005 series of 2014. Likewise, TCT on the lot acquisition through SHFC Re-Financing Program of an LGU, amounting to P16.359 million was not transferred in the name of the CA and with no annotation of SHFC Mortgage while full payment was already made, contrary	

Observations and Recommendations	Actions Taken
to Section 5 of the IRR 2014-003, thus, may result to non-recovery/loss of fund in case of a third party claimant.	
We recommended that Management expedite the transfer of the subject TCTs in the name of SHFC for Usufruct and in the name of CA for the refinanced amount and annotate the same in the name of SHFC in compliance with Corporate Circular HDH No. 14-005 series of 2014 and IRR 2014-003.	Partially implemented Only two projects were not transferred in the name of SHFC for the following reasons: a. HOA A - due to encroachment issue; and b. HOA B - between the landowner and HOA on who will assume the payment of capital gains tax.
20. A member of the Board of Directors whose appointment ended on December 31, 2016 and for re-appointment was allowed to avail the SHFC Vehicle Acquisition Assistance Program which is contrary to Sections 8(d) and 13(b) of EO No. 24 dated February 10, 2011 and COA Circular 2012-003 dated October 29, 2012, constituting irregular disbursements, thus, not beneficial to the interest of the government.	
We recommended that Management:	
a. Require the members of the Board who availed SHFC Vehicle Acquisition Assistance Program No. 169, Series of 2009, to refund the amount of car loan granted to conform with the provisions of Section 8(d) of E.O. No. 24, otherwise, the same will be disallowed in audit;	Not implemented Reiterated under Observation No. 7, Part II of this Report.
b. Request the Board of Directors to pass amendments on SHFC Board Resolution no. 169, series of 2009 adopting or reiterating the provisions contained in EO No. 24 governing the compensation and reimbursable expenses of the members of the Board of Directors/Trustees; and	Reconsidered This is due to the issuance of GCG MC No. 2016-01 dated May 10, 2016 which provides that the Board of Directors are only entitled to per diems and performance based incentives.
c. Require the annotation of OR and CR by the RD to ensure the recovery of its loan exposure and cancel the same upon full payment of the loan.	Fully implemented

Observations and Recommendations	Actions Taken
2015	
21. Amortization/payments required under the pertinent provisions of the IRR for the SHFC Vehicle Acquisition Assistance (SVAA) Program by the Officers-Availees were not monitored resulting in the delay of collection and non-recovery of the loan exposures. Further, availment of vehicles by the members of the Board of Directors under the Program is contrary to Sections 8(d) and 13(b) of EO No. 24 dated February 10, 2011.	
We recommended that Management:	
a. Exercise immediately the remedies provided under the SHFC Board Resolution No. 169 on the Officer-Availee who are already in default of his/her loan amortization;	Not implemented Reiterated under Observation No. 7, Part II of this Report.
b. Require the two members of the Board of Directors to refund the amount of P1.825 million to comply with the provisions of Section 8(d) of EO No. 24; and	Not implemented Reiterated under Observation No. 7, Part II of this Report.
c. Request the Board of Directors to pass amendments on SHFC Board Resolution No. 169, series of 2009 adopting or reiterating the provisions contained in EO No. 24 governing the compensation and reimbursable expenses of the members of the Board of Directors/Trustees.	Reconsidered Due to issuance of GCG MC No. 2016-01 dated May 10, 2016 which provides that the Board of Directors are only entitled to per diems and performance-based incentives.
2013	
22. The absence of policy and/or guidelines on the effective administration of collection/recovery strategies on the said accounts and the insufficiency of measures initiated/undertaken by Management to recover the assets in the total amount of P3.422 billion transferred from NHMFC in 2005 expose the SHFC to non-recovery of the corporate funds. Payments are not posted to the respective MBs' loan ledger rendering the balance of individual accounts inaccurate.	
We recommended that Management, through the Accounting and Legal Departments, to	Fully implemented

Observations and Recommendations	Actions Taken
formulate policy and/or guidelines on the effective administration of collection/recovery strategies for past due and items in litigation accounts for approval of the Board and accelerate the immediate implementation of the System to determine the actual outstanding principal balance based on the MBs' loan ledgers.	
23. The variance of P999.70 million between the balances of Assets held in Trust- NHMFC and Trust liabilities – NHMFC casts doubt on the reliability of the account balances and contrary to Section 111 of PD No. 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting.	
We recommended that Management require the Accounting Department to review and reconcile the difference of P999.70 million between the Assets held in trust-NHMFC and prepare the necessary adjusting entries to correct the variance noted.	Partially implemented The Operation Support Information System (OSIS) for individual ledgering of MB accounts was already rolled out in March 2019 and these accounts are included in the one-time reconciliation.
24. CMP loans amounting to P1.328 million were granted twice to 24 same beneficiaries with take-out dates from 2007 to 2012, contrary to Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011, thus constitutes irregular transaction as defined under COA Circular 2012-003 (3.1) dated October 29, 2012.	
We recommended that Management:	
a. Require the Accreditation Department to exercise due care in the evaluation of eligibility requirements of applicants and in the processing of the CMP loan applications to ensure attainment of the objective of the Program and compliance with its implementing rules and regulation;	Fully implemented
b. Instruct the Information System Department, in close coordination with the Asset Management Department, to	Fully implemented

Observations and Recommendations	Actions Taken
immediately design, develop and install an Inquiry or Screening Application Program;	
c. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double CMP loans to MBs. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and	Not implemented
d. Immediately demand the full payment of the second loans granted to subject beneficiaries and rescind the second lease purchase agreement for violation of the terms and conditions of the contract.	Partially implemented MBs found to have double availments, are automatically substituted.
25. Absence of supporting documents to substantiate the Guaranty deposits payable in the amount of P702,888 received from the NHMFC in 2005 casts doubt on the accuracy and validity of the account balance.	
We recommended that Management require the Accounting Department to submit the documents that will substantiate the guaranty deposits payable of P702,888 and prepare adjusting entries, where necessary.	Partially implemented This account is included in the one-time reconciliation using the OSIS individual ledgering of MBs which was rolled out in March 2019.
2012	
26. The absence of validation procedures between the Abstract of Collections prepared by the CAs and the actual money on hand prior to receipt of collections resulted in discrepancies and delay in the posting of collections to the member-beneficiaries subsidiary ledgers.	
We recommended that Management transfer the input data process or data encoding of the CA's Abstract of Collections (AOCs) from the Finance and Controllership Department to Account Management Department (AMD) to ensure the data accuracy, completeness and validity of the Abstract of Collections and prevent erroneous or invalid AOCs. Provide a module at the regional/satellite offices with	Fully implemented

Observations and Recommendations	Actions Taken
sufficient control features for automatic or real-time posting of collections to the member-subsidiary ledgers.	
B. Abot-Kaya Pabahay Fund	
<u>**2016**</u>	
27. There are lapses in management and implementation of AKPF which are contrary to the Trust Agreement entered into by and between the NHMFC and the SHFC, resulting in the following deficiencies that expose SHFC to the non-recovery 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 and housing construction, contrary to the Section 4 (4.02) of the 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 notwithstanding the lapse of eight to 14 years after the expiration of one-year redemption period, thus, resulting in the delay in the	

Observations and Recommendations	Actions Taken
disposal of asset and exposing the property to further depreciation or deterioration.	
We recommended that Management:	
a. Undertake immediate legal action to secure/recover the financial exposure on the above-mentioned projects and update this office of the status of action taken considering the period that lapsed;	Not implemented
b. Initiate disposal of acquired properties to prevent further deterioration and loss of funds; and	Not implemented Reiterated under Observation No. 19, Part II of this Report.
c. Determine the persons liable for the deficiencies noted and file appropriate administrative action for failure to perform their functions.	Not implemented
<u>2015</u>	
28. The proceeds of the developmental loan granted for the development of a subdivision totalling to P30.500 million for the benefit of project beneficiaries was not properly implemented contrary to Section 4.02(a) of the Memorandum of Agreement (MOA) between the NHMFC and its proponent.	
We recommended that Management:	
a. Conduct further investigation and inquiry on the report dated February 11, 2005 submitted by the Joint Inspection Team; and	Partially implemented The EVP met with the Technical Support Office (TSO), AKPF Team and the Internal Audit Group (IAD) on March 2019 and agreed to reconstitute a Team headed by TSO, IAD and AKPF to further conduct investigation and validation on the report made by the Joint Inspection Team in February 2005.
b. Determine the person/s liable for the deficiencies noted and file the appropriate administrative and criminal action on their	Reconsidered Already included in Finding No. 27, Recommendation b.

Observations and Recommendations	Actions Taken
failure to perform their function, where warranted.	
2014	
29. There are 127 missing Condominium Certificates of Title (CCTs) with a total loan value of P10.590 million on the AKPF LR-Past due, contrary to Section 58 of PD No. 1445, thus, casting doubt on the existence of the corporate exposure.	
We recommended that Management:	
a. Determine the person/s liable for the missing CCTs; and	Fully implemented
b. Hold them administratively and criminally liable for their failure to perform their function. Any additional cost that the Corporation would incur for the reissuance of title shall be on their account.	Fully implemented
2013	
30. The NHMFC/SHFC did not act on the Notice of Delinquent Real Property Taxes issued by the Office of the Provincial Treasurer of a concerned Local Government Unit on a property valued at P22 million mortgaged as collateral for a loan and impose the sanctions on the borrower/accountable officials as prescribed under the Loan Agreement. Thus, the recovery of the Corporate exposure is remote, doubtful and uncertain.	
We recommended that Management:	
a. Submit status of the actions taken by Management for the recovery of the property;	Not implemented Reiterated under Observation No. 20, Part II of this Report.
b. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for failure to act on on the Notice of Delinquent Real Property Taxes, leading to the failure of the SHFC to recover its exposures; and	Not implemented Reiterated under Observation No. 20, Part II of this Report.

Observations and Recommendations	Actions Taken
c. Require all the persons liable to pay for the amount of loan plus interest and penalties due thereon and all the expenses incurred for the recovery of the subject property.	Not implemented Reiterated under Observation No. 20, Part II of this Report.
31. Acquired assets account still included the 31 TCTs valued at P27.598 million already covered by the Comprehensive Agrarian Reform Program (CARP). A total of 1,409 TCTs of the acquired assets AKPF valued at P89.653 million are not yet transferred/registered in its name notwithstanding the lapse of one to 14 years, resulting in the delay on the disposition of the properties and non-recovery of the loan exposures.	
We recommended that Management prioritize the transfer/registration of the 1,409 TCTs in the name AKPF to facilitate disposal in the event of sale because the properties cannot be disposed unless the TCTs are under the name of AKPF-SHFC.	Not implemented Reiterated under Observation No. 19, Part II of this Report.
2012	
32. AKPF developmental loans totaling P97.719 million remained non-performing from 2 years to 18 years but no foreclosure action was initiated or more aggressive collection measures adopted that could affect the recovery of corporate exposure.	
We recommended that Management initiate foreclosure action or adopt more aggressive collection measures, if warranted, on long outstanding receivables in order to quickly recover corporate exposure. Also, establish guidelines on the disposition of non-performing assets to prevent accumulation thereof.	Partially implemented Management's plan is to foreclose the properties and eventually to dispose all acquired assets. Presented below is the status of the foreclosure on the following projects: a. Project A – the one-year redemption period expired on February 8, 2019, and they are working on the requirements for CGT/EWT computation for issuance of Certificate Authorizing Registration (CAR);

Observations and Recommendations	Actions Taken
	b. Project B - endorsed to Legal Department on March 30, 2015, however, awaiting for a resolution of the case filed by GNP Construction against SHFC before the RTC assailing SHFC's decision of disapproval of requested waiver of interest prior to filing of foreclosure. Hearing was held on March 4, 2019; c. Project C – endorsed to Legal Department for legal advice. d. Project D and E - in the process of securing documents for CGT and EWT; and e. Project F - for CAR issuance and computation of transfer tax.
<u>2011</u> 33. Ocular inspection on selected CMP take-out projects revealed non-compliance by the borrowers and community associations on significant provisions of the guidelines for on-site land acquisition. We recommended that Management:	
a. Require the member-beneficiaries of the CA to terminate the sub-lease agreements to conform to the terms and conditions of the lease purchase agreement entered into by the CA and the member beneficiaries;	Fully implemented
b. Require the CA to issue official receipts in the acceptance of payments from member-beneficiaries and keep up-to-date the subsidiary ledgers of MBs; and	Fully implemented
c. Impose sanctions provided under Section 10.2 of SHFC Circular No. 11-017 series of 2011 on member-beneficiaries who are considered in default for violating the terms and conditions of the purchase agreement.	Fully implemented

Observations and Recommendations	Actions Taken
2010	
34. The remaining 50 per cent of loan proceeds payable to 167 landowners had been long outstanding ranging from one to 19 years due to the delay in the transfer of title in the name of the community associations thus, real estate mortgage agreements and the deed of assignments could not be annotated in the TCTs. It exposes the Corporation to the risk that subject properties may be alienated to third parties who are not properly notified of the lien or encumbrance on the real property with an aggregate amount of P232.120 million.	
We recommended that Management:	
a. Enforce strictly the present policy of the Corporation to undertake the remaining documentation including the transfer of title in the name of the community association and annotation of real estate mortgage in favor of SHFC in case transfer of title is not made within the 90-day maximum period for transfer. The related expenses to be incurred are to be charged against the remaining balance of the loan proceeds. Also, there must be rigid review of the documents submitted before approval of the initial release; and	Fully implemented
b. Revisit, review and if necessary, amend the present policy allowing only the partial release/payment of the loan proceeds. No release of loan proceeds is to be made prior to the transfer of the title to the CA to protect the interest of the Corporation.	Fully implemented

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
As at December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	4	**310,755,953**	302,023,123
Receivables	5	**10,676,632**	7,398,005
		321,432,585	309,421,128
Non-current assets			
Receivables	5	**68,493,490**	74,960,882
Property and equipment, net	6	**179,310**	207,788
Other non-current assets	7	**180,869,876**	178,534,790
		249,542,676	253,703,460
TOTAL ASSETS		**570,975,261**	563,124,588
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	8	**19,867,277**	10,885,399
Other current liabilities	9	**1,234,107**	129,575
		21,101,384	11,014,974
TOTAL LIABILITIES		**21,101,384**	11,014,974
Fund balance	10	**549,873,877**	552,109,614
TOTAL LIABILITIES AND FUND BALANCE		**570,975,261**	563,124,588

The Notes on pages 138 to 156 form part of these financial statements.

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

For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
INCOME			
Service and business income	11	**9,923,915**	6,675,009
		9,923,915	6,675,009
EXPENSES			
Personnel services	12	**7,478,727**	6,057,015
Maintenance and other operating expenses	13	**5,354,111**	3,030,637
Financial expenses	14	**17,732**	229,075
Non-cash expenses	15	**28,478**	277,318
		12,879,048	9,594,045
LOSS BEFORE TAX		**(2,955,133)**	(2,919,036)
Other non-operating income	16	**16,468**	15,820
		(2,938,665)	(2,903,216)
NET INCOME/(LOSS)		**(2,938,665)**	(2,903,216)

The Notes on pages 138 to 156 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	Total
Balance at December 31, 2015		555,012,830
Net loss		(2,903,216)
Balance at December 31, 2016		552,109,614
Balance at December 31, 2017		552,109,614
Net loss		(2,938,665)
Retained earnings	11	702,928
Balance at December 31, 2018	11	**549,873,877**

The Notes on pages 138 to 156 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Installment sales receivable, current		**11,684,779**	8,040,181
Interest income received		**2,077,253**	5,446,838
Refund of cash advance		**301,563**	-
Miscellaneous income/other income		-	177,632
Payment of personal services		-	(3,810,150)
Payment of trustee fee		-	(229,075)
Payment of realty tax		**(4,251,221)**	(4,272,718)
Payment of cash advance		**(765,440)**	(541,580)
Payment of operating expenses		**(210,311)**	(888,210)
Payment of foreclosure expenses		**(103,793)**	(1,672,580)
Net cash provided by operating activities		**8,732,830**	2,250,338
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalized cost		-	-
Acquisition of property, plant and equipment		-	-
Net cash provided by investing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,732,830**	2,250,338
Cash and cash equivalents at beginning of the year		**302,023,123**	299,772,785
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**310,755,953**	302,023,123

The Notes on pages 138 to 156 form part of these financial statements.

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

(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Abot-Kaya Pabahay Fund (AKPF) was created under Republic Act (RA) No. 6846 under the trusteeship of the National Home Mortgage Finance Corporation (NHMFC) and was amended under RA No. 7835. The Fund shall be used exclusively for enhancing 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 (ASDFC) component of AKPF was transferred to the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the NHMFC created by virtue of Executive Order (EO) No. 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

The recording of the Fund's financial transactions is centralized in the 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.

SHFC has deferred adoption of PFRS 9 as it intends to hire a consultant to guide its Finance and Comptrollership Department in formulating policies/guidelines for the assessment, classification, measurement and recognition of financial instruments, to include impairment losses.

In addition, the Commission on Audit resolved, under COA Resolution No. 2019 – 006 dated March 27, 2019, that all Government Corporations (GCs) classified as Government Business Enterprises (GBEs) that have not taken into consideration the early application of the provisions of PFRS 9 shall mandatorily apply the provisions of PFRS effective January 1, 2019.

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 income and expenses.

c. *Functional and Presentation Currency*

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

2.2 <u>Adoption of New and Amended PFRS</u>

a. *Effective in 2018 that are relevant to the AKPF:*

(i) PFRS 9 (2014), Financial Instruments. This new standard on financial instruments replaces PAS 39, *Financial Instruments: Classification and Measurement,* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- An expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- A new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

(ii) PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property.* The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if a property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

b. *Effective in 2018 that are not relevant to the AKPF:*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the AKPF's financial statements:

(i) PAS 28, Investment in Associates (Amendments) – Clarification on Fair Value through Profit or Loss Classification (effective from January 1, 2018). The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(ii) PFRS 15, *Revenue from Contract with Customers (effective from January 1, 2018).* This standard will replace *PAS 18, Revenue, and PAS 11, Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee *(IFRIC) 13, Customer Loyalty Programmes, IFRIC 15, Agreement for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services.* This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

(iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration (effective from January 1, 2018).* The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

(iv) PFRS 2, *Share-based Payments (Amendments)* – clarification to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions form cash-settled to equity-settled. (effective from January 1, 2018).

(v) PFRS 4, *Insurance Contracts (Amendments) – Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, *Financial Instruments* is applied before implementing PFRS 17, *Insurance Contracts* ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, *Financial Instruments: Recognition and Measurement* instead ('the deferral approach').

(vi) Amendment to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E7 of PFRS 1, because it has now served its intended purpose.

c. *Effective subsequent to 2018 but not adopted early*

The following are the new standards that were issued but are not yet effective as at December 31, 2018. The SHFC intends to adopt the applicable issuances when these become effective.

Effective for reporting periods beginning on or after January 1, 2019:

(i) PFRS 16, *Leases (new)* - The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

(ii) IFRIC 23, *Uncertain over Income Tax Treatments*. The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(iii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI.

(iv) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture.* The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(v) PAS 19 (Amendments), *Employee Benefits* – clarification on amendments, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remainder of the annual reporting period are calculated using updated actuarial assumptions- I.e. consistent with the calculation of a gain or loss on the plan amendment, curtailment or settlement.

Effective for annual periods beginning on or after January 1, 2020 and thereafter:

(i) PFRS 3 (Amendments), *Business Combinations and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation.* The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

(ii) PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

(iii) PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

(iv) PFRS 17 *Insurance Contracts supersedes PFRS 4 Insurance Contracts as at January, 1, 2021.* The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

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 to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, Business Combinations, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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 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 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 Income and Expenses. 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 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 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.

2.6 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 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.

2.7 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.

2.8 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:

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. 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.

b. *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 6. Based on management's assessment as at December 31, 2018 and 2017, 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:

	2018	2017
Investment in treasury bills – local	**302,877,791**	292,539,325
Cash in bank – LBP 1	**3,059,233**	3,039,793
Cash in bank – LBP 2	**4,818,929**	6,444,005
	310,755,953	302,023,123

Investment in treasury bills – local 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

This account consists of:

	2018	2017
Current:		
Interest receivable	**6,154,003**	578,393
Sales contract receivable – current	**4,522,629**	6,819,612
	10,676,632	7,398,005
Non-current:		
Loan receivable – others	**89,921,499**	92,893,417
Less: Allowance for doubtful accounts	**22,480,375**	23,223,354
	67,441,124	69,670,063
Sales contract receivable – long-term	**1,052,366**	5,290,819
	68,493,490	74,960,882

5.1 Interest Receivable

This account consists of accrued interest from Investment in Treasury Bills. The investment in treasury bills earns interest at the prevailing rates of 2.53 per cent to 5.47 per cent. The increase represents the accrued interests which were not yet realized as at December 31, 2018.

5.2 Sales Contract Receivable

This account represents the amortization due on the sale of acquired assets which are due after one year.

5.3 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. However, as at December 31, 2018, there was still no update regarding the matter.

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 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 square meters under his name.

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 RTC of Quezon City assailing SHFC's decision of disapproval of requested waiver of interest prior to filing of foreclosure. The next hearing is set on March 4, 2019.

6. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2018 and 2017 are shown below:

	Office Equipment	Information and Communication Technology	Furnitures and Fixtures	Leased Assets Improvement, Building	Total
Cost					
January 1, 2018	461,376	34,815	99,235	193,243	788,669
December 31, 2018	461,376	34,815	99,235	193,243	788,669

	Office Equipment	Information and Communication Technology	Furnitures and Fixtures	Leased Assets Improvement, Building	Total
Accumulated Depreciation					
January 1, 2018	(443,618)	(31,521)	(59,363)	(46,379)	(580,881)
Adjustments	188	188	-		188
Depreciation	(3,543)	-	(7,731)	(17,392)	(28,666)
December 31, 2018	(447,161)	(31,333)	(67,094)	(63,771)	(609,359)
Net Book Value					
December 31, 2018	**14,215**	**3,482**	**32,141**	**129,472**	**179,310**

	Office Equipment	Information and Communication Technology	Furnitures and Fixtures	Leased Assets Improvement, Building	Total
Cost					
January 1, 2017	461,376	34,815	99,235	193,243	788,669
December 31, 2017	461,376	34,815	99,235	193,243	788,669
Accumulated Depreciation					
January 1, 2017	(440,074)	(29,285)	(51,519)	(29,987)	(549,865)
Depreciation	(3,544)	(2,236)	(7,844)	(17,392)	(31,016)
December 31, 2017	(443,618)	(31,521)	(59,363)	(46,379)	(580,881)
Net Book Value					
December 31, 2017	**17,758**	**3,294**	**39,872**	**146,864**	**207,788**

7. OTHER NON-CURRENT ASSETS

	2018	2017
Foreclosed properties/assets	**119,294,628**	118,317,379
Other assets	**61,575,248**	60,217,411
	180,869,876	178,534,790

7.1 Foreclosed Properties/Assets

This account pertains to eight foreclosed properties namely: La Vista Cruz Subdivision, Villa Haniya Subdivision, Evergreen Subdivision, Cristina Homes 1, Cristina Homes 2, Villa Rita Subdivision, Catbalogan City Homes and Plainville Homes Subdivision reclassified from Acquired Assets.

7.2 Other Assets

This account pertains to properties acquired from the settlement of accounts through Dacion en Pago for five projects namely: Juel Country Homes, UPLB Subdivision, Malinoville Subdivision Villa Felipe Heights Subdivision and

Olympia Village also classified from Acquired Assets. This account was reclassified to Foreclosed Properties/Assets in compliance with Revised Chart of Accounts (RCA).

8. INTER-AGENCY PAYABLES

This account consists of:

	2018	2017
Due to other funds	**15,132,593**	6,591,402
Due to LGUs	**4,734,684**	4,293,997
	19,867,277	10,885,399

8.1 Due to Other Funds

This account represents personal services and other administrative expenses advanced by SHFC. The increase is due to the implementation of the third tranche of Salary Standardization Law (SSL) of 2015.

8.2 Due to LGUs

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

9. OTHER CURRENT LIABILITIES

This account consists of the following:

	2018	2017
Other payables	**1,234,107**	115,679
Accounts payable	-	13,896
	1,234,107	129,575

Other payables represent taxes withheld from interest income on Investment in Treasury Bills – Local with Land Bank of the Philippines.

10. FUND BALANCE

	2018	2017
Fund balance	**552,109,614**	555,012,830
Net loss	**(2,938,665)**	(2,903,216)
Retained earnings	**702,928**	-
	549,873,877	552,109,614

Retained earnings account comprises of the prior year's adjustments (Taxes, Duties and Licenses) due to over accrual.

11. SERVICE AND BUSINESS INCOME

	2018	2017
Interest income - investments	**8,374,908**	5,147,576
Interest income - sales contract receivable	**913,915**	1,346,411
Interest income - developmental loan	**559,683**	-
Fines and penalties - business income	**75,409**	181,022
	9,923,915	6,675,009

12. PERSONAL SERVICES

This account consists of:

	2018	2017
Salaries and Wages-Regular	3,445,159	3,092,716
Other Compensation		
Year-end bonus	288,193	260,340
Personnel economic relief allowance	143,908	144,000
Representation allowance	162,000	162,000
Transportation allowance	176,820	179,310
Clothing/uniform allowance	36,000	30,000
Cash gift	30,000	30,000
Other bonuses and allowances	1,811,808	1,482,771
	2,648,729	2,288,421
Personnel Benefit Contributions		
Provident/welfare fund contributions	84,866	425,651
Retirement and life insurance premiums	**580,301**	84,866
PhilHealth contributions	**33,905**	26,400
Pag-IBIG contributions	**7,200**	7,200
Employees compensation insurance premiums	**2,160**	2,160
	708,432	546,277
Other Personnel Benefits		
Terminal leave benefits	**658,407**	114,601
Birthday gift	**18,000**	15,000
	676,407	129,601
	7,478,727	6,057,015

13. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2018	2017
Taxes, Insurance Premiums and Other Fees		
Taxes, duties and licenses	**3,665,458**	1,607,854
Fidelity bond premiums	**3,000**	-
	3,668,458	1,607,854
General Services		
Other general services	**470,836**	-
Security services	**96,026**	96,026
Janitorial services	**16,430**	16,430
	583,292	112,456
Traveling Expense		
Traveling expenses-local	**206,099**	196,198
	206,099	196,198
Utility Expenses		
Electricity expenses	**93,194**	77,434
Water expenses	**12,916**	12,653
	106,110	90,087
Supplies and Materials Expenses		
Office supplies expenses	**31,218**	60,814
Fuel, oil and lubricants expenses	**37,620**	-
Other supplies and materials expenses	**191**	-
	69,029	60,814
Communication Expenses		
Telephone expenses	**61,956**	73,640
	61,956	73,640
Professional Fees	-	299,000
Training Expense	-	32,200
Other Maintenance and Operating Expenses		
Rent/lease expenses	**233,325**	233,325
Representation expenses	**1,885**	-
Printing and publication expenses	**8,753**	5,289
Transportation and delivery expenses	-	1,412
Documentary stamps expenses	**18,170**	-
Other maintenance and operating expenses	**397,034**	318,362
	659,167	558,388
	5,354,111	3,030,637

14. FINANCIAL EXPENSES

This account consists of:

	2018	2017
Management Supervision/Trusteeship Fees	**16,182**	229,075
Bank charges	**1,550**	-
	17,732	229,075

15. NON-CASH EXPENSES

This account consists of:

	2018	2017
Depreciation		
Depreciation-machinery and equipment	**3,355**	5,780
Depreciation-leased assets improvements	**17,392**	17,392
Depreciation-furniture, fixtures and books	**7,731**	7,844
	28,478	31,016
Impairment loss		
Impairment loss-loans and receivables	-	246,302
	28,478	277,318

16. OTHER NON – OPERATING INCOME

This account consists of interest income from bank deposits amounting to P16,468 and P15,820 for the year 2018 and 2017, respectively.

17. 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.

	2018	2017
Taxes and licenses		
Final tax paid on income	**1,680,213**	1,032,213
Real property tax	**1,985,245**	568,141
	3,665,458	1,600,354