



ANNUAL
REPORT

05

PHILIPPINE HEALTH INSURANCE CORPORATION

Lalong Tumatatag, Laging Maaasahan

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Constancy Through Time.

As a father provides stability and security for his family, PhilHealth has made ensuring the health of the Filipino populace the core of its existence. The loving and nurturing nature of a mother is similar to PhilHealth's unwavering commitment to care for the health of the Filipinos. Amidst adversities through the passing of time, PhilHealth draws inspiration from constant changes in our world to improve its services in securing every Filipino family. For as long as there exists a Filipino, PhilHealth shall ever remain, cradling and caring for Filipino lives.

Rommel Alcantara

PhilHealth Regional Office XII
1st Place Poster Making Contest

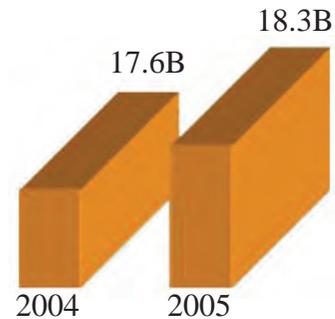
Financial Highlights

2005

Collections

2005	P 18,274,203,302
2004	P 17,576,610,527

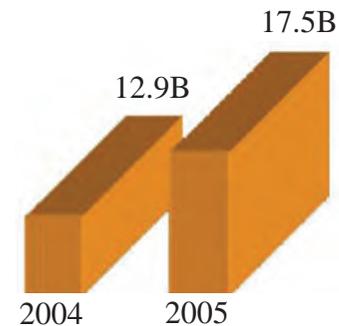
PhilHealth collections remained resilient in 2005 as it posted a 4% growth over 2004. The growth bolstered the funds for benefit payments.



Benefit Payments

2005	P 17,518,559,575
2004	P 12,925,368,174

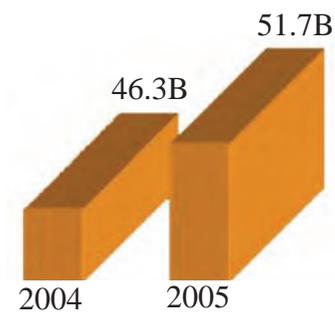
PhilHealth ended a year with a phenomenal benefit payments performance: posting an unprecedented 35% over last year's payments. The Corporation continues to enhance the delivery of its benefits.



Investments

2005	P 51,699,296,594
2004	P 46,304,140,303

As a product of a well-planned investment scheme, PhilHealth's investment portfolio reached more than P51 billion in 2005, up by more than 11% over 2004.



From the President of the Philippines

PhilHealth continues to be a laudable government agency the past year.

After achieving universal coverage under the social health insurance program and introducing new benefit packages in 2004, PhilHealth, in 2005, released its Benchbook on quality healthcare standards to ensure that services for those covered are met and continuously upgraded. It has forged new partnerships with organizations that are critical in making PhilHealth a better organization. Clearly, PhilHealth is steadfast in its commitment to its vision and mission.

In a year of extreme challenges, PhilHealth provides a reason for this government to celebrate, to be proud, and to continue believing that there is much hope for our country and our people.

Nawa ay magsilbi kayong inspirasyon sa iba pang ahensya ng pamahalaan. Mabuhay ang PhilHealth!



GLORIA MACAPAGAL-ARROYO

President
Republic of the Philippines

From the Chair of the Board

PhilHealth has gradually emerged into the consciousness of Filipinos as a reliable partner in times of health care crisis. This is evidenced by various testimonials from those who have experienced first-hand the high quality of services from thousands of PhilHealth-accredited facilities.

These attestations that PhilHealth and its partner-health care providers indeed 'walk the talk' proved to be the best way to spread the program to more Filipinos.

Now, PhilHealth membership ceases to be an obligation but a necessity for every Filipino family. The PhilHealth card has now become more than an identification card but more so, an empowering tool for every Filipino, whether rich or poor, to obtain affordable quality health care. Indeed, the National Health Insurance Program has now transformed into a vehicle that shall help the nation in its goal of poverty alleviation and real social development.

The Department of Health is committed to zealously work with PhilHealth in increasing the access to quality health care and in providing equal health opportunities for our people. Health for All – this is our undying vision, this is our pledge to the Filipino nation. Together, let us never tire to reach that goal and bridge the health inequities that particularly encumber our country's poor.


FRANCISCO T. DUQUE III, M.D., MSc.
Secretary of Health
Chair, PhilHealth Board



Acting President's Report

For the Philippine Health Insurance Corporation (PhilHealth), the year 2005 was made truly remarkable with the turnover of the Medicare program for Overseas Filipino Workers from the Overseas Workers Welfare Administration (OWWA), a milestone that completed the integration of the nation's medical care program under one government institution.

The turnover of the function paved the way for the creation of the Overseas Workers Program (OWP) tasked to ensure unbridled medical insurance service to over 2.5 million OFWs and their kin. The backbone of the OWP was Executive Order 182 dated February 14, 2003, as amended by EO 392 dated December 28, 2004.

With the transfer came P530,382,446, an amount that was actuarially determined to finance the benefit payments, administrative and capital expenditures for the OWP for one year.

The year also saw Dr. Francisco T. Duque III, President and CEO moving on to the Department of Health to assume a more challenging task as Secretary.

Across various core business processes, PhilHealth made the following strides in 2005:

More Members Means More Advocates



Through various Board Resolutions, PhilHealth provided several options for the renewal of membership under the Sponsored Program. These included Track 1 or the Regular Sponsored Program; Track

2 or the introduction of a Special Local Government Unit (LGU) premium which was offered to all cities and first to third class municipalities for the renewal of their Plan Five Million enrollees; and Track 3 or the Oplan 2.5M renewal, which was offered to all LGUs with enrollees under Plan 5M.

PhilHealth ended the year with an estimated active membership coverage of 13.4 million active members or more than 54 million beneficiaries. These figures represent about 64 percent of the 85 million 2005 estimated population of the country

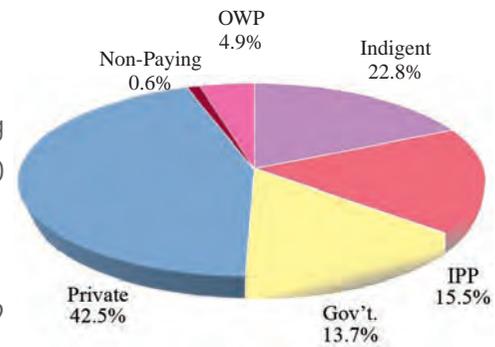
The Sponsored Program posted a total enrollment of about 2.5 million indigent families, which translates to an estimated 12 million poor Filipinos who are eligible for the benefits under the National Health Insurance Program (NHIP).

On the other hand, enrollment under the Formal and Informal sectors showed a notable increase with a total of 7,295,100 and 2,839,455 registered members,

respectively, while the Non-Paying Program posted a total of 196,650 members by yearend.

The OWP registered about 545,429 members or an estimated 2.7 million beneficiaries. There were about 496,000 OFW members enrolled when PhilHealth took over the functions of overseeing the program from OWWA in March 2005. The strength and capabilities of the OWP enabled it to collect some P489.8 million worth of premiums from March to December 2005.

As it marked its 10th year, PhilHealth asserted its role as a bigger, broader and even better organization that ably responds to the demands of a wider coverage of membership and keep up with the developments in the health care industry. With the NHIP advancing towards universal coverage, PhilHealth has become the country's largest social security institution covering about 64% of the population with 54 million beneficiaries nationwide.



Payments Are Guaranteed For Responsive Benefits

PhilHealth amended its policies on the Normal Spontaneous Deliveries (NSD) Package for the reimbursement of drugs, medicines and supplies, thereby enabling a member to claim for reimbursement in cases when the provider's claim for facility charges is less than the benefit package, subject to certain conditions.

The transfer of the OWWA-Medicare program to PhilHealth enabled OFWs to enjoy expanded benefits that include the SARS Package, the TB-DOTS Package, the Maternity Care Package and the Renal Care Services Packages that can be availed of in PhilHealth-accredited free-standing dialysis clinics. Aside from these benefit packages, the OFWs may enjoy lifetime membership for as long as they have made 120 monthly contributions and have reached 60 years old.

By yearend, PhilHealth paid P17.5 billion in medical care benefits to its members nationwide, about 35 % more than what it had paid for in 2004.

Quality Care Is Our Primary Concern



A testament to PhilHealth's commitment to provide quality health care to its members is the requirement for accredited hospitals to be "Mother-Baby Friendly." This is in accordance with the World Health Organization/UNICEF Baby Friendly Hospital Initiative, which encourages, promotes, and supports breastfeeding as essential to the health of the

newborn and the mother. The Philippines supports this effort through Republic Act (RA) 7600 or "The Rooming-in and Breastfeeding Act of 1992."

Within the year, PhilHealth also adopted the Benchbook on Performance Improvement of Health Services as its main reference in assessing and evaluating the performance of accredited health care providers, even as it shifts paradigm from a purely accountable framework to that of continuous quality improvement.

We Are Where You Need Us

At the close of 2005, PhilHealth posted a total of 2,750 accredited institutional health care facilities such as hospitals, ambulatory surgical clinics, rural health units, TB-DOTS centers, maternity clinics and free-standing dialysis clinics, significantly increasing Filipinos' access to medical services nationwide. On the other hand, the number of accredited professional health care providers reached 21,148, despite the out-migration of these providers.



Along with service and membership coverage expansion is PhilHealth's effort to strengthen its information campaign, especially for the enrollment of OFWs into the Individually Paying

Program. At the same time, it started developing systems that will facilitate the OFWs' membership into PhilHealth by continuing the operations of the One-Stop-Shop Centers in Clark, Cebu and Davao, areas that are considered strategic for the nation's Bagong Bayani.

We Strengthen Ties That Bind

Throughout the year, PhilHealth also worked to maintain its strong collaboration with foreign as well as local partners. With the assistance from the German Agency for Technical Cooperation (GTZ), a study on “Segmenting the Informal Sector with a View to Adjusting Premiums based on Ability to Pay” was undertaken to provide PhilHealth with options for segmenting the individually paying members and present an adjusted premium schedule.

Also, the Philippine Center for Communication Program (PCCP), through a funding from the WHO, did an Assessment of the PhilHealth Communication Program and Development of a Communication Plan with a Social Marketing Approach. This was aimed at ascertaining the members’ prevailing knowledge, attitudes, and practices pertaining to PhilHealth.

In June, PhilHealth signed a Memorandum of Understanding (MOU) with the Philippine International Trading Corporation (PITC) to explore efforts by which to lower the prices of essential drugs through a Preferred Partner Pharmacy Program (PPPP).



We Touch Base With Our Clients

Reaching out to its members is one of PhilHealth's major initiatives to ascertain their awareness and satisfaction levels. Along this line, PhilHealth engaged the services of the Social Weather Stations



and participated in their 2nd quarter nationwide survey with six (6) rider questions. The survey indicated that PhilHealth enjoys an awareness rating of 79% with a net satisfaction rating of 68%.

Long-Term Sustainability Is Our Top-Of-Mind

By the end of 2005, total NHIP premium collections reached P18.3 billion or 4 percent more than what was collected in 2004. Measuring this against the P19.9 billion collection target, PhilHealth closed the year at 92 percent, a feat that overcame various challenges brought about by changes in the economy.

Another breakthrough effort was the Memorandum of Understanding (MOU) that PhilHealth signed with the Philippine Association for Government Budget Administration (PAGBA) and the Association of

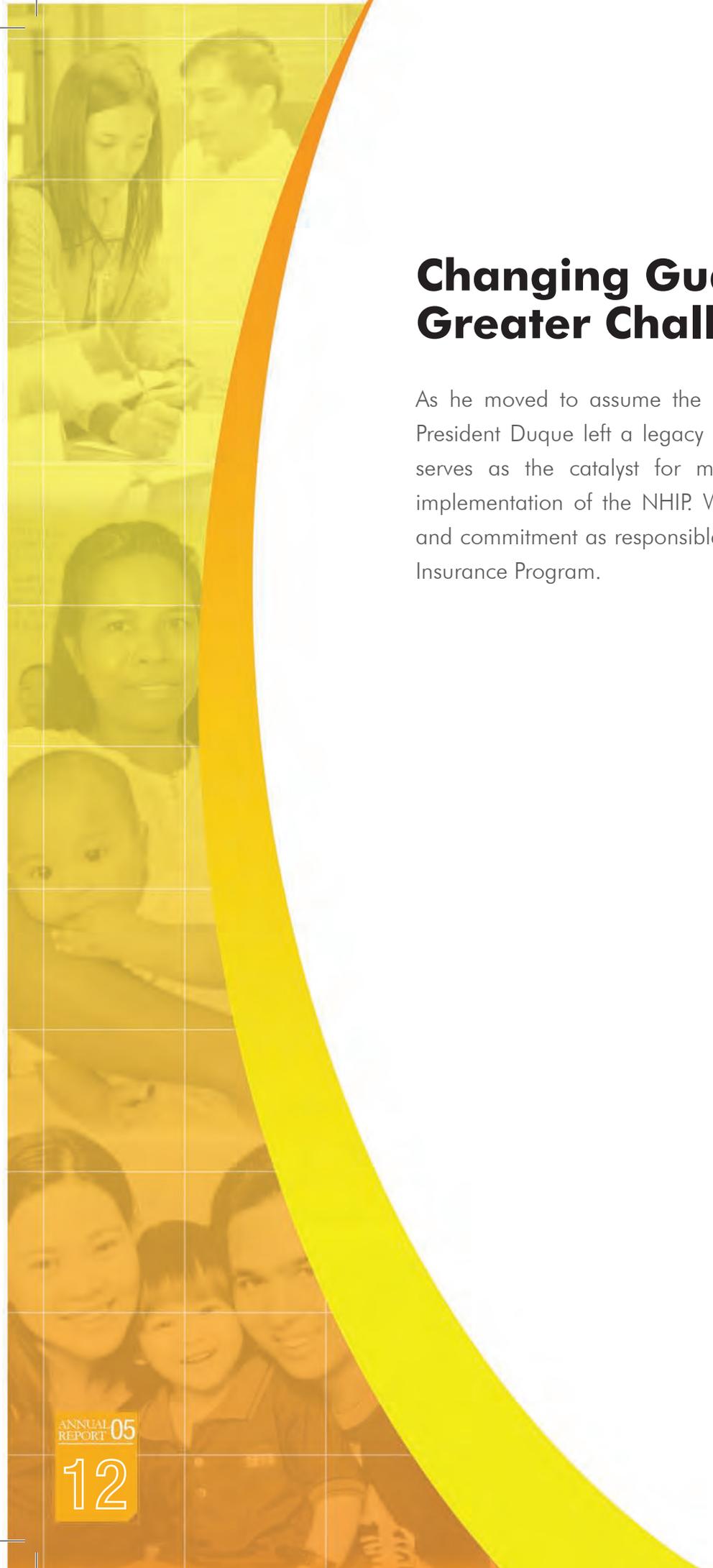
Government Accountants of the Philippines (AGAP), with the primary objective of ensuring that member-agencies of these two organizations fulfill mandatory employer obligations such as remittance of premium contributions and submission of quarterly remittance reports to PhilHealth. This will enable PhilHealth to monitor the timely payment of contribution of all its members, especially in the employed sector.

We Lobby For Legislative Support

Among the many highlights of the year was PhilHealth's move to initiate the passage of two (2) revenue laws that supported and provided the impetus for the government to secure consistent and sufficient sources of financing health care through social health insurance. Republic Act 9334 known as the "Sin Tax Law" directed that five percent of the expected incremental revenues from the excise taxes from the sales of alcohol and tobacco products will go to health, half of which is earmarked for the NHIP to sustain the goal of universal coverage. Internal Revenue Regulation (IRR) No. 3-2006 of RA 9334 has been issued recently by the Bureau of Internal Revenue (BIR).

The NHIP is also listed as one of the beneficiaries of Republic Act 9337 or the Expanded Value-Added Tax Law, which mandates that the NHIP must receive ten percent of the 50 percent, representing the share of LGUs from its incremental revenues. This will be released as part of the Internal Revenue Allocation (IRA) of LGUs starting 2006.





Changing Guards For Greater Challenges

As he moved to assume the greater task of Health Secretary, President Duque left a legacy of excellence in PhilHealth which serves as the catalyst for more creative innovations in the implementation of the NHIP. We continue to pursue his legacy and commitment as responsible stewards of the National Health Insurance Program.

Lorna O. Fajardo
LORNA O. FAJARDO
Acting President and
Chief Executive Officer

BEEFING UP CRITICAL SUPPORT PROCESSES

On the heels of the initial sessions in 2003 and 2004, the Office of the Actuary conducted five sessions of the Social Health Insurance and Actuarial Basics Orientation during the 2nd and 3rd quarters of 2005 (SHIABO) in PROs 1, 2, 4a, 5, and 6. The sessions were aimed at enhancing the capability of PhilHealth personnel in decision-making processes particularly in the analysis of data and in coming up with actuarial projections.

In October, the Corporate Communications Office spearheaded the conduct of orientation sessions on the correct use of the Corporate Identity elements such as the official logo or symbol, the colors, the tagline, and the fonts for various internal and external communications. A total of eight sessions for employees in the Central Office were completed before year-end, in preparation for the release of the first-ever Corporate Identity Manual for PhilHealth in 2006. The manual is aimed at projecting a common look and image for PhilHealth nationwide.

In November, the Corporate Planning Department provided a training on 'Statistics Policy Research Archive and Database System (SPReAD).' The SPReAD is a tool to monitor and evaluate the NHIP and serve as the program's clearinghouse and information source. At the same time, a Workshop on the Preparation of the Manual of Omnibus Guidelines was also initiated



by the Department during the 2nd quarter to document the core processes within the organization and uphold quality standards of service to all stakeholders. The document contains all prevailing policies in the areas of membership registration, payment of premium contributions, claims processing, accreditation of health care providers and quality assurance. It hopes to promote efficiency among PhilHealth personnel and provides the foundation for a seamless implementation of PhilHealth policies and procedures.

A two-day workshop to introduce the Balanced Scorecard was conducted by CorPlan last June 30 to July 1 to identify the commonalities of strategy, expand focus and understanding of stakeholders' needs by aligning systems and structures to address these identified needs. Likewise, Synchronization of the Planning and Budgeting activities was also initiated through the Integrated Planning and Budget System. A series of meetings between the Corporate Planning and Finance Departments were conducted and resulted in two (2) workshops during the 3rd and 4th quarters, with the Regional and Central Office Planning Coordinator and Budget Coordinator Designates in attendance.

During the 4th quarter, CorPlan conducted the second round of Survey on the Support Value of PhilHealth Benefits. A workshop on the Assessment of the National Health Insurance Program was also conducted to review and address the issues/concerns pertaining to the implementation of the NHIP.

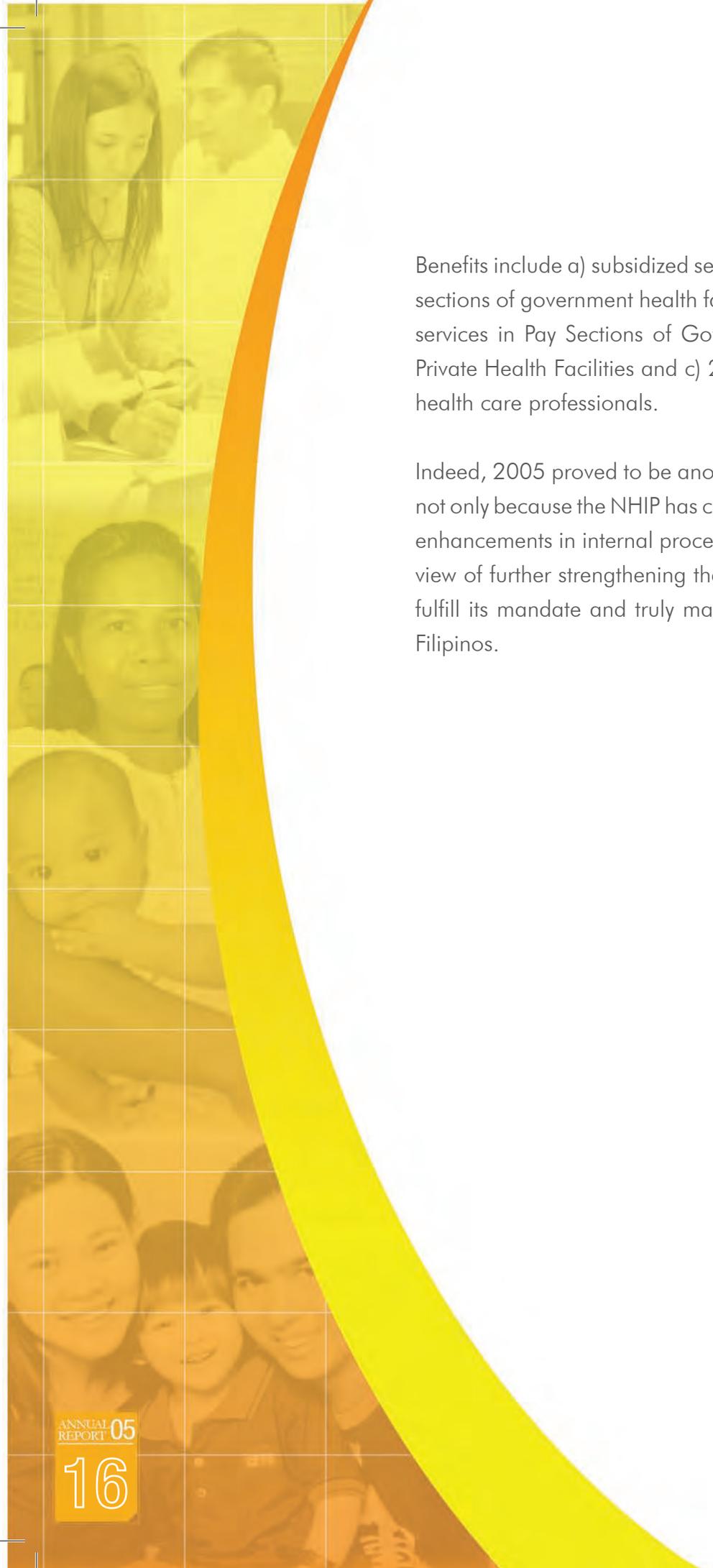
The Human Resource Department together with the Foreign Assisted Coordinating Office (FACO) conducted the Social Health Insurance Advocates and Champion Course (SHIAC) for local chief executives. SHIAC was also

cascaded to PhilHealth employees to further equip them with information and skills they need to help promote the Program. The HRD solicited inputs from PhilHealth officers in the enhancement of the Performance Management System (PMS) tool to effectively appraise performance vis-a-vis accepted indicators.

The Union Bank of the Philippines was given the “Kaagapay Award” being the first bank to offer the on-line collection payment or the “ePay” system in 2005. This cost-effective facility allows the government and private employers to electronically remit and file their NHIP premium contribution to PhilHealth in the comfort of their workplace. With this new scheme, PhilHealth is able to render better service to its member-clients, as benefit eligibility could readily be determined through the immediate posting of employees’ data to the contribution database.

In accordance with PhilHealth Circular 7, series of 2005, PhilHealth started receiving and processing claim applications of OFWs since March 1, 2005. All claims received and transferred to PhilHealth that were not paid prior to March 1, 2005 including claims that were previously returned to claimants for completion/reconsideration, as well as those received at the close of business hours of February 28, 2005 were processed and reimbursed by PhilHealth.

The year also saw PhilHealth strengthening its resolve to care for the elderly by reiterating the application of the senior citizens discount for health and dental services, in line with the implementation of R. A. 9247 and pursuant to Administrative Order No. 177, s2004. The Rules on the Application of the Senior Citizens Privileges for the Availment of PhilHealth



Benefits include a) subsidized services in in-patient and out-patient sections of government health facilities; b) 20 percent discount on services in Pay Sections of Government Health Facilities and in Private Health Facilities and c) 20 percent discount on services of health care professionals.

Indeed, 2005 proved to be another milestone year for PhilHealth, not only because the NHIP has come full-circle but because several enhancements in internal processes were initiated, with the end in view of further strengthening the capability of the organization to fulfill its mandate and truly make a difference in the lives of the Filipinos.



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

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Directors

Philippine Health Insurance Corporation
Citystate Centre, 709 Shaw Blvd.,
Pasig City

We have audited the accompanying balance sheet of the Philippine Health Insurance Corporation as of December 31, 2005 and the related statements of income, changes in net worth and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Philippine Health Insurance Corporation as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with applicable generally accepted state accounting principles in the Philippines.

COMMISSION ON AUDIT

ROSEMARIE LACSON-LERIO

Director IV
Cluster II, Financial B
Corporate Government Sector

February 28, 2006

Philippine Health Insurance Corporation

Balance Sheet

December 31, 2005
(With Comparative Figures for 2004)

	2005	2004 (As Restated)	Increase (Decrease)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 2.4 and 3)	P 4,587,437,707	P 4,401,974,261	P 185,463,446
Short-term investments (Note 4)	14,783,340,910	18,827,037,744	(4,043,696,834)
Receivables - net (Note 5)	3,790,385,893	2,890,350,665	900,035,228
Inventories (Notes 2.5 and 6)	29,232,845	49,288,456	(20,055,611)
Intangible assets (Note 7)	17,206,059	9,188,683	8,017,376
Other current assets (Note 8)	1,623,362	-	1,623,362
Total Current Assets	<u>23,209,226,776</u>	<u>26,177,839,809</u>	<u>(2,968,613,033)</u>
Investments-net (Note 9)	33,314,656,419	24,607,084,528	8,707,571,891
Property and Equipment - net (Notes 2.6 and 10)	1,102,715,578	1,068,879,060	33,836,518
	<u>34,417,371,997</u>	<u>25,675,963,588</u>	<u>8,741,408,409</u>
Miscellaneous Assets and Deferred Charges (Note 11)	<u>38,359,449</u>	<u>26,189,419</u>	<u>12,170,030</u>
TOTAL ASSETS	<u>57,664,958,222</u>	<u>51,879,992,816</u>	<u>5,784,965,406</u>
LIABILITIES AND NET WORTH			
Payables (Note 12)	2,526,073,463	1,099,902,940	1,426,170,523
Trust Liabilities (Note 13)	403,326,932	128,647,335	274,679,597
Other Deferred Credits (Note 14)	9,910,497	9,447,741	462,756
	<u>2,939,310,892</u>	<u>1,237,998,016</u>	<u>1,701,312,876</u>
Net Worth (Notes 16 to 18)	<u>54,725,647,330</u>	<u>50,641,994,800</u>	<u>4,083,652,530</u>
TOTAL LIABILITIES AND NET WORTH	<u>P 57,664,958,222</u>	<u>P 51,879,992,816</u>	<u>P 5,784,965,406</u>

Philippine Health Insurance Corporation

Statement of Income

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)

	2005	2004 (As Restated)	Increase (Decrease)
REVENUES (Schedule I)			
NHIP premium contribution	P 18,274,203,302	P 17,576,610,527	P 697,592,775
Interest income	5,071,975,664	4,429,792,758	642,182,906
Accreditation fees	11,696,644	9,196,009	2,500,635
Gain on disposal of assets	65,552	33,238	32,314
Other income	8,100,902	8,398,724	(297,822)
	<u>23,366,042,064</u>	<u>22,024,031,256</u>	<u>1,342,010,808</u>
APPLICATIONS (Schedule II)			
Benefit payments	17,518,559,575	12,925,368,174	4,593,191,401
Operating expenses	1,761,577,541	2,178,835,773	(417,258,232)
	<u>19,280,137,116</u>	<u>15,104,203,947</u>	<u>4,175,933,169</u>
NET REVENUE	<u><u>P 4,085,904,948</u></u>	<u><u>P 6,919,827,309</u></u>	<u><u>P (2,833,922,361)</u></u>

See accompanying Notes to Financial Statements

Philippine Health Insurance Corporation

Statement of Changes in Net Worth

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)

	2005	2004 (As Restated)	Increase (Decrease)
RESERVE FUND (Note 16)	P 35,287,000,000	P 35,287,000,000	P -
CONTINGENT CAPITAL (Note 17)	7,066,661	7,155,108	(88,447)
NET UNREALIZED LOSS FROM DECLINE IN VALUE OF LONG-TERM INVESTMENTS	108,237,377	106,073,406	2,163,971
RETAINED EARNINGS (Note 18)			
Balance at beginning of year	15,453,913,098	9,219,429,642	6,234,483,456
Adjustment of prior years' errors	-	(685,343,853)	685,343,853
	15,453,913,098	8,534,085,789	6,919,827,309
Net income for the year	4,085,904,948	6,919,827,309	(2,833,922,361)
Balance at end of year	19,539,818,046	15,453,913,098	4,085,904,948
NET WORTH	P 54,725,647,330	P 50,641,994,800	P 4,083,652,530

Philippine Health Insurance Corporation

Cash Flow Statement

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)

	2005	2004 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	P 16,571,992,960	P 14,474,793,740
Cash received from Local Government Units	687,965,870	474,776,169
Cash received from Philippine Charity Sweepstakes Office	275,000,000	230,000,000
Cash received from National Government	135,202,825	1,084,247,292
OWWA Fund for OWWA benefit payments	259,224,811	-
Cash received in trust	14,957,808	70,857,430
Accreditation fees received from health care providers	12,159,400	18,637,750
Cash received from various operating activities	5,228,629	5,909,134
Collection of car loan	5,140,293	6,458,469
Benefit payments	(16,124,583,881)	(12,740,603,237)
MOOE/Personal Services/supplies and materials paid	(1,642,015,125)	(1,172,874,056)
Payment of OWWA (backlog) benefit claims	(214,851,318)	-
Payment of miscellaneous assets and deferred charges	(12,170,030)	(2,330,390)
Net Cash (Used in) Provided by Operating Activities	<u>(26,747,758)</u>	<u>2,449,872,301</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	4,986,079,304	4,092,644,196
Matured bonds	4,043,696,834	3,004,984,978
Collection of investment on asset securitization	-	463,597,179
Investment in bonds	(8,709,735,863)	(6,807,697,509)
Payment of equipment purchased	(99,811,695)	(259,418,339)
Acquisition of intangible assets	(8,017,376)	-
Net Cash Provided by Investing Activities	<u>212,211,204</u>	<u>494,110,505</u>
Net Increase in Cash and Cash Equivalents	185,463,446	2,943,982,806
CASH AND CASH EQUIVALENTS at beginning of year	<u>4,401,974,261</u>	<u>1,457,991,455</u>
CASH AND CASH EQUIVALENTS at end of year	<u>P 4,587,437,707</u>	<u>P 4,401,974,261</u>

See accompanying Notes to Financial Statements

Philippine Health Insurance Corporation

Revenues

Schedule I

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)

	2005	2004 (As Restated)	Increase (Decrease)
BUSINESS INCOME			
NHIP Premium Contribution			
Premium contribution - private sector	P 11,373,288,180	P 9,874,664,217	P 1,498,623,963
Premium contribution - government sector	4,179,894,182	3,841,955,542	337,938,640
Premium contribution - individually paying member	763,642,755	736,955,763	26,686,992
Subsidies from LGU's for indigent program	655,274,451	474,776,169	180,498,282
Subsidy from national government for regular NHIP	500,000,000	1,084,247,292	(584,247,292)
Premium contribution - overseas workers program	497,800,675	64,011,544	433,789,131
Subsidy from NG for enhanced GMA program	250,000,000	-	250,000,000
Subsidies for LGU's indigent program from PDAF	53,027,360	-	53,027,360
Subsidies for LGU's indigent program from private sector	1,072,874	-	1,072,874
Subsidy from other NGA - Off.Pres.-PSF for indigent program	200,000	-	200,000
Subsidy from other NGA - PCSO for enhanced GMA	2,825	1,500,000,000	(1,499,997,175)
	<u>18,274,203,302</u>	<u>17,576,610,527</u>	<u>697,592,775</u>
OTHER BUSINESS INCOME			
Accreditation fees of health care providers	11,696,644	9,196,009	2,500,635
	<u>11,696,644</u>	<u>9,196,009</u>	<u>2,500,635</u>
INTEREST INCOME			
Treasury bonds	3,991,645,346	3,435,195,388	556,449,958
Treasury bills	833,720,791	719,206,221	114,514,570
Time deposits / special saving deposits	236,651,239	228,774,039	7,877,200
Savings and current deposits	9,958,288	10,974,889	(1,016,601)
Loans	-	35,642,221	(35,642,221)
	<u>5,071,975,664</u>	<u>4,429,792,758</u>	<u>642,182,906</u>
OTHER INCOME			
Fines and penalties	949,148	6,264,136	(5,314,988)
Income from grants and donations	839,821	-	839,821
Rent income	739,974	-	739,974
Dividend income	50,159	315,008	(264,849)
Miscellaneous income	5,521,800	1,819,580	3,702,220
	<u>8,100,902</u>	<u>8,398,724</u>	<u>(297,822)</u>
GAIN ON DISPOSAL OF ASSETS	<u>65,552</u>	<u>33,238</u>	<u>32,314</u>
	<u>P 23,366,042,064</u>	<u>P 22,024,031,256</u>	<u>P 1,342,010,808</u>

Philippine Health Insurance Corporation

Applications

Schedule II

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)

	2005	2004 (As Restated)	Increase (Decrease)
BENEFIT PAYMENTS			
Private sector	P 10,415,488,963	P 7,308,726,617	P 3,106,762,346
Government sector	4,395,636,731	3,613,049,833	782,586,898
Indigent program	2,707,433,881	2,003,591,724	703,842,157
Total Benefit Payments	<u>17,518,559,575</u>	<u>12,925,368,174</u>	<u>4,593,191,401</u>
OPERATIONAL EXPENSES			
Personal Services			
Salaries and wages	350,477,237	353,360,524	(2,883,287)
Other compensation	225,854,653	237,878,209	(12,023,556)
Personnel benefit contribution	38,024,949	40,321,433	(2,296,484)
Other personnel benefit	440,170	(3,924)	444,094
	<u>614,797,009</u>	<u>631,556,242</u>	<u>(16,759,233)</u>
Maintenance and Other Operating Expenses			
Remuneration expenses	497,939,447	470,503,095	27,436,352
Rents	104,784,522	94,399,689	10,384,833
Communications services	73,745,107	56,629,409	17,115,698
Supplies and materials	60,068,984	75,023,456	(14,954,472)
Taxes, duties and fees	59,622,446	461,458	59,160,988
Depreciation expense	55,427,868	54,367,007	1,060,861
Security services	51,653,854	43,045,685	8,608,169
Water illumination and power services	50,023,198	41,715,356	8,307,842
Travelling expenses	35,488,292	34,946,916	541,376
Janitorial services	19,724,574	17,534,294	2,190,280
Auditing services	15,905,689	12,151,730	3,753,959
Advertising expenses	13,812,021	42,894,806	(29,082,785)
Printing and binding	12,356,384	10,705,810	1,650,574
Contract / research services	11,024,010	1,774,341	9,249,669
Repairs and maintenance	10,627,787	8,850,180	1,777,607
Enumerators fee	8,656,067	20,525,035	(11,868,968)
Marketing and promotional expenses	8,246,878	6,237,844	2,009,034
Miscellaneous and extraordinary expenses	8,096,487	8,233,002	(136,515)
Gas, oil, and lubricants	8,038,518	5,656,867	2,381,651
Training and seminar expenses	7,503,881	14,764,891	(7,261,010)
Reward and other claims (P.S. We Care)	5,633,466	1,967,178	3,666,288
Consultancy services	5,603,107	6,292,382	(689,275)
Fidelity bond and insurance premiums	5,323,484	5,864,272	(540,788)
Bank charges	681,346	334,042	347,304
Transportation expense	572,962	1,230,015	(657,053)
Bad debts	-	493,875,850	(493,875,850)
Confidential and intelligence expenses	-	1,300,000	(1,300,000)
Other services	16,220,153	15,994,921	225,232
	<u>1,146,780,532</u>	<u>1,547,279,531</u>	<u>(400,498,999)</u>
Total Operational Expenses	<u>1,761,577,541</u>	<u>2,178,835,773</u>	<u>(417,258,232)</u>
	<u>P 19,280,137,116</u>	<u>P 15,104,203,947</u>	<u>P 4,175,933,169</u>

See accompanying Notes to Financial Statements

**PHILIPPINE HEALTH INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS**

1. GENERAL INFORMATION

National Health Insurance Act of 1995 (Republic Act No. 7875) as amended by RA 9241 instituted a National Health Insurance Program that "shall provide health insurance coverage and ensure affordable, acceptable, available and accessible health care services for all citizens of the Philippines, xxx. This social insurance program shall serve as the means for the healthy to help pay for the care of the sick and for those who can afford medical care to subsidize those who cannot."

The Philippine Health Insurance Corporation (PhilHealth) is a tax-exempt government corporation attached to the Department of Health (DOH) for policy coordination and guidance. Its Head Office is located at 709 CityState Center Building, Barangay Oranbo, Shaw Blvd., Pasig City. The Corporation is governed by a Board of Directors composed of thirteen (13) members. The Corporation has the power and functions, among others, to formulate and promulgate policies for the sound administration of the National Health Insurance Program. It is also vested with quasi-judicial powers.

PhilHealth Regional Offices (PRO) and their respective Service Offices (SO) - The Corporation adopted the Home and Branch Accounting System since July 1999. Processing of benefit payments and operating expenditures has been decentralized to all fifteen (15) PROs while the three expanded Service Offices in Metro Manila perform processing of benefit payments only.

These consolidated financial statements have been approved for issue by the Board of Directors on March 27, 2006 per PhilHealth Board Resolution No. 893 s. 2006.

Executive Order No. 447 dated 12 July 2005 was issued entitled "Reiterating the Rationalized Allocation of Funds from PCSO for the Greater Medicare Access (GMA) Program and Avian Influenza Program and allocating additional PCSO funding for the Top Five Health Priority Programs of the Government" where PhilHealth is mentioned as one of the recipients of PCSO funding. In the said Executive Order, the PCSO shall allocate One Billion One Hundred Twenty Five Million Pesos (P1,125,000,000) for PhilHealth to finance the Greater Medicare Access (GMA) Program and as payment for the LGU premium counterpart for the enrollment of qualified indigent families.

Executive Order No. 452 entitled "Directing the Enrollment of 2.50 million Indigent Families pursuant to E.O. 276 S.2004 and for Other Purposes" dated 30 July 2005, authorized DBM to release funds from any available sources, in the amount of P1.50 billion to subsidize the health insurance coverage of the indigent families. Further, said Executive Order stated that PhilHealth be exempted from the pertinent provisions of Administrative Order No. 103 and may defer the adoption of EO 366 until the implementation of the said activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of PhilHealth have been prepared in accordance with government accounting rules as well as internal accounting policies and guidelines, consistent with Generally Accepted Accounting Principles. The Corporation also adopts calendar year as its fiscal year and uses commercial accounting.

The preparation of financial statements requires the use of certain critical accounting estimates and judgments as disclosed in Note 20.

This is the first year that the Corporation is adopting Philippine Accounting Standards.

2.2 Consolidation

a. Head Office (HO)

Monthly consolidated trial balances were prepared through working papers by eliminating the reciprocal accounts, but in the year-end consolidation, all nominal accounts that were closed in the PROs were booked-up in the HO.

b. PhilHealth Regional Offices (PROs)

The PROs' financial position and results of operations were presented in the trial balance without an equity account. All nominal accounts are closed every end of calendar year.

c. Service Offices (SOs)

The financial transactions of SOs were recorded in the books of accounts of their respective PROs. The SOs maintain petty cash fund and receive over-the-counter collection of premiums from the PhilHealth members.

2.3 Foreign currency transaction

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transaction. Foreign exchange losses resulting from the settlement of such transactions are recognized in the income statement.

2.4 Cash and cash equivalents

For purpose of the statement of cash flows, the PhilHealth considers special savings deposits as cash equivalents.

2.5 Inventories

Furniture and equipment costing below P10,000 with more than one year economic life were recorded in the account Supplies and Materials pursuant to COA Circular No. 97-005 dated July 1, 1997.

The Asset Method is used in recording purchases of inventory while the First-In-First-Out (FIFO) method is used in recording issuances of supplies and materials.

2.6 Property and equipment

Pending submission of updated fair market value, land is carried at acquisition cost plus incidental expenses.

Property and equipment were recorded at cost. Maintenance, repairs and minor replacements are charged to expense while major improvements are capitalized.

Depreciation is computed on a straight-line method in accordance with Commission on Audit Circular No 2003-007 dated 11 December 2003 and COA Circular Letter No. 2004-003 dated October 4, 2004. Accordingly, the property and equipment items are assigned with ten percent residual values and depreciated over the revised estimated useful life.

2.7 Actuary

The Corporation, through its Actuary and Finance Departments, is developing a policy in estimating and recording the *incurred but not yet reported* (IBNR) benefits.

2.8 Income and expense recognition

Income and expense are recognized based on a modified accrual method of accounting.

Accrual accounting computes net income not only on the basis of actual but also of expected cash receipts and payments. However, expected cash receipts from collection of premium contributions can only be estimated for those to be remitted from the accredited collecting banks pending the completeness of the database build-up. For the Sponsored Program, income from the premium counterpart of the NG is recorded only if covered by SARO.

For the year, the subsidy from local government units (LGUs) is recorded based on the report submitted by the PRO Collection and Premium Accounts Management Division verified correct by the Accountant and evidenced by the LGU and PhilHealth Memorandum of Agreement supported by Certificate of Availability of Funds.

Expected cash outflows like payments for janitorial services, security services, light and water and rental are recognized as expenses at the time they are incurred even if payments are not yet made. On the other hand, accruals for benefits payments refer to outstanding claims. The estimated amount of claims filed but not yet processed is recognized as accrued expenses.

2.9 New accounting standards adopted

The Corporation adopts the following applicable new accounting standards starting in CY 2005:

PAS 1	Presentation of Financial Statements
PAS 2	Inventories
PAS 7	Cash Flow Statement
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
PAS 10	Events after Balance Sheet Date
PAS 16	Property, Plant and Equipment
PAS 21	The Effects of Changes in Foreign Exchange Rates
PAS 38	Intangible Assets

3. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>2005</u>	<u>2004</u>
Collecting officers	P 381,115,926	P 303,018,761
Petty cash funds	208,345	381,463
Cash in bank	604,814,171	1,228,556,006
Special saving deposits	3,601,299,265	2,870,018,031
	<u>P 4,587,437,707</u>	<u>P 4,401,974,261</u>

3.1 The Corporation deploys at least one Collecting Officer per PRO and SO to provide more windows for the over-the-counter collection.

3.2 Included in this account is Land Bank of the Philippines - Pasig-Kapitolyo Branch Dollar Account No. 0674-0010-29 and the

balance is converted to its peso equivalent using current exchange rate at the end of the year. The difference is recorded as Gain/Loss on Foreign Exchange.

4. SHORT-TERM INVESTMENTS

This account consists of:

	<u>2005</u>	<u>2004</u>
Treasury bonds	P 8,724,176,847	P10,419,517,270
Treasury bills	6,059,164,063	8,407,520,474
	<u>P14,783,340,910</u>	<u>P18,827,037,744</u>

These are treasury bills which are placed between 90 to 364 days and also currently maturing treasury bonds.

5. RECEIVABLES - NET

This account consists of:

	<u>2005</u>	<u>2004</u>
Accrued interest receivable – Investment	P 1,631,638,729	P 1,545,742,368
Due from National Government Agencies	1,264,111,090	649,111,090
Due from GOCCs	995,327,103	1,270,000,000
Accrued premium receivables	288,793,011	46,160,178
Due from other funds – OWWA	214,851,318	-
Due from LGUs	21,408,814	-
Disallowances	7,066,716	7,155,108
Due from officers and employees	755,202	480,906
Other receivables	18,184,397	23,451,502
	<u>4,442,136,380</u>	<u>3,542,101,152</u>
Less: Allowance for doubtful accounts	651,750,487	651,750,487
	<u>P 3,790,385,893</u>	<u>P 2,890,350,665</u>

5.1 Accrued Interest Receivable – Investment represents interest earned from all short-term and long-term investments.

5.2 Due from National Government Agencies

- a. Premium contributions from various government offices which were transferred to PhilHealth by the GSIS in the amount of P649,111,090 were covered by MOA signed last May 23, 2001 between Department of Budget and Management (DBM), Government Service Insurance System (GSIS), and Bureau of the Treasury (BTr). Per DBM letter dated December 12, 2005 signed by the Director of DBM Financial Service, PhilHealth was informed that the supposed settlement as provided in the MOA did not materialize but some discussions/negotiations are currently being undertaken.
- b. The Corporation received Advice of Special Allotment Release Order (SARO) and Notice of Cash Allocation (NCA), both dated July 4, 2005, in the amount of Seven Hundred Fifty Million Pesos (P750 million) to cover the release of the National Government subsidy to PhilHealth for health insurance premium of indigent members, as follows: P500 million for the National Health Insurance Program and P250 million for the Enhanced Philippine Charity Sweepstakes Office – Greater Medicare Access (PCSO-GMA Program, of which PhilHealth received only P135 million cash as of this report.

The details of this account are as follows:

Receivable from	2005	2004
GSIS transferred to PHIC:		
Local government units	P 408,875,850	P 408,875,850
Armed Forces of the Philippines	85,000,000	85,000,000
DBM surcharges	155,235,240	155,235,240
	649,111,090	649,111,090
SARO No. D-05-02702 (July 4, 2005)	615,000,000	-
	P1,264,111,090	P 649,111,090

5.3 Due from Government-Owned and Controlled Corporations (GOCCs)

- a. Due from the PCSO amounting to P995,000,000 represents premium counterpart of various LGUs under the Enhanced PCSO-GMA Program also known as the "Universal Family Health Insurance Program". The Memorandum of Agreement through Executive Order No. 276 s. 2004 entered into by and between DBM, PCSO and PhilHealth dated January 21, 2004 stated that PCSO will provide the LGU counterpart in the amount of P1.50 billion. Further, PCSO Board Resolution Nos. 180 s. 2003 and 718 s. 2004 provided an aggregate amount of P1.50 billion allocation for the said project. The Corporation as of this report received an amount of P505 million out of the P1.50 billion. Furthermore, per letter of the Manager, Budget and Accounting Department, PCSO to the Chairman, PCSO dated January 25, 2006, PCSO was committed to pay PhilHealth amount of P30 million a month or P360 million for CY 2006. The Corporation received on January 4, 2006 the amount of P30 million representing the 11th release of fund per EO 447.
- b. Claim from Philippine Deposit Insurance Corporation (PDIC) pursuant to Monetary Board Resolution No. 459 dated April 7, 2005 placing Hermosa Savings and Loan Bank, Inc. under liquidation. Estimated collection of NHIP premium for the period January 16 to February 3, 2005 amounts to P327,103.

5.4 Accrued Premium Receivables account represents NHIP premium collections of accredited collecting agents (ACAs) for the 2nd half of December 2005 which were remitted on the first two weeks of January 2006.

5.5 Due from Other Funds - OWWA amounting to P214,851,318

This amount represents balance of bills sent to OWWA for benefit claims filed before March 1, 2005 which were turned-over to PhilHealth. The backlog claims processed from March 1 to December 31, 2005 are as follows:

Bill No.	Benefit Claims Processed		Amount	
	Date	Amount	Collected	Balance
1	March 1-31, 2005	P 957,355	P 957,355	P -
2	April 1-15, 2005	2,976,048	2,976,048	-
3	April 16-30, 2005	3,110,075	3,110,075	-
4	May 1-31; April 26-27, 2005	12,781,153	12,781,153	-
5	June 1-15, 2005	23,679,590	23,679,590	-
6	June 16-30, 2005	350,600	-	350,600
7	July 1-31, 2005	15,475,164	-	15,475,164
8	August 1-15, 2005	20,422,365	-	20,422,365
9	August 16-31, 2005	9,800,314	-	9,800,314
10	September 1-30, 2005	58,473,157	-	58,473,157
11	October 1-31, 2005	81,314,878	-	81,314,878

12	November 1-30, 2005	28,577,302	-	28,577,302
13	December 1-31, 2005	<u>1,070,813</u>	-	<u>1,070,813</u>
		258,988,814	43,504,221	215,484,593
	Less: Returned and stale checks	<u>633,275</u>	-	<u>633,275</u>
		<u>P258,355,539</u>	<u>P43,504,221</u>	<u>P214,851,318</u>

5.6 Due from LGUs consists of:

<u>PROs</u>	<u>Amount</u>
PRO I	P 9,207,153
PRO II	3,652,661
PRO III	697,050
PRO IV-A	4,761,070
PRO IV-B	917,849
PRO CAR	514,531
PRO IX	<u>1,658,500</u>
	<u>P21,408,814</u>

5.7 Disallowances refer to disbursements from 1995 to 1999 for travel expenses, employees' benefits, and purchases of goods and services that were subsequently disallowed by the Commission on Audit (COA). There has been no appeal for the said disallowances. Concerned parties are now being required to settle the disallowances.

5.8 Due from Officers and Employees represents the unliquidated cash advances for one-time activities of the Corporation and travels made.

5.9 Other Receivables include the receivables from the Motor Vehicle Loan Program and accrued penalties of authorized collecting agents (ACAs). Receivables from former officers and staff of Philippine Medical Care Commission (PMCC) are being considered as bad debts due to non-payment despite demands by the Corporation. The request for write-off on a case to case basis will be submitted to the resident COA Auditor. Details of the account are as follows:

<u>Nature of Receivable</u>	<u>2005</u>	<u>2004</u>
Accrued penalties (ACAs)	P 13,783,287	P 14,791,727
Motor vehicle loan	524,285	5,664,578
Receivable from PMCC	2,507,346	2,507,346
Other receivables	<u>1,369,479</u>	<u>487,851</u>
	<u>P 18,184,397</u>	<u>P 23,451,502</u>

5.10 Allowance for Doubtful Accounts was provided for the following:

- a. Unliquidated cash advances in 1996 and 1997 of PhilHealth board members; and cash advances granted to the defunct medical care councils, the Medicare community hospitals and other health centers in the amount of P 2,639,397. The accounts were transferred by the PMCC to PhilHealth in August 1995 and have been in the books of PMCC and PhilHealth for a total of more than 10 years. Request for the write-off of the accounts was already made with the Office of the Ombudsman.
- b. Receivable from Local Government Units (LGUs), Armed Forces of the Philippines (AFP) and National Government for surcharges due to late remittance of the employer counterpart of the premium contribution in the amount of P 649,111,090. This was transferred by the GSIS to PhilHealth.
- c. The allowance for doubtful accounts is provided in an amount determined after evaluation of such factors as aging of

the accounts, collection experience in relation to particular receivable and identified doubtful accounts.

5.11 Expected receivable from the Social Security System (SSS) in the amount of P211 million representing unearned interest income from delayed remittance by SSS of PhilHealth premium collection was not recorded pending resolution of the issue raised by SSS that said receivable has no legal basis. The matter is now with Legal Services Group of the Corporation.

6. INVENTORIES

For this year the inventories have not been valued at their net realizable value. The account consists of supplies and materials amounting to P29,232,845 and P49,288,456 for CYs 2005 and 2004, respectively.

7. INTANGIBLE ASSETS

This represents cost of various software application / programs purchased by the Corporation amounting to P17,206,059 and P9,188,683 in CYs 2005 and 2004, respectively, which was reclassified to Intangible Assets from Property and Equipment.

8. OTHER CURRENT ASSETS

This represents the reclassified Philippine National Bank Account No. 260-840034-9 with a book balance as of this report amounting to P1,623,362. This account was already closed per passbook. However, in the books of the Corporation, it remains open pending the documentation of all transactions pertaining to this account. These transactions refer to the generated Debit-Credit System (DCS) checks during Oplan Bilis Bayad from November 1998 to May 1999.

9. INVESTMENTS - NET

Investments of the NHIF are limited to government securities bearing the unconditional guaranty of the Republic of the Philippines in the authorized government depository banks except the investment in Meralco Common stocks.

9.1 The Corporation's long-term investment portfolio is summarized as follows:

	<u>2005</u>	<u>2004</u>
Investment in shares of stocks (at cost)		
Meralco common-A	P 132,906,650	P 132,906,650
Less: Allowance for decline in value	<u>108,237,378</u>	<u>106,073,407</u>
Net book value	24,669,272	26,833,243
PLDT – Subscriber investment plan	613,500	613,500
Investment in debenture bonds – HGC	54,238,356	54,238,356
Investment in treasury bonds	<u>33,235,135,291</u>	<u>24,525,399,429</u>
	<u>P33,314,656,419</u>	<u>P24,607,084,528</u>

9.2 The amount for investments represents the following:

- a. Stocks representing the 1,442,648 Meralco Common-A shares have been transferred by GSIS to PhilHealth at a transfer cost of P92.13 per share. After the 20% stock dividend of 288,529 shares with a P10 par value, the total Meralco shares increased to 1,731,177 shares amounting to P132,906,650.
- b. Per PhilHealth Board Resolution No. 671 s. 2004 dated 27th April 2004, any revaluation of market value per share should be recognized annually. Accordingly, the *Allowance for Decline in Value of Long-Term Investment* was adjusted to P108,237,378 where the fair market value of the Meralco A at the end of the year was P14.25 per share per letter

dated 3 January 2006 from Meralco Stocks and Dividends Administration Manager and Head.

- c. Investment in PLDT Stocks was acquired under the Subscriber Investment Plan amounting to P 613,500 representing 195 subscribed telephone lines. Based on PLDT's records, PhilHealth has 251 telephone lines and 72,530 shares at 10% cumulative convertible preferred stock amounting to P725,300. However, we are still requesting PLDT for the issuance of the said certificates.
- d. The Home Guaranty Corporation (HGC) has assumed the investment in Commonwealth Urban Renewal Certificates. Consequently, the interest-bearing loan has been replaced by debenture bonds covering the principal and accrued interest thereon in the amount of P54,238,356.
- e. Treasury bonds (net of amortization) with more than one (1) year maturity period are broken down as follows:

	<u>2005</u>	<u>2004</u>
T-bonds transferred by GSIS to PHIC	P 61,200,000	P 61,200,000
Retail T-bonds	11,967,500,000	11,597,021,825
2-year T-bonds (11 certificates)	3,387,826,816	3,098,482,546
3-year T-bonds (25 certificates)	6,465,789,915	12,017,138,312
4-year T-bonds (9 certificates)	11,411,479,487	2,999,132,678
5-year T-bonds (11 certificates)	8,453,115,920	4,959,541,338
7-year T-bonds (3 certificates)	212,400,000	212,400,000
Gross Amount	<u>41,959,312,138</u>	<u>34,944,916,699</u>
Less: Currently maturing t-bonds	<u>8,724,176,847</u>	<u>10,419,517,270</u>
	<u>P33,235,135,291</u>	<u>P24,525,399,429</u>

- f. Straight-line method of amortization was used to amortize the bond premium and bond discount over the remaining life of the bond.
- g. The investing activities of the Corporation were carried out only in the Head Office to maximize the opportunity for high yield interest bearing instruments.

10. PROPERTY AND EQUIPMENT - NET

This account consists of:

<u>Particulars</u>	<u>Land and Land Improvements</u>	<u>Building and Structure/ Leasehold Improvements</u>	<u>Furniture and Fixtures Equipment and Books</u>	<u>Total</u>
At December 31, 2004				
Cost	P 866,756,260	P 28,923,857	P 399,660,394	P1,295,340,511
Accumulated depreciation	210	1,109,224	225,352,017	226,461,451
Net Book Value	<u>866,756,050</u>	<u>27,814,633</u>	<u>174,308,377</u>	<u>1,068,879,060</u>
Year Ended				
December 31, 2005				
Opening Net Book Value	866,756,050	27,814,633	199,909,995	1,094,480,678
Additions (Deductions)	-	1,907,920	49,982,835	51,890,755
Depreciations for the Year	(29,715)	(1,412,566)	(53,985,587)	(55,427,868)
Adjustments	(419)	(2,952,580)	14,725,012	11,772,013
Closing Net Book Value	<u>866,725,916</u>	<u>25,357,407</u>	<u>210,632,255</u>	<u>1,102,715,578</u>

At December 31, 2005

Cost	866,756,260	30,831,777	471,235,496	1,368,823,533
Accumulated depreciation	<u>30,344</u>	<u>5,474,370</u>	<u>260,603,241</u>	<u>266,107,955</u>
Net Book Value	<u>P 866,725,916</u>	<u>P 25,357,407</u>	<u>P 210,632,255</u>	<u>P1,102,715,578</u>

Included under Land and Buildings accounts are the following:

Global City property acquired from converted investment on Fort Bonifacio Development Corporations' Global City Receivable Repayment Right to land amounting to P 404,278,003 plus cost of documentary stamp tax, transfer tax and registration fees with aggregate amount of P9,567,801. In addition, per Technical Appraisal Report of A.C. DORIA – Appraisal Company, Inc., the subject property has a fair market value as of June 10, 2005, at P120,000 per square meter, of about P522,600,000.

The Corporation purchased from Bangko Sentral ng Pilipinas a parcel of land situated in East Avenue, Quezon City at P439,377,750. Of this amount, P219,688,875 or 50% has been paid. The payment of the remaining 50% shall be made within one year from the signing of the Contract to Sell, or after the land title shall have been freed from any *lis pendens*, whichever comes earlier. The Head Office of PhilHealth shall be constructed in this lot.

PhilHealth Regional Office (PRO) III also purchased a lot and building in San Fernando, Pampanga amounting to P13,059,200 and P25,520,363 respectively, intended to be its permanent Regional Office. Some of its office spaces were rented-out, as of this report rental income is P739,974.

The Corporation was the recipient of a 2,897 square-meter land donated by the Provincial Government of Cagayan situated in Barrio Carig, City of Tuguegarao for PhilHealth Regional Office II (PRO-II) per Registry of Deeds Transfer Certificate of Title (TCT No. T-137833). The Regional Development Council (RDC) through its Resolution No. 02-11-2003 dated June 9, 2003 stated that the Corporation should start the construction of its building within two (2) years after the issuance of the title. It is stated further that failure to implement the same shall render the donation ineffective unless PhilHealth will request an extension from RDC before the end of the two-year period. Per Memorandum of GSD Manager dated 7 November 2005, the subject property has fair market value as of October 2005, at P800.00 per square meter, of about P2,317,600. However, pending the receipt of an independent appraiser's report, the same has not yet been booked up. PRO-II has not submitted yet its intention on the donated lot.

11. MISCELLANEOUS ASSETS AND DEFERRED CHARGES

This account consists of:

	<u>2005</u>	<u>2004</u>
Prepayments	P 16,262,196	P 3,532,082
Guaranty deposits	22,097,253	22,655,637
Miscellaneous	-	1,700
	<u>P 38,359,449</u>	<u>P 26,189,419</u>

Prepayments include authorized payments made for the purchase of goods from the Procurement Service of DBM, insurance of motor vehicles and of the officers of the Corporation.

Guaranty deposits are office rental deposits made by the Head Office and PROs in compliance with the requirements provided in the contracts.

12. PAYABLES

Payables include the expense accruals for benefit claims and administrative costs as follows:

	<u>2005</u>	<u>2004</u>
HO accounts payable	P1,023,034,658	P 339,687,397
PRO accounts payable	1,503,038,805	759,718,565
Other payables	-	496,978
	<u>P2,526,073,463</u>	<u>P1,099,902,940</u>

The recognition of accrued expense from claims filed / received but not yet processed has significantly increased the amount of Payables account.

Head Office payables include the amount of P219,688,875 representing the remaining 50% of the total contract price of land situated in East Avenue, Quezon City purchased from Bangko Sentral ng Pilipinas.

13. TRUST LIABILITIES

This account consist of:

	<u>2005</u>	<u>2004</u>
Other payables – OWWA	P 259,224,811	P -
Inter-agency payables	91,200,238	93,001,971
Other payables – donations	19,209,661	17,723,470
Performance/bidders bonds payable	5,335,649	4,381,944
Other payables – others	<u>28,356,573</u>	<u>13,539,950</u>
	<u>P 403,326,932</u>	<u>P 128,647,335</u>

Trust Liabilities include the amount of P259,224,811 representing the balance of fund transferred from OWWA Medicare Fund to PhilHealth in the amount of P530,382,446 in compliance with Executive Order No. 182 dated February 14, 2003 as amended by Executive Order No. 392 dated December 28, 2004 entitled "Transferring the Medicare Functions of Overseas Workers Welfare Administration to the Philippine Health Insurance Corporation".

Total fund received from OWWA	<u>2005</u> P 530,382,446
Less: Expenses incurred	271,157,635
Balance of trust liabilities	<u>P 259,224,811</u>

The Corporation disbursed as of December 31, 2005 the total amount of P274,089,959 broken-down as follows:

NHIP-OWP benefit payments	P 244,413,860
Administrative expenses	<u>26,743,775</u>
	271,157,635
Capital outlays and other asset account	<u>2,932,324</u>
Total disbursements	<u>P 274,089,959</u>

In addition, the Corporation processed OWP backlog claims (claims filed before March 1, 2005 to OWWA and subsequently turned-over to PhilHealth) amounting to P258,988,815.

Inter-Agency payables include deductions from the salaries of PhilHealth's officials and employees which are due for remittance

to Government Service Insurance System (GSIS), Home Development Mutual Fund (HDMF), National Home Mortgage Finance Corporation (NHMFC), Bureau of Internal Revenue (BIR), and PhilHealth Employees Association (PHICEA), taxes withheld from payments to health service providers amounting to P89,561,226 in CY 2005 and P99,289,602 in CY 2004.

Other payables - donations include amounts received from the following entities, including the interest earned thereon:

	<u>2005</u>	<u>2004</u>
Westmont Investment Corp.	P 10,583,938	P 10,001,221
Strategies & Alliance Corp.	5,561,417	5,227,066
All Asia Capital & Trust	1,392,816	1,327,192
First Metro Investment Corp.	1,219,869	1,116,566
BF General Insurance Corp.	51,425	51,425
Others	400,196	-
	<u>P 19,209,661</u>	<u>P 17,723,470</u>

These donations were made to finance specific projects like:

- a. Assistance to the projects of charitable or socio-civic organizations
- b. Research and development and other studies including P3.50 million ex-gratia fund
- c. Prevention of fraud and such other irregularities against the NHIF and for such other allied undertakings
- d. Used for ex-gratia Medicare claims reimbursement and other appropriate activities to attain the NHIP objectives.

The Corporation is one of the recipients/partners of United Nations Population Fund (UNFPA) project entitled "Strengthening and sustaining the delivery of Integrated Reproductive Health Services" PHLR207. The Corporation received P798,100 and P349,427 last June 10 and November 11, 2005, respectively, representing first and second releases. Total project expenses incurred as of this report reached P862,814, leaving a balance of P284,713.

The payable to SSS in the amount of P78 million (based on the demand letter sent by SSS dated March 29, 2001) was not yet recorded pending further studies on the validity of the ratio adjustments made by SSS in 1998 and 1999 which resulted in the occurrence of the said payable.

14. OTHER DEFERRED CREDITS

Other deferred credits are unearned accreditation fees amounting to P9,910,497 and P9,447,741 in CYs 2005 and 2004, respectively, of medical service providers with validity period of three years.

15. EXPENSES

The amount of P19,280,137,116 (Schedule II) represents the expenses incurred by the Corporation for the year 2005, broken down as follows:

<u>OFFICE</u>	<u>OPERATING EXPENSES</u>	<u>BENEFIT PAYMENTS</u>	<u>TOTAL</u>
Head office	P 1,095,461,745	P 5,033,291,399	P 6,128,753,144
PRO-CAR	30,778,581	275,537,210	306,315,791
PRO-1	48,762,735	892,740,094	941,502,829
PRO-2	30,781,087	294,640,284	325,421,371
PRO-3	70,428,681	1,381,974,398	1,452,403,079
PRO-4A	49,503,153	1,224,211,358	1,273,714,511
PRO-4B	37,854,520	657,410,228	695,264,748
PRO-5	39,908,917	614,192,044	654,100,961

PRO-6	50,150,789	1,185,749,586	1,235,900,375
PRO-7	59,034,062	1,480,632,729	1,539,666,791
PRO-8	32,907,551	335,439,662	368,347,213
PRO-9	34,853,350	448,664,926	483,518,276
PRO-10	56,224,022	1,241,181,443	1,297,405,465
PRO-11	46,903,795	1,189,389,692	1,236,293,487
PRO-12	45,391,434	931,001,984	976,393,418
PRO-CARAGA	30,510,949	332,502,538	363,013,487
PRO-ARMM	2,122,170	-	2,122,170
TOTAL	<u>P 1,761,577,541</u>	<u>P17,518,559,575</u>	<u>P19,280,137,116</u>

Salaries of regular and contractual PRO staff were recorded in the Head Office under the Centralized Payroll System.

Increase of benefit payment expenses was due to the recorded accrued claims filed at the end of the period, P500 million in NCR and P1.10 billion in PRO's.

16. RESERVE FUND

Reserve Fund account amounting to P35,287,000,000 in CYs 2005 and 2004 represents actuarial estimate for projected program expenditure in the next two years as required under RA 7875. Adjustment on the amount of reserve will be done upon concurrence of management on a new estimate.

17. CONTINGENT CAPITAL

Contingent capital in the amount of P7,066,661 and P7,155,108 in CYs 2005 and 2004, respectively, represents COA disallowances of prior year expenditure.

18. RETAINED EARNINGS

In consonance with Philippine Accounting Standards (PAS) No. 8, the Retained Earnings was restated as follows:

	<u>2005</u>	<u>2004</u>
Retained earnings at beginning of year	P15,453,913,098	P9,219,429,642
Correction/adjustment of prior years' errors*	-	(685,343,853)
As restated	15,453,913,098	8,534,085,789
Net income	4,085,904,948	6,919,827,309
Retained earnings at end of year	<u>P19,539,818,046</u>	<u>P15,453,913,098</u>

*Correction/adjustment of prior years' errors consists of the following:

Subsidy Income-Lingap Para Sa Mahirap Program	P 6,571,066
Personal services	54,305
Disbursement on benefit claims – PNB SA#260-8400034-9 from 1999 to 2000 under DCS	(660,306,012)
Premium collections	(14,221,853)
Maintenance and other operating expenses	(6,603,888)
Benefit payments (cancelled, staled, spoiled, returned and replacement checks)	(5,840,854)
Interest income	(4,713,183)
Fund transfer of the premium subsidy for the health insurance coverage of 619 indigent families	(283,434)
	<u>P (685,343,853)</u>

19. FINANCIAL RISK MANAGEMENT

Financial risk factors - The Corporation's activities expose it to a variety of financial risks. The Office of the Actuary, this Corporation, prepares a projection of benefit claims. It has already prepared a Financial Risk Management Plan for approval of the President and Chief Executive Officer. On the other hand, the Treasury Department performs risk management for the corporate investment activities. The Corporation's overall risk management program seeks to minimize potential adverse effects on the corporate financial performance.

20. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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.

- 20.1 One of the accounting estimates being done is to set-up the accrued benefits payments at the end of calendar year based on the average benefit payment per claim computed by dividing the total amount of benefit payment from January to November by total number of claim process for the same period.

It is worth to note that the average amount per claim differs geographically.

The amount being set-up for accrued NHIP premium remittance from the collecting banks/agents is based on the assumption that the actual premium collection for the 2nd half of December 2005 is equivalent to the amount remitted on the first two weeks of January 2006.

- 20.2 The economic life of every property and equipment is based on COA Circular, with 10% residual value, depreciated on the straight-line method. PRO 3, which is occupying a PHIC-owned building, imputes rent expense annually.

The General Appropriations Act sets-up a ceiling for National Government (subsidy) counterpart for the Sponsored Sector.

The Corporation is in the process of improving its policies regarding the recognition of NHIP premium contributions and NHIP benefit payments.

Board of Directors



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Secretary of Health



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PhilHealth Acting President & CEO



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Hon. Godofredo C. De Guzman
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Hon. Asuncion B. Santos
Employers Sector



Hon. Teresita F. De Venecia, M.D.
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