

## CIVIL AVIATION AUTHORITY OF THE PHILIPPINES NOTES TO FINANCIAL STATEMENTS

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### 1. GENERAL INFORMATION

#### ***Agency Profile***

The Civil Aviation Authority of the Philippines (CAAP or Authority) was created by virtue of Republic Act (RA) No. 9497 otherwise known as the Civil Aviation Authority Act of 2008 which was enacted on March 4, 2008. Under its Transitory Provisions (Section 85, Chapter XII), Air Transportation Office (ATO), created under RA 776 also known as the "Civil Aeronautics Act of the Philippines" was abolished and all its powers, duties and rights vested by law and exercised by the said agency was transferred to CAAP. Likewise, all assets, real and personal properties, funds and revenues owned by or vested in the different offices of the ATO, including all contracts, records and documents relating to the operations of the abolished agency and its offices and branches were similarly transferred to CAAP. Any real property owned by the national government or government-owned corporation which is being used and utilized as office or facility by the ATO shall also be transferred and titled in favor of CAAP.

The mandate of CAAP is in line with the policy of the State to provide safe and efficient air transportation for the country as enunciated in Chapter I, Section 2 (Declaration of Policy) of RA 9497, to wit, *It is hereby declared the policy of the State to provide safe and efficient air transport and regulatory services in the Philippines by providing for the creation of a civil aviation authority with jurisdiction over the restructuring of the civil system, the promotion, development and regulation of the technical, operational, safety and aviation security functions under the civil aviation authority.*

Chapter II, Section 4 (Organization of Authority) of its enabling law created CAAP *as an independent regulatory body with quasi-judicial and quasi-legislative powers and possessing corporate attributes.* It is attached to the Department of Transportation (DOTr) for the purpose of policy coordination.

CAAP is the administrator of the Flight Information Region (FIR) and the Authority managing the aviation sector of the Philippines.

#### ***Corporate Objectives***

The objectives of the Authority are as follows:

- a. Development and utilization of the air potential of the Philippines;
- b. Encouragement and development of an air transportation system properly adapted to the present and future of foreign and domestic commerce of the Philippines;
- c. Regulation of air transportation in such a manner as to support sound economic condition in such transportation and to improve the relations between air carriers;
- d. Assurance of the safety, quality, reliability, and affordability of air transport services for the riding public; and

- e. Encouragement and development of a viable and globally competitive Philippine aviation industry.

### **Organizational Structure**

The corporate powers of CAAP are vested in a board which is composed of eight members, as follows:

- Secretary of the DOTr who shall act as Ex-Officio Chairman;
- Director General of the Civil Aviation (DGCA) who shall automatically be the Vice-Chairman of the Board;
- Secretary of the Department of Finance (DOF);
- Secretary of the Department of Foreign Affairs (DFA);
- Secretary of the Department of Justice (DOJ);
- Secretary of the Department of the Interior and Local Government (DILG)
- Secretary of the Department of Labor and Employment (DOLE); and
- Secretary of the Department of Tourism (DOT).

CAAP is headed by a Director General (DG), who is also the Chief Executive and Operating Officer responsible for all civil aviation in the Philippines and the administration of RA 9497. He shall be appointed by the President of the Philippines and shall have a tenure of office of four years, which may be extended for another non-extendible term of four years and shall only be removed for cause in accordance with the rules and regulations prescribed by the Civil Service Commission (CSC).

The DG has two Deputy Director Generals (DDG). Prior to 2011, the two positions already existed to oversee the administrative and operational aspects of the Authority. In order for CAAP to realize its full corporate powers, and pursue the objectives of RA 9497, specifically Section 15 (please refer to the next page under '*Fiscal Autonomy*'), the need to create the position of the Chief Financial Officer (CFO) became apparent. The Board of Directors, through Board Resolution No. 2011-006, Series of 2011 approved the creation of the CFO, who shall assume a co-terminus appointment with the appointing authority and the corresponding qualification standards and salary shall be at par/equivalent with that of the DDG.

A Table of Organization, which was developed in consultation with CSC and the Department of Budget and Management (DBM) in 2009, is presently in effect in CAAP. An Organizational Restructuring Program (ORP) was initiated in 2012 with a targeted implementation in 2013.

The ORP is currently undergoing further rationalization and alignment to CAAP's Sustainability Programs as a result of its regained stature as a credible civil aviation authority in the international civil aviation community. With the regaining of its Category 1 aviation safety status from the US Federal Aviation Administration (FAA) on April 10, 2014, CAAP has freed Philippine civil aviation from all restrictions that had hampered its growth and development since 2008, including the removal of the International Civil Aviation Organization (ICAO) Significant Safety Concerns (SSCs) in March 2013 and the delisting of the Philippine civil aviation from the European Union (EU) Aviation Safety List in July 2013. The ORP was submitted on January 6, 2016 to the Governance

Commission for GOCCs (GCG) for approval. It was returned on March 11, 2016 by GCG, without action, enjoining CAAP to align its submission according to the prescribed process and forms under GCG Memorandum Circular No. 2015-04, Reorganization, Rationalization and Personnel Planning in the GOCC Sector.

To further streamline the operations of the 81 airports under its management, CAAP implemented a new Airport Clustering Scheme in 2013 and created 12 Area Centers from its previous 10, to wit:

<b>Area Center</b>	<b>Location</b>	<b>No. of Satellite Airports</b>
Area 1	Laoag	4
Area 2	Tuguegarao	5
Area 3	Plaridel	2
Area 4	Puerto Princesa	12
Area 5	Legaspi	6
Area 6	Iloilo	5
Area 7	Mactan	5
Area 8	Tacloban	9
Area 9	Zamboanga	8
Area 10	Laguindingan	5
Area 11	Davao	4
Area 12	Butuan	4

### ***Fiscal Autonomy***

Under Section 15 of the Implementing Rules and Regulations of RA 9497, the Authority shall enjoy fiscal autonomy. All revenues earned by the Authority from the collection/levy of any and all such fees, charges, dues, assessments and fines it is empowered to collect/levy shall be used solely to fund the operations of the Authority. All monetary revenues collected shall accrue to the Authority and shall be deposited to its bank account. Funds collected by the Authority shall be retained effective March 23, 2008, the date of effectivity of the CAAP Charter.

### ***Exemption from Taxes, Customs and Tariff Duties***

Under Section 16 of RA 9497, the importation of equipment, machineries, spare parts, accessories and other materials, including supplies and services used solely and exclusively in the operations of the Authority, not obtainable locally shall be exempt from all direct and indirect taxes, wharfage fees and other charges and restrictions, the existence of pertinent laws to the contrary notwithstanding.

Likewise, all obligations entered into by the Authority and any income derived therefrom, including those contracted with private international banking and financial institutions, shall be exempt from all taxes, both principal and interest. The Authority is also exempt from the payment of capital gains tax, documentary stamp tax, real property estate tax and all other local government-imposed taxes and fees.

### **Principal Office**

The Authority's principal office is at MIA Road, Pasay City, Metro Manila, Philippines.

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## **2. INITIAL ADOPTION OF PFRSs**

CAAP adopted the PFRSs in 2017. As a result of this initial adoption, there were items recognized, derecognized, re-measured, and reclassified. The following summarizes the impact of the initial adoption of the PFRSs.

### Reconciliation of Total Equity

	2016	2015
Total equity balance based on old financial reporting framework	24,633,050,294	24,342,895,821
Adjustments:		
Increase in Property and Equipment (PE) – Intech Appraisal	43,696,444,554	46,529,504,495
Turned-over assets from DOTr	11,651,708,168	11,823,492,276
Unrecognized Donation	340,108,444	340,108,444
Reclassification of Deferred Liabilities	281,358,908	281,358,908
Reclassification of Capital Expenditure (CAPEX) related to antenna system	5,043,506	5,869,773
Recognition of Lease Receivable	2,473,330	2,387,327
Reclassification of Due to Regional Offices	32,177	0
Unexpired Insurance Premium	13,304,213	0
Derecognition of PE (P15,000 threshold)	(10,754,189)	(8,616,784)
Liquidation of Due from National Government Agencies (NGAs) and LGUs	(53,760,674)	(53,760,674)
Impairment of Accounts Receivable (AR)	(232,466,300)	(232,466,300)
Impairment of Other Assets	(1,573,205,524)	(1,446,166,017)
Provision for Tax Liability	(20,366,526)	0
Total equity balance based on PFRSs	78,732,970,381	81,584,607,269

## Reconciliation of Net Income

	2016	2015
Net Income based on old financial reporting framework	4,249,761,445	3,276,252,422
Adjustments:		
Unexpired Insurance Premium	13,304,213	0
Recognition of Lease Receivable	86,002	0
Depreciation of CAPEX related to antenna system	(826,267)	0
Derecognition of PE	(2,137,404)	(993,748)
Depreciation of turned-over assets from DOTr	(145,564,526)	0
Depreciation and impairment of the Appraised Assets	(2,960,099,448)	(3,105,103,682)
Provision for Tax Liability	(20,366,526)	0
Net Income based on PFRSs	1,134,157,489	170,154,992

### *Increase in PE – Intech Appraisal*

CAAP adopted the PFRS in 2017. As a result of the initial adoption of PFRS, CAAP availed of the exemption under PFRS 1 to use the appraised values of land, land improvements, buildings, airport systems, and other PE as the deemed cost. The appraisal was conducted by independent appraiser in 2010.

### *Turned-over assets from DOTr*

The old framework does not allow entities to recognize an asset until the legal title is obtained. PFRS requires that transfers be recognized when the asset is received or the asset becomes receivable.

### *Unrecognized Donation*

The old framework does not allow entities to recognize an asset until the legal title is obtained. PFRS requires that donations and transfers be recognized when the asset is received or the asset becomes receivable.

### *Reclassification of CAPEX related to antenna system*

Based on the old framework, CAAP did not capitalize the cost of major repairs related to antenna system. PFRS requires that expenditures expected to prolong the life of the asset or increase the efficiency of the asset be capitalized as part of the cost of the asset.

### *Recognition of Lease Receivable*

As a result of applying the straight line method of recognizing lease income, an increase in lease receivable and related lease revenue was recognized both in 2016 and 2015.

#### *Unexpired Insurance Premium*

PFRS requires recognition of unexpired portion of premiums paid.

#### *Derecognition of PE (P15,000 threshold)*

CAAP derecognized PE amounting to P15,000 and below in accordance with COA Circular No. 2017-004 paragraph 6.3e6, requiring that expenditures below P15,000 be recognized as expenses upon issue to end-user.

#### *Additional impairment of AR*

CAAP recognized allowance for impairment on receivables amounting to P232.47 million. PFRS requires that the allowance for doubtful accounts be sufficient to cover credit losses expected from the accounts receivable, hence, additional impairment loss was recognized to comply with the requirements of PFRS.

#### *Additional Impairment on Other Assets*

Additional impairment on other assets is recognized to comply with the provision of PFRS which states that no assets shall be presented in the financial statements at an amount higher than its recoverable value.

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### **3. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION**

#### **Statement of Compliance**

The financial statements of the Authority have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BoA) and adopted by the Securities and Exchange Commission (SEC).

The Authority presented a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period.

The financial statements of the Authority as at December 31, 2017 were approved and authorized for issue by the BOD/Management on July 9, 2018.

### **Basis of Preparation**

The financial statements of the Authority were prepared on the historical cost basis unless otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### **Functional and Presentation Currency**

The financial statements are presented in Philippine peso, which is the Authority's functional currency. All financial information presented has been rounded off to the nearest peso, except when otherwise stated.

In preparing the financial statements of the Authority, 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 translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated 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 translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- 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.

### ***Use of Estimates and Judgments***

The preparation of the financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are discussed in Note 6 to the financial statements.

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#### **4. NEW AND REVISED ACCOUNTING STANDARDS**

##### **New and Amended PFRSs in Issue But Not Yet Effective**

Relevant new and amended PFRSs 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.

##### **Effective for annual periods beginning on or after January 1, 2018:**

- PFRS 9, Financial Instruments – This standard will replace PAS 39, Financial Instruments: Recognition and Measurement (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition 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 the classification by reference to the business model within which these are held and its 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; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

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.



The Authority has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017.

Apart from equity investments classified currently as available-for-sale and measured at fair value through other comprehensive income that should be measured at fair value through profit or loss under PFRS 9, all the other financial assets and financial liabilities should continue to be measured on the same bases as currently under PAS 39.

Concerning impairment, the Authority expects to apply the simplified approach to recognize lifetime expected credit loss for the Authority's trade receivables. Although the Authority is currently assessing the extent of this impact, it is anticipated that the application of the expected credit loss model of PFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed. In particular, the implementation of the new expected credit loss model proves to be challenging and might involve significant modifications to the Authority's credit management systems.

- Amendments to PFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and condition of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- Amendments to PFRS 4, Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before implementing PFRS 17, Insurance Contracts ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9, thus continuing to apply PAS 39 instead ('the deferral approach').
- PFRS 15, Revenue from Contract with Customers – The new standard replaces PAS 11, Construction Contracts, PAS 18, Revenue and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

The Authority intends to use the full retrospective method of transition to the new standard. Based on the current accounting treatment of the Authority's major sources of revenue, the Authority does not anticipate that the application of PFRS 15 will have a significant impact on its financial position and/or financial performance, apart

from providing more extensive disclosures on the Authority's revenue transactions. However, as the Authority is still in the process of assessing the full impact of the application of PFRS 15 on the financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Authority complete the detailed review.

- Amendment to PFRS 15, Revenue from Contract with Customers - Clarification to PFRS 15 – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

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

- PFRS 16, Leases – This standard replaces PAS 17, Leases and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

For the Authority's non-cancellable operating lease commitments as at December 31, 2017, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Authority will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Authority's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Authority complete the review.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Authority except for PFRS 16.

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## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Financial Assets***

#### Initial Recognition

Financial assets are recognized in the Authority's financial statements when the Authority 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 Authority'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 investments (HTM), available-for-sale (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 Authority 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 Authority 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 Authority'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 comprehensive income.

As of reporting date, the Authority does not have financial assets that are classified as 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.

Cash and cash equivalents, receivables, investment in time deposits, and refundable deposits (included in other non-current assets) fall under this category.

### ***HTM investments***

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Authority 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 reporting date, the investment in bonds is classified as held-to-maturity 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.

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 Authority'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 reporting date, the Authority does not have financial assets that are classified as available for sale.

### 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 an 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 is 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 Authority'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 Authority 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 Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risk and rewards of ownership of a transferred financial asset, the Authority 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 (e.g. when the Authority retains an option to repurchase part of a transferred asset), the Authority 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.

## ***Inventories***

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

## ***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.

Property and equipment, except land, are stated in the financial statements at cost less accumulated depreciation, amortization and any impairment in value. Land is stated at cost less any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

## ***Impairment of Non-financial Assets***

At each reporting date, non-financial assets 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***

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

### ***Financial Liabilities and Equity Instruments***

#### Classification as Debt or Equity

Debt and equity instruments issued by the Authority are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### Financial Liabilities

##### *Initial recognition*

Financial liabilities are recognized in the Authority's financial statements when the Authority 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 Authority's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

#### 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 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 Authority 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 financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy, and information about the Authority 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 comprehensive income. Fair value is determined in the manner described in notes.

#### *Other financial liabilities*

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

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 through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities, inter-agency payables and other payables are classified as other financial liabilities.

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

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Authority are recognized at the proceeds received, net of direct issue costs.

#### *Retained earnings*

Retained earnings represent accumulated profit attributable to equity holders of the Authority after deducting dividends declared. Retained earnings may also include the effect of changes in accounting policy and prior period adjustments.

#### ***Provisions and Contingencies***

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

#### ***Revenue Recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

### ***Expense Recognition***

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

### ***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. Rental payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

#### ***Authority as Lessee***

Leases which transfer to the Authority substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Authority 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 statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

#### ***Authority as Lessor***

Leases wherein the Authority substantially transfers to the lessee all risks and benefits incidental to ownership of the leased items are classified as finance leases and are presented as receivable at an amount equal to the Authority's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Authority's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the statement of comprehensive income on a straight-line basis over the lease term.

The Authority 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.

### ***Foreign Currency Transactions and Translation***

The Authority is engaged in foreign currency transactions. Collections are posted and recorded on a daily basis and expenses are recorded on transaction date. In recording foreign currency transactions, Bangko Sentral ng Pilipinas (BSP) dollar rates are used for the period January 1 – September 30, 2017, while Philippine Dealing System (PDS) dollar rates are used for the last quarter of the year. The Authority starts quarterly recording foreign currency gain(loss) in the 3<sup>rd</sup> quarter of the year. Annual recognition of foreign currency gain(loss) is done at the end of the year.

### ***Employee Benefits***

#### ***Short-term benefits***

Short term benefits include salaries, bonuses, compensated absences and other forms of employee benefits that are expected to be settled within one year from reporting date. Short-term employee benefits are recognized as expense in the period the related services are provided.

#### ***Terminal leave benefits***

Terminal leave benefits are computed based on the actual leave credits earned by employees as of reporting date. The amount reported as liability in the statement of financial position is based on the employees' salary grade as of reporting dates.

### ***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. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. 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 financial statements.

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## 6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Authority 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.

### Estimated allowance for impairment of receivables

The Authority maintains an 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 Authority's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Authority made different judgments or utilized different estimates.

At the end of 2017 and 2016, the Authority has recognized allowance for impairment of receivables in the amount of P1.96 billion and P0.72 billion, respectively.

### Estimating useful lives of property and equipment

The Authority estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The estimated useful lives used in depreciating property and equipment are as follows:

	Years		Years
Buildings	30	Medical, Dental, Laboratory	10
Runways and Taxiways	10	Other Machineries & Equipment.	10
Other Structures	10	Firefighting Equipment	7
Land Improvements	10	Motor Vehicles	7
Airport Equipment	10	Furniture and Fixtures	7
Communication Equipment	10	Office Equipment	5
		Other PE	5

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## 7. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016 (As restated)
Cash on Hand (Collecting Officers/ Petty Cash)	81,545,229	58,532,473
Time Deposits – Peso	2,602,497,787	4,288,847,354
Current Account – Peso	1,674,388,813	2,381,618,840
Savings Account – Dollar and Peso	1,617,030,248	911,978,663
Treasury Bills	99,803,062	0
	<b>6,075,265,139</b>	<b>7,640,977,330</b>

Current Account - Peso includes the amount of P459.53 million which pertains to unrecorded deposits since 2011 up to December 31, 2017.

Foreign currency deposits are translated into Philippine Peso using the closing rates of P49.93 and P49.81 to US\$1.00 as of December 31, 2017 and 2016, respectively.

Total interests earned on cash and cash equivalents included in the statement of comprehensive income amounted to P41.40 million and P57.18 million in 2017 and 2016, respectively.

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## 8. SHORT-TERM INVESTMENTS

*Short-term Investments* pertains to investments in time deposits and treasury bills with Authorized Government Depository Banks (AGDBs) for a period of 91 days or more as follows:

	2017	2016 (As restated)
Time Deposits	8,293,306,717	3,840,007,192
Treasury Bills	1,352,702,524	0
	<b>9,646,009,241</b>	<b>3,840,007,192</b>

Total interests earned on short-term investments included in the statement of comprehensive income amounted to P93.77 million and P37.77 million in 2017 and 2016, respectively.

## 9. RECEIVABLES

This account consists of the following:

	2017	2016 (As restated)
<b>Loans and Receivables</b>		
Accounts Receivable	3,882,660,021	9,315,974,511
Interest Receivable	22,320,235	14,610,025
	<b>3,904,980,256</b>	9,330,584,536
Allowance for Impairment	<b>(1,961,295,564)</b>	(715,717,498)
	<b>1,943,684,692</b>	8,614,867,038
<b>Inter-Agency Receivables</b>		
National Government Agencies (NGAs)	63,518,552	72,825,864
Local Government Units (LGUs)	5,197,175	29,203,396
Government-owned or Controlled Corporations (GOCCs)	130,461	130,461
	<b>68,846,188</b>	102,159,721
<b>Other Receivables</b>		
Receivables-Disallowances/Charges	91,121,890	91,520,732
Operating Lease Receivable	2,363,840	2,473,330
Others	39,418,582	29,435,728
	<b>132,904,312</b>	123,429,790
	<b>2,145,435,192</b>	8,840,456,549

*Accounts Receivable* pertains to amounts due from airline companies, concessionaires/lessees and other government entities for the use of facilities, services and utilities of the airport. The settlement of long outstanding accounts of Philippine Airlines (PAL) and the recognition of the unidentified remittances pertaining to Air Navigational Charges (ANCs) payments are the main reasons for the decrease in the Accounts Receivable account.

*Interest Receivable* pertains to accrued interests on time deposits, treasury bills, and bonds.

A reconciliation of the allowance for impairment at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Beginning balance	715,717,498	452,987,050
Impairment loss during the year	1,314,878,419	30,458,872
Allowance for Impairment-ATO Accounts	0	140,833,866
Allowance for Impairment-PAL	<b>(69,300,353)</b>	91,437,710
	<b>1,961,295,564</b>	715,717,498

Full provision for accounts receivable pertaining to Air Transportation Office (ATO) accounts was recognized.

The allowance for impairment represents an estimate of the losses expected to be incurred from CAAP's receivables. The allowance for impairment is evaluated based on Aging of Receivables and the length of CAAP's relationship to its customers.

*Due from NGAs* pertains to advances for the purchase of goods/services as authorized by law, fund transfers to the NGAs for implementation of projects, and collections of Area Center 11 - Davao of Bidders' Bond and remuneration fees that were deposited with the National Treasury, which will be requested for refund from the Department of Budget and Management.

*Due from LGUs* pertains to fund transfers to various provincial government for land acquisition.

*Receivables-Disallowances/Charges* pertains to audit disallowances/charges of public/private individual/entities which became final and executory.

*Operating Lease Receivable* pertains to accrual of rental income from lease of CAAP hangar by Alphaland Corporation (lessee) with an aggregate land area of 1,580 square meters and a lease term of 10 years. As a consideration for the lease of the Hangar, the lessee shall pay on a monthly basis the amount of P70 per square meter subject to an escalation rate of 10 per cent per annum.

*Other Receivables* pertains to unliquidated cash advances of CAAP employees who are separated, retired, resigned, and deceased special disbursing officers, likewise for local and foreign travels. This also includes unpaid charges to operators pertaining to daily subsistence allowances to authorized officers and employees.

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## 10. INVENTORIES

This account consists of the following:

	<b>2017</b>	2016
Office Supplies	<b>24,661,238</b>	15,424,980
Fuel, Oil and Lubricants	<b>17,369,930</b>	15,821,440
Accountable Forms, Plates and Stickers	<b>7,232,783</b>	5,716,954
Medical, Dental and Laboratory Supplies	<b>142,995</b>	15,413
Drugs & Medicines	<b>17,365</b>	97,000
Other Supplies and Materials	<b>27,211,140</b>	23,186,656
	<b>76,635,451</b>	60,262,443



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## 11. OTHER CURRENT ASSETS

This account consists of the following:

	<b>2017</b>	2016 (As restated)
Prepayments	<b>106,442,845</b>	52,216,024
Advances	<b>46,595,308</b>	47,463,739
	<b>153,038,153</b>	99,679,763

11.1 Breakdown of Prepayments account is as follows:

	<b>2017</b>	2016
Advances to Contractors	<b>100,194,412</b>	32,502,695
Prepaid Rent	<b>4,713,315</b>	4,645,896
Prepaid Insurance	<b>1,535,118</b>	15,067,433
	<b>106,442,845</b>	52,216,024

*Advances to Contractors* pertains to advances for mobilization funds of contractors.

*Prepaid Rent* pertains to payment of lease of lot for the Proposed Remote Apron Parking Area for Disabled Aircrafts at Tagbilaran City, Bohol for the entire three-year period.

*Prepaid Insurance* pertains to the amount advanced for the insurance of CAAP properties.

11.2 Breakdown of Advances account is as follows:

	<b>2017</b>	2016
Advances to Officers & Employees	<b>43,807,236</b>	45,753,623
Advances for Payroll	<b>1,662,681</b>	1,230,218
Advances to Special Disbursing Officers	<b>1,125,391</b>	479,898
	<b>46,595,308</b>	47,463,739

*Advances to Officers and Employees* pertains to the balances of unliquidated cash advances for local and foreign travels, and intelligence funds.

*Advances for Payroll* pertains to amounts granted to regular disbursing officers for payment of wages of Job Order personnel, overtime and night differential.

*Advances to Special Disbursing Officers* pertains to amounts granted to accountable officers and employees for special purpose/time-bound undertakings to be liquidated within a specified period.

## 12. INVESTMENTS IN DEBT INSTRUMENT

This account consists of the following:

### December 31, 2017

	Amount	Term	Interest Earned
Investments in Bonds - Local	500,000,000	5 years	1,798,611
Investments in Time Deposits – Foreign	167,977,978	3 years	4,218,924
	255,454,790	3 years	6,297,451
	153,253,894	3 years	3,815,457
	153,302,003	3 years	379,724
	249,650,000	3 years	693,472
	<b>979,638,665</b>		<b>15,405,028</b>
	<b>1,479,638,665</b>		<b>17,203,639</b>

### December 31, 2016

	Amount	Term	Interest Earned
Investments in Time Deposits - Foreign	163,749,032	3 years	3,984,037
	249,065,000	3 years	2,559,835
	149,439,000	3 years	2,490,650
	149,439,000	3 years	20,755
	<b>711,692,032</b>		<b>9,055,277</b>

## 13. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land	Land Improvements	Building and Other Structures	Furniture and Equipments	Construction in Progress	TOTAL
At December 31, 2016						
Cost	439,984,645	2,087,143,901	2,077,074,877	3,966,657,858	1,330,766,655	9,901,627,936
Accumulated Depreciation	0	(1,087,408,155)	(1,192,406,191)	(1,700,902,530)	0	(3,980,716,876)
Year Ended December 31, 2016, as reported	439,984,645	999,735,746	884,668,686	2,265,755,328	1,330,766,655	5,920,911,060
Adjustments/Additions	46,698,721,880	25,968,310,649	2,227,195,234	33,389,854	0	74,927,617,617
Disposals	0	0	0	0	0	0
Adjustments-Accumulated Depreciation	0	(15,655,516,417)	(388,462,128)	82,647,681	0	(15,961,330,864)
Carrying Amount (As restated)	47,138,706,525	11,312,529,978	2,723,401,792	2,381,792,863	1,330,766,655	64,887,197,813
Year Ended December 31, 2016						
Opening Net Book Value (As restated)	47,138,706,525	11,312,529,978	2,723,401,792	2,381,792,863	1,330,766,655	64,887,197,813
Adjustments/Additions	(53,359,502)	18,350,608,261	2,767,625,587	2,639,768,752	(220,297,413)	23,484,345,685
Disposals	0	0	0	0	0	0
Depreciation for the current year	0	(2,181,309,928)	(158,113,685)	(356,096,498)	0	(2,695,520,111)
Adjustments-Accumulated Depreciation	0	(19,502,437,300)	(1,449,938,046)	(1,689,023,388)	0	(22,641,398,734)
Closing Net Book Value	47,085,347,023	7,979,391,011	3,882,975,648	2,976,441,729	1,110,469,242	63,034,624,653
At December 31, 2017						
Cost	47,085,347,023	46,406,062,811	7,071,895,698	6,639,816,464	1,110,469,242	108,313,591,238
Accumulated Depreciation	0	(38,426,671,800)	(3,188,920,050)	(3,663,374,735)	0	(45,278,966,585)
Carrying Amount	47,085,347,023	7,979,391,011	3,882,975,648	2,976,441,729	1,110,469,242	63,034,624,653

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#### 14. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2017	2016 (As restated)
Deposits	22,889,323	22,168,999
Other Assets, net	13,653,123	13,653,122
	<b>36,542,446</b>	<b>35,822,121</b>

14.1. Breakdown of Deposits account is as follows:

	2017	2016
Deposits on Letters of Credit	18,332,140	18,332,140
Guaranty Deposits	4,557,183	3,836,859
	<b>22,889,323</b>	<b>22,168,999</b>

*Deposits on Letters of Credit* pertains to Letters of Credit opened to import various spare parts, equipment, etc.

*Guaranty Deposits* pertains to security deposits in connection with inter-facility data communication of various airports.

14.2. Breakdown of Other Assets account is as follows:

	2017	2016 (As restated)
Deferred Charges	13,653,122	13,653,122
Other Assets	1,548,162,430	1,573,205,524
	<b>1,561,815,552</b>	<b>1,586,858,646</b>
Less: Accum. Impairment Losses	1,548,162,429	1,573,205,524
Other Assets, net	<b>13,653,123</b>	<b>13,653,122</b>

*Deferred Charges* pertains to the payment to the International Civil Aviation Organization (ICAO) for the Trust Fund Project (PH/95/01) to provide assistance to CAAP in implementing an extensive training program in the field of flight safety. The project is a five-year Trust Fund Agreement with ICAO. The corresponding expense accounts are taken up upon submission by the ICAO of the details of disbursements.

*Other Assets* balance pertains to dormant, undocumented assets, P2.67 million of which represents unserviceable assets awaiting final disposition including office building and motor vehicles. Full provision was recognized pending verification of unidentified assets.

Other Assets account consists of:

	<b>2017</b>	2016 (As restated)
Office Equipment	<b>266,406,324</b>	266,406,324
Due from Regional Offices	<b>254,895,140</b>	254,895,140
Construction in Progress-Agency Assets	<b>194,249,976</b>	194,249,976
Communication Equipment	<b>136,106,503</b>	136,106,503
Due from National Government Agencies	<b>99,389,335</b>	109,619,420
Airport Equipment	<b>99,385,689</b>	99,385,689
Due from National Treasury	<b>54,623,403</b>	54,623,403
Other Current Assets	<b>44,747,098</b>	44,747,098
Advances to Officers and Employees	<b>37,607,281</b>	37,607,281
Cash in Bank-Local Currency, CA	<b>34,572,824</b>	34,572,824
IT Equipment & Software	<b>11,680,589</b>	11,680,589
Furniture & Fixtures	<b>10,678,979</b>	10,678,979
Deposits on Letters of Credit	<b>9,741,461</b>	9,741,461
Construction in Progress-Other Public Infrastructures	<b>5,673,438</b>	5,673,438
Other assets-Unserviceable	<b>2,667,278</b>	2,667,278
Other assets-Area Centers	<b>285,737,112</b>	300,550,121
	<b>1,548,162,430</b>	1,573,205,524

## 15. FINANCIAL LIABILITIES

This account consists of the following:

	<b>2017</b>	2016
Accounts Payable	<b>519,822,340</b>	307,994,294
Due to Officers and Employees	<b>70,001,322</b>	52,485,651
	<b>589,823,662</b>	360,479,945

*Accounts Payable* represents payables to suppliers/contractors for purchases of materials, supplies and other obligations to non-government entities in connection with the operation of the Authority.

*Due to Officers and Employees* refers to the amounts due to officers and employees of the agency which includes overtime, salaries, and other claims pertaining to personnel services.

## 16. INTER-AGENCY PAYABLES

This account consists of the following:

	2017	2016 (As restated)
Due to Treasurer of the Philippines	<b>3,000,000,000</b>	6,313,798,318
Due to BIR	<b>74,399,484</b>	67,267,415
Due to GSIS	<b>17,878,144</b>	14,206,311
Due to Pag-IBIG	<b>4,809,039</b>	3,423,312
Due to PhilHealth	<b>1,660,881</b>	1,933,901
Due to LGUs	<b>15,652</b>	15,652
Due to GOCCs	<b>8,964</b>	2,252
Due to Other NGAs	<b>179,682,682</b>	72,793,067
	<b>3,278,454,846</b>	6,473,440,228

*Due to Treasurer of the Philippines* represents CAAP's 50 per cent annual net earnings of P1,605.77 million, P1,250.64 million and P143.60 million from CYs 2015, 2014 and 2013, respectively, (net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income taxes paid thereon) payable to the National Government and to be remitted to the Bureau of the Treasury (BTr), pursuant to Republic Act (RA) 7656, dated November 9, 1993. Section 3 of this Act requires government-owned or controlled corporations to declare and remit at least 50 per cent of their annual net earnings as cash, stock or property dividends to the National Government. Section 7(a) of the Revised Implementing Rules and Regulations of the Act provides for the timing of remittance, to wit: "Except as otherwise provided herein, all GOCCs shall declare cash dividends and shall remit to the Bureau of the Treasury at least fifty per cent (50%) of the dividend due, on or before May 15, following the dividend year, based on the financial statements submitted to COA for audit."

The dividends due of P2.08 billion in CY 2016 was remitted to the BTr on May 15 and December 1, 2017 in the amounts of P1.98 billion and P102.79 million, respectively.

*Due to Bureau of Internal Revenue (BIR)* represents taxes withheld as to compensation, withholding tax, final VAT, and business tax. This also includes provision for tax liability amounting to P20.37 million for payment of tax compromise (see Note 31).

*Due to Government Service Insurance System (GSIS), Home Development Mutual Fund (Pag-IBIG) and Philippine Health Insurance Corporation (PhilHealth)* accounts represent premiums and loan amortization deductions from the employees' salaries for remittance to the concerned offices.

*Due to Local Government Units (LGUs)* has been carried over from the December 31, 2013 balance of Area Center 12 and has remained unverified due to lack of general ledgers, journals, and any other supporting schedule to corroborate the figures in the Financial Statements.

*Due to Government-Owned or Controlled Corporations (GOCCs)* pertains to payables of Area Center 5 to other collection agencies such as government banks for loans of personnel.

*Due to Other National Government Agencies (NGAs)* consists of the following:

	2017	2016
Funds from DOTr for downloaded INFRA projects	106,422,355	0
Prior years' ATO account balances for undocumented/ unsupported transactions transferred to CAAP books	51,399,606	51,399,606
Unremitted funds for Anti-Hijacking and Terrorism Campaign	11,077,428	10,561,934
Funds received by ATO from DOT for asphalt paving of runway shoulder at Kalibo Airport transferred to CAAP books with supporting documents	5,000,000	5,000,000
Funds from DOTr for the salaries of employees assigned at the Cotabato Airport under ARMM	2,741,011	2,741,011
Unliquidated funds from DILG for the hosting of 31 <sup>st</sup> ASEAN	92,321	0
Others	2,949,961	3,090,516
	<b>179,682,682</b>	<b>72,793,067</b>

## 17. TRUST LIABILITIES

This account consists of the following:

	2017	2016
Guaranty Deposits Payable	50,014,456	71,537,300
Performance/Bidders'/Bail Bonds Payable	25,005,824	25,237,913
	<b>75,020,280</b>	<b>96,775,213</b>

*Guaranty Deposits Payable* pertains to liability arising from cash received to guaranty performance which are refundable to the depositor.

*Performance/Bidders'/Bail Bonds Payable* pertains to liability arising from the receipt of cash bond to guarantee the performance of the contract.

## 18. PROVISIONS

*Leave Benefits Payable* pertains to the accumulated unused leave credits of employees in the amounts of P668.45 million and P433.91 million in 2017 and 2016, respectively.

## 19. OTHER PAYABLES

*Other Payables* pertains to deductions from salaries due to loans from Landbank of the Philippines granted to various CAAP employees due for remittance in the following month and the COA disallowances deducted from the terminal benefits of the retiring employees which is under appeal with the Commission Proper.

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## 20. GOVERNMENT EQUITY

Under RA 9497, CAAP has an authorized capital stock of P50 billion which shall be fully subscribed by the Republic of the Philippines. The subscription of the National Government shall be paid as follows:

- a. The unexpended balances of the appropriations in the current General Appropriations Act and other acts in force upon approval hereof, pertaining to, held or used by ATO;
- b. The value of existing assets of ATO, which shall be determined by independent and qualified appraisers within six months from the effectivity of this Act, and after deducting the loans and other liabilities of ATO at the time of the takeover of the assets and property; and
- c. Such amounts as may be appropriated from time to time from the funds of the National Treasury, including any outlay from the infrastructure program of the National Government.

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## 21. RETAINED EARNINGS (DEFICIT)

This account pertains to the accumulated earnings (losses) and prior period adjustments starting July 2008 onwards when CAAP was established and became operational.

Various adjustments for CY 2016 pertain to the following:

Transfer of Assets from DOTr & LGU	369,172,107
Adjustments of Receivables/Income	2,669,228
Liquidation/Reimbursement of Cash Advances	(3,869,604)
Payment of Various Expenses	(9,089,248)
Set-up of Accounts Payable	(11,957,007)
Adjustments on Depreciation	(60,454,123)
	<hr/>
	286,471,353

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## 22. INCOME

This account consists of the following:

	2017	2016
Business Revenue	8,674,583,522	7,611,031,662
Service Revenue	175,765,816	130,606,975
	<hr/>	
	8,850,349,338	7,741,638,637

*Business Revenue* pertains to operational charges, telecommunication charges, and other fees and charges for the use of aeronautical and air navigation facilities.

This consists of the following:

	2017	2016
Income from Communication Facilities	5,702,821,094	4,616,397,471
Transportation System Fees	2,179,508,000	2,231,275,241
Landing and Parking Fees	545,690,771	524,829,453
Rent/Lease Income	116,536,424	135,803,064
Vehicular Parking	58,832,739	51,623,095
Weighing Conveyor	28,938,158	1,751,825
Tacking Fees	23,335,313	24,303,522
Sale of Bid Documents	4,017,885	2,573,768
Fines and Penalties - Business	3,001,135	2,874,476
Others	11,902,003	19,599,747
	<b>8,674,583,522</b>	<b>7,611,031,662</b>

*Income from Communication Facilities* pertains to income for the use of communication facilities owned by CAAP. Income is recognized upon billing at month end.

*Transportation System Fees* refer to terminal fees imposed by CAAP on departing passengers, presently pegged at P200.00, P150.00 and P100.00 depending on the airport terminal.

*Landing and Parking Fees* refer to fees charged for the use of aircraft of the airport facilities and services for landing and parking. Income is recognized upon billing at month end.

*Rent/Lease Income* pertains to rental of land and floor areas within the vicinity of CAAP. Income is recognized upon billing at month end.

### **Lease**

CAAP (lessor) is under lease agreement with Alphaland Corporation (lessee) classified as operating lease for the lease of the CAAP hangar with a land area of 1,580 square meters. The lease is for a period of 10 years and the lessee shall pay on a monthly basis, the amount of P70.00 per square meter subject to an escalation rate of 10 per cent per annum. The lessee started to occupy the premises in June 2011.

At year end, Alphaland Corporation has an outstanding commitment under non-cancellable operating leases that fall due as follows:

	2017	2016
Not later than 1 year	2,262,197	2,218,510
Later than 1 year but not later than 5 years	9,540,498	11,802,695
	<b>11,802,695</b>	<b>14,021,205</b>

Godofredo P. Ramos Airport which is under the Concession Agreement with the TransAir Development Holdings Corporation is classified under operating lease. The lease is for a period of 25 years, with annual fixed rental of P8.00 million. The Company started to occupy the premises on October 16, 2010.



At year end, the Authority has outstanding commitment under non-cancellable operating leases that fall due as follows:

	2017	2016
Not later than 1 year	<b>8,000,000</b>	8,000,000
Later than 1 year but not later than 5 years	<b>40,000,000</b>	40,000,000
Later than 5 years	<b>104,000,000</b>	112,000,000
	<b>152,000,000</b>	160,000,000

*Vehicular Parking* refers to income collected for vehicles utilizing or using the airport parking area. Income is recognized upon receipt of payment.

*Weighing Conveyor* pertains to rental charges for the use of the check-in counters. Income is recognized upon billing at month end.

*Tacking Fees* refer to charges to aircrafts using loading bridges (aerobridge) which is charged at P750.00/hour or fraction thereof. Income is recognized upon billing at month end.

*Sale of Bid Documents* refers to proceeds from sale of bidding documents. Income is recognized upon receipt of payment.

*Fines and Penalties - Business* pertain to fines and penalties charges for delayed or non-compliance with business regulatory requirements. Income is recognized upon receipt of payment.

*Other Business Income* pertains to income not falling under any of the specific business income accounts. Income is recognized upon receipt of payment.

*Service Revenue* pertains to fees and charges for licenses, permits, certifications, and other service income. This consists of the following:

	2017	2016
Daily Subsistence Allowance	<b>69,501,393</b>	24,225,707
Water/Electricity Services	<b>30,979,494</b>	26,701,840
Clearance and Certification Fees	<b>20,735,789</b>	20,044,921
Permit Fees	<b>20,179,201</b>	19,525,446
Licensing Fees	<b>9,265,010</b>	13,210,924
Course Fee	<b>7,841,600</b>	9,536,876
Medical Examination	<b>5,981,200</b>	4,420,650
Energy Fee	<b>5,207,955</b>	4,753,526
Fines and Penalties - Service	<b>2,101,576</b>	767,942
Others	<b>3,972,598</b>	7,419,143
	<b>175,765,816</b>	130,606,975

*Daily Subsistence Allowance* represents allowance paid directly to the Authority by airline companies and given to authorized officers and employees in connection with local/foreign travel upon the request of said companies for CAAP personnel to inspect

airports or aircrafts for the issuance or renewal of aviation certificates, licenses and all other authorizations or permissions authorized to be issued under the Civil Aviation Act of 2008. Income is recognized upon billing at month end.

*Water/Electricity Services* pertains to charges paid by tenants of buildings and/or spaces for their utilities consumption in accordance with local water/electric rates plus 10 per cent maintenance and service fee. Income is recognized upon receipt of payment.

*Clearance and Certification Fees* refer to fees and charges collected for the issuance of clearances/certificates to operators of aircraft. Income is recognized upon receipt of payment; however, there are some cases that Approved Material Distributor's Certificates are recognized upon billing at month end.

*Permit Fees* pertain to fees and charges collected by CAAP in the issuance of permits to operators in the exercise of regulatory powers. Income is recognized for this fees upon billing at month end.

*Licensing Fees* pertain to fees charged by CAAP to individuals for the issuance of licenses such as private pilot license and the like. Income is recognized upon receipt of payment.

*Course Fee* represents fees which includes course development fees (i.e. Safety Management Systems), tuition fees and other miscellaneous fees charged to airline operators and maintenance organizations. Income is recognized upon billing at month end.

*Medical Examination* refers to fees collected for medical examination of persons applying for student and commercial pilot licenses. Income is recognized upon receipt of payment.

*Energy Fee* refers to fees collected, in addition to registration fees, as a condition for registration and/or renewal of registration of aircraft not operated or engaged for hire to the general public. Income is recognized upon receipt of payment.

*Fines and Penalties – Service* pertains to fees collected for the processing of documents for fines and penalties charged to service income. Income is recognized upon receipt of payment.

*Other Service Income* refers to income not falling under any of the specific service income account. This is recognized upon receipt of payment.

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**23. PERSONNEL SERVICES**

This account consists of the following:

	2017	2016
<b>Salaries and Wages</b>	<b>1,010,250,891</b>	906,938,376
<b>Other Compensation</b>		
Overtime and Night Differential	163,349,430	137,522,544
Year-end Bonus	161,133,025	147,875,776
Personal Economic Relief Allowance	65,542,999	61,236,660
Hazard Pay	20,725,999	27,187,164
Cash Gift	16,798,053	13,328,000
Clothing/Uniform Allowance	13,966,700	15,666,600
Representation Allowance	7,968,875	7,819,125
Transportation Allowance	7,304,375	7,329,625
Honoraria	4,510,348	3,571,803
Productivity Incentive Allowance	1,375,000	875,000
Subsistence Allowance	296,436	241,050
Longevity Pay	250,000	7,020,000
Other Bonuses and Allowances	3,423,569	3,294,574
	<b>466,644,809</b>	432,967,921
<b>Personnel Benefits Contribution</b>		
Retirement and Life Insurance Premiums	119,150,706	107,641,515
PhilHealth Contribution	9,485,834	9,905,489
ECC Contribution	3,279,200	3,102,968
Pag-IBIG Contribution	3,209,805	3,683,969
	<b>135,125,545</b>	124,333,941
<b>Other Personnel Benefits</b>		
Terminal Leave Benefits	220,805,948	60,279,356
Other Personnel Benefits	59,429,734	42,210,341
	<b>280,235,682</b>	102,489,697
	<b>1,892,256,927</b>	1,566,729,935

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## 24. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2017	2016 (As restated)
General Services	524,524,167	503,580,308
Utility Expenses	383,465,982	318,747,641
Repairs and Maintenance	230,798,314	183,890,883
Professional Services	219,360,937	278,845,038
Supplies and Materials	156,539,571	141,996,164
Traveling Expenses	73,611,586	63,141,657
Taxes, Insurance Premiums and Other Fees	67,916,654	55,583,967
Communication Expenses	67,015,561	60,181,817
Training Expenses	47,279,223	33,166,726
Confidential, Extraordinary and Miscellaneous Expense	11,020,893	124,122
Other Maintenance & Operating Expenses	129,481,168	107,719,912
	<b>1,911,014,056</b>	<b>1,746,978,235</b>

Breakdown of General Services is as follows:

	2017	2016
Security Services	221,393,172	211,545,758
Janitorial Services	117,636,317	112,334,352
Other General Services	185,494,678	179,700,198
	<b>524,524,167</b>	<b>503,580,308</b>

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## 25. NON-CASH EXPENSES

This account consists of the following:

	2017	2016 (As restated)
Depreciation	2,695,520,111	3,373,266,953
Impairment	1,314,878,419	157,498,379
	<b>4,010,398,530</b>	<b>3,530,765,332</b>

Breakdown of Depreciation is as follows:

	2017	2016
Infrastructure Assets	1,838,288,852	2,471,101,538
Land Improvements	343,021,076	369,268,315
Machinery and Equipment	327,833,381	244,799,408
Buildings and Other Structures	158,113,685	240,658,448
Transportation Equipment	22,260,007	43,028,230
Furniture, Fixtures and Books	5,176,847	3,857,497
Other Property and Equipment	826,263	553,517
	<b>2,695,520,111</b>	<b>3,373,266,953</b>

Breakdown of Impairment is as follows:

	2017	2016
Loans and Receivables	1,314,878,419	30,458,872
Other Assets	0	127,039,507
	<b>1,314,878,419</b>	<b>157,498,379</b>

## 26. OTHER INCOME (EXPENSES)

This account consists of the following:

	2017	2016
Interest Income	152,378,042	104,004,973
Income from Grants and Donations	0	14,472,088
Loss on Sale of Property and Equipment	0	(277,835)
Management Supervision/Trusteeship	(1,093,089)	(1,081,488)
Bank Charges	(77,785)	(32,771)
	<b>151,207,168</b>	<b>117,084,967</b>

*Interest Income* pertains to interest earned from savings and current accounts, treasury bills, time deposits and investment in debt instruments for both peso and dollar deposits.

## 27. GAIN ON FOREIGN EXCHANGE

This account pertains to the amount of gain in the conversion of foreign currencies in accordance with paragraph 23 of PAS 21. The significant decrease was due to the volatile foreign exchange rates during the period December 31, 2015 to December 31, 2017. A foreign exchange rate difference of P2.64, P47.17 in 2015 and P49.81 in 2016, was recorded in recognizing foreign exchange gain for CY 2016 amounting to P119.91 million. Meanwhile, a foreign exchange rate difference of P0.12, P49.81 in 2016 and P49.93 in 2017, was recorded in recognizing foreign exchange gain for CY 2017 amounting to P32.49 million due to inflation of year-end closing Peso per US dollar.

## 28. RESTATEMENT OF ACCOUNTS

	December 31, 2015 (As previously reported)	Restatement/ Adjustment	January 1, 2016 (As restated)
STATEMENT OF FINANCIAL POSITION			
Cash and Cash Equivalents	8,501,093,249	(4,354,116,855)	4,146,976,394
Time Deposits - Local Currency reclassified to Short-term Investments		(3,714,097,556)	
Time Deposits - Foreign Currency reclassified to Short-term and Long-term Investments		(638,677,134)	

	December 31, 2015 (As previously reported)	Restatement/ Adjustment	January 1, 2016 (As restated)
Reclassification of Payroll Fund to Advances		(1,037,024)	
Reclassification of Cash-Disbursing Officers to Advances		(305,141)	
Short-term Investments	0	4,201,231,511	4,201,231,511
Time Deposits - Local Currency reclassified to Short-term Investments		3,714,097,556	
Time Deposits - Foreign Currency reclassified to Short-term Investments		487,133,955	
Receivables, net	8,978,250,803	(53,760,673)	8,924,490,130
Accounts Receivable reclassified to Operating Lease Receivable		(2,387,327)	
Recognition of Operating Lease Receivable		2,387,327	
Liquidation of Due from NGAs		(40,267,244)	
Liquidation of Due from LGUs		(13,493,429)	
Other Current Assets	3,140,346	143,144,563	146,284,909
Reclassification of Other Current Assets to Other Non-Current Assets		(3,140,346)	
Reclassification of Payroll Fund to Advances		1,037,024	
Reclassification of Cash-Disbursing Officers to Advances		305,141	
Reclassification of Advances to Officers and Employees		47,179,766	
Reclassification of Prepaid Rent		4,645,896	
Reclassification of Advances to Contractors		38,861,781	
Reclassification of Other Prepaid Expenses		54,255,301	
Non-Current Assets			
Investment in Debt Instruments	0	151,543,179	151,543,179
Time Deposits - Foreign Currency reclassified to Long-term Investments		151,543,179	
Property and Equipment, net	5,296,972,885	61,612,094,018	66,909,066,903
Recognition of PE		74,875,616,081	
Increase in Depreciation due to recognition of Assets		(13,263,522,063)	
Other Non-Current Assets	4,897,405,105	(4,596,667,200)	300,737,905
Reclassification of Prepaid Rent		(4,645,896)	
Reclassification of Advances to Contractors		(38,861,781)	
Reclassification of Other Prepaid Expenses		(54,255,301)	

	December 31, 2015 (As previously reported)	Restatement/ Adjustment	January 1, 2016 (As restated)
Reclassification of Other Current Assets to Other Non-Current Assets		3,140,346	
Reclassification of Other Assets to various accounts		(3,055,878,551)	
Recognition of Impairment for Other Assets		(1,446,166,017)	
Liabilities	3,381,146,334	(185,422,672)	3,195,723,662
Reclassification of Deferred Liabilities to Government Equity		(185,422,672)	
STATEMENT OF CHANGES IN EQUITY (see note 2)	24,342,895,821	57,241,711,448	81,584,607,269
Government Equity			
Increase in PE – Intech Appraisal		62,389,745,415	
Turned-over assets from DOTr		11,765,209,292	
Reclassification of Deferred Liabilities		281,358,908	
Impairment of Other Assets		(1,405,268,451)	
Additional impairment of A/R		(140,833,866)	
Liquidation of due from LGUs		(6,768,397)	
Derecognition of PE		(11,852)	
Retained Earnings			
Unrecognized donation		340,108,444	
Turned-over assets from DOTr		231,175,495	
Reclassification of CAPEX related to antenna system		5,869,773	
Recognition of lease receivable		2,387,327	
Depreciation of the recognized PE		(16,033,133,430)	
Additional impairment of A/R		(91,632,434)	
Liquidation of due from LGUs and NGAs		(46,992,277)	
Impairment of Other Assets		(40,897,566)	
Derecognition of PE		(8,604,933)	
STATEMENT OF COMPREHENSIVE INCOME			
Non-Cash Expenses	264,529,628	3,106,097,430	3,370,627,058
Increase in Depreciation due to recognition of assets		3,106,097,430	
Net Income (see note 2)	3,276,252,422	(3,106,097,430)	170,154,992

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## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### *Foreign Currency Risk*

The Authority's exposure to the risk for changes in foreign exchange rates relates to the Authority's foreign currency denominated monetary assets. The carrying amount of the Authority's foreign currency denominated monetary assets at the reporting dates are as follows:

### *Foreign currency sensitivity analysis*

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates, with all other variables held constant, of the Authority's income before tax for the years ended December 31, 2017 and 2016 (due to changes in the fair value of financial assets and liabilities). There is no other impact on the Authority's equity other than those already affecting profit or loss.

Currency	Increase (Decrease) in exchange rate	Effect on income tax before tax	
		2017	2016
USD	+0.117	<b>(5,578,608)</b>	(103,756,599)
	-0.117	<b>5,578,608</b>	103,756,599
Increase in exchange rate		<b>(5,578,608)</b>	(103,756,599)
Decrease in exchange rate		<b>5,578,608</b>	103,756,599

### *Interest Rate Risk*

The Company's exposure to the risk for changes in interest rates relates primarily to the Company's bank accounts. As at December 31, 2017 and 2016, these amounted to P5.99 billion and P7.58 billion, respectively. The Company's exposure to changes in interest rates is not significant.

### *Credit Risk*

The Company's exposure to credit risk arises from transactions with its customers. The maximum exposure to credit on these transactions is equal to the carrying amount of these financial instruments. Trade receivable balances are monitored on an ongoing basis to ensure timely collections. The Authority has provided an allowance for impairment loss at the end of reporting years to cover credit losses expected from trade receivables.

With respect to credit risk arising from other financial assets of the Authority, which comprise cash in banks, investment in debt instruments and refundable deposits, the Authority's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Authority limits its exposure to credit risks by depositing its cash only with financial institutions duly evaluated and approved by the Board of Directors.



The Authority's exposure to rental deposit is minimal since no default in payments were made by the counterparties.

The succeeding tables show the credit quality per class of financial asset and an aging analysis of past due but not impaired accounts as at December 31, 2017 and 2016.

### December 31, 2017

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Standard grade	Substandard grade			
Cash and Cash Equivalents	5,993,719,910	0	0	0	0	5,993,719,910
Short-term Investments	9,646,009,241	0	0	0	0	9,646,009,241
Receivables	0	2,474,193,690	0	0	349,652,435	2,823,846,125
Non-Current Investments in Debt Instrument	1,479,638,665	0	0	0	0	1,479,638,665
Deposits	22,889,323	0	0	0	0	22,889,323
	17,142,257,139	2,474,193,690	0	0	349,652,435	19,966,103,264

### December 31, 2016

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Standard grade	Substandard grade			
Cash and Cash Equivalents	7,582,444,857	0	0	0	0	7,582,444,857
Short-term Investments	3,840,007,192	0	0	0	0	3,840,007,192
Receivables	0	8,840,456,549	0	0	715,717,498	9,556,174,047
Non-Current Investments in Debt Instrument	711,692,032	0	0	0	0	711,692,032
Deposits	22,168,999	0	0	0	0	22,168,999
	12,156,313,080	8,840,456,549	0	0	715,717,498	21,712,487,127

The credit quality of the financial assets is managed by the Authority. High grade accounts consist of receivables from debtors with good financial condition and with relatively low defaults. Financial assets with risks of default but are still collectible are considered standard grade accounts. Receivables that are still collectible but require persistent effort from the Authority to collect are considered substandard grade accounts.

### *Liquidity Risk*

The Authority's exposure to liquidity risk is minimal. The Authority's objective is to maintain a balance between continuity of funding and flexibility. In addition, the Authority regularly evaluates its projected and actual cash flows. Fund raising activities may include bank loans.

The following tables present the maturity profile of the Authority's financial liabilities as at December 31, 2017 and 2016 based on contractual undiscounted payments.

#### **December 31, 2017**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial Liabilities	589,823,662	0	0	0	589,823,662
Inter-Agency Payables*	3,179,707,298	0	0	0	3,179,707,298
Trust Liabilities	0	0	0	75,020,280	75,020,280
Other Payables	0	0	0	36,564,399	36,564,399
	3,769,530,960	0	0	111,584,679	3,881,115,639

*\*excludes government dues and remittances*

#### **December 31, 2016**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial Liabilities	360,479,945	0	0	0	360,479,945
Inter-Agency Payables*	6,386,609,289	0	0	0	6,386,609,289
Trust Liabilities	0	0	0	96,775,213	96,775,213
Other Payables	0	0	0	18,519,714	18,519,714
	6,747,089,234	0	0	115,294,927	6,862,384,161

*\*excludes government dues and remittances*

### **Fair Value Measurement**

The following table presents the carrying amounts and fair values of the Authority's assets and liabilities measured at fair value and for which fair values are disclosed, and the corresponding fair value hierarchy:

December 31, 2017

	Note	Carrying Amount	Fair Value		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Assets for which fair values are disclosed:					
Cash and Cash Equivalents	7	6,075,265,139	0	5,993,719,910	0
Short-term Investments	8	9,646,009,241	0	9,646,009,241	0
Receivables	9	2,474,193,690	0	2,474,193,690	0
Non-Current Investments in Debt Instrument	12	1,479,638,665	0	1,479,638,665	0
Deposits	14.1	22,889,323	0	22,889,323	0
		19,697,996,058	0	19,616,450,829	0
Liabilities for which fair values are disclosed:					
Financial Liabilities	15	589,823,662	0	589,823,662	0
Inter-Agency Payables*	16	3,179,707,298	0	3,179,707,298	0
Trust Liabilities	17	75,020,280	0	75,020,280	0
Other Payables	19	36,564,399	0	36,564,399	0
		3,881,115,639	0	3,881,115,639	0

\*excludes government dues and remittances

December 31, 2016

	Note	Carrying Amount	Fair Value		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Assets for which fair values are disclosed:					
Cash and Cash Equivalents	7	7,640,977,330	0	7,640,977,330	0
Short-term Investments	8	3,840,007,192	0	3,840,007,192	0
Receivables	9	8,840,456,549	0	8,840,456,549	0
Non-Current Investments in Debt Instrument	12	711,692,032	0	711,692,032	0
Deposits	14.1	22,168,999	0	22,168,999	0
		21,055,302,102	0	21,055,302,102	0

Liabilities for which fair values are disclosed:

Financial Liabilities	15	360,479,945	0	360,479,945	0
Inter-Agency Payables*	16	6,386,609,289	0	6,386,609,289	0
Trust Liabilities	17	96,775,213	0	96,775,213	0
Other Payables	19	18,519,714	0	18,519,714	0
		6,862,384,161	0	6,862,384,161	0

\*excludes government dues and remittances

The carrying amounts of cash, receivables, investments in debt instrument, deposits, and other payables, and inter-agency payables approximate their fair values due to the short-term nature of these transactions.

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### 30. SUBSEQUENT EVENTS

#### DIVIDEND DECLARATION

The Board approved the declaration of dividends of P3.22 billion on March 21, 2018 for CY 2017 which were paid in May 2018, together with the dividends payable of P3.00 billion as of December 31, 2017.

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### 31. TAX ASSESSMENTS AND CASES

On October 21, 2016, CAAP received an electronic Letter of Authority dated October 13, 2016 from the Bureau of Internal Revenue (BIR) for the examination of books of accounts and other accounting records for the period January 1, 2015 to December 31, 2015 pursuant to eLA201100082260 AUDM61/008038/2016. A First Notice, in relation to the said Letter of Authority, was received by CAAP on November 11, 2016. The Authority had already complied with BIR's requirements on December 9, 2016. Additional requirements of BIR were submitted on January 10, April 11, and December 5, 2017. All documents submitted were duly received by BIR.

On April 25, 2018, CAAP received a letter dated April 10, 2018 from BIR requesting for an informal conference to let CAAP present its side of the case. The informal conference was held on May 15, 2018 which was attended by CAAP Officers authorized by the Director General. Another informal conference was held on June 25, 2018 to finalize the settlement of the case. As a result, CAAP had to record a provision for tax liability amounting to P20.37 million (see Note 16) which was subsequently paid on June 28, 2018.

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### 32. SUPPLEMENTARY INFORMATION ON TAXES

The total taxes withheld during the year by the Head Office (HO) and Area Centers (ACs) amounted to P353.40 million, of which P165.01 million pertains to CAAP – HO as follows:

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	<b>Amount Withheld (CY 2017)</b>	<b>Remittance during the year</b>
Withholding tax on compensation	107,141,279	81,974,593
Withholding tax at source (expanded)	23,054,124	19,148,987
Withholding tax on Final VAT/Percentage	34,815,752	27,827,315
	<b>165,011,155</b>	<b>128,950,895</b>

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