PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Philippine Aerospace Development Corporation (PADC) was created by virtue of Presidential Decree (PD) No. 286 dated September 5, 1973, as amended by PD Nos. 346 and 696 dated December 14, 1973 and May 9, 1975, respectively. PADC is attached to the Department of Transportation.

The Corporation shall undertake all manner of activity, business or development projects for the establishment of a reliable aviation and aerospace industry that shall include, but not limited to:

- The design, assembly, manufacture, and sale of all forms of aircraft and aviation/aerospace devices, equipment or contraptions, and studies or researches for innovation and improvement thereon.

- The development of local capabilities in the maintenance, repair/overhaul and modification of aerospace and associated flight and ground equipment and components thereof in order to provide technical services and overhaul support to government agencies owning aerospace equipment, the Philippine Air Force, the national airline, foreign airline companies, foreign air forces and to the aviation industry in general.

- The operation and provision of air transport services, whether for cargo or passengers on a scheduled, non-scheduled, or charter basis on domestic and/or international scale.

The Corporation is governed and its activities are directed, controlled and managed by a Board of Directors.

The PADC's registered office address is located in PADC Hangar 2, General Aviation Area, Domestic Road, Pasay City.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Presentation of Financial Statements

The financial statements of the Corporation were prepared using the historical cost basis, unless otherwise stated. The financial statements are presented in Philippine Peso (P), which is the Corporation's functional and presentation currency. All amounts are rounded off to the nearest peso, except when otherwise indicated.

2.2 Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Corporation were prepared in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs). PFRS for SMEs are adopted by the Financial Reporting Standard Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements of Philippine Aerospace Development Corporation (PADC) were issued on March 27, 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in accordance with PFRS for SMEs requires the Corporation to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses, and disclosure relating to contingent assets and contingent liabilities. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

a. Judgment

i. Going concern

The Corporation's management has made an assessment of the Corporation's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

b. Estimates

i. Impairment of trade and other receivables

The Corporation assesses its trade receivables for impairment at each reporting date. As at December 31, 2018 and 2017, the Corporation determined that there is no objective evidence that the amounts are not recoverable. The carrying amounts of trade and other receivables are disclosed in Note 5.

ii. Impairment of non-financial assets

The Company assesses impairment on inventories and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant or prolonged decline in fair value of the asset
- Significant underperformance relative to expected historical or projected future operating results
- Significant changes in the manner of use of the acquired assets or the strategy for overall business
- Significant negative industry or economic trends

As at December 31, 2018 and 2017, the carrying values of inventories and property and equipment are disclosed in Notes 6 and 10, respectively.

iii. *Recognition of deferred tax asset*
The Corporation reviews the net carrying amount of deferred tax asset at each reporting date and adjusts it, using valuation allowance, to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3.3. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the financial statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

3.4. Financial Instruments - Initial Recognition and Subsequent Measurement

i. Date of recognition

A financial asset or liability is recognized only when the Corporation becomes a party to a contractual provisions of the instrument.

ii. Initial recognition of financial instruments

All financial assets and financial liabilities are initially measured at fair value, which is normally the transaction price. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Corporation classifies its financial assets in the following categories: financial assets at FVPL, financial assets that are debt instruments at amortized cost, financial assets that are unquoted equity instruments at cost less impairment, and loan commitments at cost less impairment. Financial liabilities are classified into the following categories: financial liabilities at FVPL and financial liabilities at amortized cost.

Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

iii. Financial assets that are debt instruments at amortized cost

This category includes receivables and cash in bank. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR).

iv. Financial liabilities at amortized cost

This category includes trade and accounts payable, which are not designated as at FVPL and where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

3.5. Derecognition of Financial Assets and Liabilities

i. Financial assets

A financial assets (or, where applicable a part of a financial asset or group of financial assets) is derecognized only when:

1. the contractual rights to the cash flows from the financial asset have expired or are settled; or
2. the Corporation transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
3. the Corporation, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Corporation derecognizes the

asset, and recognizes separately any rights and obligations retained or created in the transfer.

If a transfer does not result in derecognition because the Corporation has retained significant risks and rewards of ownership of the transferred asset, the Corporation continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the Corporation recognizes any income on the transferred asset and any expense incurred on the financial liability.

ii. A financial liability (or part of a financial liability) is derecognized only when it is extinguished (i.e., when the obligation specified in the contract is discharged, is cancelled or expires). When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

3.6. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.7. Impairment of Financial Assets

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows.

For instruments measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original EIR. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR determined under the contract.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the Corporation would receive for the asset if it were to be sold at the reporting date.

If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Reversal of allowance for impairment losses' in the statement of comprehensive income.

3.8. Inventories

Inventories are stated at the lower of cost and its net realizable value. Costs of inventories include all costs of purchase and other costs incurred in bringing the inventories to their present location and condition are accounted for, as follows:

i. Raw materials: purchase cost using the weighted average cost method
ii. Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for inventories represent the related replacement costs. Any decrease in inventories arising from impairment is recognized in profit or loss in the statement of comprehensive income.

3.9. Impairment of Inventories

At each reporting date, inventories are assessed for impairment, i.e. the amount is not fully recoverable because of damage, obsolescence or declining selling prices. The Corporation measures impairment loss by comparing the carrying amount of each item of inventory with its selling price less cost to sell. If an item of inventory is impaired, its carrying amount is reduced to selling price less cost to sell and an impairment loss is recognized immediately in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of inventories is increased to the revised estimate or its recoverable amount but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income.

3.10. Prepayments

Prepayments represent expenses not yet incurred but are already paid in cash. These are 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.

3.11. Property and Equipment

a. Recognition
An item is recognized as property, plant and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

i. Tangible items;
ii. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
iii. Are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

i. It is probable that future economic benefits or service potential associated with the item will flow to the entity;
ii. The cost or fair value of the item can be measured reliably; and
iii. The cost is at least P15,000.00.

b. Measurement at recognition

An item recognized as property, plant and equipment is measured at cost.

A PPE acquired through non-exchanged transaction is measured at fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction, its cost is its fair value as at recognition date.

Cost includes the following:

i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
ii. Expenditures that is directly attributable to the acquisition of the items; and
iii. Initial estimates of the 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 particular period for purposes other than to produce inventories during that period.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of comprehensive income in the year the asset is derecognized. All other repair and maintenance costs are recognized in the statement of comprehensive income.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation
Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation for one month if the PPE is available for use on or before the 15^{th} of the month. However, if the PPE is available for use after the 15^{th} of the month, depreciation is for the succeeding month.

ii. Depreciation method
The straight line method of depreciation is adopted unless another method is more appropriate for the Corporation operation.

iii. Estimated useful life
The Corporation uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

iv. Residual value
The Corporation uses residual value equivalent to at least five per cent (5%) of the cost of the PPE.

3.12. Trade and Other Payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. These are recognized in the period in which the related money, goods, or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets or expenses are recognized.

3.13. Capital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Deficit

Deficit represents the cumulative balance of periodic net income or loss and dividend declarations, if any.

3.14. Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales tax. The Company is acting as a principal in all its arrangement transactions.

i. Rendering of services

The Corporation recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

ii. Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Corporation.

iii. *Interest Income*

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

iv. *Dividends*

Dividends or similar distributions are recognized when the Corporation's right to receive payment is established.

v. *Rental Income*

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

3.15. Cost and Expense Recognition

Costs and expenses are recognized in the statement of comprehensive income when 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. Costs and expenses are recognized in the statement of comprehensive income:

i. on the basis of a direct association between the costs incurred and the earning of specific items of income;
ii. on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
iii. Immediately when 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.

3.16. Employee Benefits

The employees of the Corporation are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

The Corporation recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.17. Income Taxes

i. Current Tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

ii. Deferred Tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO). Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustment is recognized in the statement of comprehensive income.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (loss) of the periods in which it expects the deferred tax assets to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that taxable profits will be available against which the future income tax deductions can be utilized.

3.18. Provision

Provisions are recognized when: (a) the Corporation has an obligation at the reporting date as a result of a past event; (b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; (c) and the amount of the obligation can be estimated reliably. Where the Corporation expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax 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 a borrowing cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

3.19. Contingencies

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

3.20. Events after the Reporting Period

Post year-end events that provide additional information about the Company's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018	2017
Cash in Current Account - PNB	**3,208,699**	4,690,355
Cash in Dollar Savings Account - PNB	**82,481**	181,313
Cash in Dollar Time Deposit Account - PNB	**1,438,766**	1,319,429
Cash in Savings Account - LBP	**48,272,338**	35,090,449
Cash in Time Deposit Account - LBP	**20,425,203**	20,259,808
Petty Cash Fund	**17,618**	17,925
	73,445,105	61,559,279

In its Resolution No. 493, dated April 26, 2007, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) has approved the Philippine National Bank's (PNB) request for renewal of authority to accept government deposits on a continuing basis.

The BSP guiding foreign exchange rate as of reporting date was adopted to convert the US dollar deposits at month end. Conversion rates as of December 29, 2018 and 2017 are P52.724 and P49.923, respectively.

5. RECEIVABLES

This account is composed of:

	2018	2017
Accounts Receivables	**19,218,508**	12,678,149
Other Receivables	**7,149,084**	1,022,792
	26,367,592	13,700,941
Allowance for Impairment	**(5,487,079)**	(5,487,079)
	20,880,513	8,213,862
Receivables from Officers and Employees	**1,899,810**	1,988,191
Receivables - Disallowance	**845,847**	1,024,365
	23,626,170	11,226,418

Accounts Receivables represents accounts arising from service parts, labor and over-the-counter sales due from various customers.

Other Receivables consists of rental of office spaces and hangarage, and telephone, and share of water and electricity bills of various tenants of the Corporation.

Receivables from officers and employees consists mainly of unliquidated cash advances.

Receivables - disallowances represents the cash advance granted to a PADC Acting Treasurer for the Revolving Fund of the PADC President, the liquidation of which was disallowed under Notice of Disallowance (ND) No. 2009-009(2007-2008) and various Notices of Disallowance with COA Orders of Execution (COE) implemented in March 2018.

6. INVENTORIES

This account consists of the following:

	2018	2017
Spare Parts and Accessories	**78,317,525**	75,793,436
Allowance for Obsolescence	**(23,563,740)**	(23,563,740)
	54,753,785	52,229,696

7. OTHER CURRENT ASSETS

This account consists of the following:

	2018	2017
Withholding Tax at Source	**7,736,896**	5,889,797
Prepaid Rent	**18,045**	(9,023)
Other Prepayments	**4,961,459**	2,105,776
	12,716,400	7,986,550

Other Prepayments consists of advances to various suppliers of aircraft parts.

8. INVESTMENT IN ASSOCIATE

This account pertains to the Corporation's investment *in Airbus Helicopters Phils. Inc. (AHPI)* consisting of 11,700 shares, representing 30 per cent equity. AHPI has declared and remitted dividends for 2018 and 2017 amounting to P5,307,900, and P5,187,780 respectively.

The carrying amount of the investment was reassessed in CY 2017 in the light of AHPI's improved situation. It was established that the recoverable amount exceeded the carrying amount, necessitating the reversal of the Allowance for Impairment amounting to P6,900,948.

9. OTHER INVESTMENTS

This account consists of the following:

	2018	2017
PLDT	**55,300**	55,300
Meralco	**5,870**	5,870
	61,170	61,170

10. PROPERTY AND EQUIPMENT

This account consists of the following:

2018

	Buildings	Office Equipment	Info and Comm Tech. Equipt	Comm Equip.	Other Mach & Equpt.	Motor Vehicles	Acft.& Grd. Equipt.	Furn. and Fixtures	Library Books	TOTAL
Cost										
Balance at beginning of year	27,597,260	11,910,505	625,168	494,747	40,941,874	5,587,223	8,640,880	56,000	112,382	95,966,039
Additions/ deductions	0	352,233	0	0	0	0	0	0	0	352,234
Balance at end of year	27,597,260	12,262,738	625,168	494,747	40,941,874	5,587,224	8,640,880	56,000	112,382	96,318,273
Accumulated Depreciation										
Balance at beginning of year	24,237,529	10,655,306	417,012	445,273	36,148,307	5,019,262	7,763,788	0	82,601	84,769,078
Depreciation	592,894	47,225	49,770	0	159,509	2,359	11,146	0	18,632	881,535
Balance at end of year	24,830,423	10,702,531	466,782	445,273	36,307,816	5,,021,621	7,774,934	0	101,233	85,650,613
Carrying amount at end of year	**2,766,837**	**1,560,207**	**158,386**	**49,474**	**4,634,058**	**565,603**	**865,946**	**56,000**	**11,149**	**10,667,660**

2017

	Buildings	Office Equipment	Info and Comm Tech. Equipt	Comm Equip.	Other Mach & Equipt.	Motor Vehicles	Acft.& Grd. Equipt.	Furn. and Fixtures	Library Books	TOTAL
Cost										
Balance at beginning of year	27,597,260	11,910,505	519,364	494,747	40,941,874	5,587,223	8,640,880	56,000	112,382	95,860,235
Additions/ deductions	0	0	105,804	0	0	0	0	0	0	105,804
Balance at end of year	27,597,260	11,910,505	625,168	494,747	40,941,874	5,587,223	8,640,880	56,000	112,382	95,966,039
Accumulated Depreciation										
Balance at beginning of year	23,644,635	10,629,303	339,075	445,273	35,972,297	5,016,903	7,752,642	0	62,372	83,862,500
Depreciation	592,894	26,003	77,937	0	176,010	2,359	11,146	0	20,229	906,578
Balance at end of year	24,237,529	10,655,306	417,012	445,273	36,148,307	5,019,262	7,763,788	0	82,601	84,769,078
Carrying amount at end of year	**3,359,731**	**1,255,199**	**208,156**	**49,474**	**4,793,567**	**567,961**	**877,092**	**56,000**	**29,781**	**11,196,961**

11. DEFERRED TAX ASSET

This account pertains to temporary differences arising from bad debts expense recognized in prior years.

12. OTHER NON-CURRENT ASSETS

This account consists of:

	2018	2017
Accounts Receivables	**35,568,891**	35,568,891
Miscellaneous Receivables	**8,513,714**	8,513,714
	44,082,605	44,082,605
Allowance for Impairment	**(44,082,605)**	(44,082,605)
	0	0
Traded-in Spare Parts and Accessories	**11,270,950**	11,270,950
Flight Equipment-Rotable Parts	**1,610,445**	1,610,445
	12,881,395	12,881,395
Allowance for Impairment	**(12,881,395)**	(12,881,395)
	0	0
Deposits	**2,118,605**	2,118,605
	2,118,605	2,118,605

Because of doubtful collectability and utilization, the receivable and inventory accounts, together with their provisions, were reclassified under the Other Assets account by virtue of Board Resolution No. 12 series of 1991. An additional allowance for bad debts amounting to P16,244,202 was set up in CY 2011 upon the approval of the Board of Directors.

Miscellaneous receivables include the claim of P2,183,500 against a former PADC Treasurer who entrusted to an intermediary PNB employee the amount for the purchase of dollars in the black market. The estafa case against the former PADC Treasurer, which was filed on April 22, 1986 by the Office of the Government Corporate Counsel with the Office of the Provincial Fiscal of Rizal, is still pending.

13. FINANCIAL LIABILITIES

This account consists of the following:

	2018	2017
Accounts Payable - Trade	**1,568,299**	2,932,664
Due to Officers and Employees	**7,663,825**	3,344,335
	9,232,124	6,276,999

Accounts Payable - Trade consists of utilities expenses and security services.

Due to Officers and Employees represents the accrual of the third tranche of the Salary Standardization Law differential.

14. INTER-AGENCY PAYABLES

This account is composed of:

	2018	2017
Due to BIR	**71,728**	335,561
Due to GSIS	**249,357**	478,082
Due to Pag-IBIG	**37,857**	18,848
Due to Philhealth	**15,171**	28,900
Due to Treasurer of the Philippines	**10,887,776**	10,887,776
Value Added Tax Payable	**1,343,652**	160,968
Income Tax Payable	**7,647,843**	2,746,577
	20,253,384	14,656,712

Due to Treasurer of the Philippines pertains to recorded cost of audit of P8,504,276 and due to OGCC of P2,383,500 representing unsettled assessments for legal fees.

15. UNEARNED INCOME

This account represents the down payment made by a customer for the purchase of aircraft parts.

16. OTHER PAYABLES

This account consists of:

	2018	2017
Dividends Payable	**15,374,474**	11,049,666
Other Payables	**5,039,677**	5,006,845
	20,414,151	16,056,511

17. TRUST LIABILITIES

This account represents deposits made by airline companies and various tenants in connection with the lease of PADC Hangars. *Various Employees and Officers* represent the withheld salaries and wages, representation allowance and transportation allowance of employees and officers of PADC with COA Orders of Execution, as follows:

	2018	2017
Cebu Pacific Airways	**2,935,906**	2,935,906
Various Customers	**2,659,018**	2,639,871
Various Employees and Officers	**753,429**	0
	6,348,353	5,575,777

18. PROVISIONS

This account represents the money value of the earned vacation and sick leave credits of employees.

19. DEFERRED TAX LIABILITIES

This account pertains to temporary differences arising from unrealized gain from foreign transactions.

20. CAPITAL STOCK

This account pertains to the subscribed and paid shares, as follows:

	Subscribed Shares	Par Value/ Stated Value	Property Contribution	Cash Contribution	Total
National Government	2,000,000 917,783	40 150	151,967,400	65,700,000	217,667,400
GSIS	500,000	40	0	20,000,000	20,000,000
DBP	500,000	40	0	20,000,000	20,000,000
	3,917,783		151,967,400	105,700,000	257,667,400

Under P.D. No. 286, the initial authorized capital of the Corporation is P50 million, divided into five hundred thousand shares, at P100 par value. .P.D. No. 346 increased the authorized capital stock into three million shares, no par value. P.D. No. 696 further increased the capital stock into five million shares, no par value.

The two million shares of stock subscribed and paid for by the National Government (NG) had an initial stated value of P40 per share. The five hundred thousand shares of stock each for the Development Bank of the Philippines (DBP) and the Government Service Insurance System (GSIS) were also issued at 40 per share.

However, in its letter dated June 11, 2013, DBP informed PADC, that it ceased to be an ex-officio member of the PADC Board, citing that "on December 8, 1986, President Corazon C. Aquino issued Proclamation No. 50, mandating GOCCs and GFIs to transfer non-performing accounts to the NG through the Asset Privatization Trust (APT), now known as Privatization and Management Office. PADC was among the assets transferred by DBP to the NG on February 27, 1987." Wherefore, the 500,000 shares totaling P20,000,000 were delegated to the NG. PADC Management is awaiting approval/confirmation from PADC Board/NG.

The property contribution of the National Government consisted of four C-130 aircrafts which were subsequently sold to a private foreign individual and to the National Defense.

21. CONTINGENT LIABILITIES

The Bureau of Internal Revenue (BIR) issued Tax Assessment for alleged tax deficiencies by PADC for the years, 1999, 2003,2004 and 2008 as follows:

	1999	2003	2004	2008	Total
Deficiency income tax	12,239,939	32,650,997	5,975,775	0	50,866,711
Value Added Tax	9,900,762	16,661,371	2,377,298	1,493,310	30,432,741
EWT	247,036	728,504	416,655	350,552	1,742,747
Withholding tax on compensation	0	5,941,555	0	352,603	6,294,158
Withholding of Creditable Value Added Tax	0	0	1,023,676	148,079	1,171,755
	22,387,737	55,982,427	9,793,404	2,344,544	90,508,112

On February 7, 2007 and September 13, 2011, the PADC Board instructed the PADC Management to exert optimum efforts in negotiating with the BIR for possible tax remedies PADC can undertake for CYs 2003 and 2004 assessments. On August 1, 2008 and August 16, 2011, BIR issued a Final Decision on Disputed Assessment for CYs 2003 and 2004, against which petitions for review were filed at the Court of Tax Appeals on September 8, 2008 and October 5, 2011, paying aggregate court fees amounting to P505,475.13 and P111,204.20, respectively.

On April 8, 2016, the Court of Tax Appeals cancelled and abated the Disputed Assessment for CY 2004. Although BIR manifested intention to appeal to the Supreme Court, no copy of petition is received yet.

On May 4, 2018, the Court of Tax Appeals certified the Decision rendered in Disputed Assessment for CY 2004 dated August 23, 2017 which reads as follows: *"WHEREFORE, finding no cogent reason to disturb the findings and conclusions* *reached by the Second Division in the assailed Decision dated April 5, 2016 as well as in the assailed Resolution dated August 12, 2016, the same are hereby AFFIRMED. Accordingly, the Petition for Review filed with the Court En Banc on September 23, 2016 is hereby DISMISSED for the lack of merit."* The same has, on February 17, 2018, became final and executory, petitioner's Motion for Reconsideration thereof having been denied in a Resolution dated January 5, 2018 without any appeal being taken thereon, and is hereby recorded in the Book of Entries of Judgments.

22. SALES REVENUE/COST OF SALES

These accounts represent the following:

	2018	2017
Sales		
Man-hours	**1,896,606**	307,262
Over-the-counter	**4,021,718**	0
	5,918,324	307,262
Cost of Sales		
Man-hours	**2,733,823**	122,634
Over-the Counter	**134,029**	0
	2,867,852	122,634
Gross Profit	**3,050,472**	184,628

23. RENTAL INCOME

This account consists of:

	2018	2017
Hangarage fees	**42,861,137**	39,694,899
Office Rental	**586,558**	319,920
	43,447,695	40,014,819

Hangarage fees represents income from clients who place their aircrafts inside Hangar 3 while waiting for the aircraft parts to be used for repair and overhaul and also from clients who store their aircraft parts, tools and equipment at Hangar 3.

24. PERSONNEL SERVICES

24.1 Salaries and Wages

	2018	2017
Salaries and Wages - Regular	**17,901,568**	18,040,196

24.2 Other Compensation

	2018	2017
Personnel Economic Relief Allowance (PERA)	**697,889**	1,126,532
Representation Allowance (RA)	**298,000**	397,250
Transportation Allowance (TA)	**235,000**	293,979
Clothing/uniform Allowance	**270,000**	235,000
Productivity Incentive Allowance	**0**	235,000
Longevity Pay	**22,500**	0
Overtime and Night Pay	**0**	3,732
Year End Bonus	**3,073,822**	3,039,120
Cash Gift	**207,500**	235,000
Other Bonuses and Allowances	**127,554**	27,375
	4,932,265	5,592,988

24.3 Personnel Benefit Compensation

	2018	2017
Retirement and Life Insurance Premiums	**2,142,327**	2,176,669
Pag-IBIG Contributions	**53,400**	56,700
Philhealth Contributions	**188,364**	192,613
Employees Compensation Insurance Premiums	**35,200**	56,700
	2,419,291	2,482,682

24.4 Other Personnel Benefits

	2018	2017
Terminal Leave Benefits	**570,696**	767,404

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2018	2017
Travelling Expenses - Local/Foreign	**16,698**	566,940
Training Expenses	**118,500**	1,134,214
Supplies and Materials Expenses	**24,919**	239,494
Utility Expenses	**2,442,227**	2,549,756
Communication Expenses	**12,200**	73,494
Confidential, Intelligence, and Extraordinary Expenses	**68,072**	145,554
Professional Services	**22,466**	23,070
General Services	**772,936**	2,328,342
Repairs and Maintenance	**51,017**	126,713
Taxes, Insurance Premiums and Other Fees	**828,817**	927,358
Other Maintenance and Operating Expenses	**230,050**	432,719
	4,587,902	8,547,654

26. FINANCIAL EXPENSES

	2018	2017
Bank Charges	**20,800**	10,019
Other Financial Charges	**24,865**	4,877
	45,665	14,896

27. NON-CASH EXPENSES

This account consists of depreciation of the following:

	2018	2017
Buildings and Structures	**592,893**	592,893
Machinery and Equipment	**256,504**	279,951
Transportation Equipment	**13,505**	13,505
Furniture and Fixtures	**18,633**	20,229
	881,535	906,578

28. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, hereunder are the information on taxes, duties and licenses paid or accrued during the taxable year 2018.

The Company is a VAT-registered company with VAT output tax declaration of P5.728 million for the year based on the amount reflected in the Sales Account of P50.425 million.

The amount of VAT input taxes claimed are broken down as follows:

Balance at beginning of the year	1,266,090
Current year's purchases:	
Goods other than capital goods	28,884
Importation of goods other than capital goods	5,629,940
Services	3,153,530
Claims for tax credits/refund and other adjustments	(8,732,003)
Balance at end of the year	1,346,441

Other Taxes and Licenses

Local:	
Real Property Tax	175,636
Business permit	418,663
Community Tax	10,500
	604,799

National:	
BIR Annual Registration	500
VAT/Percentage Taxes	4,670,818
Others (CGT/DST)	0
	4,671,318

The amount of withholding taxes paid/accrued for the year amounted to P817,754, broken down as follows:

Tax on compensation and benefits	571,052
Creditable withholding tax/es	70,596
VAT withheld and other percentage taxes	176,106
	817,754