CIVIL AVIATION AUTHORITY OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS

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 (DDGs). 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. After completing the first four requirements under GCG Guidebook for Reorganization for GOCCs in April 2017, the CAAP Reorganization process is now in the workforce analysis and planning process being undertaken by the third-party consultant Willis Towers Watson.

To further streamline the operations of the Authority, the management implemented a new Airport Clustering Scheme in 2018 and created 4 Clusters covering the 75 airports operated by CAAP, to wit:

Cluster / Area Center	Location	No. of Satellite Airports/Facilities
CLUSTER 1		
Area 1	Laoag	4
Area 2	Tuguegarao	6
Area 3	Clark	15
CLUSTER 2		
Area 4	Puerto Princesa	4
Area 6	Iloilo	5
Area 7	Mactan	5
CLUSTER 3		
Area 5	Legaspi	5
Area 8	Tacloban	9
Area 12	Butuan	4
CLUSTER 4		
Area 9	Zamboanga	9
Area 10	Laguindingan	4
Area 11	Davao	5

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, 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.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of CAAP were prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standard Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements of CAAP as at December 31, 2018 were presented to and approved by the Board on July 18, 2019.

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.

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

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

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

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

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

<u>Functional and Presentation Currency</u>

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.

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 5 to the financial statements.

3. NEW AND REVISED ACCOUNTING STANDARDS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRSs which the Authority adopted effective for annual periods beginning on or after January 1, 2018.

Unless otherwise indicated, the adoption of the new and amended PFRSs did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

- PFRS 9, Financial Instruments – This standard will replace PAS 39, Financial Instruments: Recognition and Measurement (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, 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, 2018.

  The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Authority's financial assets as at January 1, 2018:

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and Cash Equivalents	Loans and Receivables	Financial Assets at Amortized Cost	6,075,265,139	6,075,265,139
Short-Term Investments	Held to Maturity	Financial Assets at Amortized Cost	9,646,009,241	9,646,009,241
Long-Term Investments	Held to Maturity	Financial Assets at Amortized Cost	1,479,638,665	1,479,638,665
Receivables	Loans and Receivables	Financial Assets at Amortized Cost	2,669,888,079	2,669,888,079

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.

- PFRS 15, Revenue from Contract with Customers – The new standard replaces PAS 11, Construction Contracts and 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 completes 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.

- Amendment to PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E37 of PFRS 1, because it has now served its intended purpose.

- Amendments to PAS 28, Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- Amendment to PAS 40, Investment Property - Transfer of Investment Property – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.

- Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration – The interpretation provides guidance clarifying that the exchange rate to be used in transactions that involve advance consideration paid or received in a foreign currency is the one at the date initial recognition of the non-monetary prepayment asset or deferred income liability.

New and Amended PFRSs Issued but Not yet Effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements are summarized below.

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, 2018, 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.

- Philippine Interpretation IFRIC 23, Uncertainty Over Income Tax Treatments – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, Income Taxes, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax base, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, Financial Instruments - Prepayment Features with Negative Compensation – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, Financial Instruments for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

- Amendments to PAS 28, Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures – The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, Financial Instruments.

- Amendments to PAS 19, Employee Benefits - Plan Amendment, Curtailment or Settlement – The amendments specify how companies remeasure a defined benefit plan when a change – an amendment, curtailment or settlement – to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PFRS 3, Business Combinations and PFRS 11, Joint Arrangements -Previously Held Interest in a Joint Operation – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle. The amendment to PFRS 3, Business Combinations clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition date fair value. The amendment to PFRS 11, Joint Arrangements clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

- Amendment to PAS 12, Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle and clarify that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- Amendments to PAS 23, Borrowing Costs - Borrowing Costs Eligible for Capitalization – The amendments are part of the Annual Improvements to PFRS 2015-2017 and clarify that in calculating the capitalization rate on general borrowing, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, Insurance Contracts – This standard will replace PFRS 4, Insurance Contracts. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Deferred effectivity:

- Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Authority classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- The Authority's business model for managing the financial assets.

- The contractual cash flow characteristics of the financial asset.

A financial asset is classified at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through OCI.

As of reporting date, the Authority's financial assets are classified at amortized cost.

Impairment of financial assets

With the exception of purchased or originated credit impaired financial assets, expected credit losses are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or

- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

With the exception of purchased or originated credit-impaired financial assets, the loss allowance for financial instruments is measured at an amount equal to lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition, unless the credit risk of the financial instrument is low at the reporting date in which case it can be assumed that credit risk on the financial instrument has not increased significantly since initial recognition.

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. The Inventory Account of the Authority includes office supplies, fuel, accountable forms, medical supplies, and other supplies and materials. Inventories are recognized as Expenses when deployed for utilization or consumption in the ordinary course of operations of CAAP.

Prepayments and Other Current Assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statements of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year or the Authority's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Other current assets represent assets of the Authority which are expected to be realized or consumed within one year or within the Authority's normal operating cycle whichever is longer. Other current assets are presented in the financial statement of financial position at cost.

Property and Equipment

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

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

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

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

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

<u>Classification as Debt or Equity</u>

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 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 as at FVTPL 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, if any) 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 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 effect of changes in accounting policy and prior period adjustments as may be required by the standard’s transitional provisions.

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.

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.

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 services provided in the normal course of business.

The following specific recognition criteria must also be met before revenue is recognized.

<u>Rendering of Services</u>

Revenue from a contract to provide services is recognized as revenue in the accounting periods in which the services are rendered. Revenue from a contract to provide services is recognized when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Authority;

- the stage of completion of the transaction can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest Revenue

Interest revenue is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental Revenue

Revenue from rental is recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

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 as assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

Short-term benefits

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.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Authority's current tax liability is calculated using 30% regular corporate income tax (RCIT).

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Authority expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Foreign Currency Transactions and Translation

The accounting records of the Authority are maintained in Philippine peso. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Change in the fair value of monetary financial assets denominated in foreign currency classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

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.

Changes in accounting policies and estimates

The effects of changes in accounting policies are recognized retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The effects of changes in accounting estimates are recognized prospectively by including in profit and loss.

The material prior period errors are corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

5. 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.

Judgments

In the process of applying the Authority's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Assessment of impairment of non-financial assets

The Authority determines whether there are indicators of impairment of the Authority's receivables, and property and equipment. Indicators of impairment include significant change in usage, decline in the asset's fair value on underperformance relative to expected historical or projected future results. Determining the fair value requires the determination of future cash flows and future economic benefits expected to be generated from the continued use and ultimate disposition of such assets. It requires the Authority to make estimates and assumptions that can materially affect the financial statements. Future events could be used by management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Authority's financial position and financial performance. The preparation of the estimated future cash flows and economic benefits involves significant judgments and estimation.

Estimates

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

Estimated 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

6. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018	2017
Cash on Hand (Collecting Officers/Petty Cash)	**66,926,358**	81,545,229
Current Account - Peso	**1,979,698,936**	1,674,388,813
Savings Account - Dollar and Peso	**1,311,577,033**	1,617,030,248
Treasury Bills	**199,031,983**	99,803,062
Time Deposits - Peso	**0**	2,602,497,787
	3,557,234,310	6,075,265,139

Foreign currency deposits are translated into Philippine Peso using the closing rates of P52.58 and P49.93 to US$1.00 as of December 31, 2018 and 2017, respectively.

The overall decrease in cash and cash equivalents is due to dividends paid/remitted by the Authority to the Bureau of Treasury amounting to P6.22 billion on May 15, 2018.

7. SHORT-TERM INVESTMENTS

Short-term Investments pertains to investments in time deposits and treasury bills with Authorized Government Depository Banks (AGDBs) earning 1.00 percent to 6.40 percent interest, for a period of 91 days and not more than 1 year, as follows:

	2018	2017
Time Deposits – Dollar and Peso	**6,562,063,102**	8,293,306,717
Treasury Bills	**2,467,248,760**	1,352,702,524
	9,029,311,862	9,646,009,241

The Authority's short-term investments are measured at amortized cost.

8. RECEIVABLES

This account consists of the following:

	2018	2017 (As restated)
Accounts Receivable	**4,480,159,874**	4,068,246,297
Due from Officers and Employees	**308,612**	0
Interest Receivable	**23,317,717**	22,330,321
	4,503,786,203	4,090,576,618
Allowance for Impairment	**1,639,096,545**	1,622,439,039
	2,864,689,658	2,468,137,579
Inter-Agency Receivables		
National Government Agencies (NGAs)	**63,725,874**	63,518,552
Local Government Units (LGUs)	**5,183,524**	5,197,175
Government-owned or Controlled Corporations (GOCCs)	**127,304**	130,461
	69,036,702	68,846,188
Other Receivables		
Receivables-Disallowances/Charges	**91,569,233**	91,121,890
Operating Lease Receivable	**2,029,885**	2,363,840
Others	**48,379,812**	39,418,582
	141,978,930	132,904,312
Allowance for Impairment	**423,277**	0
	141,555,653	132,904,312
	3,075,282,013	2,669,888,079

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 and dormant Air Transportation Office (ATO) accounts.

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 2018 and 2017 is shown below.

	2018	2017 (As restated)
Beginning balance	**1,622,439,039**	646,417,145
Impairment loss during the year	**16,657,506**	976,021,894
	1,639,096,545	1,622,439,039

Full provision for accounts receivable amounting to P159,587,741 pertaining to ATO accounts was recognized.

Due from NGAs pertains to advances for the purchase of goods/services as authorized by law and fund transfers to the NGAs for implementation of projects.

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

Due from GOCCs pertains to landing and take-off fees, parking fees, air navigation fees and other unpaid charges of Government-owned and Controlled Corporations.

Receivables-Disallowances/Charges pertains to audit disallowances/charges of public/private individuals/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 beginning July 2011. 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. For the period ending December 31, 2018 and 2017, the lease rates were P136.41 and P124.01 per square meter, respectively.

Other Receivables pertains to unliquidated cash advances of CAAP employees who were separated, retired, resigned and/or deceased disbursing officers. This also includes charges to be collected from airline operators for payment of the daily subsistence allowances of CAAP flight inspectors.

9. INVENTORIES

This account consists of the following:

	2018	2017 (As restated)
Office Supplies	**18,703,463**	11,646,712
Fuel, Oil and Lubricants	**18,238,490**	18,362,393
Accountable Forms, Plates and Stickers	**5,521,781**	8,823,002
Medical, Dental and Laboratory Supplies	**123,912**	81,712
Drugs & Medicines	**84,986**	86,365
Other Supplies and Materials	**55,031,275**	18,910,604
	97,703,907	57,910,788

10. OTHER CURRENT ASSETS

This account consists of the following:

	2018	2017 (As restated)
Prepayments	**93,339,480**	102,442,212
Advances	**43,411,880**	46,595,308
	136,751,360	149,037,520

10.1 Breakdown of *Prepayments* account is as follows:

	2018	2017 (As restated)
Advances to Contractors	**81,437,152**	100,194,412
Prepaid Insurance	**11,787,342**	1,535,118
Prepaid Rent	**67,419**	712,682
Withholding Tax at Source	**47,567**	0
	93,339,480	102,442,212

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

The increase in *Prepaid Insurance* was due to payment of GSIS insurance premium for newly purchased fire trucks and additional CAAP Airport.

10.2 Breakdown of *Advances* account is as follows:

	2018	2017 (As restated)
Advances to Special Disbursing Officers	**35,943,625**	32,725,391
Advances to Officers & Employees	**5,908,255**	12,207,236
Advances for Payroll	**1,560,000**	1,662,681
	43,411,880	46,595,308

Advances to Special Disbursing Officers refers to amounts granted to accountable officers and employees for special purpose/time-bound undertakings to be liquidated within a specified period. The account also includes unliquidated cash advances for confidential and intelligence expenses.

Advances to Officers and Employees pertains to the balances of unliquidated cash advances of officers and employees for local and foreign travels.

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

11. LONG-TERM INVESTMENTS

This account consists of the following:

December 31, 2018

	Amount	Term
Investments in Bonds - Local	**500,000,000**	5 years
Investments in Time Deposits – Foreign	274,963,864	3 years
	165,035,819	3 years
	161,438,400	3 years
	268,541,996	3 years
	180,660,379	3 years
	1,050,640,458	
Other Investments	**500,760,246**	5 years
	2,051,400,704	

December 31, 2017

	Amount	Term
Investments in Bonds - Local	500,000,000	5 years
Investments in Time Deposits – Foreign	167,977,978	3 years
	255,454,790	3 years
	153,253,894	3 years
	153,302,003	3 years
	249,650,000	3 years
	979,638,665	
	1,479,638,665	

The *Other Investments* account consists of investments that are managed by United Coconut Planters Life Assurance Corporation (COCOLIFE) where 80 percent of the amount is allocated to Peso Fixed Income Fund and 20 percent to Peso Bond Fund. This investment was placed in December 2018 and has a five-year term. Interest rate varies depending on the movement of the market but in no case shall earnings be lower than 3 percent.

Other Investments are measured at Fair Value through Other Comprehensive Income while other long-term investments are measured at amortized cost.

12. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land	Land Improvements	Buildings and Other Structures	Furniture and Equipment	Construction in Progress	TOTAL
At December 31, 2017						
Cost	37,389,928,114	28,861,866,656	5,318,390,518	5,053,236,924	1,098,463,818	77,721,886,030
Accumulated Depreciation/Adjustment	0	21,407,060,160	1,602,032,651	2,119,200,708	0	25,128,293,519
Net Carrying Amount December 31, 2017 (As restated)	**37,389,928,114**	**7,454,806,496**	**3,716,357,867**	**2,934,036,216**	**1,098,463,818**	**52,593,592,511**
Cost:						
At January 1, 2018	37,389,928,114	28,861,866,656	5,318,390,518	5,053,236,924	1,098,463,818	77,721,886,030
Additions/Acquisitions	0	469,317,510	65,708,441	469,247,803	193,322,355	1,197,596,109
Disposals	0	0	0	(2,290,957)	0	(2,290,957)
Reclassfication		100,332,026	100,623,583	0	(200,955,609)	0
Adjustments	(45,885,433)	(381,367,414)	(9,742,914)	(25,398,650)	0	(462,394,411)
At December 31, 2018	**37,344,042,681**	**29,050,148,778**	**5,474,979,628**	**5,494,795,120**	**1,090,830,564**	**78,454,796,771**
Accumulated Depreciation:						
At January 1, 2018	0	21,407,060,160	1,602,032,651	2,119,200,708	0	25,128,293,519
Additions/Acquisitions	0	1,847,732,236	155,207,031	407,917,632	0	2,410,856,899
Disposals	0	0	0	(2,014,356)	0	(2,014,356)
Adjustments	0	(585,095,293)	(302,336,420)	60,830,494	0	(826,601,219)
At December 31, 2018	**0**	**22,669,697,103**	**1,454,903,262**	**2,585,934,478**	**0**	**26,710,534,843**
At December 31, 2018						
Cost	37,344,042,681	29,050,148,778	5,474,979,628	5,494,795,120	1,090,830,564	78,454,796,771
Accumulated Depreciation	0	22,669,697,103	1,454,903,262	2,585,934,478	0	26,710,534,843
Net Carrying Amount December 31, 2018	**37,344,042,681**	**6,380,451,675**	**4,020,076,366**	**2,908,860,642**	**1,090,830,564**	**51,744,261,928**

The *Land Improvements* account includes Runways, Aprons, Taxiways and the Airport Systems of the 75 Airports managed by the Authority.

Buildings and Other Structures account includes the Administration Buildings, Training Centers, Hangars, Control Towers, Transmitter buildings and Radar buildings which are used in the daily operations of CAAP.

Furniture and Equipment account pertains largely to air navigational equipment installed in different airports operated by CAAP. In addition, this account includes CCTV Surveillance Systems, Voice Logging Systems for the Control Towers, and Airport Equipment such as Baggage Carousel and Airport Security System. It also includes Aircraft and Airport ground equipment.

13. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2018	2017
Deposits	**22,924,323**	22,889,323
Other Assets, net	**13,653,122**	13,653,123
	36,577,445	36,542,446

13.1. Breakdown of Deposits account is as follows:

	2018	2017
Deposits on Letters of Credit	**18,332,140**	18,332,140
Guaranty Deposits	**4,592,183**	4,557,183
	22,924,323	22,889,323

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.

13.2. Breakdown of Other Assets account is as follows:

	2018	2017 (As restated)
Deferred Charges	**13,653,122**	13,653,122
Other Assets	**2,167,530,601**	1,705,136,190
	2,181,183,723	1,718,789,312
Less: Accumulated Impairment Losses	**2,167,530,601**	1,705,136,189
Other Assets, net	**13,653,122**	13,653,123

Deferred Charges includes payment to Federal Aviation Administration (FAA) amounting to P10.16 million which intends to make personnel available on a temporary duty assignment basis to provide certain civil aviation technical assistance to CAAP.

Other Assets pertains to dormant and undocumented assets of the then ATO. Full provision for impairment was recognized pending verification of the unidentified assets.

The increase in Other Assets account was due to the reclassification of Property and Equipment in various Area Centers.

14. FINANCIAL LIABILITIES

This account consists of the following:

	2018	2017 (As restated)
Accounts Payable	**571,160,234**	719,721,630
Due to Officers and Employees	**165,059,075**	104,977,656
	736,219,309	824,699,286

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.

Under PFRS 9, the financial liabilities of the Authority are measured at amortized cost.

15. INTER-AGENCY PAYABLES

This account consists of the following:

	2018	2017 (As restated)
Income Tax Payable	**831,369,827**	0
Due to Other NGAs	**180,442,086**	179,682,682
Due to BIR	**76,131,015**	74,492,988
Due to GSIS	**24,982,452**	18,682,638
Due to Pag-IBIG	**5,096,829**	4,825,405
Due to PhilHealth	**1,989,417**	1,719,218
Due to LGUs	**15,652**	15,652
Due to GOCCs	**2,210**	8,964
Due to Treasurer of the Philippines	**0**	3,000,000,000
	1,120,029,488	3,279,427,547

Income Tax Payable pertains to the Authority's current tax liability based on 30 percent regular corporate income tax (RCIT) of taxable profit for the year in compliance with R.A. 10963 or the TRAIN Law. Prior to TRAIN Law, the Authority has been exercising the exemption to taxes brought about by the fiscal autonomy vested to CAAP by virtue of the R.A. No. 9497.

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

	2018	2017
Funds from DOTr for downloaded INFRA projects	**106,790,849**	106,422,355
Prior years' ATO account balances for undocumented/ unsupported transactions transferred to CAAP books	**51,399,606**	51,399,606
Funds for Anti-Hijacking and Terrorism Campaign	**11,665,824**	11,077,428
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 31st ASEAN	**0**	92,321
Others	**2,844,796**	2,949,961
	180,442,086	179,682,682

Funds for Anti-Hijacking and Terrorism Campaign pertains to collections of CAAP from various airlines for the account of Office of the Transportation Security (OTS). Said collections were remitted to OTS on January 3, 2019.

Due to Bureau of Internal Revenue (BIR) represents taxes withheld as to compensation, withholding tax, final VAT, and business tax.

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.

16. TRUST LIABILITIES

This account consists of the following:

	2018	2017
Guaranty Deposits Payable	**94,588,456**	50,014,456
Performance/Bidders'/Bail Bonds Payable	**22,494,142**	25,005,824
	117,082,598	75,020,280

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.

The Trust Liabilities of the Authority are measured at amortized cost in accordance to PFRS 9. Upon completion of the contract, these liabilities will be paid a year after final inspection of the project.

17. DEFERRED CREDITS

Deferred Credits pertains to advance payment from Concessionaires/Customers in Area Centers which are not yet earned as of December 31, 2018.

18. PROVISIONS

This account consists of the following:

	2018		2017	
	Current	**Non-Current**	Current	Non-Current
Leave Benefits Payable	**126,723,679**	**498,788,864**	87,751,743	582,416,870
Other Provisions	**4,705,661**	**0**	0	0
	131,429,340	**498,788,864**	87,751,743	582,416,870

Leave Benefits Payable pertains to the accumulated unused leave credits of employees.

Other Provisions pertains to interest income earned from deposits from savings accounts in compliance with Section 2 of DOF Department Circular No. 1-2017 which shall be remitted to the Bureau of Treasury upon issuance of the Implementing Rules and Regulations.

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. This also includes COA disallowances deducted from the terminal benefits of the retiring employees which is under appeal with the COA Commission Proper amounting to P8.09 million.

20. GOVERNMENT EQUITY

Under RA 9497, CAAP has an authorized capitalization of P50 billion which is already fully subscribed by the Republic of the Philippines.

21. CONTRIBUTED CAPITAL

Contributed Capital pertains to the amount in excess of the P50 billion subscribed capital stock of the National Government.

22. 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.

23. INCOME

This account consists of the following:

	2018	2017 (As restated)
Business Revenue	**9,107,620,874**	8,796,239,524
Service Revenue	**230,138,501**	178,418,665
	9,337,759,375	8,974,658,189

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:

	2018	2017
Income from Communication Facilities	**6,023,925,458**	5,699,451,774
Transportation System Fees	**2,212,375,288**	2,260,651,963
Landing and Parking Fees	**552,593,055**	552,617,143
Rent/Lease Income	**132,183,812**	127,144,421
Communication Network Fees	**27,535,531**	25,555,250
Fines and Penalties – Business	**5,260,311**	3,491,526
Other Business Income	**153,747,419**	127,327,447
	9,107,620,874	8,796,239,524

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 refers to terminal fees imposed by CAAP on departing passengers, presently pegged at P200, P150 and P100 depending on the airport terminal. This fees are presently termed as Domestic Passengers Service Charge (DPSC) which are already integrated at the Point of Sale of Airline Tickets pursuant to CAAP Memorandum Circular (MC) No. 022-17 Series of 2017. Income is recognized upon remittance by the Airline Carriers.

Landing and Parking Fees refers 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.

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 per square meter subject to an escalation rate of 10 percent 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:

	2018	2017
Not later than 1 year	**2,694,090**	2,262,197
Later than 1 year but not later than 5 years	**4,789,090**	9,540,498
	7,483,180	11,802,695

Godofredo P. Ramos Airport (formerly Caticlan 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 occupying the premises on October 16, 2010.

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

	2018	2017
Not later than 1 year	**8,000,000**	8,000,000
Later than 1 year but not later than 5 years	**40,000,000**	40,000,000
Later than 5 years	**96,000,000**	104,000,000
	144,000,000	152,000,000

Communication Network Fees pertains to the revenue share of the Authority for the Remote Ground Stations enumerated in the Agreement between CAAP and Aeronautical Radio of Thailand for the Operations and Maintenance of Very High Frequency (VHF) Air Ground Data Link Stations at sites in the Philippines. It includes fees collected for the connection of telephone services and for the use of the facility.

Fines and Penalties - Business pertains to fines and penalty 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. This consists of the following:

	2018	2017
Vehicular Parking	**70,443,231**	58,832,739
Weighing Conveyor and Check-In Charges	**42,463,752**	36,894,578
Aerobridge/Tacking fees	**22,782,030**	23,335,313
Bid Documents	**10,218,928**	4,017,885
Access Pass/ID	**4,479,106**	1,866,060
Garbage Collection	**1,814,650**	1,170,732
Aeronautical Information Publication (AIP)	**896,116**	858,733
Records	**649,206**	351,207
Research Fee	**400**	200
	153,747,419	127,327,447

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

	2018	2017
Clearance and Certification Fees	**27,649,711**	20,710,111
Permit Fees	**20,129,601**	20,179,201
Licensing Fees	**10,799,330**	9,265,009
Fines and Penalties - Service	**2,767,605**	2,101,576
Other Service Income	**168,792,254**	126,162,768
	230,138,501	178,418,665

Clearance and Certification Fees refers 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 pertains to fees and charges collected by CAAP in the issuance of permits to operators in the exercise of regulatory powers. Income is recognized for these fees upon billing at month end.

Licensing Fees pertains 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.

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. This consist of the following:

	2018	2017
Flight Inspectors Fee	**95,925,575**	69,501,393
Water/Electricity/Telephone/Cable	**35,947,113**	33,734,853
Course Fee	**17,097,390**	7,841,600
Energy Fee	**8,472,573**	5,207,955
Medical Examination	**5,134,896**	5,981,200
Dental Examination	**1,906,700**	1,238,450
Laboratory	**1,818,805**	807,760
Administrative Fee	**1,463,049**	1,174,245
Inspection Fee	**640,132**	546,186
Engine & Propeller Change Fee	**241,159**	19,680
Transfer Fee	**59,288**	58,746
Change Form	**46,824**	16,200
Medical Procedures/Treatment	**20,000**	13,300
De-Registration	**14,370**	20,400
Time Between Overhaul	**4,380**	0
Change of Company Name	**0**	800
	168,792,254	126,162,768

24. PERSONNEL SERVICES

This account consists of the following:

	2018	2017 (As restated)
Salaries and Wages	**1,235,368,957**	1,035,564,207
Other Compensation		
Overtime and Night Differential	**225,555,437**	166,338,629
Year-end Bonus	**200,657,977**	161,161,490
Personal Economic Relief Allowance	**67,910,505**	65,542,999
Hazard Pay	**54,186,350**	22,539,029
Clothing/Uniform Allowance	**19,309,637**	13,966,700
Cash Gift	**13,215,250**	16,793,053
Representation Allowance	**7,926,800**	7,977,365
Transportation Allowance	**7,163,019**	7,283,613
Honoraria	**6,726,604**	4,532,348
Productivity Incentive Allowance	**2,022,500**	1,385,000
(Forward)		

	2018	2017 (As restated)
Longevity Pay	**1,005,000**	250,000
Subsistence Allowance	**162,650**	296,436
Other Bonuses and Allowances	**7,482,891**	3,725,393
	613,324,620	471,792,055
Personnel Benefits Contribution		
Retirement and Life Insurance Premiums	**144,338,878**	119,819,120
PhilHealth Contribution	**12,904,415**	9,542,783
Pag-IBIG Contribution	**3,748,254**	3,225,771
ECC Contribution	**3,389,259**	3,279,200
	164,380,806	135,866,874
Other Personnel Benefits		
Terminal Leave Benefits	**126,723,679**	222,636,961
Other Personnel Benefits	**30,436,580**	59,985,762
	157,160,259	282,622,723
	2,170,234,642	1,925,845,859

The increase in Personnel Services was due to the implementation of the Third Tranche of The Salary Standardization Law of 2015. In addition, the Governance Commission for Government Owned or Controlled Corporations (GCG) issued an authorization dated June 14, 2018 for CAAP to adopt the compensation framework under E.O. No. 36, s. 2017 converting all Job Level salary standards to Salary Grade standards.

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2018	2017 (As restated)
General Services	**627,739,823**	541,525,061
Utility Expenses	**472,750,940**	384,912,463
Repairs and Maintenance	**305,349,324**	235,123,893
Professional Services	**200,388,998**	219,375,539
Supplies and Materials Expenses	**185,804,403**	164,679,526
Communication Expenses	**82,262,068**	67,625,152
Traveling Expenses	**71,846,214**	76,490,729
Rent/Lease Expenses	**56,952,790**	20,667,439
Training Expenses	**44,636,721**	48,381,111
Taxes, Insurance Premiums and Other Fees	**36,156,148**	67,916,654
Confidential, Extraordinary and Miscellaneous Expenses	**15,290,670**	11,020,893
Dividends Expenses	**4,705,661**	0
Other Maintenance and Operating Expenses	**155,157,716**	118,772,294
	2,259,041,476	1,956,490,754

Breakdown of General Services is as follows:

	2018	2017 (As restated)
Security Services	**296,825,260**	235,089,052
Janitorial Services	**127,569,032**	118,569,239
Other General Services	**203,345,531**	187,866,770
	627,739,823	541,525,061

The increase in *Rent/Lease Expenses* pertains to the cost of rental of aircraft used for flight inspections.

The increase in the Other Maintenance and Operating Expenses was due to the Daily Subsistence Allowance paid to CAAP flight inspectors.

26. NON-CASH EXPENSES

This account consists of the following:

	2018	2017 (As restated)
Depreciation	**2,410,856,899**	2,762,196,288
Impairment	**17,731,553**	976,021,894
	2,428,588,452	3,738,218,182

Breakdown of Depreciation is as follows:

	2018	2017
Infrastructure Assets	**1,567,142,402**	1,874,022,059
Machinery and Equipment	**377,215,248**	377,731,010
Land Improvements	**280,589,834**	323,855,560
Buildings and Other Structures	**155,207,031**	159,176,526
Transportation Equipment	**24,784,886**	21,640,669
Furniture, Fixtures and Books	**3,734,091**	5,284,891
Other Property and Equipment	**2,183,407**	485,573
	2,410,856,899	2,762,196,288

Breakdown of Impairment is as follows:

	2018	2017
Accounts Receivable	**16,657,506**	976,021,894
Other Receivables	**1,074,047**	0
	17,731,553	976,021,894

27. OTHER INCOME (EXPENSES)

This account consists of the following:

	2018	2017 (As restated)
Interest Income	**189,516,955**	152,388,129
Gain on Foreign Exchange (FOREX)	**143,323,809**	32,488,923
(Forward)		

	2018	2017 (As restated)
Management Supervision/Trusteeship	**(781,516)**	(1,093,089)
Bank Charges	**(229,214)**	(77,785)
Loss on Sale of Property and Equipment	**(209,198)**	0
Other Financial Charges	**(63,760,440)**	0
	267,860,396	183,706,178

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.

Gain on Foreign Exchange in the amount of P143.32 million and P32.49 million for CY 2018 and 2017 respectively, pertains to the amount of gain in the conversion of foreign currencies in accordance with paragraph 23 of PAS 21. A foreign exchange rate difference of P2.65, P49.93 in 2017 and P52.58 in 2018, was recorded in recognizing foreign exchange gain for CY 2018. The significant increase was due to inflation of year-end closing Peso per US Dollar.

Loss on Sale of Property and Equipment includes sale of Furniture and Equipment. It does not include Other Assets account waiting for disposition.

Other Financial Charges pertains to the 3.5 percent service charge from Domestic Passenger Service Charges (DPSCs) collected by airlines as contained in CAAP MC No. 022-17 Series of 2017.

28. INCOME TAX EXPENSE

The income tax expense is based on taxable income for the year. It is calculated using the 30 percent regular corporate income tax (RCIT). With the Tax Reform on Acceleration and Inclusion (TRAIN) Law, officially cited as Republic Act No. 10963, for CY 2018, CAAP is obliged to pay its Corporate Income Tax.

29. INCOME FROM GRANTS AND DONATIONS

Income from Grants and Donations account pertains to completed projects and properties turned-over by DOTr to CAAP. Breakdown as follows:

AREA CENTER	PROJECT	AMOUNT
Area 2	VHF Tx/Rx, VHF Transceiver & ATIS Project - Basco	12,830,000
	Asphalt Overlay of Runway - Basco	140,427,503
Area 3	Concreting of Apron including Ramp & Upgrading of Taxiway - Marinduque	19,249,591
	Concreting of Apron including Ramp & Upgrading of Taxiway; Desktop Computer; Digital Camera - Romblon	31,676,966

(Forward)

AREA CENTER	PROJECT	AMOUNT
	Widening of Runway and Expansion/Rehab of Terminal Bldg. - San Jose	88,404,026
Area 7	Asphalt Overlay of Runway and Improvement of Drainage System - Dumaguete	90,233,171
	Construction of External Supply System - Panglao	65,708,441
Area 8	Tiling Works at Passenger Terminal Building - Tacloban	6,613,046
	Construction of New Terminal Area - Ormoc	90,317,287
Area 12	Control Tower Communication Equipment - Butuan	5,800,000
	Security Fence - Siargao	2,395,920
		553,655,951

30. CUMULATIVE CHANGES IN FAIR VALUE OF INVESTMENTS

Cumulative Changes in Fair Value of Investments pertains to the accumulated unrealized gain on change in fair value of investment with COCOLIFE on which the fund is allocated to Peso Fixed Income Fund and Peso Bond Fund.

31. RESTATEMENT OF ACCOUNTS

The 2017 financial statements were restated to reflect the following transactions/adjustments:

CY 2016 errors discovered in 2017 and 2018

	December 31, 2016 (As previously reported)	Restatement / Adjustment	January 1, 2017 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net	**8,840,456,549**	**61,277,425**	**8,901,733,974**
Correction of prior years' receivable/income		*61,277,425*	
Inventories	**60,262,443**	**(10,584,708)**	**49,677,735**
Prior years' unrecorded issuances of supplies and materials		*(10,584,708)*	
Property, Plant and Equipment, net	**64,887,197,813**	**(10,374,355,964)**	**54,512,841,849**
Decrease in depreciation due to double recording		*276,048,907*	
Recognition of PPE from DOTC/DOTr		*41,149,105*	
Reclassification from Other Assets to PPE		*41,095,710*	
Derecognition of PPE due to double recording - Intech		*(10,718,382,958)*	
Correction of various erroneous entries in PPE		*(13,519,321)*	
Adjustments in depreciation		*(747,407)*	

	December 31, 2016 (As previously reported)	Restatement / Adjustment	January 1, 2017 (As restated)
Other Non-Current Assets	**35,822,121**	**0**	**35,822,121**
Derecognition of PPE due to double recording - Intech		*198,069,470*	
Adjustment on accumulated impairment - Other Assets due to double recording		*(156,973,760)*	
Reclassification from Other Assets to PPE		*(41,095,710)*	
Financial Liabilities	**360,479,945**	**170,522,925**	**531,002,870**
Payables	**307,994,294**	**170,544,214**	**478,538,508**
Recognition of lease payable (rental of land in Bacolod and Ozamis City for 1992 to 2016)		*154,090,525*	
Correction of prior years' payables		*16,453,689*	
Due to Officers and Employees	**52,485,651**	**(21,289)**	**52,464,362**
Correction of prior years' error		*(21,289)*	
Inter-Agency Payables	**6,473,440,228**	**231,372**	**6,473,671,600**
Increase in BIR, GSIS, Pag-IBIG, PhilHealth contribution		*231,372*	
Provisions	**427,944,583**	**(110,548)**	**427,834,035**
Correction of prior years' terminal leave payable		*(110,548)*	
Other Payables	**18,519,714**	**130,590**	**18,650,304**
Correction of prior years' other payables		*130,590*	
STATEMENT OF CHANGES IN EQUITY	**78,732,970,381**	**(10,494,437,586)**	**68,238,532,795**
Government Equity	**86,512,107,394**	**(10,533,339,392)**	**75,978,768,002**
Decrease in depreciation due to double recording		*276,048,907*	
Recognition of PPE from DOTC		*4,938,000*	
Derecognition of PPE due to double recording - Intech		*(10,520,313,488)*	
Adjustment on accumulated impairment - Other Assets due to double recording		*(156,973,760)*	
Recognition of lease payable (rental of land in Bacolod and Ozamis City for 1992 to 2008)		*(137,039,051)*	
Retained Earnings (Deficit)	**(7,779,137,013)**	**38,901,806**	**(7,740,235,207)**
Correction of prior years' receivable/income (2016 and below)		*61,277,425*	
Recognition of PPE from DOTr		*36,211,105*	
Correction of prior years' terminal leave payable		*110,548*	
Correction of prior years' error		*21,289*	
Recognition of lease payable (rental of land in Bacolod and Ozamis City for 2009 to 2016)		*(17,051,474)*	
Correction of payables/expenses (2016 and below)		*(16,453,689)*	
Correction of various erroneous entries in PPE		*(13,519,321)*	
Prior years' unrecorded issuances of supplies and materials		*(10,584,708)*	
Adjustments in depreciation		*(747,407)*	
Increase in BIR, GSIS, Pag-IBIG, PhilHealth contribution		*(231,372)*	
Correction of prior years' other payables		*(130,590)*	

CY 2017 errors discovered in CY 2018

	December 31, 2017 (As restated)	Restatement / Adjustment	January 1, 2018 (As restated)
STATEMENT OF FINANCIAL POSITION			
Receivables, net	**2,206,712,617**	**463,175,462**	**2,669,888,079**
Overstatement of impairment loss for Philippine Airlines account		*338,856,524*	
Correction of prior years' receivable/income		*124,308,851*	
Understatement of prior years' interest income		*10,087*	
Inventories	**66,050,743**	**(8,139,955)**	**57,910,788**
CY 2017 unrecorded issuances of supplies and materials		*(8,139,955)*	
Other Current Assets	**153,038,153**	**(4,000,633)**	**149,037,520**
Recognition of expired portion of prepaid rent		*(4,000,633)*	
Property, Plant and Equipment, net	**52,660,268,689**	**(66,676,178)**	**52,593,592,511**
Adjustments in depreciation		*(66,676,178)*	
Financial Liabilities	**760,346,588**	**64,352,698**	**824,699,286**
Payables	**690,366,555**	**29,355,075**	**719,721,630**
Recognition of lease payable (rental of land in Bacolod and Ozamis City for 2017)		*1,843,920*	
Correction of prior years' payables		*27,511,155*	
Due to Officers and Employees	**69,980,033**	**34,997,623**	**104,977,656**
Increase in personnel services due to payment of salary differential of technical personnel		*31,016,591*	
Liquidation/reimbursement of traveling, training and scholarship expenses		*3,981,032*	
Inter-Agency Payables	**3,278,686,218**	**741,329**	**3,279,427,547**
Increase in BIR, GSIS, Pag-IBIG, PhilHealth contribution		*741,329*	
Provisions	**580,585,857**	**1,831,013**	**582,416,870**
Recognition of additional terminal leave benefits		*1,831,013*	
STATEMENT OF CHANGES IN EQUITY	**77,998,877,606**	**(10,177,003,931)**	**67,821,873,675**
Retained Earnings (Deficit)	**(8,474,327,983)**	**317,433,656**	**(8,156,894,327)**
Correction of 2017 comprehensive income (Note 32)	1,220,375,916	*317,433,656*	1,537,809,572

The Authority presented three statements of financial position in compliance with the requirement of PAS 1, Presentation of Financial Statements, to include a complete set of financial statements as statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

32. RESTATEMENT OF CY 2017 COMPREHENSIVE INCOME

Net Income (As previously reported)	**1,220,375,916**
Adjustments:	
Add: Income	**124,308,851**
Correction of Prior Years' Receivable/Income (2017)	124,308,851
Less: Expenses	**(193,114,718)**
Adjustments in depreciation (due to Intech appraisal)	66,676,178
Increase in Personal Services due to payment of salary differential of technical personnel for CY 2017	31,016,591
Correction of payables/expenses (2017)	27,511,155
CY 2017 unrecorded issuances of supplies and materials	8,139,955
Recognition of expired portion of prepaid rent	4,000,633
Liquidation/Reimbursement of Traveling, Training and Scholarship Expenses	3,981,032
Recognition of lease payable for the rental of Land in Bacolod and Ozamis City for 2017	1,843,920
Recognition of additional terminal leave benefits	1,831,013
Increase in BIR, GSIS, Pag-IBIG, PhilHealth contribution	741,329
Overstatement of impairment loss for Philippine Airlines account	(338,856,524)
Add: Other Income	**10,087**
Understatement of prior years' interest income	10,087
Net Income (As restated)	**1,537,809,572**

33. 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 reporting dates are as follows:

	Amount in Peso
Cash in Bank - Savings Account	839,207,643
Investments in Time Deposits (short term investment)	1,458,432,403
Investments in Time Deposits (long term investment)	1,050,640,458
	3,348,280,504

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, 2018 and 2017 (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 2018	2017
USD	+2.65	**(168,751,300)**	(5,578,608)
	-2.65	**168,751,300**	5,578,608
Increase in exchange rate		**(168,751,300)**	(5,578,608)
Decrease in exchange rate		**168,751,300**	5,578,608

Interest rate risk

The Authority's exposure to the risk for changes in interest rates relates primarily to the Authority's bank accounts. As at December 31, 2018 and 2017, these amounted to P3.50 billion and P5.99 billion, respectively. The Authority'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.

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, 2018 and 2017.

December 31, 2018

	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Past due but not impaired	Impaired	Total
Cash and Cash Equivalents	3,557,234,310	0	0	0	0	3,557,234,310
Short-term Investments	9,029,311,862	0	0	0	0	9,029,311,862
Receivables	0	3,075,282,014	0	0	1,639,519,822	4,714,801,836
Long-Term Investments	2,051,293,421	0	0	0	0	2,051,293,421
Deposits	22,924,323	0	0	0	0	22,924,323
	14,660,763,916	**3,075,282,014**	0	0	**1,639,519,822**	**19,375,565,752**

December 31, 2017

	Neither past due nor impaired					
	High grade	Standard grade	Substandard grade	Past due but not impaired	Impaired	Total
Cash and Cash Equivalents	6,075,265,139	0	0	0	0	6,075,265,139
Short-term Investments	9,646,009,241	0	0	0	0	9,646,009,241
Receivables	0	2,669,888,079	0	0	1,622,439,039	4,292,327,118
Long-Term Investments	1,479,638,665	0	0	0	0	1,479,638,665
Deposits	22,889,323	0	0	0	0	22,889,323
	17,223,802,368	**2,669,888,079**	0	0	**1,622,439,039**	**21,516,129,486**

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, 2018 and 2017 based on contractual undiscounted payments.

December 31, 2018

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial Liabilities	736,219,309	0	0	0	736,219,309
Inter-Agency Payables*	180,459,948	0	0	0	180,459,948
Trust Liabilities	0	0	0	117,082,598	117,082,598
Other Payables	0	0	0	56,969,658	56,969,658
	916,679,257	0	0	174,052,256	1,090,731,513

**excludes government dues and remittances*

December 31, 2017

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial Liabilities	824,699,286	0	0	0	824,699,286
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	36,694,988	36,694,988
	4,004,406,584	0	0	111,715,268	4,116,121,852

**excludes government dues and remittances*

34. SUPPLEMENTARY INFORMATION ON TAXES

The total taxes withheld during the year by the Head Office (HO) and Area Centers (ACs) amounted to P345.88 million, of which P324.27 million were remitted as follows:

Type of Tax	Beginning Balance, January 1, 2018	Adjustments During the Year	Tax Withheld	Tax Remitted	Balance, December 31, 2018
a. Tax on Compensation	35,457,435	(439,506)	199,720,091	190,467,641	44,270,379
b. Creditable Withholding Taxes	8,419,249	503,233	61,903,853	58,436,300	12,390,035
c. Final Withholding Taxes	10,249,778	328,871	84,259,800	75,367,848	19,470,601
Total	**54,126,462**	**392,598**	**345,883,744**	**324,271,789**	**76,131,015**

On October 21, 2016, CAAP received an electronic Letter of Authority dated October 13, 2016 from the BIR for the examination of the 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 recorded a tax liability amounting to P20.37 million in 2017 which was subsequently paid on June 28, 2018.