

## **NOTES TO FINANCIAL STATEMENTS**

### **1. Agency Profile**

The Davao Medical Center (DMC), then called as Davao Public Hospital, was created by virtue of the passage of the House Bill No. 1859, enacted on June 22, 1957, during the term of President Carlos P. Garcia. It is the largest government-owned tertiary healthcare facility outside Metro Manila, with a 400 bed capacity general hospital and a 200 bed psychiatry hospital (5 kilometers away from the main hospital). It is located in Davao City, in the island of Mindanao, Southern Philippines. As mandated in its charter, DMC serves as the main referral center for Mindanao and Sulu.

On November 19, 2009, Republic Act No. 9792 was enacted increasing the number of beds to 1,200 and renamed the hospital as Southern Philippines Medical Center.

The general objective of the hospital is to provide the people of Mindanao and Sulu and the East Asean Growth Area the best quality of integrated health care, through the highest level of specialty services, training and research.

The Department of Health in response to the call for improving government healthcare service in support of “daang matuwid” called for its retained hospital to make a plan for the implementation of quality management systems to prepare for ISO accreditation.

In August 2012, the hospital submitted its plan to the Department of Health. In July 2014, ISO orientation was conducted. The Stage 1 audit was conducted in May 2014 and Stage 2 certification audit was done in August 2014. The hospital received our accreditation certificate after responding to the observations and minor nonconformities a month after the Stage 2 audit.

### **2. Basis of Financial Statement Preparation**

2.1 The financial statements included herein have been prepared in accordance with generally accepted state accounting principles and standards taking into consideration some of the peculiar financial transactions inherent as a government hospital.

2.2 The Financial Statements solely represent the transactions undertaken by Southern Philippines Medical Center as of December 31, 2014

### **3. Summary of Significant Accounting Policies**

3.1 Under the 1987 Constitution, the Commission on Audit (COA), promulgated the New Government Accounting System in the Philippines (NGAS) for use by all government agencies. The shift to NGAS was made in response to the following need: adoption of an accounting system that is in conformity with the International Accounting

Standards; computerization of the accounting systems to generate reports that will be easy to understand by the general public; preparation of regular and routine financial reports and the use of the generated financial reports as tools of management in decision making.

3.2 Account titles and codes used in the Financial Statements are based on the Chart of Accounts set by the Department of Budget and Management, the Commission on Audit, the Department of Finance and Bureau of Treasury. The account titles are in accordance with the Unified Accounts Code Structure (UACS). The objective of which is to establish the accounts and codes needed in reporting the financial transactions of the National Government of the Republic of the Philippines. The UACS provides a framework for identifying, aggregating, and reporting financial transactions in budget preparation, execution, accounting and auditing.

3.3 The agency uses accrual basis of accounting. All expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Income is recorded on accrual basis.

3.4 Notice of Cash Allocation is recorded in the Regular Agency (RA) books as well as those income receipts which the agency is authorized to use.

3.5 The Modified Obligation System is used to record allotments received and obligations incurred. Separate registries are maintained to control allotments and obligations for each class of allotment and for each budgetary purpose, functions or activity for which it is released.

3.6 Petty Cash Fund account is maintained under the Imprest System. All replenishments are directly charged to the expense account. The Petty Cash Fund is not used to purchase regular inventory items for stock but for petty or miscellaneous items only wherein regular procurement is impractical to use.

3.7 An allowance for doubtful accounts is maintained at 10% of the total amount of outstanding receivable at year end, a level adequate to provide for potential uncollectible receivables.

3.8 Supplies and materials purchased for inventory purposes are recorded according to its proper inventory classification using the Perpetual Inventory System. While the costs of ending inventory of supplies and materials are recorded using the moving average method as prescribed and designed under the COA Electronic National Government Accounting System, installed in the year 2006.

3.9 Property, Plant and Equipment are carried at cost less accumulated depreciation and obsolescence. The Straight Line Method of depreciation is used in depreciating the Property, Plant and Equipment with estimated useful lives ranging from five to forty years. A residual value, computed at ten percent of the cost of assets is set and depreciation starts on the second month after purchase or construction. The agency opted to

adopt an estimated useful life of fifty years for its main hospital building for convenience and propriety purposes. All renovations within the main hospital building are depreciated from the time the project has been completed.

3.10 Major repair and renovations which could stand the life of the asset are capitalized to the asset amount. Regular maintenance, repair, minor replacements are charged against maintenance and other operating expenses (MOOE) as these were incurred.

3.11 For assets under construction, all related expenses incurred during the construction of the projects are recorded under the Construction in Progress account using the Construction Period Theory. The corresponding asset account is being recorded upon completion and final acceptance or payment. Expenses incurred after the construction are charged against the operational cost depending upon the materiality of services to the agency.

3.12 Payable accounts are recognized and recorded in the books of accounts only upon delivery of the goods/inventory/other assets and rendition of services to the agency.

3.13 Financial expenses such as bank charges are separately classified from the Maintenance and Other Operating Expenses.

3.14 Taxes withheld are remitted to Bureau of Internal Revenue (BIR) thru the Tax Remittance Advice (TRA) if charged to Regular Modified Disbursement System (MDS) and thru checks if charge to Trust Funds.

#### **4. Correction of Fundamental Errors**

Fundamental errors of prior years are corrected by using the Prior Years' Adjustment account. Errors affecting current year's operation are charged to the current year's accounts.

#### **5. Cash and Other Cash Accounts**

5.1 This account consists of:

	<b><u>Dec. 31, 2014</u></b>	<b><u>Dec. 31, 2013</u></b>
DBP-CITY AID GRANT	3,560,471.29	15,661,242.33
DBP-HOSPITAL FEES	54,710,823.47	79,184,296.80
DBP-OTHERS	25,382,987.25	25,289,985.58
DBP-P C S O	20,218,736.94	13,409,270.91
DBP-PHILHEALTH	7,147,520.80	9,239,149.01
DBP-PMDT	136,093.72	167,523.31
DBP-POINT OF SALE	5,771,626.24	30,213.00
DBP-SUB ACCOUNT	31,996,859.22	31,649,550.96
LBP-PHIC- HOSPITAL CHARGES	10,018,946.00	21,048,930.05
LBP-PHIC-POOLING		
PROFESSIONAL FEES	5,344,390.00	4,512,160.00
LBP-PHIC-DOCTOR'S	0.00	10,550.00

## PROFESSIONAL FEES

<b>TOTAL</b>	<b>164,288,454.93</b>	<b>200,202,871.95</b>
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Not included in the cash accounts is the Dollar Account which as of December 31, 2014 totaled \$ 49,257.64. This dollar account is where the training fees and other costs are deposited for nurses and Foreign Physician Affiliates. These are paid by the Guardian Healthcare Providers Inc., a Tennessee Corporation from the United States of America, who has mutually agreed with the DMC to establish the Davao Medical Center Registered Nurse Professional Development Program. This program is designed to increase training and professional development opportunities for selected registered nurses. Training for Foreign Physician Affiliates was paid by NEPHIL and by individual foreign residents.

5.2 In 2013, we received from the City Government of Davao as Financial Assistance to the hospital covering the CYs 2012 and 2013, a total amount of Twenty Million Pesos (P 20,000,000.00) deposited in City Aid Grant Account. The said fund is used to pay for wages of job orders of the hospital.

5.3 In 2013 also, the Point of Sale transactions started with Pay ward and medicines accommodated. Now the income increase due to the increase in POS transactions as it is accommodated in other cost centers.

## 6. Receivables

6.1 This account consists of:

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Accounts Receivable	P 841,613,545.79	P 388,413,361.14
Less: Allowance for Doubtful Accounts	<u>82,871,598.88</u>	<u>38,841,336.11</u>
Total Receivable (net)	758,741,946.91	349,572,025.03
Due from National Treasury	4,077,255.00	-
Advance to Officers and Employees	-	319,270.04
Other Receivables	1,202,787.52	1,248,666.45
Disallowances/charges	<u>3,769,399.06</u>	<u>3,737,731.92</u>
Total	<u>P 767,791,388.49</u>	<u>P 354,877,693.44</u>

6.2 Accounts Receivable comprises the following: a.) unpaid hospital bills of patients admitted under the Pay ward service and Mindanao Heart Center, duly covered with promissory notes and guarantee letters from the City Government of Davao, PCSO and DSWD (these agencies do not have existing funds in this hospital) b) from blood products sold on account to various private and government hospitals; c.) PHIC claims; the Accounts Receivable is inclusive of unpaid OB-Package for Normal Spontaneous Vaginal Delivery and Caeasarian Section.

6.3 Due from National Treasury represents the Affiliation Fees collected and are remitted to the Bureau of Treasury. The amount will be requested for release from the bureau if they will be used for payment of operating expenses.

6.4 An aging of accounts receivable is included in this report.

## 7. Inventories

7.1 This account consists of:

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Merchandise Inventory	P 10,928,447.03	P 51,315,428.62
Office Supplies Inventory	12,937,172.19	9,753,997.58
Food Supplies Inventory	3,175,157.86	4,973,019.54
Accountable Forms Inventory	9,235,490.20	7,745,570.78
Drugs and Medicines Inventory	28,903,825.53	31,411,823.38
Medical/Dental/Lab. Supplies Inventory	208,147,783.93	163,798,900.82
Other Supplies Inventory	18,747,674.22	15,602,956.46
Spare Parts Inventory	<u>14,750,949.21</u>	<u>13,794,296.02</u>
Total	<u>P 306,826,500.17</u>	<u>P298,395,993.20</u>

7.2 Medical, Dental and Laboratory Supplies Inventory increased due to increase in the number of patients both inpatients and outpatients served and also with the increase in the price of supplies.

7.3 The balance of some of the inventory accounts as recorded by Accounting and Property sections may yield differences due to manual recording of transactions by the Accounting Section. The management has procured an asset data management system to address concerns on inventory, at the moment the Property Section is utilizing the said program but the Accounting Section has no access of the program procured. We have made request for the Accounting Section to have access on the inventory program to facilitate monitoring of inventory balances and making real time updates as to its balances.

## 8. Property, Plant and Equipment, net

8.1 This account consists of:

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Land	P 119,287,542.00	P 119,287,542.00
Land Improvements	12,365,484.22	7,151,241.25
Electrification, Power and Energy Structures	2,035,915.80	1,615,915.80
Hospital and Health Centers	1,226,923,326.86	1,145,664,526.04
Other Structures	5,640,464.57	4,679,890.32

Office Equipment	5,463,483.16	7,049,026.41
Furniture and Fixtures	15,425,765.91	13,430,943.01
IT Equipment and Software	53,981,478.46	39,819,491.81
Communication Equipment	21,848,533.14	14,419,944.34
Hospital Equipment	996,275,452.81	855,144,737.89
Firefighting Equipment and Accessories	18,617,288.00	18,617,288.00
Other Machineries and Equipment	53,996,792.63	47,965,949.50
Library Books	1,227.60	14,880.00
Motor Vehicles	8,736,030.00	5,614,935.50
Other Property Plant & Equipment	67,500.00	67,500.00
Water Supply Systems	850,000.00	850,000.00
Construction in Progress-Agency Assets	82,228,272.00	51,537,649.46

<b>Total Book Value</b>	<b>P</b>	<b><u>2,623,744,557.16</u></b>	<b>P</b>	<b><u>2,332,931,461.33</u></b>
<b>Less: Accumulated Depreciation:</b>				
Land Improvements		6,957,537.65		4,955,973.25
Hospitals and Health Centers		374,577,350.29		337,578,992.46
Office Equipment		3,474,612.57		4,983,639.91
Furniture and Fixtures		8,388,049.75		7,620,619.34
IT Equipment		22,591,092.67		19,838,288.99
Communication Equipment		5,214,297.93		4,248,035.00
Hospital Equipment		437,553,496.13		369,744,211.75
Other Machineries and Equipment		24,468,887.82		20,273,643.17
Motor Vehicles		4,541,982.80		4,616,840.43
Other Property, Plant & Equip.		50,625.00		39,487.50
Other Structures		875,992.73		419,422.14
Firefighting Equipment & Acc.		8,776,721.36		6,582,541.02
Library Books		2,455.20		2,120.40
Electrification, Power and Energy		320,509.64		155,696.57
<b>Total Accumulated Depreciation</b>	<b>P</b>	<b><u>897,793,611.54</u></b>	<b>P</b>	<b><u>781,059,511.93</u></b>
<b>Net Book Value</b>	<b>P</b>	<b><u><u>1,725,950,945.62</u></u></b>	<b>P</b>	<b><u><u>1,551,871,949.40</u></u></b>

8.2 Land represents the value of three lots located in different parts of the city. The main hospital building is located in J.P Laurel Avenue, while the second lot which houses

the Mental Ward is located in about 4 kilometers from the main hospital. The third lot is in Tibungco, Davao City, used as relocation site of illegal settlers occupying a space within the hospital compound who were evicted in 2006.

8.3 Increased in land improvements are caused by reclassification of accounts from Hospital and Health Centers, the projects include Roads and Drainage Rehabilitation and Improvements, Installation of Electrical Posts, Lines and Lamps, and the Construction of Concrete Pavement, Retaining Wall/ Drainage System/ Concrete Sidewalk and Parking Area.

8.4 Significant increases in the Hospitals and Health Center Accounts are due to the Completion of Mindanao Heart Center, Upgrading and Expansion of Emergency Room Complex, Upgrading of the Medical Gas Piping at Pedia Main, General Ward and Surgery Ward. Significant decrease of this account was due to the dropping of the Davao Mental Hospital Building caused by loss of property due to fire.

8.5 Increase in communication equipment happened because of the delivery and installation of IP Surveillance System and Enterprise Networking.

8.6 Increase in hospital or medical equipment was caused by the purchase of one (1) unit of Fully Integrated Minimally Invasive Surgery equipment, and the receipt of donated equipment from the Government Service Insurance System of one (1) unit of CT-Scan Machine.

8.7 Motor vehicles account increased because of the receipt of one (1) Unit of Toyota Innova Service vehicle, and one (1) unit of Mobile Clinic Bus with sets of equipment and a purchase of one (1) unit of Isuzu vehicle for Davao Blood Center use.

8.8 Construction in Progress increased because of the recognized progress billings for Proposed Construction of Oncology Building and the Conversion of the Gym Building to Medicine Ward and Centralized ICUs.

## **9. Prepayments**

Included under prepayments are prepaid insurances for government service vehicles and hospital buildings.

## **10. Current Liabilities**

The increase in current liabilities is caused by the increase in the accounts payable due to suppliers and other payables due to consignors.

## **11. Subsidy Income from National Government**

As of December, 2014, a total of **₱ 840,925,815.90** Notices of Cash Allocation was received by the Hospital from the Department of Budget and Management for current operating requirements and terminal leave benefits, of which **₱ 10,865,000.00** came from the Department of Health Central Office for payment of Performance Based Bonus.

Moreover, also included are the Tax remittance Advices for CY 2014 totaling **₱ 72,858,021.48**, for both tax withheld on compensation and business taxes.

## **12. Expense Accounts**

12.1 The increase in plantilla positions initiated the increase in the Personnel Services expenses.

12.2 The Maintenance and Other Operating Expenses escalated due to the increase in the medical, dental and laboratory supplies expenses. Water and Electricity expenses augmented also due to the various infrastructure projects and increase in patients accommodated. Membership dues and contributions to Organizations have ascended because of the Point of Care Philhealth Enrollment whereby the one (1) year contribution of the patient with no PHIC is paid by the hospital. Rent Expenses grew also because of the payment for the use of ventilators. Consultancy Services rose due to the increase in the paid Professional Fees to Medical Consultants who handled pay patients.

12.3 The sale of unserviceable hospital vehicle resulted to a loss on sale of disposed assets.



### 13. Allotments, Obligations and Balances

Total allotment available during the year amounted to **₱ 974,634,825.47**, its obligations incurred in the amount of **₱ 908,345,869.41** with an unexpended balance of allotment amounting to **₱ 66,288,956.06**.

CATEGORY	ALLOTMENT			OBLIGATIONS	UNEXPENDED BALANCE		
	Extended	Current	Total		Total	Reverted	Extended
<u>I. Agency Specific Budget</u>							
PS	-	330,638,000.00	330,638,000.00	307,948,896.97	22,689,103.03	22,689,103.03	
MOOE	-	170,496,568.00	170,496,568.00	166,145,302.77	4,351,265.23	-	4,351,265.23
CO	-	296,600,000.00	296,600,000.00	260,652,973.67	35,947,026.33	-	35,947,026.33
			-				
<u>II. Automatic Appropriations</u>			-				
RLIP	-	31,126,909.00	31,126,909.00	29,415,438.63	1,711,470.37	1,711,470.37	-
			-		-		
<u>III. Special Purpose Fund</u>			-		-		
MPBF	-	108,715,485.00	108,715,485.00	107,423,485.00	1,292,000.00	1,292,000.00	-
Pension & Gratuity	-	36,364,377.00	36,364,377.00	36,364,367.73	9.27	9.27	-
			-		-		
<u>IV. Prior Year's Budget</u>			-				
MOOE	693,281.05	-	693,281.05	395,404.64	297,876.41	297,876.41	-
CO	205.42	-	205.42	-	205.42	205.42	-
<b>TOTAL</b>	<b>693,486.47</b>	<b>973,941,339.00</b>	<b>974,634,825.47</b>	<b>908,345,869.41</b>	<b>66,288,956.06</b>	<b>25,990,664.50</b>	<b>40,298,291.56</b>