



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Corporate Government Sector  
Cluster 5 – Agricultural and Natural Resources

## INDEPENDENT AUDITOR'S REPORT

### THE BOARD OF DIRECTORS

Quedan and Rural Credit Guarantee Corporation  
34 Panay Avenue, Quezon City

We have audited the accompanying financial statements of **Quedan and Rural Credit Guarantee Corporation**, which comprise the balance sheet as at December 31, 2012 and the statement of income and expenses, statement of changes in government equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.



### **Bases for Adverse Opinion**

As discussed in item no. 2 of the Observations and Recommendations portion of the audit report, the accuracy and reliability of the Cash in Bank account balance of P669.426 million could not be ascertained due to long outstanding reconciling items equivalent to net amount of P4.756 million on various bank accounts, 28 accounts with no bank reconciliation statements, 44 accounts with negative balances aggregating P27.124 million, inappropriate offsetting of balances and a net variance of P8.720 million between the balance per books and the confirmed bank balance.

As reported in item no. 3, the accuracy of the balance of Accounts Receivable-Trade account is doubtful due to negative balances of borrowers' accounts totaling P45.628 million and variances between the general ledger and schedule of P124.832 million.

Likewise, as discussed in item no. 4, the balances of the Due to Central Office/Home Office appearing in the NCR Trial Balance and the reciprocal account Due from Regional Offices/Staff Bureaus/Branch Offices-NCR in the books of Head Office were not reconciled by P30.913 million, resulting in unreliable balances of Due to Central Office/Home Office, Due from Regional Offices/Staff Bureaus/Branch Offices-NCR and other affected accounts.

Moreover, as discussed in item no. 5, schedules containing details or breakdown of the balances of various financial statements accounts totaling P15.782 million were not maintained by QUEDANCOR-NCR, which casts doubt on the reliability of the accounts.

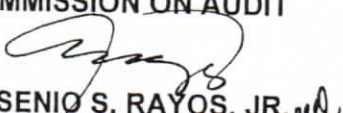
### **Adverse Opinion**

In our opinion, because of the effects of the matters discussed in the Bases for Adverse Opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of **Quedan and Rural Credit Guarantee Corporation** as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

### **Other Matter**

We draw attention to item no. 1 of the Observations and Recommendations of the audit report, which discussed concern on the financial stability of the Corporation due to increasing accumulated deficit; low collection efficiency rate on receivables; slow disposition of acquired assets; inability to immediately obtain equity infusion; and delay in the settlement of pending legal suits, which adversely affected the Corporation's financial condition to operate as a going concern.

### **COMMISSION ON AUDIT**

  
**ARSENIO S. RAYOS, JR.**  
Officer-in-Charge- Supervising Auditor  
Audit Group F  
Cluster 5 – Corporate Government Sector

**May 23, 2013**



**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**  
**BALANCE SHEET**  
For the Year Ended December 31, 2012  
(In Philippine Peso)

	Note	2012	2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	3	679,691,125	161,735,605
Marketable securities	4	-	575,111,416
Receivables (trade) - current, net	5	787,437,521	1,770,941,520
Other receivables	5.7	311,742,977	351,632,803
Inventories	6	7,703,749	8,194,453
Prepayments	7	1,792,887	2,048,298
Other current assets	8	224,483	764,772
		<b>1,788,592,742</b>	<b>2,870,428,867</b>
<b>Non-current Assets</b>			
Investments	9	448,853	5,813,639
Receivables (trade) - long term	10	379,270,154	463,273,332
Property and equipment	11	55,538,977	55,709,100
Other assets	12	476,395,233	488,086,955
		<b>911,653,217</b>	<b>1,012,883,026</b>
<b>TOTAL ASSETS</b>		<b>2,700,245,959</b>	<b>3,883,311,893</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Payables	13	7,169,085,992	4,962,846,748
Other current liabilities		278,046,222	278,822,329
		<b>7,447,132,214</b>	<b>5,241,669,077</b>
<b>Non-current Liabilities</b>			
Long-term liabilities	14	1,131,640,184	1,388,640,184
Deferred credits	15	4,508,012	4,438,709
		<b>1,136,148,196</b>	<b>1,393,078,893</b>
		<b>8,583,280,410</b>	<b>6,634,747,970</b>
Capital stock (2 billion shares authorized at P1.00 per value per share)	16	1,042,328,808	1,042,329,828
Capital in excess of par value		78,165,063	78,165,063
Deficit		(7,003,528,322)	(3,871,930,968)
<b>Government Equity</b>		<b>(5,883,034,451)</b>	<b>(2,751,436,077)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,700,245,959</b>	<b>3,883,311,893</b>

The Notes on pages 9 to 20 form part of these financial statements.

**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**  
**STATEMENT OF INCOME AND EXPENSES**  
For the Year Ended December 31, 2012  
(In Philippine Peso)

	Note	2012	2011
<b>INCOME</b>			
	17		
Business income		89,442,669	148,616,824
Other income		35,605,143	31,225,792
		<b>125,047,812</b>	<b>179,842,616</b>
<b>EXPENSES</b>			
<b>PERSONAL EXPENSES</b>			
	18		
Salaries and wages		120,273,995	170,344,190
Other compensation		32,551,567	42,942,786
Personnel benefits contributions		15,998,386	23,434,837
Other personnel benefits		1,965,206	2,078,479
		<b>170,789,154</b>	<b>238,800,292</b>
<b>MAINTENANCE AND OTHER OPERATING EXPENSES</b>			
	19		
Bad debts		2,493,793,071	1,255,682,374
Professional services		23,765,717	23,800,164
Taxes, insurance premiums and other fees		23,410,264	6,856,672
Loss on sale of acquired assets		20,128,918	-
Supplies and materials expenses		8,786,791	11,170,119
Utility expenses		7,502,293	8,299,011
Rent expenses		6,063,078	7,920,549
Communication expenses		4,575,046	5,383,612
Traveling expenses		3,149,809	4,457,633
Depreciation		1,860,743	3,609,389
Repairs and maintenance		1,403,113	1,710,528
Printing and binding		548,061	653,177
Extraordinary and miscellaneous expenses		215,858	314,497
Advertising expenses		159,814	4,516
Subscription expenses		132,618	161,292
Representation expenses		75,324	63,914
Membership dues		23,068	37,767
Training and scholarship expenses		6,550	1,000
Transportation and delivery expenses		1,219	21,074
Other maintenance and operating expenses		33,892,721	9,977,873
		<b>2,629,494,076</b>	<b>1,340,125,161</b>
<b>FINANCIAL EXPENSES</b>			
Other financial expenses		580,567,988	70,767
Interest expenses		270,982,596	249,471,879
		<b>851,550,584</b>	<b>249,542,646</b>
		<b>3,651,833,814</b>	<b>1,828,468,099</b>
<b>NET LOSS</b>		<b>(3,526,786,002)</b>	<b>(1,648,625,483)</b>

The Notes on pages 9 to 20 form part of these financial statements.



**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**  
**STATEMENT OF CHANGES IN GOVERNMENT EQUITY**  
For the Year Ended December 31, 2012  
(In Philippine Peso)

	Note	2012	2011
Capital Stock	16	1,042,328,808	1,042,329,828
Paid-in capital in excess of par value		78,165,063	78,165,063
<b>Deficit</b>			
Balance, beginning		(3,871,930,968)	(2,328,319,743)
Net loss		(3,526,786,002)	(1,648,625,483)
Prior years' adjustments	20	395,188,648	105,014,258
Deficit balance, December 31		(7,003,528,322)	(3,871,930,968)
<b>Equity balance, end of year</b>		<b>(5,883,034,451)</b>	<b>(2,751,436,077)</b>

The Notes on pages 9 to 20 form part of these financial statements.

**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2012  
(In Philippine Peso)

	Note	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of service income		159,513,072	196,252,650
Collection of receivables		84,144,055	135,238,846
Refund/receipt of prepayments and deposits		989,624	681,830
Refund of cash advances to officers and employees		473,745	594,893
Payment of operating expenses		(282,795,583)	(332,982,805)
Fund transfer to Regional Offices/District Offices		(21,962,095)	1,105,232
Collection of inter-agency payables		(1,621,126)	(31,005,893)
Receipt of guarantee/hold-out deposits/bidders bond		(394,485)	(1,237,391)
Trust liabilities withheld/remitted		(359,621)	(4,474,819)
Receipt of trust fund from CARAGA		-	5,000,000
Other collections from prior years' income		-	26,315
<b>Net cash used in operating activities</b>		<b>(62,012,414)</b>	<b>(30,801,142)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on bank deposits/T-bills and notes		682,102,268	28,920,085
Placement of investment on T-bills		(101,465,077)	(26,571,042)
Proceeds from issuance of stocks/buy-back of stocks		(395,900)	(403,900)
Purchase of property and equipment		(273,357)	(201,055)
Equity contribution from National Government		-	100,000,000
<b>Net cash provided by investing activities</b>		<b>579,967,934</b>	<b>101,744,088</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>		<b>517,955,520</b>	<b>70,942,946</b>
<b>CASH, BEGINNING OF YEAR</b>		<b>161,735,605</b>	<b>90,792,659</b>
<b>CASH, END OF YEAR</b>		<b>679,691,125</b>	<b>161,735,605</b>

The Notes on pages 9 to 20 form part of these financial statements.



**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
For the Year Ended December 31, 2012  
(In Philippine Peso)

	DBM-approved Budget	Actual	Variance
<b>EXPENSES</b>			
<b>Personal services</b>			
Salaries and wages	118,835,000	120,273,995	(1,438,995)
Personnel economic relief allowance	10,227,000	10,681,632	(454,632)
Representation/Transportation allowance	2,433,000	3,731,624	(1,298,624)
Uniform/clothing allowance	3,410,000	3,698,000	(288,000)
Miscellaneous allowance	-	4,502	(4,502)
Productivity incentive benefits	382,000	-	382,000
Productivity incentive allowance	-	891,350	(891,350)
Honoraria (Board expenses)	374,000	100,750	273,250
Hazard pay	-	32,411	(32,411)
Longevity pay	3,000	189,623	(186,623)
Overtime pay	589,000	58,488	530,512
Year-end amelioration and cash gift	12,477,000	13,163,187	(686,187)
Personnel benefit contributions	16,663,000	15,998,386	664,614
Terminal pay	106,939,000	608,864	106,330,136
Monetized vacation leave	-	86,524	(86,524)
Rice allowance	165,000	1,269,818	(1,104,818)
Hospitalization expense	-	95,346	(95,346)
Loyalty award	-	1,215,000	(1,215,000)
<b>Total personal expenses</b>	<b>272,497,000</b>	<b>172,099,500</b>	<b>100,397,500</b>
<b>Maintenance and other operating expenses (MOOE)</b>			
Traveling expenses	4,042,000	3,149,809	892,191
Training and scholarship expenses	1,000	6,550	(5,550)
Supplies and materials	11,487,000	8,786,791	2,700,209
Utility expenses	8,504,000	7,502,293	1,001,707
Communication expenses	4,900,000	4,575,046	324,954
Membership dues and contributions	69,000	23,068	45,932
Advertising expenses	85,000	159,814	(74,814)
Printing, binding and reproduction	749,000	548,061	200,939
Rent expenses	6,745,000	6,063,078	681,922
Representation expenses	167,000	75,324	91,676
Subscription expenses	305,000	132,618	172,382
Auditing services	13,720,000	15,461,635	(1,741,635)
Consultancy services	36,000	29,000	7,000
Janitorial services	1,600,000	1,414,628	185,372
Security services	7,196,000	6,858,454	337,546
Repair and maintenance-buildings	50,000	174,029	(124,029)
Repair and maintenance-office equipment	676,000	273,499	402,501
Repair and maintenance-transportation equipment	1,303,000	955,585	347,415
Extraordinary and miscellaneous expenses	216,000	215,858	142
Taxes, duties and fees	5,250,000	22,637,429	(17,387,429)
Fidelity bond and insurance expenses	940,000	772,834	167,166
Sports and cultural activities	15,000	-	15,000
Meetings and conferences	206,000	236,580	(30,580)
Contracted services	5,855,000	23,848,306	(17,993,306)
Litigation/judicial/acquired asset expenses	12,000,000	5,458,308	6,541,692
Gender and development	290,000	48,781	241,219
Collection incentive fee	-	10,000	(10,000)
Trust fee expense	-	2,199,061	(2,199,061)
Miscellaneous expenses	1,300,000	784,558	515,442

	DBM-approved Budget	Actual	Variance
Finance charges	200,160,000	851,550,584	(651,390,584)
<b>Total MOQE</b>	<b>287,867,000</b>	<b>963,951,581</b>	<b>(676,084,581)</b>
<b>Total expenses</b>	<b>560,364,000</b>	<b>1,136,051,081</b>	<b>(575,687,081)</b>
<b>Capital outlay</b>			
Office equipment	2,460,000	206,357	2,253,643
Furniture and fixtures	270,000	14,500	255,500
Communication equipment	730,000	52,500	677,500
Other machineries and equipment	198,000	-	198,000
<b>Total equipment outlay</b>	<b>3,658,000</b>	<b>273,357</b>	<b>3,384,643</b>
<b>Total expenses and equipment outlay</b>	<b>564,022,000</b>	<b>1,136,324,438</b>	<b>(572,302,438)</b>
<b>Loans outlay</b>			
Guarantee fund investment	51,200,000	-	51,200,000
Guarantee payments	28,000,000	207,625	27,792,375
<b>Total loans outlay</b>	<b>79,200,000</b>	<b>207,625</b>	<b>78,992,375</b>
<b>Total capital outlay</b>	<b>82,858,000</b>	<b>480,982</b>	<b>82,377,018</b>
<b>Total expenses and outlay</b>	<b>643,222,000</b>	<b>1,136,532,063</b>	<b>(493,310,063)</b>

The Notes on pages 9 to 20 form part of these financial statements.



**QUEDAN AND RURAL CREDIT GUARANTEE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
(In Philippine Peso, unless otherwise stated)

**1. GENERAL/CORPORATE INFORMATION**

The Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) was established through Republic Act (RA) No. 7393 on April 13, 1992 with an authorized capital stock of P2 billion divided into two billion ordinary and voting shares, with par value of P1 per share, 60 per cent thereof to be subscribed solely by the National Government and/or government-owned or controlled corporations and 40 per cent thereof solely by small farmers, fisherfolks, their cooperatives and other private investors. Its mandate is to accelerate the flow of investments and credit resources into the countryside so as to trigger the vigorous growth and development of rural productivity, employment and enterprises, livelihood and income opportunities.

One of the primary functions of the Corporation is to establish a credit support mechanism for the benefit of farmers, fishermen, rural workers, cooperatives, retailers, wholesalers and primary processors of agricultural and aquatic commodities to accelerate growth and development of rural productivity, employment, livelihood and income opportunities in the countryside.

The QUEDANCOR is an attached agency of the Department of Agriculture. Its principal office is in 34 Panay Avenue, Quezon City.

The QUEDANCOR personnel complement as of December 31, 2012 totaled 336, consisting of 191 regular and 145 job order employees.

QUEDANCOR remains in the same strategic focus this year with emphasis on intensified effort to generate enough resources to finance its daily operation. Upon the instruction of the Governing Board, the pilot implementation of its re-engineered guaranteed co-financing program was discontinued and instead, sole guarantee scheme would be given priority in implementation to support the Department of Agriculture's (DA) banner projects and programs. Despite another challenging year, with a struggle to implement the approved Rationalization Plan (RatPlan), the Corporation remains optimistic towards the revival of its core business operation and hopeful to re-emerge as a reliable guarantee provider to the agriculture sector.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Financial Statements Preparation**

The financial statements are prepared in accordance with Philippine Financial Reporting Standards (PFRS).

**2.2 Basis of Consolidation**

The consolidated financial statements include the accounts of the Head Office and the different regional offices nationwide.



2.3 The Head Office is using the e-NGAS in recording its financial transactions since January 1, 2006. Though it was agreed before its adoption, the system was not totally customized in accordance with the needs of the Corporation. Some schedules and reports cannot be generated. On the other hand, all the regional offices are recording and generating their transactions using the EXCEL program. The e-NGAS cannot be replicated because certain concerns at the Head Office were not yet addressed by COA-GAFMIS like the generation of schedule of receivables on a per borrower/per program basis and several other schedules that management deems necessary.

2.4 All Regional offices prepare reports of collections, disbursements, fund transfers and remittances, foreclosures, remediated accounts and other financial transactions for recording in their books.

2.5 Income and expenses are recognized using modified accrual method of accounting.

2.6 Provision on Allowance for doubtful accounts

QUEDANCOR conducts an annual assessment of all trade receivables and contingent assets every end of the year for the purpose of classifying valuation reserves. Past due accounts shall be aged and classified in accordance with the terms and length of the period they have been past due.

In estimating the net realizable value of trade receivables, QUEDANCOR adopt two classifications:

Collateralized accounts

Description	Assigned Valuation
Fair market value $\geq$ outstanding principal	None
Fair market value $<$ outstanding principal	Deficient/shortage amount

Non-collateralized accounts – duly identified accounts shall be provided an allowance on a per account basis based on QUEDANCOR's collection experience and expected loss experience with sound judgment.

In the existence of sound judgment, the following cases, such as but not limited to, shall serve as the basis for a one-time valuation reserve of 100 per cent:

- Ghost borrowers;
- Missing borrowers whose whereabouts are unknown despite repeated skip tracings;
- Deceased borrowers without group comprehensive life insurance coverage;
- Accounts with unfavorable final judgment with absolutely no possibility of collection;
- Accounts with favorable final judgment in a civil case but execution was not secured within a period of five years;



- Unsecured accounts with legal constraints or the collateral securing the loan has become worthless and no payment has been received within a period of five years; and
- Judicial declaration of insolvency or bankruptcy of debtor.

The remaining accounts not included above of non-collateralized accounts shall be provided the allowance using the aging of the accounts as follows while deficiency claims shall be provided 100 per cent allowance:

No. of Years Past Due	Valuation Reserve (% of Outstanding Principal)
One year or less	5 per cent
More than 1 year to 2 years	10 per cent
More than 2 years to 3 years	20 per cent
More than 3 years to 4 years	30 per cent
More than 4 years to 5 years	40 per cent
More than 5 years to 10 years	50 per cent
More than 10 years	100 per cent

### 3. CASH and CASH EQUIVALENTS

*special savings maturing within three months*

This account includes cash deposits with various banks, undeposited collections and petty cash fund as follows:

	2012	2011
Cash on Hand		
Cash – Collecting Officers	9,102,349	9,342,383
Payroll Fund	992,851	2,848,363
Petty Cash Fund	151,265	187,751
Cash-Disbursing Officers	18,670	8,500
Cash in Bank-Local Currency		
Cash in Bank-Local Currency, Time Deposits	630,164,756	-
Cash in Bank-Local Currency, Current Account	21,112,533	20,214,497
Cash in Bank-Local Currency, Savings Account	18,148,701	129,134,111
	<b>679,691,125</b>	<b>161,735,605</b>

The Cash in Bank – Local Currency, Time Deposits was previously classified under Marketable Securities.

### 4. MARKETABLE SECURITIES

This account includes short-term investments carried at cost. These investments are placed with Land Bank of the Philippines, United Coconut Planters Bank and Philippine Veterans Bank. This account is now classified as Cash Equivalents:

Financial Institution	2012	2011
Land Bank of the Philippines	-	466,806,403
United Coconut Planters Bank	-	82,121,595
Philippine Veterans Bank	-	26,183,418
	-	<b>575,111,416</b>

## 5. RECEIVABLES – TRADE

5.1 Trade receivables accounts represent amounts collectible on loans to borrowers under the various programs of the Corporation. These are classified into:

a. Current trade receivables are accounts due for collections which are expected to be realized within one year.

b. Non-current trade receivables (Long-term) are those accounts which matured beyond the one-year period.

c. Past due trade receivables are those accounts that are due and demandable as of December 31, 2012 and remained unpaid upon maturity date.

5.2 Subrogated receivables represent claims against defaulting borrowers on account of guarantees paid by QUENDANCOR to the lending bank.

5.3 Deficiency claims receivables arise when the value of the property foreclosed/acquired is not sufficient to cover the borrowers' outstanding loan balance as of the date of issuance of certificate of sale by the sheriff in favor of QUENDANCOR.

5.4 Assigned receivables represent accounts sold to various banks secured by promissory notes.

5.5 Reconciling entries are payment of receivables at one office (Central or Regional/District Office) but were not recorded by the lending district office or the central office. It also includes payment thru the receipt of life insurance proceeds of deceased borrowers.

5.6 Included in the trade receivables are 1,227 accounts amounting to P61.868 million remediated during the year.

	2012	2011
Trade receivables:		
Active programs		
Current	37,503,642	156,877,241
Past due	5,350,394,469	5,203,486,618
	<b>5,387,898,111</b>	<b>5,360,363,859</b>
Deficiency claims receivables	585,586,720	570,606,156
Subrogated receivables (guarantee claims)	497,239,424	507,076,325
Assigned receivables	17,123,487	20,212,682
Installment receivables	8,630,288	11,655,089



	2012	2011
Unrecorded payments at the field offices	(17,033,028)	(22,008,992)
	<b>6,479,445,002</b>	<b>6,447,905,119</b>
Allowance for doubtful accounts	5,692,007,481	4,676,963,599
	<b>787,437,521</b>	<b>1,770,941,520</b>

5.7 Other receivables include advances granted to officers and employees – Self-Reliant Teams (SRT) Multi-coop, intra-district borrowings and miscellaneous account.

	2012	2011
Interest receivables	201,982,138	238,817,865
Due/Advances from officers and employees	50,264,897	50,954,993
Disallowances (SVLF, Honorarium, etc.)	7,249,156	6,552
Reconciling items of head/field offices	1,288,352	2,117,536
Loans receivables	522,062	522,062
Other receivables	50,436,372	59,213,795
	<b>311,742,977</b>	<b>351,632,803</b>

## 6. INVENTORIES

This account consists of the following:

	2012	2011
Office supplies	1,719,838	1,719,598
Accountable forms	1,581,749	1,700,622
Spare parts	261,788	229,388
Gasoline, oil and lubricants	4,289	4,783
Drugs and medicines	742	1,032
Other supplies	4,135,343	4,539,030
	<b>7,703,749</b>	<b>8,194,453</b>

## 7. PREPAYMENTS

This account consists of the following:

	2012	2011
Prepaid rent	1,211,525	1,391,871
Prepaid insurance	424,459	431,007
Prepaid communication	41,401	37,856
Prepaid subscription	3,236	4,217
Prepaid miscellaneous	112,266	183,347
	<b>1,792,887</b>	<b>2,048,298</b>

## 8. OTHER CURRENT ASSETS

This account consists of the following:

	2012	2011
Deposits-water, power and telephone	158,816	200,472
Guarantee deposits	65,667	245,211
Deposits-others (leases, procurement, etc.)	-	319,089
	<b>224,483</b>	<b>764,772</b>

## 9. INVESTMENTS

This account consists of the following:

	2012	2011
Investments in bonds	448,853	300,849
Other investments and marketable securities	-	5,512,790
	<b>448,853</b>	<b>5,813,639</b>

Other investments and marketable securities account represents the cumulative value of a P5 million investment with the Asia-Pacific Rural and Agricultural Credit Association Center for Training and Research in Agricultural Banking (APTRUDEV) initially invested in July 2004 net of various expenses charged against the fund. Said investment was terminated on June 11, 2012.

## 10. RECEIVABLES (TRADE) – LONG TERM

This is composed of program receivables that will mature beyond December 31, 2013:

	2012	2011
Active programs	371,435,774	461,970,400
Installment receivables	7,834,380	1,302,932
	<b>379,270,154</b>	<b>463,273,332</b>

## 11. PROPERTY AND EQUIPMENT

The composition of this account is as follows:

	2012	2011
Land	27,806,865	26,357,388
IT equipment and software	39,988,875	38,805,138
Motor vehicles	39,935,691	40,504,814
Office equipment	24,672,286	25,904,085
Office buildings	18,677,539	18,301,103



	2012	2011
Furniture and fixtures	5,318,893	5,219,139
Communication equipment	2,938,302	2,981,402
Other machineries and equipment	2,703,942	2,703,942
Other leasehold improvements-building	156,609	164,752
Library books	-	475
	<b>162,199,002</b>	<b>160,942,238</b>
Less: Accumulated depreciation	106,660,025	105,233,138
	<b>55,538,977</b>	<b>55,709,100</b>

A contract of conditional sale was entered into by and between Livelihood Corporation as the Vendor and Quedan & Rural Credit Guarantee Corporation as the Vendee on May 19, 1995, wherein the subject of the contract consists of land, building and building machineries and equipment for and in consideration of the amount of Thirty One Million Seven Hundred Ninety Seven Thousand & Nine Hundred Pesos (P31,797,900), which was registered in the name of QUEDANCOR in 2003.

Property and equipment are stated at cost less accumulated depreciation, which is computed using the straight line method based on estimated service life of the property ranging from three to 10 years except for building which is depreciated over 30 years. Depreciation expense is automatically computed by the e-NGAS.

## 12. OTHER ASSETS

The composition of the account is as follows:

	2012	2011
Acquired assets		
Land, building and other structures	256,747,653	259,461,745
Motor vehicles	3,070,873	2,694,971
Machineries/equipment/others	2,848,418	16,005,840
	<b>262,666,944</b>	<b>278,162,556</b>
Acquired assets for consolidation	155,181,256	58,866,359
Cash under receivership (claims from unrelieved losses)	30,540,691	28,529,222
Foreclosed properties under redemption	28,126,062	122,746,489
Inactive bank accounts	(119,720)	(217,671)
	<b>476,395,233</b>	<b>488,086,955</b>

Acquired assets account represents mortgages subsequently foreclosed by QUEDANCOR from defaulting borrowers. The foreclosed properties consist of several real and personal properties of borrowers under the Intensified Rice Production Program (IRPP), Livelihood Financing for Employees Program (LIFE), Agri-Aqua and Production (CAMP), Livelihood Aqua-Marine Productivity (LAMP), Joint Agribusiness Venture (JAV), Fisherfolk Integrated Livelihood Program (FILP), Barangay Marketing Center (BMC), Credit Guarantee Program (CGP), Rice and Corn Based Financing System (RCBFS) and the GMA-CARES Programs.



Cash under receivership are co-financing bank accounts that were closed by the Bangko Sentral ng Pilipinas and are under liquidation with the Philippine Deposit Insurance Corporation (PDIC).

Inactive bank accounts are composed of accounts maintained in various branches of PNB, Union Bank and in Metro Bank and various co-financing banks that remained open because of reconciling items which have not been adjusted due to lacking documents/references.

No depreciation expense was provided for acquired assets as these items are meant for sale/disposal to recover their money value. Gain or loss on the disposal is recognized in the books at the actual date of sale or other means of disposal.

### 13. CURRENT LIABILITIES

Included under this caption are the following accounts:

	2012	2011
Payables		
Loans payable-current portion of long-term debt	4,585,297,724	4,302,294,840
Accrued expenses	1,716,902,312	71,972,599
Payable to ACPC	17,147,770	3,849,192
Payable to banks (GCFM accounts)	15,558,425	15,708,629
Payable to district offices	14,909,667	14,909,667
Payable to input suppliers	7,734,078	8,147,112
Due to officers and employees	7,524,400	7,647,480
Attorneys fee payable	4,544,480	2,021,088
Rediscounting venture-LBP	4,048,467	8,773,258
Payable to PhilRice	3,781,000	3,781,000
Rediscounting venture-other banks	2,589,487	1,918,362
Assigned PN payable-PVB	2,391,085	17,181,434
Payable to accredited lawyers	2,202,910	2,268,082
NCB payables	1,901,070	2,807,888
Interest payable	737,655,527	466,749,948
Rediscounting venture-Allied Bank	575,443	3,654,620
Assigned PN payable-UCPB	9,298	1,252,120
Unclaimed tax refund	3,061	3,061
Assigned PN payable-ABC	(408,000)	(2,305,160)
Assigned PN payable-LBP	(297,492)	1,553,086
Assigned PN payable-EWB	(170,883)	1,198,775
Miscellaneous payable	45,186,163	29,810,293
Reconciling items	-	(2,350,626)
	<b>7,169,085,992</b>	<b>4,962,846,748</b>
Other current liabilities		
Inter-agency payables		
Due to other GOCCs	114,632,848	119,775,769
Due to other NGAs	45,433,887	45,433,887
Due to BIR	15,235,019	14,606,629
Due to PAG-IBIG	237,776	199,927
Due to GSIS	(300,399)	(443,757)



	2012	2011
Due to PHILHEALTH	(45,686)	(88,894)
	<b>175,193,445</b>	<b>179,483,561</b>
Other liabilities		
Guarantee deposits	5,390,668	3,305,868
Performance/bidders bond payable	3,146,113	3,145,778
Other payables	94,315,996	92,887,122
	<b>102,852,777</b>	<b>99,338,768</b>
	<b>278,046,222</b>	<b>278,822,329</b>
	<b>7,447,132,214</b>	<b>5,241,669,077</b>

The account includes penalties on the unpaid principal of the Multi-Series Bonds and Corporate Notes that were already matured in 2011. Negotiation for restructuring with the creditors is proposed with the request for waiver of penalties and haircut on the interest rate.

#### 14. LONG-TERM LIABILITIES

This account consists of the following obligations:

	2012	2011
Department of Agriculture	602,218,000	1,259,218,000
Agricultural Credit Policy Council (ACPC)	523,922,184	123,922,184
DA-CARAGA-RFU	5,000,000	5,000,000
2 <sup>nd</sup> Congressional District of South Cotabato	500,000	500,000
	<b>1,131,640,184</b>	<b>1,388,640,184</b>

The Department of Agriculture loan consists of P437 million Rice and Corn Based Financing System funds, of which P257 million has matured and was reclassified to Current Liabilities, P208.568 million High-Value Commercial Crops (HVCC) funds, P110 million Sugar Farm Modernization Fund, P22 million AM-CORN, P81.650 million meant to implement the credit and guarantee needs of various flagship programs of the Department.

The ACPC Trust Funds is composed of P123.922 million guarantee fund for the Integrated Farming System, another flagship program of the Department, P300 million for GMA-CARES Programs, and P100 million AFCGF for another guarantee program activity.

#### 15. OTHER DEFERRED CREDITS

The account consists of payments of trade receivables at various field offices directly deposited by clients to various LBP branches but identities were not disclosed. Field personnel are coordinating with the local LBP branches for the identification of the borrowers/depositors.



	2012	2011
Deferred Credits	4,508,012	4,438,709

#### 16. GOVERNMENT EQUITY

The account consists of the following:

	2012	2011
Capital stock-authorized 2,000,000 Shares @ P1.00 par value		
Issued and Outstanding	1,043,025,888	1,043,025,888
Less: Treasury stocks	697,080	696,060
Net Issued and Outstanding	1,042,328,808	1,042,329,828
Paid In Capital in Excess of Par Value (Other Capital)	78,165,063	78,165,063
Retained Earnings (Deficit)	(7,003,528,322)	(3,871,930,968)
	<b>(5,883,034,451)</b>	<b>(2,751,436,077)</b>

The authorized capital stock of the Corporation per RA No. 7393 is two billion pesos (P2,000,000,000) divided into two billion common and voting shares with par value of one peso per share. Sixty per cent thereof shall be subscribed by the National Government and/or Government-Owned or Controlled Corporations and the forty per cent by farmers, fisherfolks, their cooperatives and private investors.

	2012	2011
Breakdown of capital stocks-issued and outstanding		
Government share		
National Government	877,423,123	877,423,123
DA/ACPC	130,326,502	130,326,502
Cooperative Development Authority	2,000,000	2,000,000
	<b>1,009,749,625</b>	<b>1,009,749,625</b>
Private sector share (Net of treasury stocks)	32,579,183	32,580,203
	<b>1,042,328,808</b>	<b>1,042,329,828</b>

Paid-in capital in excess of par value consists of Miscellaneous Other Capital. These accounts were classified under the said account title because there is no appropriate account code under e-NGAS that specifically describes such accounts. Other Capital includes fully liquidated grant from the National Agricultural and Fishery Council (NAFC) and the Bureau of Fisheries and Aquatic Resources amounting to P77.41 million that were released to various fisherfolks in the form of loan.



## 17. BUSINESS INCOME

The account includes guarantee fees which represent fees received from accredited lending banks on the guarantee coverage extended by QUEDANCOR on the loans granted, income from loans representing interests and other charges earned from various programs of the Corporation and miscellaneous operating income.

	2012	2011
Service income	89,442,669	148,616,824
Other income		
Interest on bank deposits/Treasury bills	27,124,391	24,038,766
Gain on sale of acquired assets	4,268,984	1,354,467
Subsidy from ACEF	394,276	653,231
Miscellaneous income	3,817,492	5,179,328
	<b>125,047,812</b>	<b>179,842,616</b>

## 18. PERSONAL SERVICES

Components of the account are as follows:

	2012	2011
Salaries and wages	120,273,995	170,344,190
Personnel benefit contributions	15,998,386	23,434,837
Other compensation	32,551,567	42,942,786
Other personnel benefits	1,965,206	2,078,479
	<b>170,789,154</b>	<b>238,800,292</b>

## 19. MAINTENANCE AND OTHER OPERATING EXPENSES

The account consists of the following:

	2012	2011
Bad debts	2,493,793,071	1,255,682,374
Contracted services	23,848,306	997,260
Professional services	23,765,717	23,800,164
Taxes, insurance premiums and other fees	23,410,264	6,856,672
Loss on sale of acquired assets	20,128,918	-
Supplies and materials expenses	8,786,791	11,170,119
Utility expenses	7,502,293	8,299,011
Rent expenses	6,063,078	7,920,549
Assets/Litigation expenses	5,458,308	4,479,088
Communication expenses	4,575,046	5,383,612
Traveling expenses	3,149,809	4,457,633
Trust fee expenses	2,199,061	2,342,339
Depreciation	1,860,743	3,609,389
Repairs and maintenance	1,403,113	1,710,528

	2012	2011
Loyalty award	1,145,000	480,000
Printing and binding	548,061	653,177
Meetings and conference expenses	236,580	230,699
Extraordinary and miscellaneous expenses	215,858	314,497
Hospitalization expenses	175,346	201,521
Advertising expenses	159,814	4,516
Subscription expenses	132,618	161,292
Representation expenses	75,324	63,914
Gender and development	31,593	-
Membership dues	23,068	37,767
Training and scholarship expenses	6,550	1,000
Transportation and delivery expenses	1,219	21,074
Loan expense	-	306,246
Incentive award	-	17,000
Collection incentive fee	-	5,734
Medical and dental services	-	643
Miscellaneous expenses	798,527	917,343
	<b>2,629,494,076</b>	<b>1,340,125,161</b>

## 20. PRIOR YEARS' ADJUSTMENTS

This account consists of the following adjustments made in 2012 pertaining to prior years:

	Amount
Prior year charges	
Overstatement of bad debts/depreciation expense	1,478,120,206
Overstatement /unaccrued various personal services accounts	8,245,686
Overstatement of various maintenance and other operating expenses	1,622,336
Unrecorded penalty on MSB and CN and administrative expenses due to SBGFC	(1,088,426,601)
	<b>399,561,627</b>
Prior year credits	
Understatement/unaccrued miscellaneous income	3,615,283
Overstatement/unaccrued interest and other charges on loan	(7,988,262)
	<b>(4,372,979)</b>
	<b>395,188,648</b>

## 21. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of QUEDANCOR for CY 2012 was authorized for issue by the Officer-in-Charge/President, Atty. Armando R. Crobalde, Jr., as presented to the Governing Board on April 16, 2013 and was submitted to COA on April 18, 2013.