Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE HEALTH INSURANCE CORPORATION

For the Year Ended December 31, 2017

PHILIPPINE HEALTH INSURANCE CORPORATION
Statement of Financial Position
As at December 31, 2017
(With corresponding figures for 2016)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
ASSETS			
Current Assets			
Cash	5	33,556,699,092	29,938,837,483
Premium Receivables	6	11,773,094,517	10,824,283,190
Other Current Assets	7	1,399,659,191	1,336,246,160
Total Current Assets		**46,729,452,800**	**42,099,366,833**
Non-Current Assets			
Available for Sale Investments	8	0	942,905,804
Held to Maturity Investments	9	101,998,453,690	100,563,896,400
Property & Equipment - Net	10	2,322,715,778	2,089,539,687
Intangible Assets - Net	11	357,131,218	329,299,007
Other Assets - Net	12	412,880,681	555,823,806
Total Non-Current Assets		**105,091,181,367**	**104,481,464,704**
TOTAL ASSETS		**151,820,634,167**	**146,580,831,537**
LIABILITIES AND EQUITY			
Liabilities			
Current Liabilities			
Benefit Claims Payables	13	37,355,096,962	29,744,424,470
Other Payables	14	2,601,348,784	2,351,346,108
Total Current Liabilities		**39,956,445,746**	**32,095,770,578**
Non-Current Liability			
Other Deferred Credits	15	1,078,114,559	1,678,100,730
Insurance Liability for Lifetime Members	16	24,796,038,543	22,123,933,673
Total Non-Current Liabilities		**25,874,153,102**	**23,802,034,403**
Total Liabilities		**65,830,598,848**	**55,897,804,981**
Equity			
Members' Equity	17	85,990,035,319	90,683,026,556
Total Equity		**85,990,035,319**	**90,683,026,556**
TOTAL LIABILITIES AND EQUITY		**151,820,634,167**	**146,580,831,537**

The Notes on pages 10 to 44 form part of these financial statements.

PHILIPPINE HEALTH INSURANCE CORPORATION
Statement of Comprehensive Income
For the Year Ended December 31, 2017
(With corresponding figures for 2016)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
TOTAL PREMIUM CONTRIBUTIONS	18	**106,584,696,419**	**103,825,798,838**
Less: Benefit Claims Expenses	20	110,490,086,841	102,130,696,376
GROSS MARGIN FROM OPERATIONS		**(3,905,390,422)**	**1,695,102,462**
Less: Operating Expenses			
Personal Services	21	4,523,609,108	5,583,257,495
Other Operating Expenses	22	2,060,004,232	2,198,762,487
Total Operating Expenses		6,583,613,340	7,782,019,982
NET OPERATING INCOME (LOSS)		**(10,489,003,762)**	**(6,086,917,520)**
Add: Interest and Other Income	19	5,738,487,730	5,835,386,425
NET INCOME (LOSS)		**(4,750,516,032)**	**(251,531,095)**

The Notes on pages 10 to 44 form part of these financial statements.

PHILIPPINE HEALTH INSURANCE CORPORATION
Statement of Changes in Equity
For the Year Ended December 31, 2017
(With corresponding figures for 2016)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
RESERVE FUND	17		
Reserve at beginning of year		90,738,664,003	129,287,621,261
Surplus transfer to Reserve Fund		(4,750,516,032)	(16,425,023,585)
Reserve transfer to Insurance Liability for Lifetime Members		0	(22,123,933,673)
Reserve Fund at end of year		**85,988,147,971**	**90,738,664,003**
SURPLUS	17		
Surplus at beginning of year		1,456,749	(16,172,035,741)
Contingent Capital		430,599	0
Net Income		(4,750,516,032)	(251,531,095)
Total Surplus		(4,748,628,684)	(16,423,566,836)
Surplus transfer to Reserve Fund		4,750,516,032	16,425,023,585
Surplus at year end		**1,887,348**	**1,456,749**
NET UNREALIZED LOSS ON AVAILABLE FOR SALE INVESTMENTS	17	**0**	**(57,094,196)**
TOTAL MEMBERS' EQUITY		**85,990,035,319**	**90,683,026,556**

The Notes on pages 10 to 44 form part of these financial statements.

PHILIPPINE HEALTH INSURANCE CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2017
(With corresponding figures for 2016)
(In Philippine Peso)

	2017	**2016 (As Restated)**
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium Contributions	104,909,083,365	98,352,226,038
Other income	429,575,152	580,430,432
Interest received from Investments	6,335,847,771	6,491,352,377
Rent	871,397	332,698
Bank Charges	(350)	0
Benefit Claims	(100,358,928,892)	(98,457,789,031)
Operating Expenses	(6,176,570,857)	(7,858,932,103)
Net Cash Provided by (Used in) Operating Activities	**5,139,877,586**	**(892,379,589)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Placement on Bonds	(7,490,786,309)	5,752,176,407
Placements/Matured SSD	5,399,752,584	0
Liquidation of Externally Managed Fund	1,050,632,248	0
Proceeds from disposal of assets	348,481	287,200
Equipment purchased	(439,901,807)	(502,492,524)
Net Cash Provided by (Used in) Investing Activities	**(1,479,954,803)**	**5,249,971,083**
CASH FLOWS FROM FINANCING ACTIVITIES		
Trust Receipts	(42,063,805)	53,969,424
Net Cash Provided by (Used in) Financing Activities	**(42,063,805)**	**53,969,424**
Net Increase (Decrease) in CASH	**3,617,858,978**	**4,411,560,918**
CASH at January 01	29,938,837,483	25,527,216,734
Gain on Foreign Exchange	2,631	59,831
CASH at December 31	**33,556,699,092**	**29,938,837,483**

The Notes on pages 10 to 44 form part of these financial statements.

1. GENERAL INFORMATION

The National Health Insurance Act of 1995 (Republic Act (R.A.) No. 7875), as amended by R.A. No. 9241, has been amended by R.A. No.10606, otherwise known as the “National Health Insurance Act of 2013”, instituted a National Health Insurance Program (NHIP) that shall provide comprehensive health care services to all Filipinos through a socialized health insurance program that will prioritize the health care needs of the underprivileged, sick, elderly, persons with disabilities (PWDs), women and children and provide free health care services to indigents. The same law created the Philippine Health Insurance Corporation (PhilHealth) as tax-exempt government Corporation attached to the Department of Health (DOH) for policy coordination and guidance. The Head Office is located at 709 CityState Centre Building, Barangay Oranbo, Shaw Boulevard, Pasig City.

The Corporation is governed by a Board of Directors (BOD) composed of 17 members and has the powers and functions provided for in Article IV Section 16 of R.A. No.7875 as amended; such as to formulate and promulgate policies for the sound administration of the Program; to set standards, rules, and regulations necessary to ensure quality of care, appropriate utilization of services, fund viability, member satisfaction, and overall accomplishment of Program objectives; to formulate and implement guidelines on contributions and benefits; portability of benefits, cost containment and quality assurance; health care provider arrangements, payments methods and referral systems; to establish branch offices as mandated in Article V of R.A. No. 7875, as amended; to receive and manage grants, donations, and other forms of assistance; and to organize its office, fix the compensation of and appoint personnel as may be deemed necessary and upon the recommendation of the President of the Corporation.

The National Health Insurance Fund (NHIF) as amended shall consist of contributions from Program members; other appropriations earmarked by the national and local governments purposely for the implementation of the program; subsequent appropriations provided for under Sections 46 and 47 of R.A. No. 7875, as amended; donations and grants-in-aid; and all accruals thereof. Under Section 26, Article VI of R.A. No. 7875, as amended, the use, disposition, investment, administration and management of the NHIF, including any subsidy, grant or donation received for the program operations shall be governed by applicable laws, and in the absence thereof, existing resolution of the BOD of the Corporation subject to limitations prescribed in the Act.

The financial statements of the Corporation for the year ended December 31, 2017 were approved and authorized for issue by the BOD per PhilHealth Board Resolution No. 1400 series of 2010 authorizing the issuance of Consolidated Financial Statements for Calendar Year (CY) 2009 and thereafter.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The accompanying financial statements of PhilHealth have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), where practicable, as well as government accounting standards and other pertinent rules and regulations.

2.2 Basis of Measurement

The financial statements have been prepared using the historical cost basis except for Available for Sale Investments (AFS) which are presented at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

2.3 Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Corporation's functional currency.

In preparing the financial statements of the Corporation, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New and Revised PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Interpretation from International Financial Reporting Interpretation Committee (IFRIC) which the Corporation adopted effective for annual periods beginning on or after January 1, 2015:

- Amendment to Philippine Accounting Standards (PAS) 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation,* and PAS 38*, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization* – The amendment clarifies how the gross carrying amount and the accumulated depreciation / amortization are treated when an entity uses the revaluation model.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* – The amendments clarify the requirements on how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognized as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service).

- Amendment to PAS 24, *Related Party Disclosures - Key Management Personnel* - The amendment clarifies how payments to entities providing key management personnel services are to be disclosed.

- Amendment to PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3, Business Combination, and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property* - The amendment clarifies the application of PFRS 3 and PAS 40 in respect of acquisitions of investment property. PAS 40 distinguishes investment property from owner-occupied property and PFRS 3 determines whether the acquisition of an investment property is a business combination.

- Amendment to PFRS 3, *Business Combinations* - The amendment excludes from its scope the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself.

- Amendment to PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* - The amendment requires the disclosure of management judgments in applying the aggregation criteria to operating segments, and requires reconciliations of the total of the reportable segments' assets to the entity's assets are required only if the segment assets are reported regularly.

- Amendment to PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables and Portfolio Exception* - The amendment clarifies that the portfolio exception in PFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non-financial) within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* or PFRS 9, *Financial Instruments*.

  The adoption of the foregoing new and revised PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

<u>New and Revised PFRS Not Yet Adopted</u>

Relevant new and revised PFRS which are not yet effective for the year ending December 31, 2017 and have not been applied in preparing the financial statements are summarized below.

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39 (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

  For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken. The amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will be no longer necessary for objective evidence of impairment before a credit loss is recognized.

  For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

  The derecognition provisions are carried over almost unchanged from PAS 39.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the financial statements of the Corporation. Additional disclosures will be included in the financial statements, as applicable.

Accounting Policies Adopted

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

Financial Assets

Initial Recognition

Financial assets are recognized in the Corporation's financial statements when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Corporation's financial assets, except for investments classified at Fair Value through Profit or Loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, Held-To-Maturity (HTM) investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial Assets at FVTPL

The Corporation classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of income.

As of the reporting date, the Corporation does not have financial assets that are designated at fair value through profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Corporation's financial assets classified under this category include cash and premiums receivables.

HTM Investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

As of the reporting date, the Corporation's investments in government bonds are classified as HTM investments.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM investments or financial assets at FVTPL.

Listed redeemable notes held by the Corporation that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Corporation has also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established.

AFS assets are included in non-current assets unless the investment matures or management intends to dispose it within 12 months after the end of the reporting period.

As of the reporting date, the Corporation's externally managed funds are classified as available-for-sale financial assets.

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of Financial Assets

The Corporation derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another party. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risk and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (such as when the Corporation retains an option to repurchase part of a transferred asset), the Corporation allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities

Initial Recognition

Financial liabilities are recognized in the Corporation's financial statements when it becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Corporation's financial liabilities except for debt instruments classified at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities ‘at FVTPL' or ‘other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a Corporation's financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation’s documented risk management or investment strategy, and information about the Corporation is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses' line item in the statement of income. Fair value is determined in the manner described in notes.

The Corporation does not have financial liabilities that are classified as FVTPL.

Other Financial Liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Benefit claims payable and other payables are included in this category.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather being contigent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition of Financial Liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Other Current Assets

Other current assets represent assets of the Corporation which are expected to be realized or consumed within one year or within the Corporation's normal operating cycle whichever is longer. This account includes supplies, material and small tangible items. Other current assets are presented in the statement of financial position at cost.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property, and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

At the end of each reporting period, items of property, plant and equipment (PPE) are measured at cost less any subsequent accumulated depreciation and impairment losses.

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

Asset Class	Useful Life year/period
Land Improvements	10
Building and Building Improvements	30
Leasehold Improvements	10
IT Equipment	5
Furniture and Fixtures	10
Office Equipment	5
Communication Equipment	10
Library Books	5
Medical Equipment	10
Transportation Equipment	7

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible asset represents computer software. This is initially measured at cost and is presented in the statement of financial position at cost less accumulated amortization and any accumulated impairment losses. Computer software is amortized over its estimated useful life of five (5) years using the straight-line method. If there is an indication that there has been a significant change in the useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

Impairment of Non-financial Assets

At each reporting date, property and equipment and intangible asset accounts are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial Assets

Items of property and equipment and intangible assets are derecognized when these assets are disposed of or when no future economic benefits are expected from these assets.

Surplus

Surplus represents accumulated profits of the Corporation after deducting transfers made to Reserve Fund.

Revenue Recognition

Revenue is recognized to the extent that is probable that the economic benefits will flow to the corporation and the amount of revenue can be reliably measured.

The following specific recognition criteria must be met:

a. Premiums' contribution

   Revenue is recognized as the members' contribution become due.

b. Interest Income

   Interest income is recognized as the interest accrues taking into account the effective interest.

c. Rent Income

   Income from rental of property is derived from the unoccupied portion of the building of PhilHealth Regional Office (PRO) III and it is recognized on a straight-line basis over the lease term.

Expense Recognition

Expenses are recognized in profit or loss upon utilization of the service or at the date expenses are incurred.

a. Benefit Claims Expense

This represents benefits incurred by the Corporation for health care services, in-patient, out-patient, Primary Care Benefits (PCB) and Z benefit packages availed of by the members and their dependents. Benefit Claims Expense is recognized at the date of discharge or incurrence of the expense.

b. Operating Expenses

These include personnel services and maintenance and other operating expenses which are recognized as expenses in the period they are incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rentals payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Corporation as a Lessee

Leases which do not transfer to the Corporation substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the income statement on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Corporation as a Lessor

Rental income from operating leases is recognized in statement of income on a straight-line basis over the lease term.

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

Employee Benefits

Short-term Benefits

The Corporation recognizes a liability net of amounts already paid and the obligation can be estimated reliably.

Short-term employee benefits are recognized as expense in the period the related service is provided.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

Foreign Currency

In preparing the financial statements of the Corporation, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which are described in the next page:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with *PFRS* requires the Corporation to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

<u>Estimating Allowance for Impairment of Receivables</u>

The Corporation maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Corporation's relationship with the customer, the customer's payment behaviour and known market factors. The amount and timing of recorded expenses for any period would differ if the Corporation made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

<u>Estimating Benefit Claims Payables</u>

One of the accounting estimates being made is the setting up of accrued benefit expense for Incurred But Not Yet Paid (IBNP) claims which consist of the following:

a. In-Course of Settlement (ICS) - These are claims in process at the end of the month. It is computed based on the number of claims still in process multiplied by the average value of benefit payment per claim. Average value per claim is the quotient from dividing the total amount of benefit payment for the month by the total number of claims processed for the same period.

b. Incurred But Not Yet Received (IBNR) - These are claims which are estimated to be in the possession of the Health Care Institutions as of the end of the month and have yet to be submitted to PhilHealth within the allowable 60 day period after the date of discharge per Corporate Order No. 2015-0017 dated December 8, 2015. The amount to be recorded is actuarially estimated.

5. CASH

This account consists of:

	2017	2016 (As Restated)
Collecting Officers	100,239,546	74,073,038
Petty Cash Fund	3,013,333	2,558,520
Cash in Bank	13,487,750,679	2,793,434,950
Special Savings Deposit (net)	19,965,695,534	27,068,770,975
Total	**33,556,699,092**	**29,938,837,483**

5.1 The amount of P100,239,546 represents collections at the end of the month of the collecting officers which are to be deposited on the following working day.

5.2 The Petty Cash Fund is for the use of miscellaneous expenditures which cannot be conveniently paid by check. An officer holding the Petty Cash Fund is also properly bonded in accordance with law. The amount of P3,031,333 represents available petty cash fund as of to date.

5.3 Cash in Bank amounting to P13,487,750,679 represents various bank deposits that are unrestricted and available for current operations. Included in this account are cash denominated in foreign currencies which are translated to Peso using the closing rate as of the reporting date.

5.4 Special Savings Deposit (SSD) are term deposits of one day up to one year with interest rates higher than the regular savings deposit rates and evidenced by either passbook or schedule of deposits. The amount of P19,965,695,534 is net of P1,804,636 book balance of One Fund Disbursement Account (OFDA). Interest earned from SSD amounted to P448,104,198.

6. PREMIUM RECEIVABLES

This account consists of:

	2017	2016 (As Restated)
Due from ACAs	5,189,068,187	4,032,858,578
Formal Economy	453,772,434	684,508,250
Due from NGAs	5,601,531,600	5,603,852,400
Due from LGUs	528,722,296	503,063,962
Total	**11,773,094,517**	**10,824,283,190**

6.1 Due from Accredited Collecting Agents (ACAs) amounting to P5,189,068,187 are premium contributions for the period second half of November and whole month of December 2017 collected by the ACAs for one and a half month which is estimated using the first & second half of the applicable month & first half of the following month. This is based on PhilHealth Circular No. 0001 series of 2014, New Payment Schedule for Premium Contributions in which ACA's remittance is made after fifteen (15) days of collections.

6.2 Premium Receivable of the Formal Economy amounting to P453,772,434 represents accruals of premium contributions of the members in the formal economy recorded by the PROs.

6.3 Due from National Government Agencies (NGAs) account represents premium contributions for the following:

	2017	2016	2015	2014	Total
SENIOR CITIZEN:					
Amount	0	5,466,807,600	13,044,616,800	2,117,289,600	20,628,714,000
No. of enrollees	*0*	*2,277,836*	*5,435,257*	*882,204*	*8,595,297*
FORTUITOUS EVENT:					
Amount	0	0	0	134,724,000	134,724,000
No. of enrollees	0	0	0	56,135	56,135
Total Amount	0	5,466,807,600	13,044,616,800	2,252,013,600	20,763,438,000
No. of enrollees	0	*2,277,836*	*5,435,257*	*938,339*	*8,651,432*
Less: Allow. For Impairment (Senior Citizen)	0	0	(13,044,616,800)	(2,117,289,600)	(15,161,906,400)
Net Amount	**0**	**5,466,807,600**	**0**	**134,724,000**	**5,601,531,600**

Enrollment of 2,277,836 Senior Citizens which were automatically renewed for the period January - December, 2016 per billing/letter to Department of Budget and Management (DBM) through DOH. (13,044,616,800 - 7,577,809,200)	5,466,807,600
Total 2016	5,466,807,600
Enrollment of 56,135 families of which 55,474 families came from Region VIII who were casualties of Typhoon Yolanda and for the extended insurance coverage under the Fortuitous Event Program implemented as a component of the NHIP for the billing period January to December 2014	134,724,000
Total 2014	134,724,000
Grand Total	**5,601,531,600**

6.4 Due from Local Government Units (LGUs) is the account representing the outstanding accounts receivable on premium contributions from various LGUs. The details of the account are as follows:

	2017	2016 (As Restated)
NCR	88,044,000	39,888,001
CAR	11,533,856	17,002,746
I	449,740	2,551,655
II	83,483,275	84,687,105
III	7,304,100	8,198,586
IV-A	16,315,000	3,743,750
IV-B	5,038,100	6,046,500
V	6,926,400	5,986,200
VI	217,929,679	209,921,490
VII	2,954,200	7,950,595
VIII	0	0
IX	484,400	817,340
X	0	24,664,087
XI	5,218,600	9,939,980
XII	271,600	800
Caraga	82,301,346	78,065,127
ARMM	468,000	3,600,000
Total	**528,722,296**	**503,063,962**

7. OTHER CURRENT ASSETS

This account consists of the following:

	2017	2016 (As Restated)
Supplies and Materials	81,546,419	64,927,137
Accrued Interest Receivable - Investment	1,140,464,551	1,216,046,633
Other Receivables	177,648,221	55,272,390
Total	**1,399,659,191**	**1,336,246,160**

7.1 Supplies & Materials amounting to P81,546,419 represents small tangible items that are expected to be used within one year from the reporting date.

7.2 Accrued Interest Receivable on investment amounting to P1,140,464,551 represents interest earned from HTM Investments.

7.3 Other Receivables amounting to P177,648,221 includes the following:

7.3a Withholding tax and compromise penalty of hospitals amounting to P24,264,032 for the taxable year 2003-2004 per Bureau of Internal Revenue (BIR) decision with reference No. P06-15 dated April 14, 2015.

7.3b Actual cost of availment/hospital bills of patients/members through the Point of Service Program as of December 31, 2017 amounting to P119,206,170, of which P118,615,564 was already billed to DBM, as provided for by the General Appropriations Act (GAA) 2017 to cover all Filipinos, whether unregistered or inactive registered members especially those who are financially incapable.

8. AVAILABLE FOR SALE (AFS) INVESTMENTS

Investment in Externally Managed Funds – Domestic

The PhilHealth's Board of Directors in its Resolution No. 1847 dated October 25, 2013, approved the hiring of local fund managers based on the provisions of Section 17 of R.A. No. 10606, amending Section 27 of R.A. No. 7875, which states that as part of its investment operations, the Corporation may hire institutions with valid trust license as its external local fund managers to manage a portion of the Investment Reserve Fund, as it may deem appropriate through public bidding. Thus, on July 6, 2015 the Corporation entered into an Investment Management Agreement (IMA) with BDO Unibank, Inc. as fund manager, and released P1 billion on July 7, 2015 to the said fund manager, as approved by the PhilHealth's BOD in its Resolution No. 1957 dated June 24, 2015. As of June 16, 2017 the said externally managed fund has already been fully liquidated and terminated at a Net Asset Value of P1,050,632,249 in compliance with Commission on Audit (COA) recommendation. Details as follows:

	2017	2016
Initial Investment	1,000,000,000	1,000,000,000
Net Unrealized Profit (Loss) AFS Investment	0	(57,094,196)
Gain on Sale / Redemption of Investment	50,632,246	0
Net Asset Value	**1,050,632,246**	**942,905,804**
Liquidated on June 16, 2017	**(1,050,632,246)**	**0**
Balance as of December 31	**0**	**942,905,804**

9. HELD TO MATURITY (HTM) INVESTMENTS

9.1. Investment in Government Bonds with a maturity period of more than one year and with an average interest rate of 5.6813 per cent.

	Interest Rate	2017	2016
Retail T-bonds	5.1667%	41,399,080,000	42,399,080,000
RTB Non-restricted Environment	6.3602%	25,294,587,557	18,803,807,441
7-year T-bonds	5.0000%	2,141,408,223	6,138,254,621
10-year T-bonds	6.1985%	18,818,377,910	18,877,754,338
Total		**87,653,453,690**	**86,218,896,400**

9.2 Investment in Corporate Bonds with a maturity period of more than one year and with an average interest rate of 4.9600 per cent.

	Interest Rate	2017	2016
7-year Meralco Fixed Rate Bonds	4.3750%	1,500,000,000	1,500,000,000
7-year PLDT Fixed Rate Bonds	5.2250%	650,000,000	650,000,000
5.5-year JG Summit Fixed Rate Bonds	5.2317%	1,000,000,000	1,000,000,000
5.25-year GT Capital Fixed Rate Bonds	4.7106%	300,000,000	300,000,000
5.5-year SM Prime Holdings, Inc. Fixed Rate Bonds	5.1000%	500,000,000	500,000,000
7-year SM Prime Holdings, Inc. Fixed Rate Bonds	5.2006%	500,000,000	500,000,000
7-year Aboitiz Power Corp. Fixed Rate Bonds	5.2050%	1,000,000,000	1,000,000,000
5.25-year Aboitiz Equity Ventures, Inc. Fixed Rate Bonds	4.4722%	1,000,000,000	1,000,000,000
7-year Aboitiz Equity Ventures, Inc. Fixed Rate Bonds	5.0056%	1,000,000,000	1,000,000,000
7-year Filinvest Land Inc. Fixed Rate Bonds	5.4000%	1,000,000,000	1,000,000,000
7-year Filinvest Land, Inc. Fixed Rate Bonds	5.3567%	780,000,000	780,000,000
7-year Robinsons Land Corp. Fixed Rate Bonds	4.8000%	1,500,000,000	1,500,000,000
7-year Ayala Land Inc. Fixed Rate Bonds	4.1958%	2,050,000,000	2,050,000,000
5.25-year South Luzon Tollway Corp. Fixed Rate Bonds	4.9925%	182,500,000	182,500,000
7-year South Luzon Tollway Corp. Fixed Rate Bonds	5.5796%	182,500,000	182,500,000
5.25-year SM Prime Holdings	4.5095%	1,200,000,000	1,200,000,000
Total		**14,345,000,000**	**14,345,000,000**

Interest earned on HTM Investments amounted to P5,156,090,726 and P4,910,582,840 in 2017 and 2016, respectively.

10. PROPERTY AND EQUIPMENT– NET

This account consists of:

	Land and Land Improvements	Building & Structure / Leasehold Improvements	Construction in Progress	Furniture & Fixtures Equipment & Books	Motor Vehicles	Total
Cost						
Jan. 01, 2017	874,443,353	131,098,126	27,569,241	2,065,244,962	211,084,361	3,309,440,043
Additions (Deductions)	648,000	24,792,241	0	419,843,712	37,085,255	482,369,208
Dec. 31, 2017	875,091,353	155,890,367	27,569,241	2,485,088,674	248,169,616	3,791,809,251
Accu. Dep'n						
Jan. 01, 2017	1,344,361	69,829,827	0	1,041,277,529	107,448,638	1,219,900,355
Depreciation	70,544	11,936,937	0	226,436,543	10,749,094	249,193,118
Dec. 31, 2017	1,414,905	81,766,764	0	1,267,714,072	118,197,732	1,469,093,473
Net Book Value	**873,676,448**	**74,123,603**	**27,569,241**	**1,217,374,602**	**129,971,884**	**2,322,715,778**

	Land and Land Improvements	Building & Structure / Leasehold Improvements	Construction in Progress	Furniture & Fixtures Equipment & Books	Motor Vehicles	Total
Cost						
Jan. 01, 2016	874,443,353	118,710,282	23,605,048	1,603,533,586	190,844,967	2,811,137,236
Additions (Deductions)	0	12,387,844	3,964,193	461,711,376	20,239,394	498,302,807
Dec. 31, 2016	874,443,353	131,098,126	27,569,241	2,065,244,962	211,084,361	3,309,440,043
Accu. Dep'n						
Jan. 01, 2016	1,229,863	61,521,240	0	875,109,501	93,961,815	1,031,822,419
Depreciation	114,498	8,308,587	0	166,168,029	13,486,823	188,077,937
Dec. 31, 2016	1,344,361	69,829,827	0	1,041,277,530	107,448,638	1,219,900,356
Net Book Value as Restated	**873,098,992**	**61,268,299**	**27,569,241**	**1,023,967,432**	**103,635,723**	**2,089,539,687**

Included under Land and Buildings accounts are the following:

10.1 A parcel of land situated in Quezon City with a total area of 17,230.50 square meters (sq. m.). This property with a carrying amount of P439,377,750 was appraised on December 29, 2016 by an independent appraiser to have a fair market value of P1.2 billion. The Head Office of PhilHealth shall be constructed in this lot.

Relative to the construction of the proposed PhilHealth Corporate Center, the Corporation acquired an additional 145 sq. m. lot from the National Housing Authority located in Barangay Pinyahan, East Avenue Quezon City at a cost of P2,439,736.

10.2 A property with a total area of 4,355 sq. m. acquired from Fort Bonifacio Development Corporation (FBDC), in exchange for the Corporation's investments in FBDC located in Fort Bonifacio, Taguig City. This asset with a carrying amount of P413,845,805 have a fair market value of P1.7 billion as of January 23, 2017.

10.3 A parcel of lot with a total area of 1,544 sq. m. and a building with a total floor area of 3,287 sq. m. purchased by PRO III for its permanent Regional Office in San Fernando, Pampanga at a cost of P25,520,363. The land and building were appraised to have a fair market value of P74.605 million as of January 20, 2017. PRO III also purchased a warehouse in San Fernando City, Pampanga with a total area of 1,831 sq. m. and was appraised with a fair market value of P16.240 million as of December 27, 2016.

10.4 A parcel of lot with a total area of 2,897 sq. m. located in Tuguegarao City which will be used as the PRO II’s Corporate Office. This property was received by way of donation, through a Memorandum of Agreement (MOA) executed between the Department of Public Works and Highways (DPWH) Region 2 and PhilHealth. This property which is carried in the books at P4,056,000 was appraised with a fair market value of P23.176 million as of January 19, 2017. In compliance with the condition set forth in the MOA to construct our office building within two years from the execution of the donation, the Regional Development Council (RDC) 2 has extended, upon the request of PRO II, the construction of the building for another two years per RDC-2 Resolution No. 02-25, series of 2017.

11. INTANGIBLE ASSETS - NET

This represents cost of various software application / programs the majority of which are licenses to fully utilize the capability of a software system to operate in a virtual environment.

	2017	2016 (As Restated)
Cost, January 01	329,299,007	147,814,634
Additions/Deductions	84,110,504	208,650,270
Cost, December 31	413,409,511	356,464,904
Additions/Deductions	(56,278,293)	(27,165,897)
Net Book Value, December 31	**357,131,218**	**329,299,007**

12. OTHER ASSETS - NET

This account consists of the following:

	2017	2016 (As Restated)
Advances to Disbursing Officers	649,766	262,015
Advances to Officers and Employees	220,177	157,900
Prepayments	21,111,429	36,891,571
Deferred Charges	809,294	1,343,481
Guaranty Deposits	76,367,490	58,189,470
	99,158,156	**96,844,437**
DBM (transfer of NHIP Program from GSIS to PhilHealth)	155,235,240	155,235,240
PCSO (Enhanced GMA Program)	115,000,000	115,000,000
PDIC (per MB Resolution 459 dated 4/7/5)	327,103	327,103
COA Disallowances of Former Officers and Employees	1,456,749	1,456,749
PROs (from various Health Providers-DCS)	635,559	596,606
Unserviceable Equipment	30,376,029	28,963,450
Serviceable Equipment	2,871,587	5,375,516
Receivable from NGAs	394,741,430	394,741,430
Receivable from PCSO	100,566,336	100,566,336
Receivable from LGUs	673,919,295	722,588,159
Gross Long-Term Receivable	**1,475,129,328**	**1,524,850,589**
Less: Allowance for Doubtful Accounts	1,161,406,803	1,065,871,220
	313,722,525	**458,979,369**
Net Amount	**412,880,681**	**555,823,806**

12.1 The Disbursing Officer is an Accountable Officer (AO) duly designated, responsible and accountable for the proper management of funds for a specific legal purpose or activity and is properly bonded in accordance with law. The amount of P649,766 represents available funds of the said officers as of to date.

12.2 Advances to Officers & Employees amounting to P220,177 represents cash advances granted to authorized officers and employees for legal authorized purpose such as local and foreign travel.

12.3 Prepayments amounting to P21,111,429 represents authorized payments made for the purchase of goods from the Procurement Service of DBM as well as insurance of motor vehicles of the Corporation from the Government Service Insurance System (GSIS).

12.4 The deferred charges account includes the unused portion of the amount of benefit claims paid to various Health Care Providers (HCPs). This payment was made by PRO VIII in compliance with the PhilHealth Board Resolution No. 1855 series of 2013 which provides a mechanism for extending substantial aid to the affected Health Care Institutions (HCIs) in the aftermath of the 'Super Typhoon Yolanda'. A total of P302,472,692 was paid to the HCP's and of this amount, P301,795,039 claims have been processed leaving a balance of P677,653 as of December 31, 2017. The remaining balance of P131,641 represents Debit Credit System (DCS) transactions.

12.5 Guaranty deposits amounting to P76,367,490 represents transactions made by the Head Office and PROs in compliance with the requirements provided in the contracts for office rentals.

12.6 Long Term Receivable from the DBM amounting to P155,235,240 represents surcharges for late remittance of the employer counterpart for premium contribution. However, allowance for doubtful account of the same amount was provided for after evaluation of factors such as aging of accounts, collection experience in relation to particular receivable and identified doubtful accounts.

12.7 Long Term Receivable from Philippine Charity Sweepstakes Office (PCSO) amounting to P115,000,000 represents the balance of the account for the premium counterpart of various LGUs under the Enhanced PCSO – Greater Medicare Access (PCSO-GMA) Program.

12.8 Long Term Receivable from Philippine Deposit Insurance Corporation (PDIC) amounting to P327,103 was in pursuant to Monetary Board Resolution No. 459 dated April 7, 2005 placing Hermosa Savings and Loan Bank, Inc. under liquidation.

12.9 Disallowances amounting to P1,456,749 refer to disbursements from 1995 to 1999 for travel expenses, employees' benefits, and purchases of goods and services that were subsequently disallowed by COA. The Corporation has appealed to the COA for the lifting of said disallowances and due to the remote probability of collection the latter had recommended its reversal. Subsidiary for these disallowances is being maintained & kept for ready references.

12.10 DCS amounting to P635,559 refers to the balance of advance payment to HCP for the year 1999. Allowance for doubtful account of P115,626 for PRO VII, P9,698 for PRO X, P11,394 for PRO IVA, P37,352 for PRO V, P76,184 for PRO VI and P17,609 for PRO CARAGA, a total of P267,862 was provided for due to closure of the hospital facilities.

12.11 Unserviceable Equipment amounting to P30,376,029 represents equipment that are already for disposal.

12.12 Serviceable Equipment amounting to P2,871,587 represents equipment which are still functional but already obsolete and fully depreciated and ready for disposal.

These Serviceable and Unserviceable Equipment shall be further reclassified as Non-Current Asset – Held for Sale once the requirements set upon by the Standard are met.

12.13 Receivable from NGAs amounting to P394,741,430 represents deficiency in employer share of the Health Insurance Premium Contributions to PhilHealth by different government agencies nationwide for CYs 2001 to 2008.

12.14 Receivable from PCSO includes unpaid billings for the enrollment of 309,049 indigent families in the amount of P25,997,256 under the PCSO – GMA Program for 2003 and 2005; Unpaid billings in 2005 in the amount of P2,772,240; Unpaid billings for the coverage of 200,000 transport workers under the PCSO-PhilHealth Program in the amount of P71,796,840.

12.15 Receivable from LGUs represents long overdue premium contributions from various cities and municipalities all over the Philippines for the enrollment of their respective constituent under the Sponsored Program of PhilHealth. It was reclassified from Current Receivable to Other Assets in compliance with COA recommendation per Audit Observation Memorandum (AOM) No. 2015-22 (14) dated May 5, 2015, details as follows:

	2017	**2016 (As Restated)**
NCR	1,428,200	1,490,300
CAR	11,450,713	11,450,713
I	48,839,269	53,589,267
II	21,532,741	23,032,741
III	128,973,082	140,522,179
IV-A	14,124,485	14,124,485
IV-B	938,740	938,740
V	299,923,312	308,615,512
VI	0	860,000
VII	5,643,080	26,825,220
VIII	69,049,562	69,450,272
IX	1,004,285	1,770,885
X	41,667,473	40,831,393
XI	24,546,841	24,288,941

	2017	2016 (As Restated)
ARMM	4,797,512	4,797,511
	673,919,295	**722,588,159**

12.16 Allowance for doubtful accounts was provided for the following uncollectible receivable accounts as recommended by COA per AOM No. 17-003 dated February 28, 2017 in accordance with COA Circular No. 2016-005 dated December 19, 2016 and based on the PhilHealth policy on the setting up of allowance for doubtful/uncollectible accounts receivable per PhilHealth Corporate Order No. 2017-0010 dated January 20, 2017.

	2017	2016
DBM (transfer of NHIP Program fr GSIS to PhilHealth)	155,235,240	155,235,240
PCSO (Enhanced GMA Program)	115,000,000	115,000,000
PDIC (per MB Resolution 459 dated 4/7/5)	327,103	327,103
PROs (from various Health Providers-DCS)	267,864	430,657
Receivable from NGAs	394,741,430	394,741,430
Receivable from PCSO	100,566,336	100,566,336
Receivable from LGUs	395,268,830	299,570,454
Total Allowance for Doubtful Accounts	**1,161,406,803**	**1,065,871,220**

13. BENEFIT CLAIMS PAYABLES

	2017	2016 (As Restated)
Benefit Claims Processed	6,037,065,054	4,479,208,275
Benefit Claims Reported – ICS	19,848,326,633	17,057,722,275
Benefit Claims IBNR	11,469,705,275	8,207,493,920
Total	**37,355,096,962**	**29,744,424,470**

13.1 Benefit claims processed amounting to P6,037,065,054 represents benefit payment checks still in the possession of the Corporation.

13.2 Benefit Claims Reported - In Course of Settlement (ICS) amounting to P19,848,326,633 are benefit claims in process at the end of the month. It is computed based on the number of claims still in the process multiplied by the average value of benefit payment per claim. Average value per claim is the quotient from dividing the total amount of benefit payment for the month by the total number of claims processed for the same period.

13.3 Benefit Claims Incurred But Not Yet Received (IBNR) amounting to P11,469,705,275 are claims which are estimated to be in the possession of the HCIs as of the end of the month and have yet to be submitted to PhilHealth within the allowable 60 day period after the date of discharge per Corporate

Order No. 2015-0017 dated December 8, 2015. The amount recorded as of to date is actuarially estimated.

The method applied in estimating IBNR claims is called claims development (or lag) method. It is an estimation technique under which historical claim data, such as the number and amount of claims are grouped into the time periods in which claims were incurred and the time periods in which they were processed. The processing date is typically the date the claim is received, adjudicated, or paid by the claim payer. The development method uses these groupings to create a claims processing or development pattern, which is used to determine completion factors to help estimate the unprocessed portion of incurred claims.

14. OTHER PAYABLES

This account consists of:

	2017	2016 (As Restated)
Accrued Expenses		
PS	358,256,414	184,706,889
MOOE	867,311,815	843,622,594
CAPEX	273,891,301	206,142,564
Statutory Liabilities		
Due to BIR	214,842,569	237,167,492
Due to GSIS	67,001,920	93,820,590
Due to Pag-IBIG	3,487,456	3,185,515
Due to PHILHEALTH	7,576,912	9,238,496
Due to Other NGAs	11,716,917	12,977,911
Due to Other GOCCs	752,888	752,888
Due to LGUs	45,679	186,560
PhilHealth Provident Fund	9,774,550	8,199,749
Trust Liabilities		
UNFPA Project	35,856	34,633
UMID Project	105,134,128	104,932,284
Unclaimed Refund from Health Care Providers	358,697,603	357,462,355
AHP - Protest Bond	4,495,000	4,411,540
Donations	9,154,618	9,365,298
Performance/Bidder Bond Payable	34,451,130	32,288,355
Retention Fee	36,435,199	43,494,586
WHO Project (Center for Global Development)	1,991,620	1,711,827
Philippine Training Institute	5,440,195	5,798,658
PhilHealth Run 2013	900	44,684
PhilHealth Run 2015	1,007,116	2,501,185
Calamity Fund	751,983	736,421
Others	229,095,015	188,563,034
Total	**2,601,348,784**	**2,351,346,108**

14.1 Statutory liabilities are inter-agency payables which include deductions from the salaries of PhilHealth officials and employees which are due for remittance to

GSIS, Home Development Mutual Fund (HDMF), National Home Mortgage Finance Corporation (NHMFC), BIR, and PhilHealth Employees Association (PHICEA), and taxes withheld from payments to health service providers. PhilHealth Provident Fund is also classified under this category.

14.2 Trust Liabilities refer to funds from other sources which are held in trust for specific purpose.

14.3 Donations include funds received from the following entities, including earned interest thereon:

	2017	2016
Westmont Investment Corp.	2,945,656	2,965,656
Strategies and Alliance Corp.	3,875,502	3,960,402
All Asia Capital and Trust Corp.	0	599
First Metro Investment Corp.	0	3,813
BF General Insurance Corp.	0	1,425
Land Bank of the Philippines	110,000	110,000
Donation received by PRO's	2,223,460	2,323,403
Total	**9,154,618**	**9,365,298**

These shall finance specific projects like:

a. Prevention of fraud and such other irregularities against the National Health Insurance Fund (NHIF) and for such other allied undertakings. (Westmont Investment Corporation)

b. Research and development and other studies including P3.5 million ex-gratia fund. (Strategies & Alliance Corporation)

c. Assistance to the projects of charitable or socio-civic organizations. (All Asia Capital & Trust Corporation)

d. Ex-gratia Medicare claims reimbursement and other appropriate activities to attain the NHIP objectives. (BF General Insurance Corporation)

15. OTHER DEFERRED CREDITS

Other Deferred Credits account refers to the payment of premium contribution, accreditation fees received in advance by the Corporation or income received not pertaining to the current year.

This account consists of the following:

	2017	2016
Advance Premium by Informal Economy	370,759,927	1,150,805,440

	2017	2016
Reclassification of Premium Contribution for NHTS enrollment (CYs 2013 and 2014)	516,844,200	516,844,200
Accreditation Fees - ACA's	731,722	631,239
Accreditation Fees - HCPs	340,367	4,990,008
Subsidy from LGUs	2,938,235	3,994,045
Others	186,500,108	835,798
Total	**1,078,114,559**	**1,678,100,730**

16. INSURANCE LIABILITY FOR LIFETIME MEMBERS

As stipulated in the Section 17 of R.A. No. 10606 (or Section 27 of R.A. No. 7875), a separate fund for the benefit claims reserve of the existing Lifetime members must be set up as a liability of the Corporation. The claims liability reserves requirement for the number of covered Lifetime members as of year-end 2017 was estimated at P24,796,038,543 by the Corporate Actuary.

17. MEMBERS’ EQUITY

Members’ Equity consists of the following:

	2017	2016 (As Restated)
Reserve Fund	85,988,147,971	90,738,664,003
Surplus	1,887,348	1,456,749
Net Unrealized Loss on AFS Investment	0	(57,094,196)
Total Members' Equity	**85,990,035,319**	**90,683,026,556**

17.1 Reserve Fund

	2017	2016 (As Restated)
Reserve Fund	**85,988,147,971**	**90,738,664,003**

The Reserve Fund is recorded per Office Order No. 0145, series of 2012 which is based on the provisions of Section 27 of R.A. No. 7875 as amended by R.A. No. 10606, which states that the Corporation shall set aside a portion of its accumulated revenues not needed to meet the cost of the current year’s expenditures as reserved funds: Provided, that the total amount of reserves shall not exceed a ceiling of P306.60 billion, the amount actuarially estimated for two years’ projected program expenditures: Provided further; that whenever actual reserves exceed the required ceiling at the end of the Corporation’s Fiscal Year, the excess of the Corporation’s Reserve Fund shall be used to increase the program’s benefits, decrease the member’s contributions and augment the health facilities enhancement program of the DOH.

The remaining portion of the Reserve Fund that are not needed to meet the current expenditure obligations or used for the above-mentioned programs shall be placed in investments to earn an average annual income at prevailing rates of interest and shall be known as the "Investment Reserve Fund".

17.2 Surplus

	2017	2016 (As Restated)
Surplus at Beginning of Year	1,456,749	(16,172,035,741)
Contingent Capital	430,599	0
Net Income	(4,750,516,032)	(251,531,095)
Prior Year Adjustment	0	0
Total Surplus	(4,748,628,684)	(16,423,566,836)
Reserve Transfer to Surplus	4,750,516,032	16,425,023,585
Surplus at Year End	**1,887,348**	**1,456,749**

17.3 Net Unrealized Profit/(Loss)on AFS Investment

This account pertains to the difference between the cost of the original investment in externally managed fund and its fair value as of the reporting date. Details of this account are as follows:

Net Realized Profit in value of EMF 2016	9,954,495
Accumulated Gain/Loss in value of EMF 2016	(67,048,691)
Net Unrealized Loss on AFS Investment 2016	**(57,094,196)**

18. PREMIUM CONTRIBUTIONS

Details of Premium Contributions are as follows:

	2017	2016 (As Restated)
Formal Economy	48,763,919,463	47,964,407,088
Private	36,933,830,114	38,524,493,265
Government	11,776,309,961	9,396,384,362
Kasambahay	53,779,388	43,529,461
Informal Economy	7,913,900,336	4,963,613,165
Migrant Worker	1,685,345,084	1,086,001,742
Informal Sector/Self Earning Individual including Organized Group	5,998,439,423	3,691,524,898
Women about to give birth	227,566,429	186,086,525
Filipinos with Dual Citizenship	261,450	0
Citizens of Other Countries working/ residing in the Phils.	1,630,950	0
Foreign Retirees	657,000	0
Indigent – NHTS	33,860,356,800	34,682,688,000

	2017	2016 (As Restated)
Senior Citizens	13,045,051,000	13,044,616,800
Special Government Programs	88,250,400	35,500,800
Bangsamoro	46,524,000	667,200
PAMANA	41,726,400	34,833,600
Sponsored	2,913,218,420	3,134,972,985
LGUs	2,335,923,840	2,386,499,460
Others	577,294,580	748,473,525
TOTAL PREMIUM CONTRIBUTIONS	**106,584,696,419**	**103,825,798,838**

The amounts collected came from the following members in accordance with Title III Section 5 of the Implementing Rules and Regulations (IRR) of R.A. No. 7875 as amended otherwise known as the National Health Insurance Act of 2013 to wit:

a. Income from the Formal Economy comes from the premium contributions of the following:

1. Government employees
2. Private employees
3. All other workers rendering services, whether in government or private offices, such as job order contractors, project-based contractors and the likes
4. Owners of micro enterprises
5. Owners of small, medium and large enterprises
6. Household Help – as defined in R.A. No.10361 or “Kasambahay Law”
7. Family Drivers

b. Income from the Informal Economy comes from the premium contributions of the following:

1. Migrant Workers
2. Informal Sector
3. Self-Earning Individuals
4. Filipinos with Dual Citizenship
5. Naturalized Filipino Citizens
6. Citizens of other countries working and/or residing in the Philippines
7. Women about to give birth
8. Foreign Retirees

c. Premium contributions recorded as income for Indigent – National Household Targeting System (NHTS) comes from the National Government (NG) as appropriated in the General Appropriation Act (GAA).

d. Premium contributions from the sponsored members are being paid by another individual, government agency, or private entity according to the rules as may be prescribed by the Corporation.

e. Premium contributions for special government programs come from the NG as appropriated in the GAA.

f. Premium contributions for Senior Citizen or Elderly come from the NG

19. INTEREST AND OTHER INCOME

Interest and other income account are as follows:

	2017	2016 (As Restated)
Interest Income		
Held to Maturity Investments	5,156,090,726	4,910,582,840
Special Savings Deposits	448,104,198	827,785,518
Savings and Current Deposits	3,301,540	5,137,181
Total Interest Income	5,607,496,464	5,743,505,539
Other Income		
Accreditation Fees – HCPs	27,880,302	37,212,411
Fines and Penalties	33,497,537	38,587,340
Rent Income	1,588,601	2,104,434
Gain on Foreign Exchange	4,594	59,831
Gain on Sale/Redemption of Investment	50,632,249	0
Sale of Disposed/Unserviceable Property	600,982	0
Gain (Loss) on Sale of Property, Plant and Equipment	174,553	336,520
Income from Grants and Donations	0	1,129,882
Miscellaneous Income	16,612,448	12,450,468
Total Other Income	130,991,266	91,880,886
Total Interest and Other Income	**5,738,487,730**	**5,835,386,425**

a. Miscellaneous income consists of income ranging from one hundred thousand and above which includes penalties from supplier in the Head Office, while in PROs this includes income from sale of valueless records, forfeited performance security and refund of benefit payment collected from delinquent employers.

b. Rent Income is an income from the rented portion of PRO III office building.

20. BENEFIT CLAIMS EXPENSES

Details of this account are as follows:

	2017	2016 (As Restated)
Formal Economy	25,151,458,483	24,867,012,076
Private	18,158,588,102	17,431,185,676
Government including PCB	6,992,870,381	7,435,826,400
Informal Economy	23,554,813,700	20,763,765,254
Migrant Worker	1,401,346,939	1,303,474,232
Informal Sector/Self Earning Individual	22,153,466,761	19,460,291,022
Indigent - NHTS including PCB	21,098,185,590	19,687,975,690

	2017	2016 (As Restated)
Sponsored	12,286,793,906	11,706,276,581
LGUs including PCB / PREVENTS	8,798,523,185	7,947,856,618
NGAs	847,521	801,580
Others	3,487,423,200	3,757,618,383
Lifetime Member Program and Senior Citizens	28,398,835,162	25,105,666,775
Total Benefit Claims Expense	**110,490,086,841**	**102,130,696,376**

21. PERSONAL SERVICES

Personal services account includes:

	2017	2016 (As Restated)
Salaries and Wages	1,750,565,893	1,908,671,570
Other Compensation	2,255,410,889	3,090,529,328
Statutory Contributions	486,710,869	573,897,448
Other Personal Services	30,921,457	10,159,149
Total Other Operating Expenses	**4,523,609,108**	**5,583,257,495**

22. OTHER OPERATING EXPENSES

	2017	2016 (As Restated)
MOOE	1,571,181,607	1,827,941,928
Other Expenses	151,288,254	133,806,023
Non-Cash Expenses	337,534,371	237,014,536
Total Other Operating Expenses	**2,060,004,232**	**2,198,762,487**

This account represents the administrative costs which must be within the limit as prescribed in Section 72. Financial Management of the RIRR of R.A.No.7875 as amended by R.A. No. 9241 and R.A. No. 10606 known as the National Health Insurance Act of 2013.

23. OTHER SIGNIFICANT AND RELEVANT INFORMATION

23.1 PhilHealth as Government Business Enterprise

PhilHealth is now a Government Business Enterprise per COA Resolution No. 2018-001 dated January 20, 2018, re: Reclassification of the Philippine Health Insurance Corporation from a Non-Government Business Enterprise (Non-GBE) to a Government Business Enterprise (GBE) and its adoption of the PFRS as its financial reporting framework.

23.2 Point of Service (POS) Program

The DBM has issued Special Allotment Release Order (SARO) No. SARO-BMB-C17-0025794 in the amount of Two Billion Eight Hundred Five Million Three Hundred Sixteen Thousand Three Hundred Seventy Four Pesos Only (P2,805,316,374) through the Bureau of Treasury (BTr) representing payment of cost of availment for benefit claims of financially incapable families/enrollees under Universal Health Care through POS Program, chargeable against PhilHealth's authorized appropriation under R.A. No. 10924, Fiscal Year (FY) 2017 General Appropriations Act.

The release of the corresponding cash allocation is subject to PhilHealth's submission of the names of POS patients together with the actual amount of claims to DBM.

23.3 Arrears of the NG as an employer

PhilHealth had adjusted premium contribution of the Employed Sector in CY2013 through PhilHealth Circular No. 057 series of 2012 which prescribes P875.00 per month as the maximum contribution shared equally by the Employer and the Employee at P437.50 each. However, DBM has only allocated P312.50 or a 40 per cent discrepancy. The Corporation had formally billed the DBM of the estimated NG Employer Premium Differential and request allocation of the unappropriate balances for the following periods:

Arrears		
CY 2001-2012	P	9,664,042,011
CY 2013		330,691,801
CY 2014		330,691,801
CY 2015		330,691,801
CY 2016		330,691,801
Total		**10,986,809,215**

23.4 Assigned lot to PRO III

A parcel of lot with a total area of 1,831 sq. m. located within the Government Center, Barangay Maimpis, City of San Fernando, Pampanga was assigned to PRO III per Deed of Assignment from Regional Government Center (RGC) of San Fernando, Pampanga through a MOA executed by and between the RDC III and PhilHealth. A warehouse was constructed in this lot with a carrying amount of P2,520,000 in the financial statements.

23.5 Non-remittance of GSIS Premium for Disallowed Salary Adjustments

The GSIS premium amounting to P20,604,585 was part and parcel of the salary adjustments given to PhilHealth employees but subsequently disallowed by COA. The said amount is still outstanding and not yet remitted to GSIS per Opinion No. 56 Series of 2018 from the office of the Government Corporate Counsel dated March 26, 2018 stating that PhilHealth should keep the amount originally intended to be remitted to GSIS as premiums corresponding to the adjusted salaries of its employees without prejudice to its remittance in the event the Notice of Disallowance is lifted.