Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

DUTY FREE PHILIPPINES CORPORATION

For the Year Ended December 31, 2014

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Duty Free Philippines Corporation
EHA Building, Ninoy Aquino Ave.
Parañaque City

Report on the Financial Statements

We have audited the accompanying financial statements of Duty Free Philippines Corporation (DFPC), which comprise the Statement of Financial Position as of December 31, 2014, and the Statement of Profit or Loss, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended, and a Summary of Significant Accounting Policies and Other Explanatory Information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects the financial position of DFPC as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 16 to the financial statements which describes the uncertainty related to the outcome of the decision of the Supreme Court on the appeal filed by DFPC on the disallowed 14th month bonus. Our opinion is not modified in respect of this matter.

Report on Supplementary *Information Required Under BIR Revenue Regulation 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 17 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a 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. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

HENEDINA R. OTADOY
Supervising Auditor
Audit Group F - Trading and Promotions
Cluster VI, Corporate Government Sector

May 21, 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Duty Free Philippines Corporation is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2014 and the related Statement of Income and Expenses and Cash Flow for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

RUFINO G. PARFAN
Finance Division Manager

LORENZO C. FORMOSO
Chief Operating Officer

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(With Corresponding Figures for CY 2013)
(In Philippine Peso)

	Notes	2014	2013 (As restated)
ASSETS			
Current Assets			
Cash and cash equivalents	2.2, 3	1,575,233,212	1,625,980,194
Receivables - net	2.3,4	211,044,571	242,127,948
Inventories - net	2.4, 2.5, 5	329,680,411	392,957,861
Prepayments	6	15,191,358	9,317,451
Total Current Assets		2,131,149,552	2,270,383,454
Non-current Assets			
Investment in stocks	7	1,146,100	1,146,100
Property and equipment - net	2.6, 8	144,296,530	124,322,700
Other assets - net	9	583,851,109	622,233,277
Total Non-current Assets		729,293,739	747,702,077
TOTAL ASSETS		**2,860,443,291**	**3,018,085,531**
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable		1,790,223,052	1,979,747,423
Inter-agency payable		145,659,948	194,864,193
Other payables		327,676,732	319,172,450
Total Current Liabilities	10	2,263,559,732	2,493,784,066
Non-current Liabilities			
Deferred credits	11	13,334,980	9,226,144
Total Non-current Liabilities		13,334,980	9,226,144
Total Liabilities		2,276,894,712	2,503,010,210
Equity	12	583,548,579	515,075,321
TOTAL LIABILITIES AND EQUITY		**2,860,443,291**	**3,018,085,531**

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF PROFIT OR LOSS
For the Year Ended December 31, 2014
(With Corresponding Figures for 2013)
(In Philippine Peso)

	Notes	2014	2013 (As restated)
OPERATING INCOME	2.7, 2.9		
Net sales	13	10,446,802,757	10,297,960,669
Cost of sales	14	8,518,659,486	8,266,281,951
Gross Profit on Sales		1,928,143,271	2,031,678,718
OPERATING EXPENSES	2.7		
Personal services	16	476,389,443	472,529,898
Maintenance and other operating expenses	17	1,222,133,664	1,207,473,152
Financial expenses	18	2,976,806	2,819,448
TOTAL OPERATING EXPENSES		1,701,499,913	1,682,822,498
INCOME FROM OPERATIONS		226,643,358	348,856,220
OTHER INCOME	15	44,205,495	33,232,453
NET INCOME		**270,848,853**	**382,088,673**

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2014
(With Corresponding Figures for 2013)
(In Philippine Peso)

	Notes	2014	2013 (As restated)
GOVERNMENT EQUITY			
PTA equity		8,235,065	8,235,065
Donated capital		14,387,330	14,387,330
Total Government Equity	12	22,622,395	22,622,395
RETAINED EARNINGS			
Balance at beginning of year		492,452,926	399,573,410
Adjustment made on Due to DOT		848,832	
Mandatory contributions to DOT		(135,724,427)	(189,209,157)
Application of over remittance to DOT in prior years with Board resolution & as per COA recommendation		(67,500,000)	(100,000,000)
Net income		270,848,853	382,088,673
Balance at End of Year		560,926,184	492,452,926
EQUITY	12	**583,548,579**	**515,075,321**

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(With Corresponding Figures for 2013)
(In Philippine Peso)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Receipt from trading and production sales	10,239,361,927	10,078,792,400
Gain on foreign exchange	10,675,366	26,080,772
Collection of claims and other receivables	20,651,268	23,575,758
Rent income	721,351	1,022,967
Interest income	5,680,947	9,687,434
Proceeds from sale of waste materials	22,194	1,328,850
Collection of guaranty deposits	2,934,338	1,040,056
Collection of interest receivables	665,087	801,756
Foreign currency adjustment	(346,273)	38,490,708
MiscellaneousIncome	9,845,184	10,439,236
	10,290,211,389	10,191,259,937
Cash Outflows		
Remittance to concessionaires	7,028,048,972	6,779,810,395
Payment of maintenance and other operating expenses	1,034,543,661	977,228,395
Payment of trade and non-trade payables	948,100,972	637,309,920
Payment of personal services	444,314,536	473,717,933
Payment of merchandise for sale	291,029,316	432,106,431
Remittance of trust liabilities	307,150,916	388,617,959
Payment of prepaid expenses/guaranty deposits	43,118,236	4,665,383
Payment of letters of credit	7,879,508	28,866,809
Payment of taxes, licenses and fees	7,450,585	6,844,051
Payment of bank charges	490,717	1,022,966
Payment of interest	-	21,936
Gain/loss on foreign exchange	2,705,089	14,286,022
Payment of prior years' expenses	60,236	39,809
	10,114,892,744	9,744,538,009
NET CASH PROVIDED BY OPERATING ACTIVITIES	175,318,645	446,721,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(37,519,464)	(22,470,784)
NET CASH USED IN INVESTING ACTIVITIES	(37,519,464)	(22,470,784)
CASH FLOWS FROM FINANCING ACTIVITIES		
Remittances to the Department of Tourism	(188,546,163)	(273,566,812)
NET CASH USED IN FINANCING ACTIVITIES	(188,546,163)	(273,566,812)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(50,746,982)**	**150,684,332**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**1,625,980,194**	**1,475,295,862**
CASH AND CASH EQUIVALENTS, END OF YEAR	**1,575,233,212**	**1,625,980,194**

DUTY FREE PHILIPPINES CORPORATION
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

Duty Free Philippines (DFP) was created by virtue of Executive Order (EO) No. 46 dated September 4, 1986 which granted the then Ministry of Tourism (MOT), through the Philippine Tourism Authority (PTA), to establish and operate a duty and tax free merchandising system in the Philippines, for the purpose of augmenting the service facilities for tourists, and to generate foreign exchange and revenue for the government. Net income generated from merchandising operations accrues to the national government through the MOT, now Department of Tourism (DOT), pursuant to Section 3 of EO No. 46.

In pursuance of EO No. 46, DOT issued the implementing rules and regulations on the establishment, management and operation of the duty and tax free merchandising system in the Philippines through the issuance of Tourism Administrative Order (TAO) No. 89-04. Its provisions cover the establishment, importations, operations and sales of the merchandising system.

On October 28, 1998, TAO No. 89-04 was amended in order to adopt the necessary measures and strategies to address the heavy losses of DFP. With the amendments, the relationship of DFP and PTA was restated under Article I as follows:

> "Section 1.2 For the purposes aforestated, "DUTY FREE PHILIPPINES" is hereby established as a Sector of the Philippine Tourism Authority to exclusively manage and operate the stores and ships that would sell tax and duty free merchandise, goods and articles, among others."

On May 12, 2009, Republic Act (RA) No. 9593, otherwise known as the Tourism Act of 2009, was enacted and took effect 30 days after its publication in the Official Gazette on July 13, 2009. The Implementing Rules and Regulations (IRR) became effective upon its publication on November 12, 2009.

Under Section 89 of the said Act, DFP shall be reorganized to become the Duty Free Philippines Corporation (DFPC), which shall be attached to the DOT. Accordingly, DFPC shall become a body corporate mandated to operate the tax and duty free merchandising system in the Philippines as established by the Department under EO No. 46.

With the implementation of the Tourism Act, DFPC is now headed by a Chief Operating Officer (COO), and is governed by a Board of Directors, composed of the following:

(a) The DOT Secretary, as Chairperson;
(b) The Chief Operating Officer of the DFPC, as Vice Chairperson;
(c) The Department of Finance Secretary, as Ex-Officio Director
(d) The Department of Trade and Industry Secretary, as Ex-Officio Director and;
(e) Three representatives, to be appointed by the President, upon the recommendation of the Tourism Congress.

Under Section 93 of RA No. 9593, the DFPC shall have an authorized capitalization of P500 million which shall be fully subscribed by the national government. A minimum of 50 per cent of the annual net profits of the DFPC shall be remitted automatically to the Office of the DOT Secretary to fund tourism programs and projects, in lieu of its statutory remittance to the national government under RA No. 7656, seventy per cent of which shall be given to the Tourism Promotions Board (TPB).

Consistent with the nature of its operations and primary function to operate as a tax and duty-free merchandising system and to enable it to compete in the international tax and duty-free market, Section 95 of RA No. 9593 provides that DFPC shall be entitled to an exemption from the following:

(a) duties and taxes, including excise tax and VAT, relative to the importation of merchandise for sale;
(b) local taxes and fees imposed by the local government units; and
(c) corporate income tax.

Likewise, under Section 105 thereof, the employees and management of the DFPC shall be exempt from the coverage of the Salary Standardization Law.

Finally, by virtue of Section 110 of the same enactment, DFPC shall be subrogated to all rights and shall assume all liabilities of the DFP in accordance with pertinent laws, rules and regulations.

The transformation to a government corporation of the DFPC is still in transition pending the review and approval by the Governance Committee on GOCCs (GCG) of the new organizational structure, plantilla of positions and compensation package.

DFPC is operating the tax and duty-free stores located at the following:

- Fiestamall, Parañaque City
- NAIA Terminal 1 Arrival and Departure Outlets, Pasay City
- NAIA Terminal 2 Arrival and Departure Outlets, Pasay City
- NAIA Terminal 3 Arrival and Departure Outlets, Pasay City
- Mactan International Airport Arrival and Departure Outlets, Cebu
- Waterfront Hotel, Lahug, Cebu City
- SM Northwing Outlet, Cebu City
- Davao International Airport Arrival Outlet, Davao City
- Davao International Airport Visitors' Center, Davao City
- Laoag International Airport, Laoag City
- Newport Mall Resorts World, Pasay City
- Manila Ocean Park, Manila (ceased operation in February 2015)
- Embarcadero de Legaspi – Legaspi, Albay
- Kalibo International Airport – Arrival and Departure, Kalibo, Aklan
- Clark International Airport – Pre-Departure and Arrival Area, Clark Freeport Zone, Pampanga
- Iloilo International Airport – Cabatuan, Iloilo
- Market Mall Store, Puerto Princesa, Palawan
- Laguindingan International Airport, Cagayan de Oro City

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation of Financial Statements

The financial statements of DFPC are prepared in accordance with the generally accepted accounting principles (GAAP) in the Philippines using historical cost basis, except for accounts which have been re-stated at liquidation value.

The DFPC Chart of Accounts was revised based on COA Circular No. 2004-008 dated September 20, 2004 simultaneous with the official implementation of the ***ebackoffice*** by Epicor financial accounting system in January 2005.

2.2 Cash and Cash Equivalents

Cash and Cash Equivalents account include cash on hand items as well as peso, dollar and euro currency deposits in banks, which are available for use in current operation.

It also includes euro currency placed in time deposit with maturity of three months classified as cash equivalents.

2.3 Allowance for Doubtful Accounts

Receivables are valued at their face amounts minus, whenever appropriate, allowance for doubtful accounts.

The allowance is provided according to collectibility of the receivable balances and evaluation factors such as aging of accounts and loss experiences of DFPC. It is adjusted at the end of the year based on validation and analysis of collection.

Trade receivables are aged accordingly to establish the amount of bad debts derived from percentages proportionate with the age of receivables, as follows:

Age of Accounts	Per cent
1 - 60 days	1
61 - 180 days	2
181 days - 1 year	3
More than a year	5

Provision of allowance for other trade receivables is calculated using the following rates:

Age of Accounts	Per cent
More than 1 year to 2 years	30
3 years	40
4 years	70
5 years	80
6 years	95
7 years and above	100

To ensure collection, DFPC adopted “outright deduction” policy where DFPC offsets its receivables from payables to concessionaires and vendors. These include charges for rental, freight, storage, brokerage, demurrage, warehousing bond/insurance, truck usage, forklift, blanket waiver, power consumption, communication, security, salary subsidy, one per cent commission on credit card, travel agency and tourist guide commission, DFPC shopping bags, share on discount for promotional sale and other related expenses duly conformed by the respective concessionaires. Vendors are also charged for the support on price reduction, defective electronics and rebates.

2.4 Inventories

Merchandise Inventories

Merchandise inventories are recorded in the books at invoice cost including freight and insurance charges.

The Purchase Order (PO) serves as the initial cost of merchandise in Merchandise Management System (MMS). Freight and insurance rates are allocated by the buyer to arrive at landed cost applying the appropriate factors such as forwarders, country of origin, supplier, currency, volume and mode of shipment. Insurance rate is estimated at 0.25 per cent of invoice cost with 10 per cent mark-up.

Merchandise inventory is valued at landed average cost computed at moving average method in MMS. It is also the basis for recording the cost of sales, damage/defective merchandise, gate pass of stocks, return to vendor, and physical count reconciliation adjustments.

Cycle and year-end physical inventory counts are conducted and reconciled with books and MMS by product department total cost and by item quantity, respectively. The variance is temporarily recognized as cost of sales adjustment pending matching of PO cost and MMS landed average costs. The quantity variance between the physical count and MMS is recognized as inventory loss which is charged against concerned employees after verification and evaluation.

Supplies Inventories

DFPC adopted the weighted average cost method for supplies inventories calculated under Inventory Module of ***ebackoffice*** by Epicor Financial Accounting System where average cost is based on actual cost from the last recorded receipt.

2.5 Provision for Inventory Obsolescence

Allowance for obsolescence is provided for damaged and good merchandise. For damaged merchandise, 100 percent allowance for consumables and 80 percent for non-consumables are provided. For blacklines and white lines, allowance is determined according to aging and assessment by the Buyer-in-Charge, while 80 percent is provided for non-moving and discontinued stocks such as home furnishings, lighters, eyewears, housewares, sporting goods, writing instruments and livelihood.

For good merchandise, allowance is provided based on the year-end aging by MMS using the following rates:

Age of Inventory	Per cent
2 years and below	no allowance
more than 2 years to 4 years	10
more than 4 years to 6 years	20
more than 6 years and above	80

2.6 Property and Equipment

Furniture, fixtures and equipment are recorded at invoice cost inclusive of VAT. Using the straight-line method, depreciation is computed at acquisition cost over the estimated useful life of the asset ranging from two to five years after deducting the salvage value, estimated at 10 percent of the acquisition cost.

The Administrative Department records and maintains in the Asset Management Module of the ***ebackoffice*** by Epicor Financial Accounting System the detailed information about the assets, such as creation and activation of newly acquired assets, depreciation, disposition, and changes caused by addition, damage, or improvements, and generate journal entries for posting to the General Ledger.

The acquired fixed assets are temporarily recorded in a clearing account under the Accounts Payable Module and automatically reversed by the system to the appropriate asset account. Depreciation begins at place-in service date, the following month after acquisition date. Pending reversal, the clearing account forms part of the Furniture, Fixtures and Equipment account presented in the financial statements.

Fabricated furniture and fixtures and on-going leasehold improvements are taken up as Construction in Progress (CIP) - Others and CIP - Leasehold respectively and capitalized to corresponding asset account upon issuance of Certificate of Completion by The Facilities and Management Department.

2.7 Income and Expenses

DFPC adopts the accrual method of accounting for income and expenses.

Expenses subsidized by/reimbursed from the suppliers/concessionaires are taken up as deduction from the corresponding expense accounts.

2.8 Foreign Currency Transactions

Foreign currency transactions involving importation of merchandise, sales, and remittances to concessionaires are recorded in dollars translated into pesos according to monthly pre-determined book rate set in ***ebackoffice*** by Epicor financial accounting system.

The Visual Quick Point of Sale (POS) is a system used by DFPC to capture sales data that automatically converts to dollar the third currency including peso sales using store rate for recording in the books of accounts.

The difference in the conversion rate used between POS and bank rate to translate third currency cash sales to dollar is recognized as gain or loss on foreign exchange while the difference between peso sale transactions and its conversion to dollar by POS system is taken up as sales adjustment.

All balances of foreign currency transactions pertaining to cash, receivables, payables and inventory accounts are translated using the Philippine Dealing System closing rate as of year-end.

2.9 Sales Revenue

This includes income derived from sale of DFPC direct merchandise, supplier's owned inventory (consignment), and sale under supply and delivery agreement (concession).

Cost of goods sold of concession merchandise corresponds to percentage consideration taken up as Other Business Income presented in the Statement of Income and Expenses as gross profit on sales.

Similar to the direct merchandise, consigned goods sold are directly recorded as cost of sales based on purchase order cost.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

Particulars	2014	2013 (As Restated)
Cash on hand		
Collecting officer	42,196,980	44,051,775
Disbursing officer	263,121	817,469
Petty cash fund	1,264,943	1,250,323
Sub-total	43,725,044	46,119,567
Cash in banks - Local currency		
Current account	135,634,775	121,779,900
Savings account	56,275,983	84,532,504
Sub-total	191,910,758	206,312,404
Cash in banks - Foreign currency		
Current account	28,710,283	14,273,726
Savings account	492,970,476	744,920,839
Sub-total	521,680,759	759,194,565
Time deposits - Foreign currency	817,916,651	614,353,658
Total Cash and Cash Equivalents	**1,575,233,212**	**1,625,980,194**

The amount in dollar and euro savings and current account is converted to local currency using the Philippine Dealing System closing rate of P44.72:USD1.00 as of balance sheet date.

The Time deposits - Foreign currency account is equivalent to US$18,289,728.

Cash on hand of collecting officer represents cash sales on December 31, 2014 deposited in January 2015.

4. RECEIVABLES - NET

This account consists of the following:

Particulars	2014	2013 (As restated)
Receivables - Current		
Trade/Business	48,560,410	67,172,791
Claims	335	161,041
Non-Trade	55,714,841	63,691,834
Sub-total	104,275,586	131,025,666
Due from NGAs - DOT	100,000,000	100,000,000
Due from Officers and Employees	5,948,782	10,802,801
Due from Government Owned and Controlled Corporations	1,573,183	399,319
Interest Receivable	817,336	665,087
Allowance for Doubtful Accounts	(1,570,316)	(764,925)
Receivables - Net	**211,044,571**	**242,127,948**

Receivables - Current account consists of various claims expected to be collected within 12 months following the balance sheet date.

Receivables - Trade/Business account represents the uncollected proceeds of sales due from credit card companies that are paid through banks. This also includes sale of merchandise on account to diplomatic/foreign embassies and other international organizations.

Receivables – Claims account pertains to claims against suppliers and/or insurance companies due to short shipment, missing/unaccounted and/or damaged/defective merchandise.

Receivables - Non-trade account comprises advertising and space rentals, amendment charges, product and supplier funded cash incentives, rebates, and commissions due to prompt payments. It also includes reimbursement of expenses from concessionaires for fixed consideration, commission expenses on credit cards, bank charges, freight, storage, demurrage and other importation charges, power consumption, communication, security and paid in advance by DFPC.

Due from NGAs - DOT account represents receivable from DOT for the overremittance in previous years amounting to P429,614,070, of which P100,000,000 was classified as current and P329,614,070 as Other Asset - Non-current Receivables. The receivable from DOT was recognized in compliance with CY 2011 audit recommendation of COA on the accuracy and completeness of Retained Earnings and contributions due to DOT.

Due from Officers and Employees account is used to record cash advances granted for travel, cashier's shortages, inventory losses/shortages, property accountability, communication charges and loans.

Due from Government Owned and Controlled Corporations refers to SSS maternity benefits of DFPC employees paid in advance by the company.

Interest receivable was derived from short-term investment in euro, dollar and peso time deposits that will mature in 2015.

5. INVENTORIES - NET

This account consists of the following:

Particulars	2014	2013 (As Restated)
Merchandise inventory	312,702,824	366,880,892
Items in transit - Merchandise inventory	-	1,477,755
Allowance for inventory obsolescence	(2,302,831)	(4,765,952)
Sub-total	310,399,993	363,592,695
Supplies inventory	19,165,292	29,278,855
Items in transit - Supplies inventory	115,126	86,311
Inventories - Net	**329,680,411**	**392,957,861**

Merchandise Inventory account represents the year-end physical inventory at MMS values. Allowance for inventory obsolescence is subject to adjustment upon submission of Aging Valuation Report by Merchandising Division.

6. PREPAYMENTS

This account consists of the following:

Particulars	2014	2013 (As Restated)
Prepaid rent	11,935,533	1,745,283
Prepaid insurance	2,400,122	1,895,069
Other prepaid expenses	855,703	5,677,099
Total Prepayments	**15,191,358**	**9,317,451**

Prepaid Rent account represents advance rentals on store outlets.

Prepaid Insurance account consists of premiums for fidelity bonds, policy insurance for employees, fire insurance on furniture and fixtures, electronic equipment and merchandise inventory.

Other Prepaid Expenses account represents other prepayments not falling under any of the above prepaid expenses.

7. INVESTMENT IN STOCKS

This account pertains to the cost of stocks and securities of service enterprises which are required by contractual conditions to be invested before availing the services of such enterprises.

8. PROPERTY AND EQUIPMENT- NET

This account consists of the following:

Particulars	2014	2013 (As restated)
Leasehold improvements	159,715,798	135,079,469
Construction in progress	9,167,075	17,625,347
Sub-total	168,882,873	152,704,816
Accumulated amortization	(128,561,916)	(120,356,378)
Leasehold improvements - Buildings, net	40,320,957	32,348,438
IT equipment	244,399,455	227,068,572
Other machineries and equipment	65,207,514	52,803,114
Furniture and fixtures	34,248,539	31,789,397
Communication, firefighting and sports equipment	11,748,582	11,528,217
Motor vehicles	10,299,284	10,299,284
Books and publications	278,330	269,365
Property and equipment - Items in transit	-	8,006
Construction in progress - Others	567,950	842,567
Sub-total	366,749,654	334,608,522
Accumulated depreciation	(262,774,081)	(242,634,260)
Furniture, fixtures and equipment, net	103,975,573	91,974,262
Property and Equipment - Net	**144,296,530**	**124,322,700**

The Leasehold Improvements account consists of the costs of additions and renovations of existing and newly opened Duty Free stores, warehouses and offices located at Fiesta Mall, NAIA, Manila Ocean Park, Resorts World Manila, Laoag, Legaspi, Kalibo, Cebu, Clark, Iloilo and Puerto Princesa outlets.

Leasehold improvements are amortized over the shorter of their useful life or the remaining term of the lease.

Furniture, fixtures and equipment are carried at cost and comprise of the purchase price including any direct attributable costs of bringing the assets to its working condition.

The net book values of property and equipment as of December 31, 2014 are computed as follows:

Particulars	Leasehold improvements	Furniture, fixtures and equipment	Total
Cost:			
January 1, 2014	135,079,469	333,757,949	468,837,418
Additions	25,849,249	32,833,674	58,682,923
Derecognition		(9,919)	(9,919)
Adjustment	(1,212,920)	(400,000)	(1,612,920)
Construction in progress	9,167,075	567,950	9,735,025
December 31, 2014	168,882,873	366,749,654	535,632,527
Accumulated Depreciation:			
January 1, 2014	120,356,378	242,634,260	362,990,638
Depreciation charges	8,205,538	20,139,821	28,345,359
December 31, 2014	128,561,916	262,774,081	391,335,997
Net Book Value	**40,320,957**	**103,975,573**	**144,296,530**

9. OTHER ASSETS

This account consists of the following:

Particulars	2014	2013 (As restated)
Guaranty deposits - Rental	249,844,372	220,342,131
Non-current receivables	375,377,543	452,013,504
Allowance for doubtful accounts	(44,993,619)	(54,899,434)
Sub-total	330,383,924	397,114,070
Merchandise for disposal	8,859,031	17,268,963
Allowance for inventory obsolescence/ damage	(7,169,191)	(13,924,702)
Sub-total	1,689,840	3,344,261
Guaranty deposits - Others	771,609	396,620
VAT input tax	630,319	760,110
Guaranty deposits - Public utilities	531,045	276,085
Other Assets - Net	**583,851,109**	**622,233,277**

Guaranty Deposits – Rental are concessionaires' rental deposits on leased spaces.

Non-current Receivables account include Due from DOT of 329,614,070 representing over remittances to be applied to future remittances, subject to DFPC Board declaration.

Merchandise for Disposal account refers to damaged merchandise stored at warehouses and Value Shop. Damages incurred are booked monthly with provision for damage supported by Shipping Manifest (Incident Report), Cost of Sales Report and Return to Vendor paid by suppliers. Epicor and MMS shall be adjusted upon submission of status report on Damage Sale handled by Merchandising Division (Damage Committee) to consider donation, condemnation/destruction and to account for the remaining stocks.

VAT input tax represents the 12 per cent VAT passed on to DFPC from various trade and non-trade payments. The input taxes are being applied against the output tax derived from non-operating income of DFPC.

10. CURRENT LIABILITIES

This account is composed of the following:

Particulars	2014	2013 (As restated)
Accounts payable		
Trade/Business	1,719,953,136	1,814,655,927
Non-trade	70,269,916	165,091,496
Sub-total	1,790,223,052	1,979,747,423
Inter-agency payable		
Due to other NGA - DOT	129,292,241	182,962,809
Due to Bureau of Internal Revenue	13,306,345	11,224,554
Due to Social Security System	1,414,774	676,642
Due to Pag-ibig	1,372,800	100
Due to Philhealth	273,788	88
Sub-total	145,659,948	194,864,193
Other payables		
Accrued expenses	227,765,951	222,254,446
Guaranty deposits payable	85,173,642	78,441,104
Performance bonds payable	5,833,822	4,062,042
Retention payable	2,562,716	7,224,665
Bidders bond payable	822,500	497,500
Due to officers and employees	342,430	186,845
Commissions payable	305,922	240,608
VAT output tax	81,576	156,270
Miscellaneous	4,788,173	6,108,970
Sub-total	327,676,732	319,172,450
Total Current Liabilities	**2,263,559,732**	**2,493,784,066**

Trade Payables account represents amount due to foreign and local suppliers for the purchase of merchandise for sale payable through check, telegraphic transfer or through Open Account/ Draft Acceptance and Letter of Credit maintained with Philippine National Bank and Bank of Commerce. It also includes importation charges such as freight and insurance, brokerage and warehousing bond. This account is, likewise, used for remittance of consignment and concession sales.

Non-trade payables are liabilities arising from various services such as janitorial, security, salaries and wages, compensation/benefits; amount due to various suppliers for the purchase of supplies, furniture, equipment; expenses for utility, communication, subsidies, donations, repairs and maintenance and expenses other than purchase of merchandise for sale.

Due to other NGA - DOT account pertains to mandatory contributions of DFPC to Department of Tourism (DOT) in accordance with the provisions of RA No. 9593 with a minimum amount equivalent to 50 per cent of the annual net profits of the DFPC. This also includes DOT's additional 25 per cent share on DFPC's net profit for year 2010. Under Section 107 of Rule VII, Chapter III of the Implementing Rules and Regulations of RA No. 9593, unless the DFPC Board provides otherwise, the DFPC shall retain a minimum of 25 per cent of its annual net profits to fund its operations, make allowances for possible future losses, and fund any expansion program.

The balance of the account is composed of the following:

Unremitted balance of 2010 contributions as of 12/31/12	3,413,298
Unremitted balance of 2011 contributions as of 12/31/12	36,134,556
Unremitted balance of 2012 contributions	227,963,910
50% share in CY 2013 net income (P377,066,126 before FOREX translation /2)	188,533,063
Adjustments	(323,906)
Remittances (2013)	(273,758,112)
Part of additional 25% share in DFPC 2012 net income	1,000,000
Balance, January 1, 2014	182,962,809
Adjustment for CY 2012 & 2013	(848,832)
Remittances for CY 2014	(188,246,163)
50 % share of CY 2014 net income	135,424,427
Balance, December 31, 2014	**129,292,241**

Due to BIR account consists of tax withheld from suppliers (Expanded & VAT) dated December 2014 transactions for remittance in January 2015.

Accrued expenses are the expenses incurred in CY 2014 but not paid as of year-end.

Guaranty Deposits Payable account represents maximum of three months rental for store and warehouse spaces posted by DFPC's various concessionaires and updated upon increase of rental rate stipulated in the Memorandum of Agreement.

Performance Bonds Payable represents receipts from DFPC service providers/suppliers to guarantee their performance to be refunded upon full delivery of service and termination/completion of contract.

Retention Payable account consists of the 10 per cent retention on contract price of various construction contracts on leasehold improvements.

Bidders Bonds Payable account represents receipts from bidders vying for award of DFPC contract.

Due to Officers and Employees account represents unclaimed salaries, bonuses, allowances and other personnel benefits of resigned/end-of-contract employees.

Commission Payable account is used to record commissions due to travel agencies and tour guides for services rendered.

VAT Output Tax account represents 12 per cent VAT on income other than sale of merchandise that are subject to tax.

Other payables – Miscellaneous account represents payables to various entities with authorized deductions from employees' salaries and payables for the construction in progress of leasehold improvements with installment payment term.

11. DEFERRED CREDITS

This account is composed of the following:

Particulars	2014	2013 (As restated)
Undistributed collections	6,312,935	2,092,459
Gift certificates	5,054,016	4,150,148
Deferred credits to income	1,960,440	2,975,948
Other deferred credits	7,589	7,589
Total Deferred Credits	**13,334,980**	**9,226,144**

12. GOVERNMENT EQUITY

This account consists of:

Particulars	2014	2013 (As restated)
Government Equity		
PTA equity	8,235,065	8,235,065
Donated capital	14,387,330	14,387,330
Total Government Equity	22,622,395	22,622,395
Retained Earnings		
Net income	270,848,853	382,088,673
Accumulated results of operations	290,077,331	110,364,253
Retained Earnings, end	560,926,184	492,452,926
Equity	**583,548,579**	**515,075,321**

Government Equity account represents the balance of the P50 million capital initially given to DFP for its operations amounting to P8,235,065 and the amount of P14,387,330 of donations from various sources as of December 31, 2014.

Retained Earnings account consists of the net income during the year and accumulated results of operations from 1987 to 2013.

Remittances to DOT from 1987 to 2009 were made pursuant to Executive Order No. 46 where all the net profits from the merchandising operations of DFP accrued to the DOT for tourism programs of the government, in lieu of the statutory remittance to the national government under RA No. 7656. The 2011 balance was adjusted to the accumulated results of operations in 2011.

Effective 2010, pursuant to RA No. 9593, 50 per cent of the net income of the DFPC accrued to the DOT, 70 per cent of which is allocated to finance the activities of the Tourism Promotions Board. The 2010 and 2011 contributions to DOT were deducted from the accumulated results of operations upon accrual and recorded under Due to Other NGA - DOT account.

13. NET SALES

This account is composed of DFPC direct items including consignment and concession sales as shown below:

Particulars	2014	2013 (As restated)
Direct		
Gross sales	699,432,908	705,441,746
Sales discount	(9,328,096)	(8,552,909)
Sales returns and allowances	(9,942,527)	(13,228,088)
Sub-total	680,162,285	683,660,749
Concession		
Gross sales	9,968,059,515	9,785,563,660
Sales discount	(104,824,895)	(74,147,818)
Sales returns and allowances	(96,594,148)	(97,115,922)
Sub-total	9,766,640,472	9,614,299,920
Net Sales	**10,446,802,757**	**10,297,960,669**

14. COST OF SALES

This account consists of DFPC direct merchandise including consignment and concession cost of sales as follows:

Particulars	2014	2013 (As restated)
Direct	601,120,810	555,067,580
Concession	7,917,538,676	7,711,214,371
Total Cost of Sales	**8,518,659,486**	**8,266,281,951**

15. OTHER INCOME (LOSS)

This account consists of the following:

Particulars	2014	2013 (As restated)
Gain on foreign exchange	21,822,629	11,155,888
Interest income	11,794,138	10,352,521
Space rental	8,456,285	9,216,589
Advertising space rental	721,351	1,022,967
Gain on sale of waste materials	-	1,328,743

Gain (Loss) on disposed assets	22,194	(1,066,903)
Miscellaneous income-Others	1,388,899	1,222,647
Total Other Income	**44,205,496**	**33,232,452**

Gain/(Loss) on Foreign Exchange account represents gain or loss of balance sheet accounts in foreign currencies converted to local currency such as trade payables, trade receivables, cash in bank, and merchandise inventory.

The amount of P21,822,629 comprises of realized loss of P494,306 and unrealized gain of P22,316,935. The former resulted from the difference in bookkeeping rate used at the time of set-up of receivables/payables and upon actual collections/disbursements while the latter pertains to translation of outstanding balance of above-mentioned accounts denominated in foreign currencies to Philippine Dealing System closing rate of Peso to US Dollar at P44.72 as of December 31, 2014.

16. PERSONAL SERVICES

Expenses on Personal Services include the following:

Particulars	2014	2013 (As restated)
Salaries and wages	224,679,955	216,526,949
Other personnel benefits	74,733,665	126,743,866
Allowances, bonuses and incentives	142,104,487	89,651,480
Overtime and night pay	34,871,336	39,607,603
Total Personal Services	**476,389,443**	**472,529,898**

The Commission On Audit disallowed under Notice of Disallowance ND PTA-2006-001 dated July 13, 2006 the payment of the 14th month bonus of the DFP officers and employees in CY 2002 amounting to P14,864,500.13. However, DFPC continued to pay the disallowed 14th month bonus from CYs 2003 to 2014.

The COA Commission Proper, denied the Motion and Supplemental Motion for Partial Consideration of DFPC for lack of merit and affirmed with finality COA Decision No. 2011-059 dated August 17, 2011, declaring that Duty Free Philippines employees who have been receiving the 14th Month Bonus as of July 1, 1989, the effectivity date of Salary Standardization Law, shall continue to receive the same while those hired after July 1, 1989 shall not be entitled thereto. The Salary Standardization Law should apply to the Duty Free Philippines, hence, the application of the July 1, 1989 cut-off period to determine eligibility for continued grant of benefits and to conform to the legislative policy of non-diminution of pay.

The DFPC appealed to the Supreme Court under GR No. 210991 dated February 13, 2014 to reverse the COA ruling partially granting their petition, declaring that DFPC employees who have been receiving the 14th month bonus as of 01 July 1989, the effectivity date of the Salary Standardization Law, shall continue to receive the same but those hired after 01 July 1989 shall not be entitled thereto.

On March 25, 2014, DFPC through the Office of the Government Corporate Counsel (OGCC) as their counsel, moved for Motion for the Issuance of Temporary Restraining Order (TRO) and Preliminary Injunction from the Supreme Court of the Philippines under GR210991.

On April 22, 2014, the SC resolved to grant the Motion and issue the TRO, effective immediately and continuing until further orders from the court, restraining the COA from executing its decision.

17. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

The following are the expenses incurred in operations:

Particulars	2014	2013 (As restated)
Rent expense	690,790,966	709,393,501
Utility expenses	114,655,735	117,421,037
Security services	73,647,973	69,740,522
Advertising/promotion	72,321,260	68,745,804
Supplies and materials	46,263,282	36,385,330
Traveling expenses	37,761,615	39,384,966
Janitorial services	35,004,668	33,746,737
Non-cash expenses	33,677,411	22,799,878
Commission expense	30,968,573	25,028,426
Storage expenses	26,173,302	29,530,715
Taxes, licenses, insurance and other fees	13,935,102	6,748,450
Repairs and maintenance	11,256,756	8,851,226
Transportation and delivery expenses	10,552,934	12,565,643
Communication expenses	8,771,140	7,824,206
Auditing services	5,204,017	2,824,824
Miscellaneous expenses	4,652,577	8,040,577
Representation expenses	2,828,248	2,845,256
Training expenses	2,741,198	3,932,713
Consultancy expenses	777,533	1,151,934
Other operating expenses	149,374	511,407
Total MOOE	**1,222,133,664**	**1,207,473,152**

Rent expense represents rentals on building for bonded warehouse, offices, space area for store outlets and rentals of vehicles, forklift, chiller/freezer based on contracts. This account also includes concession privilege fee computed on net sales of DFPC store outlets: 10 per cent for NAIA, five percent for Mactan International Airport, and three per cent for Fiestamall, Waterfront Hotel, Resorts World Manila and Embarcadero.

18. FINANCIAL EXPENSES

These expenses are the following:

Particulars	2014	2013 (As restated)
Documentary stamp expense	2,486,089	1,773,806
Interest expense	-	21,936
Bank charges	490,717	1,023,706
Total Financial Expenses	**2,976,806**	**2,819,448**

19. RECLASSIFICATION AND RESTATEMENT OF ACCOUNTS

Certain accounts in CY 2013 were reclassified and restated to reflect the impact of the adjustments to prior years' income and expenses and related accounts in accordance with the Philippine Accounting Standards.

Prior years' accounts were restated as follows:

Assets, Liabilities and Net Capital Deficiency	Previously Reported in 2013	Adjustments Recorded in 2014	Restated Balance
Receivables	241,416,768	711,180	242,127,948
Current liabilities	2,498,669,233	(4,885,167)	2,493,784,066
Total adjustments on assets and liabilities		**5,596,347**	
Retained Earnings			**2013**
Balance, beginning (as previously reported)			399,573,410
Remittances to DOT			(189,209,157)
Application of over remittance to DOT in prior years (with Board Resolution)			(100,000,000)
Sub-total			110,364,253
Net income for CY 2013 (as previously reported)		376,492,326	
Prior years' adjustments -			
Miscellaneous income - Others		(107)	
Sales		774,377	
Cost of sales		18,642	
Personal services		1,422,235	
Operating expenses		3,381,940	
Financial expenses		(740)	
Adjustment to net income		**5,596,347**	382,088,673
Balance, end (as restated)			**492,452,926**