

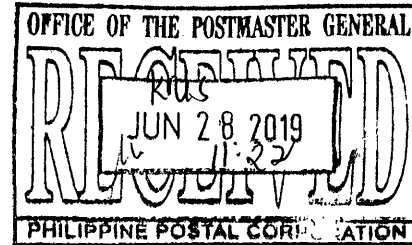


Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

**CORPORATE GOVERNMENT SECTOR**  
**Cluster 3 – Public Utilities**

June 27, 2019

**Mr. JOEL L. OTARRA**  
Postmaster General and Chief Executive Officer  
Philippine Postal Corporation  
Liwasang Bonifacio, Manila



**Dear Postmaster General Otarra:**

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Philippine Postal Corporation (PPC) for the years ended December 31, 2018 and 2017.

The report consists of three Parts: I – the Independent Auditor's Report and the Audited Financial Statements, II – the Audit Observations and Recommendations, and III – the Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the PPC due to the following:

1. The consolidated balance of Property, Plant and Equipment (PPE) accounts amounting to P5.957 billion was unreliable in violation of Philippine Public Sector Accounting Standards (PPSAS) No. 1 due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P788.276 million in Central Office's (CO) books; (b) discrepancy amounting to P373.997 million between Report on Physical Count of Property, Plant and Equipment (RPCPPE) amounting to P316.190 million and aggregate balance per books in Postal Areas 3, 5, 6, and 7 in the total amount of P690.187 million; (c) incomplete Property, Plant and Equipment Ledger Card (PPELC) maintained by PPC CO and Postal Areas 2 and 7 contrary to Section 27, Chapter 10 Volume I of the Government Accounting Manual (GAM); (d) variance of P17.204 million in depreciation between Lapsing Schedule and General Ledger; (e) inclusion of P6.842 million worth of unserviceable/obsolete items in Postal Areas 3 and 6 not compliant to Section 79 of P.D. 1445; (f) PPC CO's repair/rehabilitation/improvement projects totaling P3.486 million were capitalized to Building account; and (g) substantial addition of P624.070 million to Land account without sufficient supporting documents.
2. The existence, accuracy, and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.113 billion could not be ascertained contrary PPSAS 1 and other issuances due to the following: (a) the adjustment made to remove from the PPC CO books the previous year credit balance amounting to P334.137 million termed as "For Reconciliation" accounts without the supporting documents; (b) consolidated total variance amounting to P75.857 million existed between balance per books in PPC CO and Postal Area 3 against confirmed bank balances; (c) identified reconciling items for PPC CO and Postal Areas 1, 2, 3, and 5 amounting to P85.991 million; P14.586 million; P6.436 million and P10.576 million;

P11.159 million and P18.332 million, respectively, remained unadjusted; (d) unreleased PPC CO's checks and stale checks totaling to P1.271 million were not restored to cash account at year end; (e) variance of P4.495 million between the Statement of Financial Position and the General Ledger balance of Postal Area 8; and (f) delayed and/or non-submission of monthly Bank Reconciliation Statements (BRS) in Postal Areas 3, 4, and 6.

3. The existence and accuracy of the consolidated balance of the Inventory accounts as of December 31, 2018 in the aggregate amount of P172.054 million was unreliable affecting the fair presentation of the financial statements as provided in PPSAS 1 due to: (a) unsubstantiated "For Reconciliation" accounts; (b) variances amounting to P84.524 million between the book balance and Report on Physical Count of Inventories (RPCI); and (c) Management's inability to convert Philatelic stamps into regular stamps in contravention with PHLPost Circular No. 16-50 dated August 8, 2016.
4. The consolidated balance of Accounts Receivables-Trade (AR-Trade) amounting to P370.494 million could not be relied upon contrary to COA Circular No. 2015-010, Paragraph 27 of PPSAS 1 and Section 112 of P.D. 1445 due to the following:
  - a. PPC Central Office: (i.) negative and unfavorable results of accounts confirmation; (ii.) inclusion of non-trade receivable amounting to P250,000; and (iii.) unreconciled balances between the General Ledger (GL) and Subsidiary Ledgers (SL) of Allowance for Impairment of AR-Trade amounting to P155,848. Also, the high percentage of non-collection of outstanding receivables for more than three years amounting to P105.456 million;
  - b. Postal Area 3: P55.621 million or 21 per cent of the total AR-Trade of P267.085 million as of December 31, 2018 were dormant accounts for more than 10 years; and no penalty was imposed in case of default in payment by active Postage Charge Account (PCA) holders;
  - c. Postal Area 7: the accuracy of Accounts Receivable amounting to P6.547 million is doubtful due to the variance of P0.787 million between the financial report and its supporting schedule, affecting the fairness of the presentation of the said account in the Financial Statements; and
  - d. Postal Area 8: overdue receivables from PCA amounting to P1.071 million remained unsettled, PCA permits not suspended and necessary penalties not imposed and computed contrary to PPC PCA policies.
5. In the PPC CO's books, the Cash – Trust Funds in the amount of P309.989 million is insufficient to cover the Trust Liabilities amounting to P604.671 million due to a variance of P294.681 million thus, affects the reliability and accuracy of the balance presented in the Financial Statements as of December 31, 2018.

In Postal Area 3, the accuracy and reliability of the year-end balance of Cash, Collecting Officer Trust Fund – Bayad Center and Trust Liabilities – Premiums/Bills Payment Collection – Bayad Center Accounts amounting to P45.167 million and P14.678 million, respectively, is doubtful due to material discrepancy of P30.489 million.

6. At PPC CO, the negative balance in Trust Liabilities Account amounting to P324.601 million is inaccurately recorded as of December 31, 2018 contrary to PPSAS 1.

In addition to the above audit observations which were considered in rendering an adverse opinion, the following are other significant audit observations with recommendations that need immediate action as well:

1. Inability of Management to reconcile and eliminate the two reciprocal accounts *Due from Postal Area Offices* in the CO's books and *Due to PPC Central Office* in all nine Postal Area Offices resulted to a cumulative variance of (P567.432) million, and affected the reliability and accuracy of the agency's financial statements as of year-end in contravention with PPSAS 1, International Accounting Standard (IAS) 27 and Section III of PHLPost Circular No. 17-73.

*Recommendations:*

- a. Substantiate and reconcile the variances noted on a per Postal Area Office to reduce the variance if not totally eliminate the reciprocal accounts in the financial statements; and
  - b. Comply with Section III of PHLPost Circular No. 17-73 and effect year-end reconciliation of reciprocal accounts.
2. The non-recognition of the rental income amounting to P30.569 million exclusive of VAT, from the lease of the Surface Mail Exchange Department Building of PPC to the Commission on Elections (COMELEC) for Calendar Year 2018 contravened PPSAS 1, thus, understated the Rent Receivables, Rental Income and VAT Payable accounts.

*Recommendation:*

Deliver regularly to COMELEC the Billing Statement for the immediate payment of its lease obligations to PPC, and enter into a long term contract with COMELEC as necessary.

3. The Due to Officers and Employees in the PPC CO's books amounting to P277.482 million is doubtful due to P164.308 million that remained outstanding for more than two years in the books as of December 31, 2018.

*Recommendations:*

- a. Revert to General Fund the audited amount of P164.308 million of Due to Officers and Employees pursuant to Section 98 of P.D. 1445; and
  - b. Reformat the Schedule to effectively classify the account Due to Officers and Employees according to age such as those less than one year, those more than one year but less than two years, and those more than two years.
4. Inclusion of long outstanding accounts payable amounting to P135.212 million despite the absence of documents to support the validity of entries in the books contrary to Section 4(6) of P.D. 1445, Republic Act No. (R.A.) 3526 and Executive Order (EO) No. 228.

*Recommendations:*

- a. Revert to the General Fund the amount of P135.212 million pursuant to R.A. 3256 and E.O. 228; and
- b. Validate and ensure that all obligations are supported with complete supporting documents to comply with Section 4(6) of P.D. 1445.

The foregoing audit observations together with the recommended course of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 31, 2019 are discussed in detail in Parts II and III of the report.


We respectfully request that the recommendations contained in Parts II and III of the report be fully implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation (copy attached) within 60 days from the date of receipt hereof.

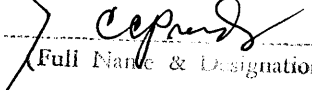
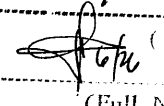
We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

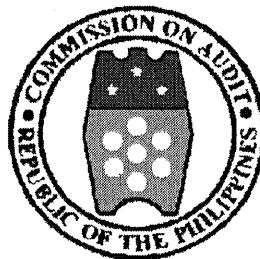
**By:**

  
**LEILA S. PARAS**  
Director IV

Initiated/Drafted by:  (Full Name & Designation)  
Typed By: \_\_\_\_\_  
Reviewed by:  (Full Name & Designation)  
Director/Officer-In-Charge: \_\_\_\_\_ (Full Name)

**Copy furnished:**

The President of the Republic of the Philippines  
The Vice-President  
The President of the Senate  
The Speaker of the House of Representatives  
The Chairperson - Senate Finance Committee  
The Chairperson - Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
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*Republic of the Philippines*  
**COMMISSION ON AUDIT**  
*Commonwealth Avenue, Quezon City*

# **ANNUAL AUDIT REPORT**

on the

## **PHILIPPINE POSTAL CORPORATION**

**For the Years Ended December 31, 2018 and 2017**

## EXECUTIVE SUMMARY

### A. Introduction

#### Philippine Postal Corporation (PPC)

1. PPC was created by virtue of Republic Act No. 7354 otherwise known as the "Postal Services Act of 1992". It transformed the then Postal Service Office (PSO) from a Bureau into a Government-Owned and Controlled Corporation. Its mandate is to plan, develop, promote and operate a nationwide and universal postal system with network that extends throughout the entire Philippine archipelago. By being a member of the Universal Postal Union (UPU), a 192 member-country organization of the United Nations, the PPC has worldwide mail linkages that enable it to send mail to any part of the world.
2. PPC is a stock corporation composed of P10 billion authorized capital stocks divided into 45 million Class A and 55 million Class B shares, both voting and with par value of one hundred pesos. Class A shares shall be subscribed only by the Government while Class B may be owned by private entities upon authorization by the PPC Board of Directors. On record, only Class A shares are subscribed.
3. The PPC powers shall be vested in and exercised by a Board of Directors of seven members including the Postmaster General. The President of the Philippines shall appoint all the seven members. The Board shall elect a Chairman from among its Members.  
  
The members of the Board so appointed by the President shall hold office for a term of five years each, except of those first appointed, two members shall have a term of five years, two with one year. Thereafter, the appointment is in accordance with the Corporation Law.
4. In CY 2012, PPC integrated the 17 regions of the Philippines into nine postal areas excluding the Central Office, through the issuance of the PPC Office Order No. 12-01 dated January 2, 2012. Currently, PPC provides mail services to these nine postal areas, through its 1,309 post offices nationwide and to the 192 member-country organization of the UN.
5. As of December 31, 2018, the total Personnel Complement of PPC is 7,841 wherein 4,866 personnel or 62.06% are plantilla positions and 2,975 or 37.94% are hired under Contract of Service/Contractual/Consultant. The authorized plantilla positions based on PHLPost Rationalization Plan is 7,043. The total filled-up positions are 4,866 or 69.09% of the authorized plantilla positions.

#### Scope and Objectives of Audit

6. The audit was conducted to determine the (a) level of assurance that may be placed on the Management's assertions on the Financial Statements; (b) the propriety of transactions and the Corporation's compliance with existing laws, rules and regulations including Management's policies; and (c) the extent of implementation of prior year's audit recommendations.

7. The audit covered the examination of accounts, transactions and operations of PPC for the period January 1 to December 31, 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and examination of the cash and accountabilities of selected Accountable Officers. The audit involved cash examinations, data gathering through interview, ocular inspections and other relevant procedures essential to obtain sufficient evidential data to ascertain the propriety of the financial transactions and compliance with applicable laws, rules and regulations.

## B. Financial Highlights

1. The PPC's financial position and financial performance for CY 2018, are shown below:

Financial Position			
	2018	2017	Increase/ (Decrease)
Assets	11,151,278,850	10,895,070,032	256,208,818
Liabilities	5,733,054,599	5,588,513,287	144,541,312
Equity	5,418,224,251	5,306,556,745	111,667,506
Results of Operations			
	2018	2017	Increase/ (Decrease)
Total Revenue	3,687,196,661	3,536,712,025	150,484,636
Total Current Operating Expenses	(3,674,765,035)	(3,458,397,503)	216,367,532
Surplus/(Deficit) from Current Operations	12,431,626	78,314,522	(65,882,896)
Gain/(Loss) on Foreign Exchange (Forex)	13,084,328	(479,468)	13,563,769
Gain/(Loss) on Sale or Disposal of Assets	70,339	(43,888)	114,227
Income Tax Expense	(7,675,888)	(40,035,123)	(32,359,235)
Net Subsidy	585,642,000	536,539,000	49,103,000
Net Surplus/(Deficit) for the Period	603,552,405	574,295,043	29,257,362

## C. Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of presentation of the consolidated financial statements of the PPC for the years ended December 31, 2018 and 2017 for reasons stated below. Details are discussed in Part II of the Report.

1. The consolidated balance of Property, Plant and Equipment (PPE) accounts amounting to P5.957 billion was unreliable in violation of PPSAS 1 due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P788.276 million in Central Office's (CO) books; (b) discrepancy amounting to P373.997 million between Report on Physical Count of Property, Plant and Equipment (RPCPPE) amounting to P316.190 million and aggregate balance per

books in Postal Areas 3, 5, 6, and 7 in the total amount of P690.187 million; (c) incomplete Property, Plant and Equipment Ledger Card (PPELC) maintained by PPC CO and Postal Areas 2 and 7 contrary to Section 27, Chapter 10 Volume I of the Government Accounting Manual (GAM); (d) variance of P17.204 million in depreciation between Lapsing Schedule and General Ledger; (e) inclusion of P6.842 million worth of unserviceable/obsolete items in Postal Areas 3 and 6 not compliant to Section 79 of P.D. 1445; (f) PPC CO's repair/rehabilitation/improvement projects totaling P3.486 million were capitalized to Building account; and (g) substantial addition of P624.070 million to Land account without sufficient supporting documents.

2. The existence, accuracy, and validity of the year-end consolidated balance of Cash in Bank – Corporate reported at P1.113 billion could not be ascertained contrary to PPSAS 1 and other issuances due to the following: (a) the adjustment made to remove from the PPC CO books the previous year credit balance amounting to P334.137 million termed as "For Reconciliation" accounts without the supporting documents; (b) consolidated total variance amounting to P75.857 million existed between balance per books in PPC CO and Postal Area 3 against confirmed bank balances; (c) identified reconciling items for PPC CO and Postal Areas 1, 2, 3, and 5 amounting to P85.991 million; P14.586 million; P6.436 million and P10.576 million; P11.159 million and P18.332 million, respectively, remained unadjusted; (d) unreleased PPC CO's checks and stale checks totaling to P1.271 million were not restored to cash account at year end; (e) variance of P4.495 million between the Statement of Financial Position and the General Ledger balance of Postal Area 8; and (f) delayed and/or non-submission of monthly Bank Reconciliation Statements (BRS) in Postal Areas 3, 4, and 6.
3. The existence and accuracy of the consolidated balance of the Inventory accounts as of December 31, 2018 in the aggregate amount of P172.054 million was unreliable affecting the fair presentation of the financial statements as provided in PPSAS 1 due to: (a) unsubstantiated "For Reconciliation" accounts; (b) variances amounting to P84.524 million between the book balance and Report on Physical Count of Inventories (RPCI); and (c) Management's inability to convert Philatelic stamps into regular stamps in contravention with PHLPost Circular No. 16-50 dated August 8, 2016.
4. The consolidated balance of Accounts Receivables-Trade (AR-Trade) amounting to P370.494 million could not be relied upon contrary to COA Circular No. 2015-010, Paragraph 27 of PPSAS 1 and Section 112 of P.D. 1445 due to the following:
  - a. PPC Central Office: (i.) negative and unfavorable results of accounts confirmation; (ii.) Inclusion of non-trade receivable amounting to P250,000; and (iii.) unreconciled balances between the General Ledger (GL) and Subsidiary Ledgers (SL) of Allowance for Impairment of AR-Trade amounting to P155,848. Also, the high percentage of non-collection of outstanding receivables for more than three years amounting to P105.456 million;
  - b. Postal Area 3: P55.621 million or 21 per cent of the total AR-Trade of P267.085 million as of December 31, 2018 were dormant accounts for more than 10 years; and no penalty was imposed in case of default in payment by active Postage Charge Account (PCA) holders;



- c. Postal Area 7: the accuracy of Accounts Receivable amounting to P6.547 million is doubtful due to the variance of P0.787 million between the financial report and its supporting schedule, affecting the fairness of the presentation of the said account in the Financial Statements; and
  - d. Postal Area 8: overdue receivables from PCA amounting to P1.071 million remained unsettled, PCA permits not suspended and necessary penalties not imposed and computed contrary to PPC PCA policies.
5. In the PPC CO's books, the Cash – Trust Funds in the amount of P309.989 million is insufficient to cover the Trust Liabilities amounting to P604.671 million due to a variance of P294.681 million thus, affects the reliability and accuracy of the balance presented in the Financial Statements as of December 31, 2018.

In Postal Area 3, the accuracy and reliability of the year-end balance of Cash, Collecting Officer Trust Fund – Bayad Center and Trust Liabilities – Premiums/Bills Payment Collection – Bayad Center Accounts amounting to P45.167 million and P14.678 million, respectively, is doubtful due to material discrepancy of P30.489 million.

6. At PPC CO, the negative balance in Trust Liabilities Account amounting to P324.601 million is inaccurately recorded as of December 31, 2018 contrary to PPSAS 1.

#### **D. Significant Audit Observations and Recommendations**

In addition to the above audit observations which were considered in rendering an adverse opinion, the following are other significant audit observations with recommendations that need immediate action as well:

1. Inability of Management to reconcile and eliminate the two reciprocal accounts *Due from Postal Area Offices* in the CO's books and *Due to PPC Central Office* in all nine Postal Area Offices resulted to a cumulative variance of (P567.432) million, and affected the reliability and accuracy of the agency's financial statements as of year-end in contravention with PPSAS 1, International Accounting Standard (IAS) 27 and Section III of PHLPost Circular No. 17-73.

##### *Recommendations:*

- a. Substantiate and reconcile the variances noted on a per Postal Area Office to reduce the variance if not totally eliminate the reciprocal accounts in the financial statements; and
  - b. Comply with Section III of PHLPost Circular No. 17-73 and effect year-end reconciliation of reciprocal accounts.
2. The non-recognition of the rental income amounting to P30.569 million exclusive of VAT, from the lease of the Surface Mail Exchange Department Building of PPC to the Commission on Elections (COMELEC) for Calendar Year 2018 contravened PPSAS 1, thus, understated the Rent Receivables, Rental Income and VAT Payable accounts.

*Recommendation:*

Deliver regularly to COMELEC the Billing Statement for the immediate payment of its lease obligations to PPC and enter into a long term contract with COMELEC as necessary.

3. The Due to Officers and Employees in the PPC CO's books amounting to P277.482 million is doubtful due to P164.308 million that remained outstanding for more than two years in the books as of December 31, 2018.

*Recommendations:*

- a. Revert to General Fund the audited amount of P164.308 million of Due to Officers and Employees pursuant to Section 98 of P.D. 1445; and
  - b. Reformat the Schedule to effectively classify the account Due to Officers and Employees according to age such as those less than one year, those more than one year but less than two years, and those more than two years.
4. Inclusion of long outstanding accounts payable amounting to P135.212 million despite the absence of documents to support the validity of entries in the books contrary to Section 4(6) of P.D. 1445, Republic Act No. (R.A.) 3526 and Executive Order (EO) No. 228.

*Recommendations:*

- a. Revert to the General Fund the amount of P135.212 million pursuant to R.A. 3256 and E.O. 228; and
- b. Validate and ensure that all obligations are supported with complete supporting documents to comply with Section 4(6) of P.D. 1445.

**E. Summary of Total Suspensions, Disallowances and Charges**

As of December 31, 2018, the total audit suspensions and disallowances were P17.864 million and P43.144 million, respectively. The details are presented in Part II of the Report.

**F. Status of the Implementation of Prior Year's Recommendations**

Of the 138 audit recommendations contained in the 2017 Annual Audit Report, 52 were implemented, 71 were partially implemented. Details are presented in Part III.

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## **PART I – AUDITED FINANCIAL STATEMENTS**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

Philippine Postal Corporation  
Liwasang Bonifacio, Manila

### **Report on the Audit of the Financial Statements**

#### *Adverse Opinion*

We have audited the financial statements of the Philippine Postal Corporation (PPC), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of financial performance, statements of changes in net assets/equity and statements of cash flows for the years then ended and statement of comparison of budget and actual amounts for the year ended December 31, 2018 and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the Bases for Adverse Opinion section of our report, the accompanying financial statements do not present fairly, in all material respects, the financial position of the PPC as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Public Sector Accounting Standards (PPSASs).

#### *Bases for Adverse Opinion*

The consolidated balance of Property, Plant and Equipment (PPE) accounts amounting to P5.957 billion was unreliable in violation of Philippine Public Sector Accounting Standards (PPSAS) No. 1 due to: (a) inclusion of unsubstantiated or "For Reconciliation" balances in an aggregate amount of P788.276 million in Central Office's (CO) books; (b) discrepancy amounting to P373.997 million between Report on Physical Count of Property, Plant and Equipment (RPCPPE) amounting to P316.190 million and aggregate balance per books in Postal Areas 3, 5, 6, and 7 in the total amount of P690.187 million; (c) incomplete Property, Plant and Equipment Ledger Card (PPELC) maintained by PPC CO and Postal Areas 2 and 7 contrary to Section 27, Chapter 10 Volume I of the Government Accounting Manual (GAM); (d) variance of P17.204 million in depreciation between Lapsing Schedule and General Ledger; (e) inclusion of P6.842 million worth of unserviceable/obsolete items in Postal Areas 3 and 6 not compliant to Section 79 of P.D. 1445; (f) PPC CO's repair/rehabilitation/improvement projects totaling P3.486 million were capitalized to Building account; and (g) substantial addition of P624.070 million to Land account without sufficient supporting documents.

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- a. PPC Central Office: (i.) negative and unfavorable results of accounts confirmation; (ii.) inclusion of non-trade receivable amounting to P250,000; and (iii.) unreconciled balances between the General Ledger (GL) and Subsidiary Ledgers (SL) of Allowance for Impairment of AR-Trade amounting to P155,848. Also, the high percentage of non-collection of outstanding receivables for more than three years amounting to P105.456 million;
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- c. Postal Area 7: the accuracy of Accounts Receivable amounting to P6.547 million is doubtful due to the variance of P0.787 million between the financial report and its supporting schedule, affecting the fairness of the presentation of the said account in the Financial Statements; and

- d. Postal Area 8: overdue receivables from PCA amounting to P1.071 million remained unsettled, PCA permits not suspended and necessary penalties not imposed and computed contrary to PPC PCA policies.

In the PPC CO's books, the Cash – Trust Funds in the amount of P309.989 million is insufficient to cover the Trust Liabilities amounting to P604.671 million due to a variance of P294.681 million thus, affects the reliability and accuracy of the balance presented in the Financial Statements as of December 31, 2018.

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At PPC CO, the negative balance in Trust Liabilities Account amounting to P324.601 million is inaccurately recorded as of December 31, 2018 contrary to PPSAS 1.

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the PPC in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines and we have fulfilled our ethical responsibilities in accordance with these ethical requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PPSASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PPC's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the PPC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PPC's financial reporting process.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or

error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PPC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related events or conditions that may cast significant doubt on the PPC's ability to continue as a going concern. If we concluded that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PPC to cease or continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

***Report on the Supplementary Information Required Under BIR Revenue Regulations No. 15-2010***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees paid or accrued during the taxable year described in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such supplementary information is the responsibility of Management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. Our audit disclosed that PPC's tax liabilities to BIR for 2018 and 2017 were fully settled. Because of the significance of the matters described in the Bases for Adverse Opinion section, it is inappropriate to and we do not express an opinion on the information referred to above.

**COMMISSION ON AUDIT**

By:

  
**TOMAS A. AGUILA**  
OIC-Supervising Auditor

June 3, 2019

**STATEMENT OF MANAGEMENT RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The Management of the Philippine Postal Corporation is responsible for the preparation of the financial statements as of December 31, 2018, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Philippine Postal Corporation in accordance with the Philippine Public Sector Standards on the Auditing and has expressed its opinion on the fairness of presentation upon completion of such, in its report the Board of Directors.

  
**NORMAN N. FULGENCIO**  
Chairman of the Board

FEB 13, 2019  
Date Signed

  
**MAURA M. BAGHARI-REGIS**  
Assistant Postmaster General  
Administration and Finance

FEB 13, 2019  
Date Signed

  
**JOEL L. OTARRA**  
Postmaster General & CEO

FEB 13, 2019  
Date Signed

**PHILIPPINE POSTAL CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2018 AND 2017**

	NOTE	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	6	3,153,756,662	3,099,972,610
Receivables	7	2,643,959,906	2,231,102,843
Inventories	8	172,054,333	181,108,041
Other Current Assets	9	288,108,410	266,379,715
<b>Total Current Assets</b>		<b>6,257,879,311</b>	<b>5,778,563,209</b>
<b>Non-Current Assets</b>			
Investments	10	5,302,123	474,763,325
Property, Plant and Equipment	11	4,407,903,000	3,855,117,491
Other Non-Current Assets	12	480,194,416	786,626,007
<b>Total Non-Current Assets</b>		<b>4,893,399,539</b>	<b>5,116,506,823</b>
<b>Total Assets</b>		<b>11,151,278,850</b>	<b>10,895,070,032</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities	13	3,189,717,639	3,170,715,290
Inter-Agency Payables	14	648,772,938	555,220,851
Trust Liabilities	15	818,993,898	890,973,516
Deferred Credits/Unearned Income	16	1,052,035,152	793,230,987
<b>Total Current Liabilities</b>		<b>5,709,519,627</b>	<b>5,410,140,644</b>
<b>Non-Current Liabilities</b>			
Financial Liabilities	13	0	6,365,647
Other Payables	17	23,534,972	172,006,996
<b>Total Non-Current Liabilities</b>		<b>23,534,972</b>	<b>178,372,643</b>
<b>Total Liabilities</b>		<b>5,733,054,599</b>	<b>5,588,513,287</b>
<b>Net Assets (Total Assets Less Total Liabilities)</b>		<b>5,418,224,251</b>	<b>5,306,556,745</b>
<b>NET ASSETS/EQUITY</b>			
Government Equity	27	3,433,260,898	3,433,260,898
Stockholders' Equity		200,000	200,000
Cumulative Changes in Fair Value of Investments	28 & 29	1,996,368,695	1,996,368,695
Accumulated Surplus/(Deficit)		(11,605,342)	(123,272,848)
<b>Total Net Assets/Equity</b>		<b>5,418,224,251</b>	<b>5,306,556,745</b>

The notes on pages 12 to 44 form part of these statements.

**PHILIPPINE POSTAL CORPORATION**  
**STATEMENTS OF FINANCIAL PERFORMANCE**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>NOTE</u>	<u>2018</u>	<u>2017</u>
<b>Revenue</b>			
Mail Services	18	2,964,542,550	2,762,774,041
Postal Payment Services	19	548,770,550	582,404,382
Logistics Services	20	51,377,643	64,336,153
Retail Services	21	47,113,463	62,593,362
Business Income		11,669,064	6,625,759
Other Business Income	22	63,723,391	57,978,328
<b>Total Revenue</b>		<b><u>3,687,196,661</u></b>	<b><u>3,536,712,025</u></b>
<b>Current Operating Expenses</b>			
Personnel Services	23	(1,808,125,012)	(1,833,121,836)
Maintenance and Other Operating Expenses	24	(1,227,043,602)	(1,269,018,892)
International Mail Exchange Expenses	25	(622,772,189)	(326,637,613)
Cost of Goods Sold		(8,687,232)	(9,437,483)
Financial Expenses		(8,137,000)	(20,181,679)
<b>Total Current Operating Expenses</b>		<b><u>(3,674,765,035)</u></b>	<b><u>(3,458,397,503)</u></b>
<b>Surplus from Current Operations</b>		<b><u>12,431,626</u></b>	<b><u>78,314,522</u></b>
Gain/Loss On Foreign Exchange (Forex)		13,084,328	(479,468)
Gain/Loss On Sale Or Disposal Of Assets		70,339	(43,888)
<b>Surplus before Tax</b>		<b><u>25,586,293</u></b>	<b><u>77,791,166</u></b>
Income Tax Expense		(7,675,888)	(40,035,123)
<b>Surplus after Tax</b>		<b><u>17,910,405</u></b>	<b><u>37,756,043</u></b>
Net Subsidy	33	585,642,000	536,539,000
<b>Net Surplus for the Period</b>		<b><u>603,552,405</u></b>	<b><u>574,295,043</u></b>

The notes on pages 12 to 44 form part of these statements.

**PHILIPPINE POSTAL CORPORATION**  
**STATEMENTS OF CHANGES IN NET ASSETS/EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Accumulated Surplus/(Deficit)	Government Equity	Contributed Capital	Cumulative Changes in Fair Value of Investments	Total
<b>BALANCE AT JANUARY 1, 2017</b>	<b>(160,457,374)</b>	<b>3,433,260,898</b>	<b>217,100</b>	<b>1,996,368,695</b>	<b>5,269,389,319</b>
<b>Adjustments:</b>					
Add/(Deduct):					
Prior period errors	(537,110,518)	0	0	0	(537,110,518)
Other adjustments	0	0	(17,100)	0	(17,100)
<b>RESTATED BALANCE AT JANUARY 1, 2017</b>	<b>(697,567,892)</b>	<b>3,433,260,898</b>	<b>200,000</b>	<b>1,996,368,695</b>	<b>4,732,261,701</b>
<b>Changes in Net Assets/Equity for CY 2017</b>					
Add/(Deduct):					
Surplus/(Deficit) for the period	574,295,043	0	0	0	574,295,043
<b>BALANCE AT DECEMBER 31, 2017</b>	<b>(123,272,849)</b>	<b>3,433,260,898</b>	<b>200,000</b>	<b>1,996,368,695</b>	<b>5,306,556,744</b>
<b>Changes in Net Assets/Equity for CY 2018</b>					
Add/(Deduct):					
Surplus/(Deficit) for the period	603,552,405	0	0	0	603,552,405
Other adjustments	(491,884,898)	0	0	0	(491,884,898)
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>(11,605,342)</b>	<b>3,433,260,898</b>	<b>200,000</b>	<b>1,996,368,695</b>	<b>5,418,224,251</b>

**PHILIPPINE POSTAL CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u> (As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash Inflows</b>		
Proceeds from Sale of Goods and Services	2,800,958,681	3,087,084,701
Receipt of Assistance/Subsidy	290,734,000	536,537,000
Collection of Receivables	1,141,594,645	987,397,372
Receipt of Intra-Agency Fund Transfers	5,271,068,516	8,937,103,167
Trust Receipts	3,832,195,732	1,237,995,672
Other Receipts	976,384,417	185,949,860
<b>Total Cash Inflows</b>	<b>14,312,935,991</b>	<b>14,972,067,772</b>
Adjustments	388,475,488	3,333,312,167
<b>Adjusted Cash Inflows</b>	<b>14,701,411,479</b>	<b>18,305,379,939</b>
<b>Cash Outflows</b>		
Payment of Expenses	2,233,942,412	1,975,176,292
Purchase of Inventories	37,567,099	84,380,750
Grant of Cash Advances	73,004,203	14,543,789
Prepayments	187,872	220,423
Refund of Deposits	22,339,190	33,468,410
Payment of Payables	475,150,322	1,016,676,243
Remittance of Personnel Benefit Contributions and Mandat	681,901,615	596,466,166
Grant of Financial Assistance/Subsidy/Contribution	2,050,000	0
Release of Intra-Agency Fund Transfers	6,956,752,715	9,522,489,416
Other Disbursements	3,092,601,778	1,022,500,635
<b>Total Cash Outflows</b>	<b>13,575,497,206</b>	<b>14,265,922,124</b>
Adjustments	972,694,583	3,165,946,389
<b>Adjusted Cash Outflows</b>	<b>14,548,191,789</b>	<b>17,431,868,513</b>
<b>Net Cash Provided by/(Used in) Operating Activities</b>	<b>153,219,690</b>	<b>873,511,426</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

<b>Cash Inflows</b>		
Proceeds from Sale/Disposal of Property, Plant and Equipr	14,512	107,083
Receipt of Interest Earned	8,749,585	6,545,543
Proceeds from Sale of Other Assets	21,920	0
<b>Total Cash Inflows</b>	<b>8,786,017</b>	<b>6,652,626</b>
Adjustments	5,723,979	89,478
<b>Adjusted Cash Inflows</b>	<b>14,509,996</b>	<b>6,742,104</b>
<b>Cash Outflows</b>		
Purchase/Construction of Property and Equipment	20,798,358	19,034,136
Payment of Interest	0	1,170,664
Payment of Cash Dividends	105,822,863	21,465,659
<b>Total Cash Outflows</b>	<b>126,621,221</b>	<b>41,670,459</b>
Adjustments	408,741	2,096,447
<b>Adjusted Cash Outflows</b>	<b>127,029,962</b>	<b>43,766,906</b>
<b>Net Cash Provided by/(Used in) Investing Activities</b>	<b>(112,519,966)</b>	<b>(37,024,802)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

<b>Cash Outflows</b>		
Payment of Long-Term Liabilities	0	45,378,634
Payment of Interest on Loans and Other Financial Charges	0	1,261,738
<b>Total Cash Outflows</b>	<b>0</b>	<b>46,640,372</b>
Adjustments	0	0
<b>Total Cash Outflows</b>	<b>0</b>	<b>46,640,372</b>
<b>Net Cash Provided by/(Used in) Financing Activities</b>	<b>0</b>	<b>(46,640,372)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>40,699,724</b>	<b>789,846,252</b>
<b>Effects of Exchange Rate Changes on Cash and Cash Equiv</b>	<b>13,084,328</b>	<b>(479,468)</b>
<b>Cash and Cash Equivalents, January 1</b>	<b>3,099,972,610</b>	<b>2,310,605,826</b>
<b>Cash and Cash Equivalents, December 31</b>	<b>3,153,756,662</b>	<b>3,099,972,610</b>

**PHILIPPINE POSTAL CORPORATION**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

PARTICULAR		Budgeted Amounts		Actual Amounts on Comparable Basis	Difference Final Budget and Actual
		Original	Final		
Notes					
RECEIPTS					
Mail Services	18	3,483,467,398	2,999,417,024	2,964,542,550	34,874,474
Payment & Retail Services	19 & 21	842,466,310	781,194,171	595,884,013	185,310,158
Logistics and Warehousing	20	141,280,689	152,468,305	51,377,643	101,090,662
Other Income	22	44,973,940	68,393,712	75,392,455	(6,998,743)
Total Receipts		4,512,188,337	4,001,473,212	3,687,196,661	314,276,551
PAYMENTS					
Personnel Services	23	1,956,674,283	1,944,238,896	1,808,125,012	136,113,884
Maintenance and Other Operating	24 & 25	2,294,480,241	1,956,177,434	1,858,503,023	97,674,411
Financial Expenses		14,050,807	14,254,878	8,137,000	6,117,878
Total Payments		4,265,205,331	3,914,671,208	3,674,765,035	239,906,173
NET RECEIPTS/PAYMENTS		246,983,006	86,802,004	12,431,626	74,370,378

The notes on pages 12 to 44 form part of these statements.



**PHILIPPINE POSTAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**1. CORPORATION INFORMATION**

The Philippine Postal Corporation (PPC) was created by virtue of Republic Act No. 7354, otherwise known as the "Postal Services Act of 1992", which took effect on April 3, 1992. It transformed the then Postal Services Office from a Bureau into a Government-Owned and Controlled Corporation.

The Corporation is mandated to perform the following functions and responsibilities:

- a. To provide for the collection, handling, transportation, delivery, forwarding, returning and holding of mails, parcels, and like materials, throughout the Philippines and pursuant to agreements entered into, to and from foreign countries;
- b. To determine and dispose of, in a manner it deems most advantageous, with law and settled jurisprudence, confiscated or non-mail matters, prohibited articles, dead letters and undelivered mails, except the sale of prohibited drugs, dangerous materials and other banned articles as defined by law; and
- c. To plan, develop, promote and operate a nationwide postal system with a network that extends or makes available at least ordinary mail service, to any settlements in the country.

On January 2, 2012, PPC implemented Office Order No. 12-01 integrating the usual 14 regions into nine postal areas excluding the Central Office which is considered as postal area.

PPC is a member of the Universal Postal Union (UPU) of the United Nations. It is part of the global network of Post Offices which operates under the principles of "one single territory" and "freedom of transit."

**2. STATEMENT OF COMPLIANCE WITH PHILIPPINE PUBLIC SECTOR ACCOUNTING STANDARDS**

As per COA Circular No. 2015-003 dated April 16, 2015, PPC is classified as Non-Government Business Enterprise (Non-GBE) for not having met the criteria to qualify as Government Business Enterprise (GBE), which is either of the following:

- a. Has the power to contract in its own name;
- b. Has been assigned the financial and operational authority to carry on a business;
- c. Sell goods and services, in the normal course of its business to other entities at a profit or full cost of recovery;
- d. Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
- e. Is controlled by a public sector entity.

As Non-GBE, the Philippine Public Sector Accounting Standards (PPSAS) and the Revised Chart of Accounts (RCA) for Government Corporations COA Circular No. 2015-010 dated December 1, 2015, shall apply in the preparation of the financial statements and other related financial reports.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of Accounting

The financial statements of the Corporation have been prepared on the historical cost basis and are presented in Philippine peso (Php) which is also the country's functional currency.

Foreign currency transactions (i.e. international money order or international mail remunerations) are translated into the functional currency. For transactions on international mail remunerations, the monetary unit being used in the preparation and settlement of accounts is the Special Drawing Rights (SDR), converted to dollar and then to peso (presentation currency). International Money Order transactions are measured in dollar and translated into the peso currency.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

Furthermore, the preparation of the financial statements requires Management's use of certain critical accounting estimates and the exercise of its judgment in the process of applying the Corporation's accounting policies.

The significant accounting policies and practices of the Corporation are set forth to facilitate the understanding of the financial statements.

#### Use of the Revised Chart of Accounts for Government Corporations

The Corporation uses the RCA for Government Corporations in the presentation of financial transactions.

#### Adoption of Standard Formats for Financial Statements, Journals and General Ledgers

The Corporation adopted the standard formats for financial statements, journals and general ledgers for the following purposes:

- a. Facilitate consolidation of monthly financial reports of the Central Office and the nine Area Offices; and
- b. Data are readily available for analysis and reconciliation.

#### Adoption of the Central Office - Area Accounting System

To strengthen the recognition of, and accounting for all inter-office transactions in both Central Office and Area Office. On September 6, 2017, PPC Circular No. 17-

73 was issued which prescribed the use of one set of reciprocal accounts, viz: Due to Central Office and Due from Area Office starting CY 2018. Said Circular, amends, modifies or rescinds PPC Circular No. 13-10 dated March 15, 2013 which prescribed the use of two sets of reciprocal accounts. Previous entries using the old sets of reciprocal accounts were adjusted accordingly and balances of the old sets of reciprocal accounts were closed to the new accounts.

Only the Central Office can debit or credit the Due from Area Office account in its books and only the Area Office can debit or credit the Due to Central Office in its books.

The following transactions are recorded using the Due to Central Office and Due from Area Accounts:

1. Fund transfer from Central Office to Area Office;
2. Cash transfer "sweeping" from Area Office Corporate accounts to Central Office Corporate account;
3. Centralized billing to corporate clients;
4. Centralized collection of billed Accounts Receivable;
5. Transfer of inventory (supplies or equipment, vehicle, etc.) from Central Office to Area Office or vice versa;
6. Expenses or payables of Area Office paid by Central Office;
7. Expenses or payables of Central Office paid by Area Office;
8. Transfer of withholding tax, output/input tax and creditable tax of Area Office to Central Office;
9. Transfer of Area Tax Refund to Central Office;
10. "Due to/from" transactions between Area Offices; and
11. Closing of Area's Revenue and Expense Summary account.

### **3.2 Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash in bank 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.

*Cash in Bank-Local Currency, Current Account* refers to the Cash in Bank – Trust under the PPC Chart of Accounts. It pertains to funds from money order remittances; bills payments like PhilHealth and Bayad Center, and funds for Indigent Senior Citizen and other pay-out services.

*Cash in Bank-Local Currency, Savings Account* refers to the Cash in Bank – Corporate under PPC Chart of Accounts. It pertains to General Fund and Operating Fund in local and foreign currencies.

### **3.3 Receivables and Allowance for Impairment**

Receivables are stated at net realizable values. Allowances for Impairment are set up following the aging method for trade receivables, and amount of receivable less benefits/claims for non-trade receivables.

The following percentages based on the age of receivables are the basis for recognizing bad debt expense as per PPC Circular No. 16-0 dated December 29, 2017 "Amendment to PPC Circular No. 15-71 dated December 21, 2015 on the Guidelines for Provision of Bad Debts":

Number of days	Percentage
One day to 60 days	1%
61 days to 180 days	2%
181 days to 1 year	3%
More than 1 year	5%
Over 10 years	20%

International Accounts Receivable are accounted for in Special Drawing Right (SDR) and converted to peso (presentation currency) at the end of the accounting period. The treatment of International Accounts Receivable on mail remunerations is governed by Universal Postal Union (UPU) regulations and bilateral agreements between designated operators.

Under UPU regulations, the debtor designated operator shall be exempted from payment of terminal dues when the annual balance does not exceed 326.70 SDR. The balance of less than 326.70 SDR shall be included in the balance of the following year by the creditor designated operator. Offsetting of receivables against payable is allowed and there is no provision for bad debts.

### **3.4 Inventories**

Inventories are valued at cost and are determined by using the First-In-First-Out (FIFO) method. Items with a serviceable life of more than one year but small enough to be considered as equipment are treated as inventories upon acquisition and as expense upon issuance (COA Circular No. 2005-002 dated April 14, 2005).

### **3.5 Property, Plant and Equipment**

Except for Land, Property, Plant and Equipment (PPE) are initially measured at cost less any subsequent accumulated depreciation, amortization and impairment losses. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Depreciation is computed on the *straight-line method*. Assets acquired during the year were computed a useful life prescribed in COA Circular No. 2003-007 dated December 11, 2003 and a residual value equivalent to 10 percent (10%) of the acquisition cost.

### **3.6 Semi-expendable Property**

Tangible items below the capitalization threshold of P15,000.00 were accounted as semi-expendable property (COA Circular 2019-006, Paragraph 5.4).

The semi-expendable property which was recognized as PPE were reclassified to the effected appropriate semi-expendable inventory accounts (if not yet issued to

the end-user), Expense accounts (if issued within the year), or Retained Earnings accounts (if issued in prior years).

These tangible items were recognized as expenses upon issuance to the end-user.

### **3.7 Land**

Land includes lots appraised in 1994 and recorded in the books as part of the Paid-up Capital of the National Government, and lots acquired after 1992. These lots include donated lots covered with the Deed of Donation, whether absolute or with condition. These are valued at their appraised cost which is also the deemed cost.

By virtue of Republic Act No.7354, creating the PPC, all real and personal properties which upon the effectivity of the Act are vested in, or owned by, the Postal Services Office and its predecessor Bureau of Posts are transferred to the Corporation without the need of conveyance, transfer or assignment. The appraised value determined by Asian Appraisal Company, Inc. in 1994 is the deemed cost of the assets transferred to PPC.

Land acquired after 1994 are recorded at cost which is generally the fair market value.

#### **a. Recognition**

On January 22, 2015, the PPC Board of Directors adopted Board Resolution No. 2015-007 "adopting as a matter of policy the recognition of the value of donated lots covered by the Absolute Deed of Donations and those subject to conditions as assets in the books of the Corporation for the calendar year 2014 and in succeeding years."

#### **b. Valuation**

In September and October 2012, all lots classified as "Land" were reappraised by Asian Appraisal Company, Inc. The fair value of the land at the date of appraisal is adopted as the basis for uniform valuation in conformity with Philippine Accounting Standards (PAS) 16.

#### **c. Revaluation Surplus**

The increase in the land's carrying amount as a result of revaluation is accumulated in equity under the heading Revaluation Surplus.

### **3.8 Accrued Expenses**

This represents amount due to various service providers/suppliers (utilities, supplies for operations, mail messengers/contractors) for services provided/goods purchased in the course of the Corporation's operations.

### **3.9 Income and Expenses**

The basis of recognizing income and expenses is the modified accrual basis. Income of the Corporation is classified based on the nature of service:

- Mail Services Income
- Postal Payment Services
- Logistics Services
- Retail Services
- Other Income

Pursuant to Board Resolution No. 2015-144 dated December 16, 2015 and in compliance to existing revenue regulations, effective January 2, 2017, all sales of PPC goods and services are subject to 12% VAT subject to the exemptions that are expressly provided by existing tax laws.

Expenses are classified under the following main accounts:

#### **Operating Expenses**

- Cost of Goods Sold
- Personnel Services
- Maintenance and Other Operating Expenses
- International Mail Exchange Expenses

#### **Other Expenses**

- Financial Cost

### **3.10 Subsequent Events**

The Corporation identifies subsequent events as events that occurred after the date of Statement of Financial Position but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Corporation's financial position at the balance sheet date are reflected in the financial statements.

Non-adjusting events are disclosed in the Notes to the Financial Statements when material.

### **3.11 Provisions and Contingencies**

Provisions are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount of liability is presented in the financial statements.

### **3.12 Declaration of Dividends**

Under RA 7656, the Corporation is required to declare and remit at least 50% of its annual net earnings as dividends to the National Government.

On October 10, 2018, the Board of Directors adopted Board Resolution No. 2017-149 "Approving the payment of dividends due to the National Government for the years 2002 to 2014 with a total amount of P320,765,009.86 in sixty (60) equal monthly installments of P5,346,083.50 starting in November 2017."

The PPC remitted to the National Government dividend amounting to P105,822,682.50.

### **4. EXEMPTION FROM TAXES, CUSTOMS, AND TARIFF DUTIES**

The Corporation is exempted from all direct and indirect taxes, customs duties, fees, imports and tariff duties, compensating taxes, wharfage fees and other charges and from restrictions on the importation of equipment, machineries, spare parts, accessories, and other materials, including supplies and services used directly in the operations of the Postal System not obtainable locally on favorable terms.

All obligations entered into by the Corporation and any income derived therefrom, including those contracted with private international banking and financial institutions are exempted from all taxes on both principal and interest. The Corporation is also exempted from the payment of capital gains tax, local government imposts and fees after December 31, 1997. Further, the Corporation may offset the full value of capital investments not otherwise funded by the National Government against any income tax due for the same period.

### **5. STATEMENT OF FINANCIAL POSITION INCLUDES ACCOUNTS TERMED AS "FOR RECONCILIATION"**

Upon its incorporation in 1992, PPC continued using the Postal Services Office (PSO) books of accounts, thus, the unreconciled/unaccounted balances of then PSO were carried over to the PPC books of accounts. In 1996, the unreconciled amounts were further increased due to non-reconciliation of balances for lack of supporting documents, as a result of the fire that completely destroyed accounting records on April 21, 1996.

In December 1999, the Corporation engaged the services of an independent auditing firm which recommended the set-up of temporary accounts (Contingent Assets, Contingent Liabilities and Contingent Capital Suspense account) to record the balances of the PSO accounts which remained dormant and other unreconciled/unaccounted balances of the PPC books as of December 31, 1998. The temporary accounts were presented in the financial statements from CYs 2000 to 2004.

In 2005, the Contingent Assets, Contingent Liabilities and Contingent Capital Suspense Accounts were written-off from the Central Office Books while in some Regional Books, the balances were transferred to the Due to Central Office account. However, upon the recommendation of the then COA Auditor, the balances of these accounts were restored in 2006 and reclassified to "bad accounts". Since 2006 until 2012, the net differences of the assets and liabilities classified as "bad accounts" were closed to Retained Earnings.

The separation of the account balance to Good and Bad accounts was in compliance with Memorandum Circular No. 0703 dated June 15, 2007 – *Guidelines to Follow for Certain Accounts to Clean Up the Balance Sheets*, a joint memorandum issued both by PPC-OAPMG for Administration and Finance and the COA. The purpose is to reflect in the “good” financial statements, the “most likely” true worth of the PPC pending disposition and other COA actions on the “Bad” accounts.

For CY 2013, to address the “prior years’ balances for reconciliation” and to establish the balances to start with, Memorandum-Guidelines dated March 11, 2013 was issued relative to the following:

- a. Opening a new set of Books (General Ledger beginning balances) for all accounts that are properly supported. These new balances, upon consolidation, will present the Corporation’s financial position as of January 1, 2013.
- b. Maintenance of the old set of Books separately containing the unsubstantiated balances subject for adjustment once the accounts are validated and properly supported.

Verification and reconciliation of prior years’ balances is a continuing activity. During the year, balances which have been identified were adjusted.

## 6. CASH AND CASH EQUIVALENTS

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
<b>Corporate fund:</b>		
Cash in Bank	1,112,872,878	901,325,959
Short -Term Investments	1,188,493,650	812,985,030
Cash - Collecting Officers	167,799,882	273,689,139
Payroll Fund	17,572,908	39,956,179
Cash - Disbursing Officers	5,835,597	8,235,179
Petty Cash Fund	1,374,643	1,286,053
<b>Sub-total</b>	<b>2,493,949,558</b>	<b>2,037,477,539</b>
<b>Trust Account:</b>		
Cash in Bank	519,942,390	791,795,435
Cash - Disbursing Officers	29,027,943	169,514,167
Cash - Collecting Officers	110,836,771	101,185,469
<b>Sub-total</b>	<b>659,807,104</b>	<b>1,062,495,071</b>
<b>Total</b>	<b>3,153,756,662</b>	<b>3,099,972,610</b>

*Cash in Bank* consists of Local Currency, Savings and Current Accounts maintained by PPC with Philippine National Bank, Land Bank of the Philippines and Banco de Oro, either for remittance of collections or for payment of operating expenses.

The *Cash in Bank, Corporate/Operating Accounts* are classified as *Cash in Bank – Local Currency, Savings Account* while *Cash in Bank, Trust Accounts* regardless of the type of account (Savings or Current) is classified as *Cash in Bank – Local Currency, Current Account*.



Since the new Revised Chart of Accounts does not provide a definite new account for *Cash in Bank – Trust Account*, the *Cash in Bank – Local Currency, Current Account* is being used to distinguish the account from corporate accounts.

*Short -Term Investments* refer to time deposits with a term of three months or less. *Cash-Collecting Officers* are cash on hand of Postmasters, Cashiers and other designated Collecting Officers.

*Payroll Fund* represents cash advances granted to designated disbursing officers for payment of salaries, wages, allowances and other similar expenses.

*Cash - Disbursing Officers* represents unutilized funds on hand of designated Disbursing Officers for payment of authorized official expenditures.

*Petty Cash Fund* represents undisbursed revolving funds in the custody of authorized Disbursing Officers. The authorized amount per Disbursing Officer is not more than P100,000.00.

Breakdown of Cash in Bank – Trust Account:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Cash In Bank - Trust - Manual MO/PhilHealth	404,466,676	614,734,685
Cash In Bank - Trust - International Money Order	52,318,278	50,558,967
Cash In Bank - Trust - Bayad Center	19,913,149	33,155,624
Cash In Bank - Trust - Consignment	14,660,068	14,489,609
Cash In Bank - Trust - ePMO	10,550,812	11,337,899
Cash In Bank - Trust - SPISC	9,118,192	9,118,158
Cash In Bank - Trust - PhilHealth	4,124,343	42,553,357
Cash In Bank - Trust - PhilHealth LBP	2,255,662	13,726,313
Cash In Bank - Trust - CCT	1,552,588	1,352,222
Cash In Bank - Trust – Institutional	478,847	513,542
Cash In Bank - Trust - Manual MO/PhilHealth - PDIC	387,027	375,289
Cash In Bank - Trust - SCI	66,533	66,533
Cash In Bank - Trust - We Access	40,080	(306,108)
Cash In Bank - Trust - Red Cross	10,000	0
Cash In Bank - Trust - Presidential Social Fund	135	31,070
Cash In Bank - Trust - Joint Venture	0	57,887
Cash In Bank - Trust - BOC	0	30,388
<b>Total</b>	<b>519,942,390</b>	<b>791,795,435</b>

Breakdown of Cash – Disbursing Officers - Trust Account:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Cash - Disbursing Officers - Trust - SPISC	12,583,949	152,511,449
Cash - Disbursing Officers - Trust - SCI	11,962,300	11,962,300
Cash - Disbursing Officers - Trust - CCT	3,736,125	4,014,849
Cash - Disbursing Officers - Trust - Manual MO	725,569	725,569
Cash - Disbursing Officers - Trust - PRC	20,000	0
Cash - Disbursing Officers - Trust - PDIC	0	300,000
<b>Total</b>	<b>29,027,943</b>	<b>169,514,167</b>

Breakdown of Cash - Collecting Officers - Trust Account:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Cash - Collecting Officers - Trust - Bayad Center	49,981,276	49,167,415
Cash - Collecting Officers - Trust - PhilHealth	40,778,991	28,295,436
Cash - Collecting Officers - Trust - Manual Mo	19,158,060	19,974,688
Cash - Collecting Officers - Trust - ePMO	488,854	581,362
Cash - Collecting Officers - Trust - Output VAT	412,015	412,015
Cash - Collecting Officers - Trust - Consignment	17,575	17,575
Cash - Collecting Officers - Trust - MIWD	0	2,736,978
<b>Total</b>	<b>110,836,771</b>	<b>101,185,469</b>

## 7. RECEIVABLES

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Accounts Receivable	1,760,945,030	1,503,320,200
Other Receivables	883,014,876	727,782,643
<b>Total</b>	<b>2,643,959,906</b>	<b>2,231,102,843</b>

### 7.1 Breakdown of Accounts Receivable

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Accounts Receivable, Designated Operators - Mail Remunerations	1,203,755,768	966,941,083
Accounts Receivable, Trade	370,494,026	408,876,164
Accounts Receivable, Designated Operators - Postal Payment Remittances	186,695,236	127,502,953
<b>Total</b>	<b>1,760,945,030</b>	<b>1,503,320,200</b>

*Accounts Receivable, Designated Operators - Mail Remunerations* consist of receivables already accepted by the various designated operators which are still outstanding as of December 31, 2018 and receivables billed during the year presented for acceptance by the designated operators.

*Accounts Receivable, Trade* refers to the amount due from customers arising from mail services rendered, trading/business transactions or sale of postage/philatelic

items/PPC's products including postage charge account from sales of goods or services to bulk mail clients.

*Accounts Receivable, Designated Operators – Postal Payment Remittances* pertain to the amount due from designated operators arising from the services rendered to deliver all inbound international mail matters and postal payment remittances to the addressees. This consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
<u>Receivables - Mail Remunerations</u>		
Accounts Receivable, Designated Operators	1,205,341,151	966,941,083
Allowance for Forex Adjustments	(1,585,383)	0
<b>Total</b>	<b>1,203,755,768</b>	<b>966,941,083</b>
<u>Receivables - Postal Payment Remittances</u>		
Accounts Receivable, Designated Operators - Postal Payment Remittances	201,626,402	140,760,954
Allowance for Forex Adjustments, Designated Operators – Postal Payment	(14,931,166)	(13,258,001)
<b>Total</b>	<b>186,695,236</b>	<b>127,502,953</b>

## 7.2 Other Receivables consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Due From NGAs, GOCCs, etc.	618,543,319	453,896,227
Accounts Receivable, Non-Trade	205,218,590	7,840,321
Due From Directors, Officers and Employees	98,120,961	166,159,276
Due From Subsidiaries/Joint Ventures/Affiliates	65,370,420	0
Receivables - Disallowances/Charges	56,785,061	58,398,543
Rental Receivable	35,424,551	37,713,367
Receivables - Other	931,557	954,557
Advances To Officers and Employees	788,770	2,820,352
<b>Sub-total</b>	<b>1,081,183,229</b>	<b>727,782,643</b>
Allowance For Impairment-Other Receivables	(198,168,353)	0
<b>Total</b>	<b>883,014,876</b>	<b>727,782,643</b>

*Due from NGAs, GOCCs, etc.* are receivables from the Department of Foreign Affairs (DFA), Commission on Election (COMELEC), Department of Budget and Management (DBM), Supreme Court (SC), Bayad Center, etc. arising from postal services.

*Accounts Receivable, Non-Trade* includes the balances from dissolved subsidiaries which was previously recorded in the Other Assets account since this account is not subject to allowance for impairment of receivables.

*Due from Directors, Officers and Employees* include shortages of accountable officers who are no longer in service or whose whereabouts are unknown.

*Due from Subsidiaries/Joint Ventures/Affiliates* refers to amounts due from joint venture company/partners as a result of the agreement signed/closed in a joint venture entered into by the PPC.

*Rental Receivables* include rental fees generated from leasing the PPC's buildings and related facilities.

*Advances to Officers and Employees* include balances of cash advances granted to officers and employees for the special and time-bound undertaking. Some accountable officers or employees are no longer in service.

*Receivables-Others* pertain to claims for utility bills such as water and electric consumption.

## 8. INVENTORIES

Inventories are valued using the First-In, First-Out (FIFO) method. Merchandise inventory includes philatelic stamps/items and other PPC products.

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Other Merchandise Inventory	72,559,070	79,061,630
Supplies And Materials Inventory	56,108,756	43,157,490
Accountable Forms, Plates and Stickers Inventory	21,380,756	35,274,341
Spare Parts Inventory - Motor Vehicles	11,951,566	16,019,820
Semi-Expendable Office Information & Communication Technology Equipment	2,847,965	1,240,738
Fuel, Oil and Lubricants Inventory	2,220,302	2,070,348
Spare Parts Inventory - Office & Information Technology Equipment	1,311,392	1,164,630
Construction Materials Inventory	1,170,914	1,705,712
Spare Parts Inventory - Metered Machines	923,780	816,121
Semi-Expendable Office Equipment	740,039	459,777
Semi-Expendable Other Machinery And Equipment	457,261	58,120
Semi-Expendable Furniture and Fixtures	382,532	79,314
<b>Total</b>	<b>172,054,333</b>	<b>181,108,041</b>

## 9. OTHER CURRENT ASSETS

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Prepayments		
Prepaid Registration	330,245	739,712
Prepaid Rent	39,880	35,880
Other Prepayments	19,604,000	0
<b>Sub-total</b>	<b>19,974,125</b>	<b>775,592</b>

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Deferred Charges	149,158,624	143,816,030
Other Assets		
Input Tax	27,186,330	28,440,206
Creditable Withholding Tax	37,022,144	24,359,472
Creditable VAT	20,202,761	37,178,864
Deferred Input Tax	29,817,474	27,216,524
Guaranty Deposits	4,746,952	4,593,027
<b>Sub-total</b>	<b>118,975,661</b>	<b>121,788,093</b>
<b>Total</b>	<b>288,108,410</b>	<b>266,379,715</b>

*Deferred Charges* are amounts paid in advance in perfected contracts for the purchase of goods or services.

*Guaranty Deposits* are amounts deposited as security deposits during the duration of the contract, subject to refund upon fulfillment of the obligation.

*Deferred Input Taxes* are taxes recognized on purchases of services on credit. This account will be closed to Input Tax upon payment.

#### 10. INVESTMENTS

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Philippine Postal Savings Bank, Inc. (PPSBI)	0	468,913,475
Provident Fund Office (PFO)	5,000,000	5,000,000
PLDT/MERALCO (Mega Manila)	302,123	849,850
<b>Total</b>	<b>5,302,123</b>	<b>474,763,325</b>

Executive Order No. 44, Series of 2017 approved the acquisition of the PPSBI by the Land Bank of the Philippines (LBP). Likewise, it directed PPC and the Bureau of Treasury to transfer all the shares of PPC in PPSBI to LBP at zero value.

On March 14, 2018, a Deed of Transfer of Shares of Stocks was executed by and between LBP and PPC assigning and transferring the latter's stock certificates to the former. The transfer of PPC's shares of stock and the dropping of the balance of Investment with PPSBI amounting to P468,913,475 as of December 31, 2017 was recognized in the books of PPC in March 2018.

The P5.0 million investments in the PFO represent the seed money of the fund.

Central Office dropped from the books investments with PLDT/MERALCO in the amount of P547,727. The shares issued by these companies are in the name of the Department of Transportation and Communication (DOTC).

## 11. PROPERTY, PLANT AND EQUIPMENT

Movement of the property and equipment for CY 2018 and 2017 are as follows:

	Land and Land Improvement	Building and Building Improvement	Furniture, Fixture and Equipment	Motor Vehicles	IT Equipment and Software	Philatelic Items and Library Books	Machinery	Tools	Total
<b>COST</b>									
Jan. 1, 2018	2,344,381,389	1,210,507,011	1,111,153,353	342,651,291	238,951,026	2,550,222	112,988,215	163,174	5,363,345,681
Additions	630,408,540	12,359,740	4,145,685	1,764,894	9,124,427	0	0	225,205	658,028,491
Disposals	0	0	(12,564,009)	0	(313,631)	0	0	0	(12,877,640)
Adjustments	(7,453,842)	413,508	(23,082,704)	(6,363)	(20,681,139)	(8,125)	0	0	(50,818,665)
<b>Dec. 31, 2018</b>	<b>2,967,336,087</b>	<b>1,223,280,269</b>	<b>1,079,652,325</b>	<b>344,409,822</b>	<b>227,080,683</b>	<b>2,542,097</b>	<b>112,988,215</b>	<b>388,379</b>	<b>5,957,677,866</b>
<b>ACCUMULATED DEPRECIATION</b>									
Jan. 1, 2018	9,059,567	703,175,794	479,712,589	216,726,880	59,855,508	1,243,688	38,412,482	41,691	1,508,228,190
Provisions	334,769	22,033,708	13,263,002	30,997,397	9,726,525	0	11,679,167	39,855	88,074,423
Adjustments	(711,921)	(3,934,142)	(25,083,077)	1,606,852	(9,014,003)	0	(9,391,456)	0	(46,527,747)
<b>Dec. 31, 2018</b>	<b>8,682,414</b>	<b>721,275,360</b>	<b>467,892,506</b>	<b>249,331,129</b>	<b>60,568,030</b>	<b>1,243,688</b>	<b>40,700,193</b>	<b>81,548</b>	<b>1,549,774,866</b>
Net Carrying Amount, as restated Dec. 31, 2018	2,958,653,672	502,004,909	611,759,821	95,078,692	166,512,653	1,298,409	72,288,023	306,831	4,407,903,000

	Land and Land Improvement	Building and Building Improvement	Furniture, Fixture and Equipment	Motor Vehicles	IT Equipment and Software	Philatelic Items and Library Books	Machinery	Tools	Total
<b>COST</b>									
Jan. 1, 2017	2,342,053,985	1,212,819,269	1,167,543,271	345,617,245	380,707,892	2,440,516	112,988,215	322,971	5,564,293,654
Additions	2,549,453	962,000	6,876,683	986,143	142,806,546	110,506	0	84,661	154,375,992
Disposals	0	0	(387,603,295)	(1,513,225)	(12,011,694)	0	0	(244,458)	(401,372,672)
Adjustments	(222,049)	(3,074,248)	324,336,694	(2,438,872)	(272,551,718)	(1,100)	0	0	46,048,707
<b>Dec. 31, 2017</b>	<b>2,344,381,389</b>	<b>1,210,507,011</b>	<b>1,111,153,353</b>	<b>342,651,291</b>	<b>238,951,026</b>	<b>2,550,222</b>	<b>112,988,215</b>	<b>163,174</b>	<b>5,363,345,681</b>
<b>ACCUMULATED DEPRECIATION</b>									
Jan. 1, 2017	10,107,531	676,282,413	485,526,452	188,516,548	54,526,275	1,243,688	17,341,859	110,389	1,433,655,155
Provisions	333,087	21,460,804	20,139,751	25,316,056	15,750,366	0	16,830,059	39,183	99,869,306
Adjustments	(1,381,052)	5,432,577	(25,953,622)	2,894,276	(10,421,133)	0	4,240,564	(107,881)	(25,296,272)
<b>Dec. 31, 2017</b>	<b>9,059,566</b>	<b>703,175,794</b>	<b>479,712,580</b>	<b>216,726,880</b>	<b>59,855,508</b>	<b>1,243,688</b>	<b>38,412,482</b>	<b>41,691</b>	<b>1,508,228,190</b>
Net Carrying Amount, as restated Dec. 31, 2017	2,335,321,823	507,331,217	631,440,772	125,924,411	179,095,518	1,306,534	74,575,733	121,483	3,855,117,491

Property, Plant, and Equipment (PPE) includes all existing assets and facilities transferred from the defunct Bureau of Posts and thereafter the then Postal Service Office to the PPC pursuant to Section 9(b) of R.A. 7354. Generally, PPE are carried at cost, however, properties transferred from the Bureau of Posts are carried in the books at their appraised values in 1994 as determined by an independent appraiser, Asian Appraisal Company, Inc.

### Land

The Land account consists of the following:

	Qty
• Lots with title	40
• Lots with absolute deed of donation	195
• Donated lots with conditions	163
• Lots without documents	103
• Proclamation	8
• Purchased	5
• Usufruct	30
• Assignment of rights	3
• Resolution	43

- PPC as Administrator 1
- Revoked without PPC's consent or utilized/occupied by others 123

Among the lots included in the Land account and part of the Paid-up Capital of the National Government are the following:

1. The lot located in Intramuros, Manila which is the site of the Central Office is titled under the name of Bureau of Transportation and Telecommunications.
2. Donated lots that were reclaimed by the donors for failure to fulfil the conditions in the Deed of Donation; declared as "reversed/or no build zone"; abandoned as post cite, and occupied or controlled by another.

In CY 2016, PPC hired the services of Top Consult, Inc. to appraise its land and buildings. The company is registered with the Securities and Exchange Commission under Company Registration No. CS200608585 and with principal office located at the 2<sup>nd</sup> Floor, Golan Plaza, 333 Katipunan Avenue, Loyola Heights, Quezon City.

The result of the appraisal will be recognized once the undertaking is completed. A budget of P5.0 million is allocated for year 2019.

## 12. OTHER NON-CURRENT ASSETS

This account includes the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Balances in the then books carried over in the CO books of the following accounts: Cash-Disbursing Officers, Receivables-Others, Accounts Receivable-Non Trade, Due from NGAs	363,970,883	363,964,372
Unreconciled Cash in Bank balance	36,422,392	114,529,283
Due from Subsidiaries with nil probability of collection	24,682,068	222,850,421
Unserviceable Assets at their salvage value	25,524,929	24,440,389
Unreconciled Cash, Collecting Officers balances	28,518,552	28,518,552
Other Structures and PPE	48,918	48,918
Other Assets	1,026,674	32,274,072
<b>Total</b>	<b>480,194,416</b>	<b>786,626,007</b>

*Due from Subsidiaries* pertains to claims by PPC from the subsidiaries in payment of various expenses. The account balance was reclassified to "Other Assets" for a fair presentation, pursuant to Item 57 of IAS 1.

<u>Due From</u> <u>Subsidiary Account</u>	<u>Description and Disposition</u>	<u>2018</u> <u>Balance</u>
Provident Fund Office (PFO)	Expenditures for salaries/bonuses of PPC employees detailed at PFO and other	22,083,889

<u>Due From Subsidiary Account</u>	<u>Description and Disposition</u>	<u>2018 Balance</u>
	operational expenses. This is subject to reconciliation.	
Philippine Postal Savings Bank, Inc. (PPSBI)	Rentals in the year 2006, health insurance premiums in September - December 1988, janitorial services from January 1997 - March 1997 and equipment under Letter of Credit dated December 13, 1994. No corresponding payable is reflected in the bank's financial statements	2,598,179
<b>Total</b>		<b>24,682,068</b>

During the year, the Board of Directors passed a resolution approving the dropping of dormant balances of the Due to Subsidiaries account from the books, and authorizing the Postmaster General to request authority for write-off the balances with the following subsidiaries:

1. Philippine Postal Mail Management Corporation
2. Philippine Postal Realty Development Corporation
3. Philippine Postal Institution Foundation
4. Philippine Postal Leasing & Financing Corporation

On April 11, 2018, the Postmaster General requested for Authority to Write-off with the Commission on Audit. PPC has yet to complete the additional requirements of the Commission.

### 13. FINANCIAL LIABILITIES

The Current Financial Liabilities account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Due From Area 01 - Northeastern Luzon (NELA)	(159,417,666)	(143,992,991)
Due From Area 02 - Northwestern Luzon (NWLA)	13,578,239	(186,822,400)
Due From Area 03 - Mega Manila (MEGA)	2,569,539,382	3,109,465,101
Due From Area 04 - Southern Luzon (SLA)	(545,486,136)	(478,251,910)
Due From Area 05 - Central And Eastern Visayas (CEVA)	(330,745,523)	(241,928,573)
Due From Area 06 - Western Visayas (WEVA)	(378,110,569)	(379,185,857)
Due From Area 07 - Eastern Mindanao (EMA)	(325,146,170)	(298,855,181)
Due From Area 08 - Central Mindanao (CEMA)	(107,903,728)	(113,505,130)
Due From Area 09 - Western Mindanao (WEMA)	(295,318,337)	(306,509,087)
Area Equity	0	566,131,780
Due To Central Office	126,442,891	(875,519,840)
Due From Area Central Office - TMO	5,773,709	0
Accounts Payable, Designated Operators - Mail Remunerations	951,685,963	722,858,055
Accrued Expenses	642,744,596	590,086,562



<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Due To Officers And Employees	365,444,787	407,611,654
Terminal Leave Benefits Payable	286,193,904	228,058,044
Dividends Payable	251,266,425	315,419,427
Other Payables - Retirement Incentives	79,023,205	79,023,205
Output Tax	50,360,522	52,635,833
Accounts Payable - Trade	26,827,806	71,319,723
Net VAT Payable	15,954,673	0
Other Loan Deductions	12,109,068	17,645,161
Longevity Benefits Payable	927,500	705,001
Accounts Payable, Designated Operators - Postal Payment Remittances	573,691	188,788
Allowance For Forex Adjustments, Designated Operators - Mail Remunerations	(1,426,935)	0
Accounts Payable, Designated Operators - Air Conveyance	(65,173,658)	34,137,926
<b>Total</b>	<b>3,189,717,639</b>	<b>3,170,715,290</b>

*Accounts Payable, Designated Operators - Mail Remunerations* refers to amounts due to designated operators for services rendered to deliver all outbound international mail matters. This amount includes charges by designated operators that were already accepted by PPC but remained unpaid as of December 31, 2015 and charges presented for acceptance by PPC.

*Accounts Payable, Designated Operators - Postal Payment Remittances* refer to amounts due to designated operators for all outbound money order remittances.

*Due to NGAs, GOCCs, LGUs* pertains to COA auditing services. PPC made a partial payment of P5 million last year.

*Other Payables, Retirement Incentives* represents the unclaimed retirement incentive of employees who retired under Executive Order No. 366.

*Terminal Leave Benefit Payable* represents the unpaid terminal leave benefits of retired employees as of year-end.

*Area Equity* is the net difference between the assets and liabilities of the area offices.

*Non-Current Financial Liability* account is the P6,365,647 yearly amortization of PPC for its long-term loan from PPSBI which was fully settled in September 2018.

#### 14. INTER-AGENCY PAYABLES

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Due to NGAS, GOCCs, SUCs And LGUs	563,312,574	478,530,548
Due to GSIS	47,882,000	35,954,817

Due to Pag-IBIG	23,426,884	16,330,148
Due to BIR	7,827,770	20,064,343
Due to PhilHealth	6,323,710	4,340,995
<b>Total</b>	<b>648,772,938</b>	<b>555,220,851</b>

Breakdown of Due to BIR:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Due to BIR - Withholding Tax on Compensation	3,993,981	14,580,760
Due to BIR - Value-Added Tax (VAT)	2,787,646	3,430,161
Due to BIR - Expanded Withholding Tax (EWT)	1,819,578	2,578,365
Due to BIR - Documentary Tax	0	201,632
Due to BIR - Final Withholding Tax	(773,435)	(726,575)
<b>Total</b>	<b>7,827,770</b>	<b>20,064,343</b>

## 15. TRUST LIABILITIES

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Trust Liabilities - DMO	788,410,314	577,341,921
Trust Liabilities - Premiums/ Bills Payments		
Collections - Provident Fund	54,233,289	50,956,304
Trust Liabilities - SPISC	22,448,200	162,375,700
Trust Liabilities - Inbound Int'l Postal Money Order	20,695,129	20,695,129
Trust Liabilities - SCI	12,019,780	12,019,780
Trust Liabilities - Inbound IMO	9,049,566	9,033,657
Trust Liabilities - Conditional Cash Transfers		
Program	4,664,949	4,498,923
Trust Liabilities - Premiums/ Bills Payments		
Collections - Consignment	2,820,270	2,820,166
Trust Liabilities - Domestic ePMO	2,446,267	1,172,198
Trust Liabilities - Premiums/ Bills Payments		
Collections - Bayad Center	2,336,924	16,215,667
Trust Liabilities - Outbound IMO	801,453	(1,285,751)
Trust Liabilities - Inbound ePMO	317,968	762,879
Trust Liabilities - Outbound ePMO	49,299	49,299
Trust Liabilities - Philatelic	10,330	0
Trust Liabilities - Premiums/ Bills Payments		
Collections - PDIC	2,050	(2,028)
Trust Liabilities - Premiums/ Bills Payments		
Collections - DHL	0	651,886
Trust Liabilities - Premiums/ Bills Payments		
Collections - MIWD	0	2,736,978
Trust Liabilities - Premiums/ Bills Payments		
Collections - PhilHealth	(101,340,190)	30,912,108
<b>SUB-TOTAL - TRUST</b>	<b>818,965,598</b>	<b>890,954,816</b>

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Trust Liabilities – BAC Honoraria	28,300	18,700
<b>SUB-TOTAL – CORPORATE</b>	<b>28,300</b>	<b>18,700</b>
<b>Total</b>	<b>818,993,898</b>	<b>890,973,516</b>

This account pertains to amounts held in trust like the amount posted by various remitters/senders received locally; remittances received from other postal administrations; bills payment collections and cash received from partner agencies for the distribution/delivery to designated beneficiaries or payees such as Bayad Center, Philippine Health Insurance Corporation (PhilHealth), etc.

The balance of *Trust Liabilities – Social Pension for Indigent Senior Citizens* refers to fund transfer from Department of Social Welfare and Development (DSWD) subject to liquidation. According to Postal Area 6, 80 to 90 percent of the fund transfer from DSWD for this project was already received by designated beneficiaries.

#### 16. DEFERRED CREDITS/UNEARNED INCOME

This account consists of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Other Deferred Credits - Remunerations	765,557,017	609,371,128
Deposits on Direct Mail Services	160,759,388	40,928,315
Deferred Output Tax	85,467,538	96,895,905
Deposits on Private Metered Machines	13,402,649	16,221,200
Performance/ Bidders/ Bail Bonds Payable	11,021,705	11,285,554
Guaranty Deposits Payable	8,957,216	2,855,687
Deposits on Domestic Mail Services	3,781,267	3,228,688
Other Deferred Credits - CCT	2,343,548	11,737,496
Deferred Grant Income	744,824	707,014
<b>Total</b>	<b>1,052,035,152</b>	<b>793,230,987</b>

*Other Deferred Credits - Remunerations* includes remunerations on remittances to lending entities.

*Deposits on Direct Mail Services* include revenues arising from mail services which were collected in advance.

*Deposits on Private Metered Machines* correspond to amounts collected in advance in private metered machine loading.

*Deposits on Domestic Mail Services* pertain to amount paid on bulk purchase of stamps. Effective CY 2014, it was recognized as revenue.

*Guaranty Deposits and Performance/Bidders Bail Bonds Payable* pertains to cash received which is refundable upon fulfillment of the obligation by the depositor.

*Other Deferred Credits - CCT* is the total of unidentified deposits in different bank accounts recorded since 2015.

## 17. OTHER PAYABLES

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Government Service Insurance System (GSIS)	23,534,972	112,006,937
Philippine Postal and Savings Bank, Inc. (PPSBI)	0	60,000,000
Provident Fund Office (PFO)	0	59
<b>Total</b>	<b>23,534,972</b>	<b>172,006,996</b>

*Other Payables GSIS* includes the outstanding GSIS premium arrearages under a Memorandum of Agreement between PPC and GSIS; Provident Fund premium arrearages per Memorandum of Agreement between PPC and PFO, and the unpaid subscription to PPSBI shares of stocks.

## 18. MAIL SERVICES

This account is composed of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Int'l EMS - Merchandise	672,586,880	670,465,501
Domestic Ordinary Mails	663,416,844	671,327,237
Domestic Registered Mails	327,781,963	343,809,926
Terminal Dues Income - Recorded Items	279,196,567	155,157,807
EMS Delivery Income	264,583,460	154,176,806
Domestic Registered Mails With Return Card	112,637,334	111,270,371
Presentation to Customs Fee	110,582,015	113,217,148
Int'l EMS - Documents	95,552,533	99,035,092
Inward Land Rate Income	76,286,740	52,466,949
Direct Access/Entry Income	73,083,283	36,267,786
Domestic Ordinary Mails With Proof of Delivery	60,578,115	90,533,388
Int'l Letters	54,917,225	62,753,984
Int'l Registered Letters	45,716,149	47,038,606
Int'l Ordinary Parcel	32,417,828	56,719,478
Domestic EMS - Merchandise	23,450,953	27,472,068
Domestic EMS - Documents	18,023,495	18,452,907
Handling and Storage Fee	11,853,986	5,065,039
Int'l Registered Small Packet	11,493,337	14,827,572
Int'l Registered Letters With Advice Of Receipt	8,763,362	8,839,492
Domestic Priority Mails	5,048,488	8,712,097
Domestic Air Parcel	4,894,076	4,522,385
Int'l Ordinary Parcel With Advice of Receipt	4,804,441	9,903,252
Domestic Express Pouch	3,180,322	3,336,927
Domestic Printed Matters and Magazines	2,809,336	4,467,083
Int'l Letters - Special Delivery	2,334,743	3,314,663

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Miscellaneous Income - Letter Shopping	1,971,864	835
Int'l Printed Matter	1,866,964	1,815,168
Int'l Postcards	1,511,380	1,726,068
Int'l Registered Printed Matters	1,285,397	656,375
Int'l Registered Small Packet With Advice of Receipt	1,232,823	1,616,494
Packaging Services	1,095,623	770,045
Business Reply Envelope (BRE)	1,093,764	1,220,750
Miscellaneous Income - Mail Bag	311,962	549,623
Unaddressed Mails	310,569	1,589
Domestic Books	185,726	137,497
Miscellaneous Income - 2nd Class Mails	182,381	228,662
Int'l Registered Printed Matter With Advice of Receipt	153,004	131,234
Int'l Books	104,203	113,705
Int'l Business Reply Service (IBRS)	49,497	343,155
Miscellaneous Income - Valuation Fees	49,472	166,732
Domestic COD Parcel	2,036	481,682
Domestic Subscriptions With Mail Indicia	690	1,184,245
Fax Mails	379	179
<b>Sub-total</b>	<b>2,977,401,209</b>	<b>2,784,297,602</b>
Less: Discounts on Mailing Services	(12,858,659)	(21,523,561)
<b>Total</b>	<b>2,964,542,550</b>	<b>2,762,774,041</b>

#### 19. POSTAL PAYMENT SERVICES

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Postal ID Fees	314,698,445	351,709,002
Income From Joint Venture	167,646,980	161,578,694
Commission on Collections - Philhealth	28,198,384	29,467,007
Miscellaneous Income - Postal ID Delivery Fee	14,123,884	11,635,682
Domestic Postal Money Order Service Fees	9,788,038	9,122,610
Miscellaneous Income - Pension Verification	4,987,881	1,146,384
Delivery Service Fees - PDIC	4,822,286	3,994,186
Delivery Service Fees - PMO	2,343,510	1,857,178
Commission on Collections - Bayad Center	984,554	1,048,537
Inbound Int'l Postal Money Order Service Fees	382,802	543,257
Delivery Service Fees - ICRC	333,730	6,900
Delivery Service Fees - CCT	315,270	292,987
Miscellaneous Income - MCWD Service		
Commission Fees	73,143	172,715
Domestic E-Postal Money Order Service Fees	66,588	244,149
Outbound Int'l E-Postal MO Service Fees	4,234	4,752
Miscellaneous Income - Lamination Fees	821	52
Delivery Service Fees - Senior Citizen	0	9,579,307
Inbound Int'l E-Postal Money Order Service Fees	0	983

<b>Total</b>	<b><u>Particulars</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
		<b>548,770,550</b>	<b>582,404,382</b>

## 20. LOGISTICS SERVICES

This account is composed of revenues from Cumbersome Cargoes which amounted to P51,377,643 and P64,336,153 in CYs 2018 and 2017, respectively.

Cumbersome Cargoes are goods or merchandise weighing 21 to 200 kilos and are delivered locally.

## 21. RETAIL SERVICES

This account is composed of the following:

<b><u>Particulars</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Philatelic Sales	22,229,764	35,680,244
Bulk Stamps Sales	21,479,408	23,826,210
PPC Products Sales	3,404,291	3,086,908
<b>Total</b>	<b>47,113,463</b>	<b>62,593,362</b>

## 22. OTHER INCOME

This account is composed of the following:

<b><u>Particulars</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Other Gain (Gain on Excess of Standard Input Over Actual Input)	26,240,449	0
Rent Income	16,127,518	33,837,745
Lock Box Rental	6,199,852	7,267,531
Miscellaneous Income - Service Fees	6,194,585	6,057,327
Miscellaneous Income - Others	2,968,723	5,236,126
Miscellaneous Income - Certification/Authentication/Revalidation Fees	1,671,986	1,958,229
Miscellaneous Income - Penalties	1,228,917	810,699
Miscellaneous Income - Parking Fees	864,949	1,030,133
Miscellaneous Income - PhilPost Box	720,687	423,996
Miscellaneous Income - Permit Fees	662,554	407,864
Miscellaneous Income - Annual Fees/Charge Account	177,187	209,143
Miscellaneous Income - Sale of Waste Materials	158,490	274,757
Franchising and Accreditation Fees	157,425	145,556
Miscellaneous Income - Photocopy Service Fees	110,832	196,936
Miscellaneous Income - PECO	86,372	0
Miscellaneous Income - Cancelled PID Fees	79,229	11,763
Commission on Consignment Sales	57,293	35,580

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Miscellaneous Income - Ticketing Office Commission	13,204	29,257
Collect-on-Delivery Commission	2,906	361
Miscellaneous Income - Photo ID Service Fees	125	1,393
Miscellaneous Income - Return Cards	108	2,182
Dividend Income	0	30
Miscellaneous Income - Documentary Stamps	0	41,720
<b>Total</b>	<b>63,723,391</b>	<b>57,978,328</b>

### 23. PERSONNEL SERVICES

This account is composed of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Salaries and Wages - Regular	1,047,923,205	1,073,352,752
Year End Bonus	173,242,254	172,987,590
Terminal Leave Benefits	135,851,056	101,412,939
Life and Retirement Insurance Contributions	125,672,133	128,025,342
Personnel Economic Relief Allowance (PERA)	118,830,575	122,420,880
Performance-Based Bonus	55,000,000	90,000,000
Clothing/Uniform Allowance	29,327,686	25,020,000
Cash Gift	24,808,950	25,430,500
Productivity Enhancement Incentive (PEI)	24,315,750	25,060,000
PhilHealth Contributions	13,848,395	12,259,546
Letter Carrier's Allowance	12,209,035	12,486,780
Overtime Pay	10,771,235	9,569,927
Representation Allowance (RA)	7,941,875	7,307,998
Transportation Allowance (TA)	7,206,875	7,282,936
Employees Compensation (EC) Contributions	5,951,286	6,133,677
Pag-IBIG Contributions	5,929,600	6,138,625
Per Diems	3,249,000	3,894,000
Longevity Pay	1,932,521	1,732,500
Night Differential Pay	1,567,698	1,534,301
Honoraria	1,299,134	882,199
Salaries and Wages - Contractual	1,177,399	144,345
Special Counsel Allowance	69,350	45,000
<b>Total</b>	<b>1,808,125,012</b>	<b>1,833,121,837</b>

*Terminal Leave Benefits* represent value of allowable leave credits of employees who retired from the service during the current year. The computation is based on current salary rate.

*Per Diems* refer to cash given to members of the PPC Board of Directors for every meeting attended.

## 24. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Manpower Services	226,939,523	215,702,284
Accountable Forms Expenses	148,517,797	174,481,668
Depreciation	88,074,423	99,869,306
Supplies and Materials Expenses	86,801,968	89,444,877
Domestic Conveyance Expenses	84,701,855	86,664,822
Travelling Expenses - Local	59,058,731	53,180,885
General Services	55,865,182	56,503,157
Gasoline, Oil and Lubricants Expenses	52,709,925	46,677,843
Security Services	44,107,558	42,593,420
Electricity Expenses	41,424,242	40,018,533
Rent Expenses	38,093,752	40,997,859
Auditing Services	28,455,696	35,292,160
Insurance Expenses	12,779,414	8,701,971
Janitorial Services	12,761,899	12,085,489
Water Expenses	12,317,906	9,947,646
Internet Expenses	11,246,797	11,409,207
Repairs and Maintenance - Motor Vehicles	9,636,708	6,389,424
Repairs and Maintenance - IT Equip & Software	9,168,707	8,217,119
UPU Membership Dues and Fees	7,978,386	8,064,436
Repairs and Maintenance - Buildings	7,824,246	7,518,796
Telephone Expenses - Landline	6,130,331	6,796,181
Travelling Expenses - Foreign	5,067,728	6,448,896
Training Expenses	4,803,074	8,177,151
BOD Reimbursable Expenses	4,716,388	3,492,551
Advertising and Marketing Expenses	3,940,973	5,420,058
Taxes, Duties and Licenses	2,478,470	3,111,348
Fines and Penalties	1,916,220	3,064,165
Semi-Expendable Machinery & Equip Expenses	1,830,590	1,339,504
Fidelity Bond Premiums	1,819,086	1,886,249
Repairs and Maintenance - Equipment	1,705,758	1,385,881
Semi-Expendable Furn. & Fixtures Expenses	1,146,590	1,005,305
Gender and Development Expenses	1,086,216	422,976
Miscellaneous Expenses	960,953	934,281
Consultancy Services	876,750	681,973
Extraordinary Expenses	816,958	729,199
Telephone Expenses - Mobile	708,280	725,378
Valuation Allowance	471,531	1,934,250
Repairs and Maintenance - Leasehold Improvements - Bldgs.	285,517	12,820
Loss of Assets	256,254	1,254,782



<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Awards and Indemnities	177,412	207,582
Documentary Stamp Expenses	172,894	0
Loss on VAT Exemption	112,313	0
Repairs and Maintenance – Furn. & Fixtures	100,935	246,700
Scholarship Expenses	64,010	96,875
Subscription Expenses	57,946	112,676
Legal Expenses	25,646	25,498
Leasing Costs	2,646	0
Storage Expenses	1,351	0
Performance-Based Incentives	0	274,000
Discretionary Expenses	0	46,729
Other Maintenance and Other Operating Expenses	146,846,067	165,424,982
<b>Total</b>	<b>1,227,043,602</b>	<b>1,269,018,892</b>

The Valuation Allowance of PPC for Calendar Year 2018 amounted to P471,531 while during 2017, it was recorded at P1,934,250.

Breakdown of Depreciation Expenses is shown below.

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Depreciation - Motor Vehicles	28,422,344	25,316,056
Depreciation - Buildings	21,969,724	21,460,804
Depreciation - Equipment	14,658,929	19,637,719
Depreciation - Machineries	11,679,167	16,830,059
Depreciation - IT Equipment	9,398,428	15,750,366
Depreciation - Furniture and Fixtures	1,507,224	502,032
Depreciation - Land Improvements	334,769	333,087
Depreciation - Leasehold Improvements - Buildings	63,983	0
Depreciation - Tools	39,855	39,183
<b>Total</b>	<b>88,074,423</b>	<b>99,869,306</b>

Breakdown of Other Maintenance and Other Operating Expenses:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Other MOOE - Others	86,157,219	27,281,896
Other MOOE - Common Usage	54,382,308	127,753,193
Other MOOE - Meetings/Dialogues	5,933,987	8,450,567
Other MOOE - PhiPost Christmas Celebration	184,713	290,848
Other MOOE - PhiPost Anniversary Celebration	141,379	274,807
Other MOOE - Salo-Salo Program	30,000	0
Other MOOE - Real Properties Titling	8,036	80,026
Other MOOE - Donations To Organizations	6,400	5,800
Other MOOE - Professional License Renewal	2,025	7,845
Other MOOE - Appraisal	0	1,280,000
<b>Total</b>	<b>146,846,067</b>	<b>165,424,982</b>

## 25. INTERNATIONAL MAIL EXCHANGE EXPENSES

This account is composed of the following:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Terminal Dues Expenses – Recorded Items	261,675,700	28,111,766
Express Mail Service Delivery Expenses	213,460,767	113,525,924
Int'l Conveyance Expenses - Air	119,397,341	167,703,254
Int'l Conveyance Expenses - Surface	20,728,979	7,227,594
Sea Rate Expenses	7,489,987	10,053,808
Outbound Int'l Postal Payment Charges, IMO Delivery Expenses	19,415	15,267
<b>Total</b>	<b>622,772,189</b>	<b>326,637,613</b>

## 26. AUTHORIZED CAPITAL STOCK

Under Section 9 of R.A. 7354 or the Postal Services Act of 1992, the PPC shall have an authorized capital stock of P10 billion Pesos divided into 45 million Class "A" shares to be subscribed by the Government and 55 million Class "B" shares to be subscribed by private entities with par value of P100 each.

## 27. PAID-UP CAPITAL

The appraised value of all existing assets of the then Postal Service Office is the subscription of the National Government. PPC has not yet issued any share of stock.

## 28. REVALUATION SURPLUS

This pertains to the increase in the book value of titled lots or a result of the reappraisal conducted by the Asian Pearl Appraisal in October 2012.

<u>Location Lots</u>	<u>Appraisal Report September 1994</u>	<u>Reappraisal 2009/2010</u>	<u>Reappraised Value 2012 Increase/ (Decrease)</u>
BIR Road, Quezon City	141,020,000	634,590,000	493,570,000
CMEC, Pasay City	0	1,005,730,000	1,005,730,000
Regional Offices	33,071,400	108,978,520	75,907,120
Appraisal Increase	174,091,400	1,749,298,520	1,575,207,120

Revaluation surplus as a result of the latest appraisal conducted by Top Consult, Inc. is not yet recognized in the books.

## 29. APPRAISAL CAPITAL

This represents the accumulated amount of appraisal increases as determined by independent appraisers who were hired to conduct appraisal of PPC's fixed assets. Appraisal increase is the amount by which the appraised value exceeds the book value of fixed assets and is added to the carrying value of fixed assets.

### 30. ADJUSTMENT IN THE STATEMENT OF FINANCIAL POSITION

Certain asset and liability accounts were presented at amounts net of account balances which accumulated prior to incorporation and which could not be substantiated. The Statement of Financial Position is presented net of these account balances. Postage stamps inventory, for example, reflects the face value instead of printing cost; Due from Officers and Employees includes incomplete or unliquidated payroll; Receivables/Disallowances include accountabilities/shortages of absconded employees; Land includes the booked-up value of properties without titles; and Accounts Payable includes excess certification or booked-up payables without corresponding disbursement vouchers. These accounts are subject to verification, validation and necessary adjustment in the books. Accounts to be written off will be requested to the Commission on Audit. The list of the accounts with the corresponding amounts which could not be substantiated and subjected for reconciliation are as follows:

<u>ACCOUNT NAME</u>	<u>DEBIT</u>	<u>CREDIT</u>
Cash - Collecting Officers - Corporate	4,962,483	
Cash - Collecting Officers - Trust - Manual MO	7,535,196	
Cash - Disbursing Officers - Corporate	5,060,614	
Cash - Disbursing Officers - Trust - Manual MO	725,569	
Payroll Fund	12,182,748	
Cash In Bank - Corporate	58,081,253	
Cash In Bank - Trust - Manual MO/PhilHealth	144,719,498	
Accounts Receivable, Trade		144,737
Due From Directors, Officers and Employees	26,938,557	
Due From NGAs, GOCCs, SUCs and LGUs	3,532,771	
Rental Receivable	81,367	
Receivables - Disallowances/Charges	35,875,963	
Advances to Officers and Employees		454,389
Merchandise Inventory	11,416,818	
Supplies and Materials Inventory	66,714	
Accountable Forms Inventory	9,030,063	
Spare Parts Inventory - Motor Vehicles	141,834	
Deferred Charges	427,474	
Guaranty Deposits		68,181
Equipment		1,826,396
Furniture and Fixtures	683,580,448	
IT Equipment and Software	104,695,886	
Other Assets	402,820,896	
Due to BIR - Withholding Tax on Compensation	1,763,064	
Due to BIR - Expanded Withholding Tax (EWT)	1,608,151	
Due to GSIS	12,004,364	
Other Loan Deductions	4,364,387	
Due to Central Office		173,325,472
Trust Liabilities - Premiums/ Bills Payments		
Collections - PhilHealth		2,273,902

<u>ACCOUNT NAME</u>	<u>DEBIT</u>	<u>CREDIT</u>
Trust Liabilities - DMO		71,794,323
Area Equity		109,089,116
Retained Earnings		1,172,639,602
<b>Total</b>	<b>1,531,616,118</b>	<b>1,531,616,118</b>

### 31. JOINT VENTURE

In 2009, PPC and Filmetrics Inc. (FILMETRICS) entered into a Joint Venture Agreement (JVA) to operate the Filmetrics' Biometric Data Service Facilities (BDSF) with their clients. In conformity with its obligations under the JVA, PPC entered into an Agency to Agency Agreement with Social Security System (SSS), JV client, for use of the BDSF for the issuance of identification cards (IDs) to its members. In 2014, the Partners executed a Memorandum of Agreement to use the same BDSF for the issuance of Postal IDs.

#### Joint Venture Agreement (SSS IDs)

Under the JVA (SSS IDs), PPC billed SSS for ID captured and recognizes revenue the cost of ID captured. The amount corresponding to 86.67% of the revenue however is remitted to FILMETRICS and recorded as expense under the account "Other MOOE-Common Usage".

For the year 2018, PPC recorded a revenue of P163.33 million while the expenses is P143.67 million.

#### Joint Venture Agreement (Postal IDs)

Under the JVA (Postal IDs), PPC recognizes the selling cost of P504.00 (VAT inclusive) per ID as revenue. Included in the P504.00 is the JV-ID fee of P222.00 (VAT inclusive) which is recorded as Accountable Forms Expense and payable to FILMETRICS.

While PPC recognizes the whole Postal ID Fee of P222.00 as expense, it is also entitled to a share of 13.33% of the P222.00 Postal ID Fee. This is additional revenue of PPC but it can be only collected from FILMETRICS upon remittance of the P222.00 to the latter.

During the year, PPC has collected P21.17 million as share on the Postal ID Fees.

**32. SUPPLEMENTARY INFORMATION UNDER BIR REVENUE REGULATION 15-2010**

**Taxes, duties and licenses paid or accrued during the year:**

**a. Value Added Tax**

Details on the Company's VAT output tax declared during the year are as follows:

Qtr	Sales	Output Tax	Purchases	Input Tax	Creditable VAT	VAT Payment
1st	798,953,845	95,874,461	123,326,740	23,552,406	4,641,139	67,680,917
2nd	732,457,754	87,894,930	150,356,518	25,090,867	4,735,256	58,068,807
3rd	750,396,726	90,047,607	165,924,962	26,933,949	5,294,694	57,818,964
4th	718,120,099	86,174,412	201,913,738	28,853,029	4,766,310	52,555,073
<b>Total</b>	<b>2,999,928,424</b>	<b>359,991,410</b>	<b>641,521,958</b>	<b>104,430,251</b>	<b>19,437,399</b>	<b>236,123,761</b>

**b. Monthly remittance return of income taxes withheld expanded (1601E)**

CY2018	TAX WITHHELD	TAX REMITTED
January	177,872	177,872
February	429,704	429,704
March	1,155,005	1,155,005
April	611,019	611,019
May	770,925	770,925
June	1,256,090	1,256,090
July	716,215	716,215
August	1,559,810	1,559,810
September	1,414,021	1,414,021
October	683,987	683,987
November	1,157,601	1,157,601
December	3,921,992	3,921,992
<b>TOTAL</b>	<b>13,854,241</b>	<b>13,854,241</b>

**c. Monthly remittance return of value-added tax and other percentage taxes withheld (1600)**

CY 2018	TAX WITHHELD	REMITTED
January	310,156	310,156
February	761,367	761,367
March	3,182,551	3,182,551
April	1,648,806	1,648,806
May	1,824,452	1,824,452
June	3,155,463	3,155,463
July	1,688,344	1,688,344
August	3,786,987	3,786,987
September	3,112,555	3,112,555

CY 2018	TAX WITHHELD	REMITTED
October	1,491,870	1,491,870
November	2,787,616	2,787,616
December	10,220,715	10,220,715
<b>TOTAL</b>	<b>33,970,882</b>	<b>33,970,882</b>

**d. Monthly return of income tax withheld on compensation (1601C)**

CY2018	TAX WITHHELD	TAX REMITTED
January	1,289,939	1,289,939
February	1,277,739	1,277,739
March	1,399,689	1,399,689
April	1,248,188	1,248,188
May	1,262,910	1,262,910
June	1,259,911	1,259,911
July	1,327,777	1,327,777
August	1,243,821	1,243,821
September	1,283,066	1,283,066
October	1,335,908	1,335,908
November	1,243,898	1,243,898
December	2,407,674	2,407,674
<b>TOTAL</b>	<b>16,580,520</b>	<b>16,580,520</b>

The taxes withheld in December 2018 were remitted on January 10, 2019.

**33. OTHER MATTERS**

- a. President Rodrigo Roa Duterte, at the Cabinet meeting on December 5, 2016, directed the Land Bank of the Philippines (LBP) to acquire and convey Philippine Postal Savings Bank, Inc. (PPSBI) into a bank for Overseas Filipino Workers.

On July 13, 2017, the PPC Board of Directors passed Resolution No 2017-12, *"Approving the sale, transfer or conveyance to LBP of all rights, interests, and ownership of Philippine Postal Corporation in Postbank in the amount equivalents to at least the Paid-up Capital/Capital Investments of PPC with Postbank amounting to P440 million"*.

On September 28, 2017, President Duterte issued Executive Order No. 44 mandating PPC and the Bureau of Treasury to transfer all their respective shares in PPSBI to LBP at zero value.

In December 2017 and on January 11, 2018, the Monetary Board of Bangko Sentral ng Pilipinas (BSP) approved the acquisition of PPSBI and the Philippine Competition Commission (PCC) authorized LBP to acquire the same, respectively.

Eventually, on March 14, 2018, a Deed of Transfer of Shares of Stocks was executed by and between LBP and PPC assigning and transferring the latter's stock

certificates to the former. The transfer of PPC's shares of stock and the dropping of the balance of Investment with PPSBI amounting to P468,913,475 as of December 31, 2017 was recognized in the books of PPC in March 2018.

b. Subsidy from the National Government for CY 2018

The Department of Budget and Management (DBM) through the Bureau of Treasury issued Special Allotment Release Order (SARO)-BMB-C-18-0028297 the amount of P585,642,000 to cover the National Government subsidy for the delivery of mails of offices with franking privileges.

Likewise, the DBM issued Notice of Cash Allocation (NCA)-BMB-C-18-0024861 in the amount of P290,734,000, to partially cover the cash requirements of the above-mentioned allotments. This amount was released to PPC on November 28 and December 6, 2018.

The un-released cash balance of P294,908,000 was recorded as Due from National Government.

c. Proposed Settlement Agreements in the Civil case for collection of sum of money docketed as Civil Case No. 01-1205 filed by Plaintiff Bank of the Philippine Islands (BPI) (now substituted by Asset Pool A) against PPC and co-defendant Philippine Leasing and Financing Corporation (PLFC).

From 1996 to 1998, PLFC was granted a loan accommodation by Far East Bank and Trust Company (FEBTC) in an aggregate amount of P254,855,302.21 for which PPC binds itself, jointly and severally with PLFC in its capacity as surety, for any and all obligations of the latter. After some payments, PLFC defaulted in its loan obligation and as of May 22, 2001, BPI claimed that the outstanding obligation of PLFC already amounts to P402.137 million, broken down as follows:

Principal	P250.722 million
Interest	151.415 million

On September 27, 2005, Avenue Asia Special Situations Fund III (AASF III) L.P. filed a Motion for Substitution of Party. AASSF III averred that BPI assigned its credit and accounts from PLFC.

Then on September 12, 2017, Asset Pool A SPV-AMC (present plaintiff) filed a motion for Substitution of AASSF III.

As of October 31, 2018, the above balances including Attorney's Fee reached to P2,459,770,356.40.

However, after reconciliation, the parties came up with the corrected principal amount of P213,702,130.50 plus the compromise interest and attorney's fees in the sum of P50,000,000.00, in exchange of the waiver of interest and penalty charges.

d. Status of Civil Case No. 08-318 filed by Allied Banking Corporation (now substituted by Philippine National Bank (PNB) against PPC and Co-defendant PLFC.

On April 23, 2008, a Complaint for Sum of Money with Prayer for Issuance of Writ of Preliminary Attachment was filed by then Plaintiff Allied Banking Corporation (ABC) against Defendants PLFC and PPC for unpaid loans which were incurred from 1995 to 1998.

Plaintiff ABC claimed that Defendant PLFC still owes a principal amount of P44,218,118.88. On the other hand, PPC is being sued in its alleged capacity as surety of the PLFC loans.

On October 17, 2011, the Court issued a Decision in favor of Plaintiff bank ordering PLFC to pay plaintiff the amount of P44,218,811.11 plus interest at the rate of 12% per annum and penalty charge at the rate of 12% per annum starting from October 15, 2004 until the obligation is fully paid.

As per PNB's Statement of Account as of April 30, 2018 on PLFC's account, the latter's outstanding obligation already ballooned to P189,990,517.46.

PPC has yet to receive feedback of its settlement proposal.

- e. The Commission on Audit (COA), in its Decision No. 2016-472 dated December 28, 2016, granted the Petition for Money claim of FGU Insurance Corporation (FGU), Makati City, as insurer-subrogee, against PPC in the amount of P287,500.00, plus interest computed from the time of the filing of the complaint until full payment. The legal interest (6% per annum) computed from the time of the filing of the complaint until the judgement became final and executory on November 6, 2007 amounted to P188,190.41 and from November 7, 2007 up to July 6, 2013 is P323,260.96 (12% per annum).

The claim arose from the vehicular incident on November 11, 1994 involving a vehicle of PPC. The owner of the other vehicle filed an insurance claim with FGU and was paid the amount of P287,500.00. On the other hand, FGU filed a complaint against PPC for the recovery of damages.

- f. PPC has a payable to PPSBI in the amount of P4,545,811.40 representing the rehabilitation cost of the then PPC building destroyed by fire in 2011. On the other hand, PPSB has a payable to the PPC for the rental of the former Regional Office, Baguio City Post Office from April 2015 to December 2018. The property is being rented for P50,000.00 monthly by PPSBI for the use of the Philippine Charity Sweepstakes Office (PCSO).

On November 25, 2016, PPC requested PPSBI for offsetting of its payable of P4,545,811.40 against the latter's outstanding rental payable and succeeding monthly rental of P50,000.00 until the amount of P4,545,811.40 is fully paid.

In a letter dated February 2017, PPSBI conveyed its approval and acceptance of PPC's proposal for offsetting, however, requested to include its PPSB outstanding payable with Mega Manila and succeeding monthly postage consumptions.

As of December 31, 2018, the unpaid rental of PPSBI and postage consumption are P2,250,000.00 and P1,810,055.00, respectively.



Offsetting of claims will be effected in the books once the parties come up with a Memorandum of Agreement.

- g. A case (SB-17-CRM-2146) for violation of Section 3 (e) of R.A. 3019 "Anti-Graft and Corrupt Practices Act" involving former PPC Officials is pending before the Sandigan Bayan.

Facts/Background:

PHLPost USA, engaged in the business of providing international re-mailing services to residents of the United States of America entered into License Agreement with PPC in April 2000.

For calendar year 2001, PHLPost USA paid PPC the amount of \$1,031,936.03 or P52,772,780.30 for the terminal dues for mail matters sent to Royal Mail (United Kingdom)

On November 19, 2003, PPC refunded to PHLPost USA the \$1,031,936.03 or P53,043,834.52 upon the request of PHLPost USA for the reason that Royal Mail has not sent invoices/claim for the 2001 terminal dues.

Subsequently, the COA issued Audit Observation Memorandum (AOM) dated March 29, 2004 which upon evaluation issued Notice of Disallowance dated August 4, 2005 on the ground that the refund has no legal basis, and is not provided for in the License Agreement between PHLPost USA thus, considered as unnecessary expense.

In a letter dated July 10, 2012, then Postmaster General Josefina M. Dela Cruz formally requested the Office of the Ombudsman to conduct investigation and, if warranted, file criminal information for violation of Anti-Graft-and Corrupt Practices Act against the persons found responsible.

- h. A portion of the Quezon City Post Office lot located at BIR Road, Barangay Pinyahan measuring approximately 640 square meters was affected by the Road Widening Project of the Department of Public Works and Highways (DPWH). As such, the existing power house, guard house, perimeter fence, wall, and steel entrance were relocated due to the said project.