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

COA-MIAA *File Copy*

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE GENERAL MANAGER
RECEIVED
JUN 30 2014
TIME 5:00 PM
BY

June 30, 2014

MGEN. JOSE ANGEL A. HONRADO (Ret.)
General Manager
Manila International Airport Authority
Pasay City

Dear MGen. Honrado:

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 Manila International Airport Authority for the year ended December 31, 2013.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of the presentation of the financial statements of the Authority because of the non-determination of the financial impact of recent developments on the case on disputed accounts affecting contingent assets of P169.24 million and total receivables recognized in the books of P124.52 million to ensure that the accounts are adjusted as appropriate; non-recognition of depreciation for CYs 2008 to 2013 on the NAIA Terminal 3 Facility assets costing P3.068 billion; non-recognition of provision for estimated liabilities on the P1.231 billion claims by lessees for the refund of the collected rental rate increases invalidated by the Supreme Court for lack of publication; and non-recognition of real estate taxes due on portions of the Authority's airport land and buildings leased to private parties which the Supreme Court ruled as not exempted from taxes.

The significant observations and recommendations that need immediate action are as follows:

1. Depreciation on the reduced segment of Runway 06/24 was not adjusted to consider its derecognized portion.

   We have recommended that Management adjust the depreciation rate based on the revised depreciable cost of the remaining old portion of the runway.

2. The recording and disposition of the 5 percent service fee charged by the Authority are not in harmony with the provisions of the General Appropriations Act (GAA) and Administrative Order (AO) No. 279.

   We recommended that Management observe the proper recording of service fees as trust receipts and ensure that remitted funds to the MIAA Provident Fund Association Inc. (MPFAI) are retained and used by the latter for its operational use.

3. The continued grant of medical allowance to MIAA employees who are not incumbents of their positions as of July 1, 1989 is bereft of legal basis.

   We recommended that Management discontinue the grant of medical allowance for want of legal basis and cause the refund for payments already made.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 11, 2014 are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt thereof.

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

Copy furnished:

The President of the Republic of the Philippines
The Vice President
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
The Presidential Management Staff, Office of the President
The UP Law Center
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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

CGS ... RECEIVED 7-08-14

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE CORPORATE BOARD SECRETARY
RECEIVED
JUN 30, 2014
TIME ______
BY patchie

June 30, 2014

The Board of Directors
Manila International Airport Authority
Pasay City

Dear Gentlemen:

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 Manila International Airport Authority for the year ended December 31, 2013.

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The Auditor expressed a qualified opinion on the fairness of the presentation of the financial statements of the Authority because of the non-determination of the financial impact of recent developments on the case on disputed accounts affecting contingent assets of P169.24 million and total receivables recognized in the books of P124.52 million to ensure that the accounts are adjusted as appropriate; non-recognition of depreciation for CYs 2008 to 2013 on the NAIA Terminal 3 Facility assets costing P3.068 billion; non-recognition of provision for estimated liabilities on the P1.231 billion claims by lessees for the refund of the collected rental rate increases invalidated by the Supreme Court for lack of publication; and non-recognition of real estate taxes due on portions of the Authority's airport land and buildings leased to private parties which the Supreme Court ruled as not exempted from taxes.

The significant observations and recommendations that need immediate action are as follows:

1. Depreciation on the reduced segment of Runway 06/24 was not adjusted to consider its derecognized portion.

   We have recommended that Management adjust the depreciation rate based on the revised depreciable cost of the remaining old portion of the runway.

2. The recording and disposition of the 5 percent service fee charged by the Authority are not in harmony with the provisions of the General Appropriations Act (GAA) and Administrative Order (AO) No. 279.

   We recommended that Management observe the proper recording of service fees as trust receipts and ensure that remitted funds to the MIAA Provident Fund Association Inc. (MPFAI) are retained and used by the latter for its operational use.

3. The continued grant of medical allowance to MIAA employees who are not incumbents of their positions as of July 1, 1989 is bereft of legal basis.

   We recommended that Management discontinue the grant of medical allowance for want of legal basis and cause the refund for payments already made.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 11, 2014 are presented in detail in Part II of the report.

In a letter of even date, we requested the Authority's General Manager to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

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

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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The Governance Commission for Government-Owned or Controlled Corporations
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Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

MANILA INTERNATIONAL AIRPORT AUTHORITY

For the Year Ended December 31, 2013

EXECUTIVE SUMMARY

Introduction

The Manila International Airport Authority (MIAA), which was created by virtue of Executive Order (EO) No. 778 (s. 1982), otherwise known as the "Charter of the Manila International Airport Authority," is an agency under the Executive Department attached to the Department of Transportation and Communications (DOTC), originally tasked to, among others, formulate a comprehensive and integrated policy and program for the Manila International Airport (now the Ninoy Aquino International Airport) and other airports in the Philippines, and to implement, review and upgrade such policy and program periodically; and control, supervise, construct, maintain, operate and provide such facilities or services as shall be necessary for its efficient functioning.

MIAA's Charter was amended by EO Nos. 903 and 909 dated July 21, 1983 and September 16, 1983, respectively. This was further amended by EO No. 298 issued on July 26, 1987. The amendments were the following: (a) modified the composition of the Authority's Board of Directors to afford better coordination; (b) increased the capital contribution of the National Government;(c)reduced the contribution of the Authority to the General Fund from 65 percent to 20 percent of its annual operating income excluding utilities and terminal fee collections; and (d) appointed the Government Corporate Counsel and/or the Solicitor General as legal counsel of the Authority.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of MIAA for calendar year 2013. It was aimed at expressing an opinion as to whether the financial statements present fairly the Authority's financial position, results of operations and cash flows, and at determining the Authority's compliance with pertinent laws, rules and regulations.

Operational Highlights

The following are the significant accomplishments of the Authority in CY 2013 in relation to their mandate per MIAA's Corporate Charter:

NAIA operations

For total NAIA operations, flight and cargo movements decreased by 1 percent (from 273,078 to 270,333) and 5.10 percent (from 461,587 to 438,025 metric tons), respectively, while passenger movements increased by 2.73 percent (from 32,121,653 to 32,999,342).

The decrease in flight movements was due to the cancellation of domestic flights brought about by the typhoon in Visayas, earthquake in Bohol and the Zamboanga siege, although there was an increase in international flight movements due to introduction of new flights at non-peak and several swapping of domestic to international time slots. The latter were also the reasons for the increase in passenger movements. Cargo movements decreased due to slowdown of flight cargo operations in Asia in 2013.

Major projects

MIAA has completed nine (9) major projects in 2013 (please refer to Note 1 of the Notes to Financial Statements) and has twelve (12) on-going projects that are due for completion in 2014.

Financial Highlights

Comparative Financial Position

(In Thousand Pesos)

	2013	**2012**	Increase (Decrease)
Assets	32,250,773	32,243,478	7,295
Liabilities	11,622,249	13,414,913	(1,792,664)
Equity	20,628,524	18,828,565	1,799,959

Comparative Results of Operation

(In Thousand Pesos)	2013	2012	Increase (Decrease)
Operating Income	8,701,513	8,276,460	425,053
Share of the National Government (NG)	(1,176,645)	(933,829)	242,816
Operating Income After Share of the (NG)	7,524,868	7,342,631	182,237
Operating Expenses	(4,274,787)	(4,112,533)	162,254
Net Profit from Operation	3,250,080	3,230,098	19,982
Non-Operating Income (Expenses)	639,176	236,025	403,151
Income Before Income Tax	3,889,256	3,466,123	423,133
Income Tax	(955,133)	(825,564)	129,569
Net Profit	2,934,123	2,640,559	293,564

Independent Auditor's Report on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the Authority as at December 31, 2013 because of thenon-determination of the financial impact of recent developments on the case on disputed accounts affecting contingent assets of P169.24 million and total receivables recognized in the books of P124.52 million to ensure that the accounts are adjusted as appropriate;non-recognition of depreciation for CYs 2008 to 2013 on the NAIA Terminal 3 Facility assets costing P3.068 billion; non-recognition of provision for estimated liabilities on the P1.231 billion claims by lessees for the refund of the collected rental rate increases invalidated by the Supreme Court for lack of publication; and non-recognition of real estate taxes due on portions of the Authority's airport land and buildings leased to private parties which the Supreme Court ruled as not exempted from taxes.

Significant Audit Observations and Recommendations

The following are the other significant audit observations and recommendations:

1. Depreciation on the reduced segment of Runway 06/24 was not adjusted to consider its derecognized portion.

   We have recommended that Management adjust the depreciation rate based on the revised depreciable cost of the remaining old portion of the runway.

2. Liability to the Philippine National Construction Corporation (PNCC) has remained unrecognized in the books.

   We recommended that Management determine its obligation to PNCC and recognize liability in the books, as appropriate.

3. The recording and disposition of the 5 percent service fee charged by the Authority are not in harmony with the provisions of the General Appropriations Act (GAA) and Administrative Order (AO) No. 279.

   We recommended that Management observe the proper recording of service fees as trust receipts and ensure that remitted funds to the MIAA Provident Fund Association Inc. (MPFAI) are retained and used by the latter for its operational use.

4. The continued grant of medical allowance to MIAA employees who are not incumbents of their positions as of July 1, 1989 is bereft of legal basis.

   We recommended that Management discontinue the grant of medical allowance for want of legal basis and cause the refund for payments already made.

Summary of Total Suspensions, Disallowances and Charges

Audit disallowances as of December 31, 2013 totaled to P11.081 million,which covered disallowances issued in 1995 to 2008or those issued prior to the effectivity of the Revised Rules on Settlement of Accounts (RRSA).

Notice of Disallowance was also issued in 2008 on the payment of 10 percent contingency and 5 percent excess in profit in the amount of P.677 million, while Notice of Suspension totaling P42.869 million,issued in 2011 for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM has matured into disallowance and the corresponding Notice of Disallowance was issued on February 10, 2014.

Status of Implementation of Prior Year's Recommendations

Of the eleven (11) audit recommendations issued embodied in the CY 2012 Annual Audit Report, five (5) were implemented, three (3) were partially implemented and three (3) were not implemented.

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PART I - AUDITED FINANCIAL STATEMENTS

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Manila International Airport Authority
Pasay City

Report on the Financial Statements

We have audited the accompanying financial statements of the Manila International Airport Authority**,** which comprise the statement of financial position as at December 31, 2013, 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 these financial statements based on our audit. We conducted our audit in accordance with 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 qualified audit opinion.

Basis for Qualified Opinion

The financial impact of recent developments on the case on disputed accounts affecting contingent assets of P169.24 million and receivables recognized in the books of P124.52 million were not determined to ensure that the accounts are adjusted, as appropriate.

Depreciation was not recognized for CYs 2008 to 2013 on the NAIA Terminal 3 Facility assets costing P3.068 billion since the assets were still lodged under Construction in Progress account and have not been reclassified to their appropriate asset accounts. Likewise, provision for estimated liabilities was not recognized for the P1.231 billion claims by lessees for the refund of the collected rental rate increases invalidated by the Supreme Court for lack of publication, and for the Authority's real estate taxes due on portions of its airport land and buildings leased to private parties which the Supreme Court ruled as not exempted from taxes.

Qualified Opinion

In our opinion, except for the effects and the possible effects of the matters discussed in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Manila International Airport Authority as at December 31, 2013, 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 27 to the financial statements. The Authority has pending cases in various courts involving claims against the Authority and contested receivables. The ultimate outcome of some of these cases could not presently be determined and no provision for any liability that may result has been made in the financial statements. Our opinion is not qualified in respect to this matter.

Report on the Supplementary Information Required Under BIR Revenue Regulation 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 in Note 29 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 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

JOSE DENNIS G. ISIP
Supervising Auditor

March 31, 2014

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF FINANCIAL POSITION
December 31, 2013
(With comparative figures as at December 31, 2012)
(In Philippine Peso)

	Notes	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	3	**9,953,106,319**	9,424,630,513
Receivables, net	4	**2,036,607,800**	2,715,923,793
Inventories	5	**29,105,127**	23,414,022
Prepayments	6	**492,592,974**	202,665,456
Other current assets	7	**60,194,169**	43,713,616
Total current assets		**12,571,606,389**	12,410,347,400
Non-Currrent Assets			
Long-term receivables, net	8	**0**	138,006,063
Investments	9	**12,505,000**	12,505,000
Property and equipment, net	10	**14,675,618,206**	14,688,539,943
Investment property, net	11	**49,128,911**	52,164,651
Other non-current assets	12	**4,941,914,945**	4,941,914,945
Total non-current assets		**19,679,167,062**	19,833,130,602
		32,250,773,451	32,243,478,002
LIABILITIES AND EQUITY			
Current Liabilities			
Payables	13	**2,044,578,185**	1,719,597,859
Inter-agency payables	14	**697,021,797**	1,691,226,551
Current portion of loans payable-domestic	16	**488,227,800**	488,227,800
Current portion of loans payable-foreign	17	**383,583,610**	429,321,203
Other current liabilities	15	**639,767,122**	608,466,573
Total current liabilities		**4,253,178,514**	4,936,839,986
Non-Current Liabilities			
Loans payable-domestic	16	**3,661,708,500**	4,149,936,300
Loans payable-foreign	17	**3,407,154,173**	4,252,898,182
Other long-term liabilities		**434,517**	434,517
Total non-current liabilities		**7,069,297,190**	8,403,268,999
Deferred Credits	18	**299,773,509**	74,804,430
Equity		**20,628,524,238**	18,828,564,587
		32,250,773,451	32,243,478,002

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF PROFIT OR LOSS
For the Year Ended December 31, 2013
(With comparative figures for the year ended December 31, 2012)
(In Philippine Peso)

	Notes	2013	2012
OPERATING INCOME			
Toll and terminal fees		**3,353,310,299**	3,234,524,397
Landing and parking fees		**2,508,984,558**	2,366,465,762
Rent income		**1,447,847,782**	1,372,678,603
Other business income		**1,118,996,225**	962,082,853
Other service income		**272,374,360**	340,708,603
		8,701,513,224	8,276,460,218
National Government share on MIAA's gross income	21	**(1,176,645,570)**	(933,828,758)
MIAA'S SHARE ON OPERATING INCOME		**7,524,867,654**	7,342,631,460
OPERATING EXPENSES			
Personal services	23	**680,650,319**	695,672,731
Maintenance and other operating expenses	24	**3,594,137,078**	3,416,861,090
		4,274,787,397	4,112,533,821
PROFIT FROM OPERATIONS		**3,250,080,257**	3,230,097,639
OTHER INCOME (EXPENSES)			
Gain on foreign exchange		**820,854,326**	471,845,748
Interest income		**128,439,682**	147,464,026
Fines and penalties		**2,021,602**	4,073,474
Gain on disposal of assets		**713,282**	74,691
Miscellaneous income		**48,695,573**	37,848,186
Financial expenses		**(361,548,503)**	(425,280,696)
		639,175,962	236,025,429
PROFIT BEFORE INCOME TAX		**3,889,256,219**	3,466,123,068
INCOME TAX EXPENSE		**(955,132,977)**	(825,563,969)
NET PROFIT		**2,934,123,242**	2,640,559,099

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2013
(With comparative figures for the year ended December 31, 2012)
(In Philippine Peso)

	Notes	2013	2012
GOVERNMENT EQUITY			
Balance at beginning and end of the year	19	**7,191,934,321**	7,191,934,321
DONATED CAPITAL			
Balance at beginning and of the year	20	**221,200**	221,200
RETAINED EARNINGS			
Balance at beginning of the year		**11,636,409,066**	10,276,109,957
Net profit during the year		**2,934,123,242**	2,640,559,099
Dividends declared		**(1,150,179,073)**	(1,008,034,245)
Prior years' adjustments	22	**16,015,482**	(272,225,745)
Balance at end of the year		**13,436,368,717**	11,636,409,066
		20,628,524,238	18,828,564,587

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013
(With comparative figures for the year ended December 31, 2012)
(In Philippine Peso)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from operations		**9,379,031,461**	8,113,548,660
Trust receipts		**2,074,513,846**	1,874,706,323
Miscellaneous income		**265,458,728**	29,111,308
Payment of operating expenses		**(3,713,846,701)**	(3,873,151,156)
Remittance of trust receipts		**(2,075,128,325)**	(1,813,606,160)
Remittance of share of National Government		**(1,109,749,606)**	(909,911,116)
Transfer / return of Fund to DOTC's General Fund		**(1,102,000,000)**	-
Advances to other agencies		**(32,336,893)**	(127,082,879)
Advances to officers and employees		**(14,433,021)**	(13,810,068)
Net cash generated from operations		**3,671,509,489**	3,279,804,912
Interest income received		**129,920,805**	153,397,912
Corporate income tax paid		**(778,321,750)**	(786,414,132)
Net cash provided by operating activities		**3,023,108,554**	2,646,788,692
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		**(550,467,381)**	(508,540,319)
Proceeds from sale of property and equipment		**3,066,796**	1,474,191
Net cash used in investing activities		**(547,400,585)**	(507,066,128)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		-	4,882,278,000
Other outflows - escrow account		-	(4,927,364,960)
Dividends paid		**(1,008,034,245)**	(1,405,879,810)
Debt servicing		**(1,274,064,372)**	(1,122,138,382)
Net cash used in financing activities		**(2,282,098,617)**	(2,573,105,152)
Effects of exchange rate changes on cash and cash equivalents		**334,866,464**	(176,488,948)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**528,475,806**	(609,871,536)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**9,424,630,513**	10,034,502,049
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**3**	**9,953,106,319**	9,424,630,513

See accompanying Notes to Financial Statements.

1. INTRODUCTION

The Manila International Airport Authority (MIAA), an attached agency of the Department of Transportation and Communications (DOTC), was created by virtue of Executive Order (E.O.) No. 778 which was approved on March 04, 1982. The Charter of the Authority was amended by E. O. No. 903 and E.O. No. 909 signed on July 21, 1983 and September 16, 1983, respectively. E.O. No. 298 was issued on July 26, 1987 to amend Sections 7, 10, 11 and 13 of E.O. No. 778, as amended by E.O. No. 903 and E.O. No. 909. The amendments were the following: (a) modified the composition of the Authority's Board of Directors to afford better coordination; (b) increased the capital contribution of the National Government;(c)reduced the contribution of the Authority to the General Fund from sixty-five percent (65%) to twenty percent (20%) of its annual operating income excluding utilities and terminal fee collections; and (d) appointed the Government Corporate Counsel and/or the Solicitor General as legal counsel of the Authority.

The Authority's functions for the airport are, among others, to formulate a comprehensive and integrated policy and program and to implement, review and update such policy and program periodically; to control, supervise, construct, maintain, operate and provide such facilities or services as shall be necessary for its efficient functioning; to promulgate rules and regulations governing its planning, development, maintenance, operation and improvement of the Airport;and to control and/or supervise, as may be necessary, the construction of any structure or the rendition of any service within its premises.

The Authority's corporate thrusts and objectives aim for the continued implementation and development of projects with Key Results Area (KRA) for passengers' safety, security, comfort and welfare. The following are the major projects completed in CY 2013:

- Structural Retrofit of NAIA Terminal 3;
- Acquisition of Two(2) Airport Rescue and Firefighting Vehicles;
- Improvement of MIAA Power Plant Phase 1;
- Repair and Overlay of Runway 06/24;
- Supply and Installation of Remote Controlled and Monitored Air Navigation Hazard Prevention System;
- Repair and Upgrading of NAIA Terminal 4 Aprons (Bay Nos. 4, 5, 6, 7, 9 & 10);

- Commissioning of Two (2) Units Mobile X-ray Security Screening System;

- Rehabilitation of Comfort Rooms at NAIA Terminal 1 (CR 207, 308, 302, 210, & 211 – M/F); and

- Upgrading of NAIA Terminal 1 and Terminal 2 Public Address Systems.

The MIAA has successfully adopted a Quality Management System Program that resulted in the ISO 9001: 2008 certification of passenger facilitation processes at Terminals 1, 2 and 3 since CY 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Authority have been prepared in accordance with state accounting principles generally accepted in the Philippines.

These have been prepared on the historical cost basis and are presented in Philippine pesos.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three months or less from date of placements.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed at ten percent (10%) of the total Trade Accounts Receivable, current and non-current and 100% on accounts determined to be totally uncollectible.

Inventories

Supplies and materials are valued at cost using the moving-average method of costing.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation. Major replacements, rehabilitation and improvements are capitalized, while minor repairs are recognized in profit or loss. Depreciation is computed using the straight-line method where a residual value of ten percent (10%) of the acquisition cost/appraised value is deducted before dividing the same by the estimated useful life.

Recognition of Income and Expenses

The Authority adopts the accrual method of accounting for income and expenses. However, income billed but which are still under litigation/appeal are not recognized in the financial statements. The following are the Authority's major income sources which are recognized at the time these are earned:

- income from use of facilities such as runways, taxiways, aerobridge and lighting facilities;
- share in passenger terminal fees;
- income from lease or rental of floor spaces, check-in-counters, buildings and land;
- concession privilege fees;
- service fees for utilities;
- advertising fees;
- ground handling / catering services fees.

Foreign Exchange Currency Transaction

Foreign exchange differences arising from revaluation of foreign currency denominated accounts at rates different from those at which these were booked are recognized in profit or loss.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2013	2012
Cash (Collecting/Disbursing Officers)	**11,366,821**	76,763,980
Cash – National Treasury(MDS)	**0**	1,102,000,000
Savings Account – Dollar and Peso	**206,141,077**	245,170,091
Current Account – Dollar and Peso	**376,647,555**	127,997,337
Time Deposits – Peso	**4,638,500,785**	5,017,317,559
Time Deposits – Dollar	**4,720,450,081**	2,855,381,546
	9,953,106,319	9,424,630,513

Foreign currency/dollar deposits are revalued at P44.45 and P41.10 to US$1.00 as of December 31, 2013 and 2012, respectively.

*Cash – National Treasury (MDS)*received from the DOTC in 2011and held in trust by MIAA intended for the rehabilitation of Terminal 1 was reverted back to DOTC's General Fund 101 on December 27, 2013 due to the cancellation of the Memorandum of Agreement between MIAA and DOTC (Note 14).

4. RECEIVABLES

This account consists of the following:

	2013	2012
Trade Receivables		
Non-Government Entities	**2,460,327,770**	3,052,492,534
National Government Agencies(NGAs)	**26,969,083**	24,821,244
Government Owned and Controlled Corp.		
CAAP (formerly ATO)	**604,625,710**	605,594,333
Others	**60,768,679**	62,380,237
	3,152,691,242	3,745,288,348
Allowance for Doubtful Accounts	**(1,678,787,990)**	(1,635,612,079)
	1,473,903,252	2,109,676,269
Non-Trade Receivables		
Bureau of the Treasury(BTr)	**11,081,064**	6,838,102
National Government Agencies (NGAs)	**48,072,763**	86,713,905
Local government Unit (LGU)	**100,004,438**	100,004,438
	159,158,265	193,556,445
Other Receivables		
COA Disallowances	**11,113,981**	11,113,981
Interests Receivables	**10,466,541**	11,946,919
Advances to Officers and Employees	**12,020,735**	24,000,000
Others	**369,945,026**	365,630,179
	403,546,283	412,691,079
	2,036,607,800	2,715,923,793

Trade Receivables consists of receivables from airline companies (including the current portion of receivables from the Philippine Airlines), concessionaires/lessees and other government entities for the use of facilities, services and utilities of the airport. This accountalso includes long-outstanding and non-moving trade receivables from concessionaires with rate disputes and collection cases.

Non-Trade Receivables-NGAs consistsof the balances of fund transfers to the Office of the Solicitor General (OSG) for Terminal 3 arbitration expenses of P29.45 million, to the MMDA for the Authority’s share in the development of the NAIA T3 landmark of P12.47 million, and to the National Printing Office, DBM Procurement Service and DPWH of P6.15 million.This also includes receivables from the Bureau of the Treasury (BTr) for the excess payments made by the Authority to the BTr on the amount advanced by the latter for loan payment to JBIC (now JICA). Excess payments arose due to foreign exchange rate difference.

Non-Trade Receivables-LGU represents the initial release of cash advance to the City Government of Parañaque pursuant to its Memorandum of Agreement with the Authority to cover cost of abatement of informal settlers near the perimeter fence of NAIA Runway 06 and approach areas approved by the MIAA Board per Resolution No. 2009-108.

Other Receivables of P369.94 million and P365.63 million as of December 31, 2013 and 2012, respectively, consist mainly of the 12% EVAT billed to concessionaires.

5. INVENTORIES

This account consists of the following:

	2013	2012
Spare Parts Inventory	**7,472,205**	5,692,061
Gasoline, Oil and Lubricants	**2,330,894**	694,981
Accountable Forms Inventory	**130,445**	0
Office and Other Supplies Inventory	**19,171,583**	17,026,980
	29,105,127	23,414,022

6. PREPAYMENTS

This account consists of the following:

	2013	2012
Deposit on Letters of Credit	**156,418,647**	13,065,344
Advances to Contractors	**149,399,439**	44,472,945
Prepaid Insurance	**37,520,711**	39,822,800
Other Prepaid Expenses	**121,701,060**	77,751,250
Deferred Charges	**27,553,117**	27,553,117
	492,592,974	202,665,456

7. OTHER CURRENT ASSETS

This account consists of the following:

	2013	2012
Creditable Input Taxes	**56,890,063**	40,409,510
Guaranty Deposits	**3,304,106**	3,304,106
	60,194,169	43,713,616

Creditable Input Taxes pertains to the value-added taxes (VAT) paid by the Authority on local purchases of goods and services from VAT-registered persons/entities and which are to be deducted/offset against output taxes.

8. LONG-TERM RECEIVABLES

This account pertains to the following:

	2013	2012
Trade Receivable - PAL	**0**	552,024,253
Less: Current Portion	**0**	414,018,190
	0	138,006,063
Allowance for Doubtful Accounts	**0**	0
	0	138,006,063

Trade Receivable-PAL represents amount collectible from PAL not due within the next 12 months under a Compromise Agreement in the case entitled "MANILA INTERNATIONAL AIRPORT AUTHORITY vs. PHILIPPINE AIRLINES, INC.", CA G.R. CV No. 79295. PAL shall pay the Authority the total amount of P2.933 billion through monthly installments of P34.914 million due within the first five (5) days of each month, for a period of seven (7) years commencing on the month immediately following the approval by the Court of the Agreement. The Compromise Agreement was approved on March 26, 2007.

9. INVESTMENTS

This account represents investments in:

	2013	2012
Philippine Aviation Security Corp. (PASSCOR)	**11,850,000**	11,850,000
Aviation Security & Training Institute, Inc.	**655,000**	655,000
	12,505,000	12,505,000

The Authority's investment in PASSCOR, an affiliate corporation engaged in aviation security at the Ninoy Aquino International Airport (NAIA), for 137,500 shares at P100 per share, or a total amount of P13.75 million, was acquired by the Authority in March 1995. A total of 118,500 shares were paid representing 39.5% of the total PASSCOR capital.

The Aviation Security and Training Inc. (ASTI), created on March 26, 2003, is 100% owned by the Authority. ASTI is not operational and is for dissolution. The investment of P655,000 is recoverable. The Philippine National Bank, its depository bank, will be requested to transfer ASTI funds, with a balance of P718,905.48 as of December 31, 2013, to the MIAA-PNB Account.

10. PROPERTY AND EQUIPMENT

This account consists of the following:

	LAND AND LAND IMPROVEMENT	CONSTRUCTION IN PROGRESS	BUILDING & STRUCTURES	MACHINERY & EQUIPMENT	TOTAL
At Dec. 31, 2012					
Cost	13,407,882,339	3,526,055,230	5,541,660,685	5,698,912,812	28,174,511,066
Accumulated Depreciation	(5,404,132,107)	0	(3,509,553,670)	(4,572,285,346)	(13,485,971,123)
Net Book Value	**8,003,750,232**	**3,526,055,230**	**2,032,107,015**	**1,126,627,466**	**14,688,539,943**
Year Ended Dec. 31, 2013					
Opening Net Book Value	8,003,750,232	3,526,055,230	2,032,107,015	1,126,627,466	14,688,539,943
Adjustments / Additions	17,682,409	(312,546,927)	164,922,455	293,239,679	163,297,616
Disposals	0	0	0	(73,872,370)	(73,872,370)
Depreciation	(241,730,591)	0	(95,848,580)	(144,988,635)	(482,567,806)
Prior year's adjustment -					
On depreciation	312,466,258	0	0	67,754,565	380,220,823
Closing Net Book Value	**8,092,168,308**	**3,213,508,303**	**2,101,180,890**	**1,268,760,705**	**14,675,618,206**
At Dec. 31, 2013					
Cost	13,425,564,748	3,213,508,303	5,706,583,140	5,918,280,121	28,263,936,312
Accumulated Depreciation	(5,333,396,440)	0	(3,605,402,250)	(4,649,519,416)	(13,588,318,106)
Net Book Value	**8,092,168,308**	**3,213,508,303**	**2,101,180,890**	**1,268,760,705**	**14,675,618,206**

Landowned by the Authority was recorded in 1987 at appraised value of P1,000 per square meter. It covers an area of 6,250,905 square meters based on a Cadastral Survey dated January 5, 1987. In 1991, the Authority sold to Light Rail Transit Authority (LRTA) a total area of 107,179 square meters at P1,000 per square meter.

In 2003 and 2004, purchases were made from the heirs of Eladio Santiago of 720 square meters valued at P2.16 million and from the Nayong Pilipino of 86,000 square meters at P500 million, respectively. To date, the total land area owned by the Authority is 6,230,446 squaremeters inclusive of 232,647.74 square meters of segregated lots covered under a Presidential Proclamation.

On September 29, 2011, PresidentBenigno Aquino III signed Executive Order No. 58 mandating the transfer of real estate property owned by theNayong Pilipino Foundation to the Authority. The property consists of 22.3 hectares, more or less, and is located at the Reclamation Area in Pasay City. The owner's duplicate copies of the TCTs are under the custody of the Philippine Reclamation Authority (PRA); hence, title over the property is not yet acquired by MIAA and same is unrecorded in its books.

Furthermore, pursuant to Section 3 of E.O. No. 903, s. of 1983 (MIAA's Charter), the Office of the President on December 11, 2013 wrote the Secretary of the Department of Public Works and Highways (DPWH) informing its approval of the latter's request for the transfer through sale in their favor of the MIAA property (Lot 3270-B-3-A-2-A-2) under TCT No. 141810, to be used for the construction of the Circumferential Road 5 (C-5) Extension Project from South Luzon Expressway in Pasay City to Sucat Road, Parañaque City. The total amount of P569,660,000 or 56,966 square meters @ zonal value of P10,000 per square meter is payable in five (5) equal installments starting CY 2013 up to 2016. The DPWH has paid the Authority P227,864,000 on April 24, 2013 and this is recorded under “Deferred Credits” (Note 18) in the absence of the contract or deed of absolute sale.

Construction In Progressaccount includes the P3.002 billion payment to the Philippine International Air Terminals Co. Inc. (PIATCO) in September 2006 in compliance with the Court Order issued by the Pasay City Regional Trial Court Branch 117. The amount represents the proffered value of the Terminal 3 facility. Upon acquisition of title and ownership of the subject property, depreciation on its buildings and facilities will be recognized. The partial liquidations made by DPWH and MMDA for Terminal 2 and Terminal 3 access road and geometric improvement projects are also included in this account.

11. INVESTMENT PROPERTY

This account pertains to sixty-one (61) buildings owned by the Authority and being leased to private and government entities which were reclassified to Investment Property account in compliance with PAS No. 40, *Investment Property.*

12. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2013	2012
Restricted Fund Assets	**4,927,364,960**	4,927,364,960
Work / Other Animals	**14,347,828**	14,347,828
Items in Transit / For Disposal	**202,157**	202,157
	4,941,914,945	4,941,914,945

Restricted Fund Assets representsfund transfers of US $82,157,716.73 = P3,479,379,303.52 and US $34,190,924.59 = P1,447,985,656.39 to Land Bank of the Philippines (LBP) – Trust Banking Group and Development Bank of the Philippines (DBP) Trust Services, respectively, on April 11, 2012 pursuant to the Escrow Agreement between MIAA, LBP – Trust Banking Group and DBP – Trust Services*(Note 26).*

Work/Other Animals pertains to the eighteen (18) trained explosives detection dogs that were turned over to the Authority (per contract agreement) by K9 Consultancy Services in June 2009, complete with veterinary health records and pedigree certificates.

13. PAYABLES

This account consists of the following:

	2013	2012
Accounts Payable	**755,633,391**	553,729,666
Dividend Payable	**1,150,179,073**	1,008,034,245
Interest Payable	**111,858,073**	131,311,660
Due to Officers and Employees	**26,907,648**	26,522,288
	2,044,578,185	1,719,597,859

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

Dividend Payable represents the fifty percent (50%) of MIAA's annual net earnings (net of deductions allowed under Section 29 of the National Internal Revenue Code [NIRC], as amended, and income taxes paid thereon)payable to the National Government andto be remitted thru the Bureau of the Treasury, pursuant to R.A. No. 7656, dated November 9, 1993.

Section 3 of this Act requires government owned or controlled corporations to declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government. Section 7(a) of the Revised Implementing Rules and Regulations of the Act provides for the mode of remittance: "Except as otherwise provided herein, all GOCCs shall declare cash dividends and shall remit to the Bureau of the Treasury at least fifty percent (50%) of the dividend due, on or before April 30, following the dividend year, based on the financial statements submitted to COA for audit."

The dividend payable of P1.008 billion in CY 2012was fully paid to the Bureau of the Treasury per remittances on April 25, 2013 and October 21, 2013.

14. INTER-AGENCY PAYABLES

This account consists of the following:

	2013	2012
Due to Bureau of the Treasury (BTr)	**376,690,958**	301,322,278
Due to Bureau of Internal Revenue (BIR)	**280,255,530**	229,014,737
Due to GSIS	**9,107,906**	9,294,949
Due to Pag-IBIG	**1,387,644**	1,940,819
Due to Philhealth	**560,300**	610,112
Due to Other NGAs	**29,019,459**	1,149,043,656
	697,021,797	1,691,226,551

Due to Bureau of the Treasury represents the National Government's share on the Authority's income for the fourth quarter totaling P296.01 million for CY 2013 and P252.92 million for CY 2012; share on international terminal fees for December 2013 amounting to P43.33 million and P48.40 million for 2012; and share of the Office for Transportation Security (remitted thru the BTr) for September to December 2013 of P40.02 million.

Due to Bureau of Internal Revenue represents corporateincome tax million, Value-Added Tax and taxes withheld.

Due to GSIS, Pag-IBIG and Philhealth accounts represent premiums and loan amortization deductions from the employees' salaries for remittance to the concerned offices.

Due to Other NGAs representsthe December 2013 share of the Office for Transportation Security (OTS) on international terminal fees of P26 million. The P1.102 billion held in trust by the Authority per Memorandum of Agreement (MOA) entered into with the DOTC on December 29, 2011 for the renovation of the NAIA Terminal 1 was reverted back to the General Fund of DOTC due to the cancellation of the MOA (Note 3).

Executive Order No. 277 dated January 30, 2004, created the Office for Transportation Security (OTS) within the Department of Transportation and Communication (DOTC) and reconstituted the National Council for Civil Aviation Security (NCCAS) as the National Civil Aviation Security Committee (NCASC). Section 2 of E. O. No. 277 directs the OTS to be primarily responsible for the implementation of International Civil Aviation Organization (ICAO) Convention on national security.

Letter of Instruction (LOI) No. 414 A dated June 17, 1976, directs the collection of security fee for every departing passenger as follows: P10 on international flights and P3 on domestic flights. It was amended by E.O. No. 30 dated September 30, 1998, increasing the collection of terminal fee to P60 and P15, respectively. LOI No. 414 A provides that the National Action Committee on Anti-Hijacking and Anti-Terrorism (NACAHT),for whose use the amounts collected are intended, is authorized to promulgate appropriate rules so that the collection of security fee can be done efficiently.

MIAA Board Resolution (BR) No. 99-53, later amended by MIAA BR No. 2005-078, following the mandate of E.O. No. 30, series of 1998, provides the following revenue sharing structure of the passenger terminal fees collected from both international and domestic passengers:

	International	Domestic
MIAA	390	185
NG	100	-
NACAHT	60	15
	550	200

In 2003, MIAA passed Board Resolution No. 2003-074 increasing the domestic passenger terminal fee for all departing passengers from P100 to P200 subject to existing rules and regulations.

In 2006, MIAA passed Board Resolution No. 2006-032 which imposed the Security and Development Charge of US $3.50 or P200 on all international departing passengers not exempted by law, rules or regulations, for a period of five years which began last February 1, 2007 and ended on January 31, 2012.

E.O. No. 298 dated July 26, 1987, amending Section 11 of E.O No. 903 dated July 21, 1983, provides; “Within 30 days after the close of each quarter, twenty percentum (20%) of the gross operating income, excluding payments for utilities of tenants and concessionaires and terminal fee collections, shall be remitted to the General Fund in the National Treasury to be used for the maintenance and operation of other international and domestic airports in the country” (Note 21).

15. OTHER CURRENT LIABILITIES

This account consists of the following:

	2013	2012
Guaranty Deposits Payable	**196,110,780**	175,693,805
Performance / Bidders Bonds Payable	**15,581,096**	15,700,445
Tax Refund Payable	**20,203,613**	21,624,205
Other Payables	**407,871,633**	395,448,118
	639,767,122	608,466,573

Guaranty Deposits Payable represent the airport lessees’ and/or concessionaires’ deposits equivalent to two (2) months or as stated in the contract/temporary permit; while *Performance/Bidders Bonds Payable* represent cash received from contractors/suppliers to guarantee the performance of contracts.

Tax Refund Payable represents excess taxes withheld from employees' compensation; while *Other Payables* include retention money from contractors, trust receipts due to private companies, and the EVAT on billed receivables.

16. LOANS PAYABLE - DOMESTIC

This account consists of outstanding domestic loans from the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP), as set forth in the Syndicated Term Loan Facility Agreement dated July 4, 2011 (Note 26).

	2013	2012
LBP PN NO. 4808 TL12 4076 000 dated April 11, 2012	**2,319,082,050**	2,441,139,000
DBP PN 2012-29-021 dated April 11, 2012	**2,319,082,050**	2,441,139,000
Less: semi-annual amortizations	**(488,227,800)**	(244,113,900)
	4,149,936,300	4,638,164,100
Less: Current portion	**(488,227,800)**	(488,227,800)
	3,661,708,500	4,149,936,300

Loans from both the LBP and DBPare payable in twenty (20) semi-annual installments commencing on October 11, 2012 and ending April 11, 2022 with 4% interest per annum (subject to quarterly re pricing) and penalty charge of 12% per annum on the total amount due without grace period as additional charge in case certain stipulations are not met. Non-finance charge of P12,205,695 for each loan was deducted. Both loans are guaranteed by the National Government.

17. LOANS PAYABLE – FOREIGN

This account consists of outstanding foreign loans secured by the Authority in the construction of Terminal 2.

	2013	2012
FRENCH LOAN to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal II contracted with Natixis (formerly Credit Nationale)		
FF 6,732,496 = Euro 1,026,362,61 = US $ 1,405,397.91 @ 44.45	**62,469,937**	65,458,140
FF 7,891,778= Euro 1,203,093.73 = US $ 1,592,655.48 @ 41.10		
Fund Releases made by Overseas Economic Cooperation Fund (OECF) of Japan financing the consultancy of Aeroport De Paris - Japan Airport Consultants (ADP-JAC) and contract with Mitsubishi Tokyo Oreta BF Corporation (MTOB)		
Y 8,787,380,000 = US $ 83,875,542.10 @ P 44.45	**3,728,267,846**	4,616,761,245
Y 9,666,118,000 = US $ 112,329,957.28 @ P 41.10		
	3,790,737,783	4,682,219,385
Less:Current portion	**383,583,610**	429,321,203
	3,407,154,173	4,252,898,182

The French loan from Credit Nationale, now Natixis, is covered by Loan Agreements dated January 25, 1991 (DAN: 94-2089) for FRF 14.5 million and July 5, 1994 (DAN: 94-2232) for FRF 6.08 million. The loan dated January 25, 1991 is payable in forty-two (42) semi-annual installments commencing on June 30, 2002 and ending December 31, 2022 with 2.5% interest per annum, while the loan dated July 5, 1994 is payable in twenty-nine (29) semi-annual installments commencing on June 30, 2001 and ending June 30, 2015 with 3.3% interest per annum on the unpaid account.

Loan from Japan Bank for International Cooperation (JBIC),formerly OECF, now Japan International Cooperation Agency (JICA), is payable in forty-one (41) semi-annual installments commencing on August 10, 2003 and ending August 10, 2023 with 5% interest per annum including 2% spread of the National Government.

18. DEFERRED CREDITS

This account pertains to the following:

	2013	2012
Contra Acct. of Receivables-COA Disallowances (Note 4)	**11,113,981**	11,113,981
Others	**288,659,528**	63,690,449
	299,773,509	74,804,430

*Deferred Credits-Others*pertains to the airport lessees' and/or concessionaires'onemonth advance rental/concessions privilege fee. This includes also the initial payment of P227,864,000 made by DPWH for the transfer through sale of MIAA property consisting of 56,966 square meters in the amount of P569,660,000 to be used for the construction of DPWH's Circumferential Road 5 (C5) Extension Project from South Luzon Expressway in Pasay City to Sucat Road, Parañaque City (Note 10).

19. GOVERNMENT EQUITY

This account includes the value of assets transferred by the then Air Transportation Office (ATO), now Civil Aviation Authority of the Philippines (CAAP), and the Department of Transportation and Communications (DOTC) to the Authority. This also includes the P605 million share of the National Government on the income of the Authority from 1983 to 1986 that was converted to National Government Equity in accordance with E.O. No. 298.

20. DONATED CAPITAL

This account consists of four (4) motor vehicles donated by Bangko Sentral ng Pilipinas in 2007 and recorded at salvage value.

21. NATIONAL GOVERNMENT SHARE ON MIAA'S GROSS INCOME

This represents the twenty percent (20%) share of the National Government on the Authority's annual operating income based on actual cash collection, excluding income from utilities and terminal fee [Airport Users' Charge (AUC) and Security Development Charge (SDC)] collections, to be remitted to the General Fund in the National Treasury to be used for the maintenance and operation of other international and domestic airports in the country, in accordance with Section 3 of E.O. No. 298 dated July 26, 1987, computed as follows:

	2013	2012
Landing & Parking Fees (Aeronautical Fees)	**2,735,427,899**	2,445,577,638
Rentals	**1,830,295,046**	1,265,294,284
Other Business Income (Concession Privilege Fees)	**1,065,229,561**	734,870,769
Other Service Income (Miscellaneous Revenues)	**252,275,344**	223,401,100
	5,883,227,850	4,669,143,791
Rate of Government's Share	**20%**	20%
National Government's Share	**1,176,645,570**	933,828,758

22. PRIOR YEARS' ADJUSTMENTS

This account consists mainly of adjustments pertaining to prior years' income and expenses:

	2013	2012
Adjustment of Prior Years' Income	**(36,853,026)**	222,308,130
Adjustment of Prior Years' Expenses	**20,837,544**	49,917,615
	(16,015,482)	272,225,745

23. PERSONAL SERVICES

This account consists of the following:

	2013	2012
Salaries and Wages	**310,007,053**	310,199,694
Other Compensation		
Overtime and night differential	**106,359,317**	100,772,489
Year-end bonus	**32,209,838**	33,227,594
Personal economic relief allowance	**29,573,455**	30,662,182
Representation allowance	**18,139,758**	16,656,202
Clothing uniform allowance	**12,164,934**	7,278,995
Hazard pay	**9,855,299**	10,216,473
Cash gift	**6,166,375**	6,380,500
Productivity incentive allowance	**2,390,000**	5,080,000
Subsistence allowance	**66,300**	68,891
Other bonuses and allowances	**34,443,495**	85,009,002
Personal Benefits Contribution		
Life and retirement insurance contribution	**37,741,220**	37,717,539
Philhealth contribution	**3,542,175**	3,623,813
ECC contribution	**1,486,400**	1,540,351
Pag-IBIG contribution	**1,485,900**	6,256,257
Other Personnel Benefits		
Retirement benefits	**8,273,974**	3,247,749
Terminal leave	**2,196,546**	1,769,380
Other personnel benefits	**64,548,280**	35,965,620
	680,650,319	695,672,731

24. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2013	2012
Professional Services	**1,234,560,903**	1,012,625,225
Utility Expenses	**750,513,008**	807,486,790
Repairs and Maintenance	**551,935,345**	641,659,125
Depreciation	**485,603,545**	503,431,124
Rent Expenses	**191,651,767**	146,410,377
Supplies and Materials	**101,774,138**	112,245,692
Taxes, Insurance Premiums and Other Fees	**68,323,813**	99,039,798
Service Fee	**53,520,125**	17,459,301
Bad Debts	**43,175,912**	37,862,811
Extraordinary and Miscellaneous Expenses	**41,334,484**	15,529,697
Loss on Replacement / Derecognition of Asset	**40,604,432**	0
Communication Expenses	**10,537,883**	12,853,180
Donations	**3,764,291**	456,257
Training Expenses	**2,564,817**	1,319,712
Traveling Expenses	**2,519,966**	1,967,994
Membership Dues and Contributions to Organizations	**1,731,158**	1,615,816
Representation Expenses	**1,561,996**	1,861,269
Subscription Expenses	**647,794**	875,500
Advertising Expenses	**603,726**	1,312,107
Other Operating Expenses	**7,207,975**	849,315
	3,594,137,078	3,416,861,090

25. COMPLIANCE WITH TAX LAWS

The Authority is withholding and remitting to the Bureau of Internal Revenue (BIR) applicable taxes imposed under the National Internal Revenue Code. Likewise, it regularly submits to the BIR the quarterly lists of government purchases/contracts for services for tax purposes in compliance with Memorandum Order No. 219 issued by the President of the Philippines.

26. PHILIPPINE INTERNATIONAL AIRPORT TERMINALS CO., INC. (PIATCO) CASE

The MIAA paid P3.002 billion to PIATCO in September 2006 in compliance with the decision of the Supreme Court. The amount represents the *proffered value* of the Terminal 3 facility. Furthermore, cash advances/releases to the Office of the Solicitor General for T3 arbitration expenses aggregated to P3.279 billion as of December 31, 2013.

On October 11, 2011, the RTC Pasay City Branch 117 issued an Order that granted the Republic's prayer to be allowed to deposit the payment of just compensation in the amount of US $ 175,787,245.10, less the proffered value, to an escrow account. The release of the money, however, is subject to the following conditions:

a. PIATCO must submit a Warranty that the structures of NAIA III are free from all liens and encumbrances;

b. PIATCO must submit an Undertaking that it is assuming sole responsibility for any claims from third persons arising from or relating to the design or construction of any structures, if any; and

c. PIATCO must submit a duly executed Deed transferring the title of the NAIA III structures and facilities to the Republic of the Philippines, without, however, prejudice to the amount which will finally be awarded to PIATCO by the appellate court.

The LBP and DBP were appointed as joint Escrow Agents. The Republic's right to exercise full ownership over Terminal 3 commences upon payment in the escrow account. A Syndicated Term Loan Facility Agreement has been executed in July 2011 by and among Manila International Airport Authority ("MIAA"), as Borrower, and Development Bank of the Philippines ("DBP") and Land Bank of the Philippines ("LBP") as Lenders and Joint Arrangers, and Development Bank of the Philippines-Trust Services as Facility Agent.

On March 9, 2012, the MIAA Board per its Resolution No. 2012-010,***resolved***and ***approved*** the following:

> "That in compliance with the Omnibus Order of the RTC of Pasay City (Branch 117) dated October 11, 2011, in the expropriation case docketed as Civil Case No. 04-0876-CFM, which mandated the payment of just compensation to Philippine International Air Terminal Co., Inc. (PIATCO); and pursuant to the requirements for the opening of an escrow account to cover the amount of the aforesaid just compensation, authority was given for and to (1) the MIAA General Manager to enter into and sign an Escrow Agreement and to open an Escrow Account in the form of a Special Savings Deposit/Time Deposit, with both the Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) at the amount as may be determined by the Management/Office of the Solicitor General respecting the net amount of just compensation due to PIATCO; (2) delegating the

MIAA officials who will act and serve as signatories to the Escrow Account; (3) the Management to cause the release of the Escrow Deposit (inclusive of interest income, less escrow fees and other charges and expenses incurred in relation to the Escrow Agreement) to PIATCO and/or such person(s) or other entity(ies) as shall have been held to be entitled to receive such Escrow Deposit by a final executor order or decision of the Court and upon fulfillment of the above stated conditions."

The escrow account has been opened and made known to the Court. PIATCO has not drawn from the escrow account. The case is on appeal with the Supreme Court.

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27. OTHER MATTERS

a. Claims for Real Estate Taxes by the City Governments of Pasay and Parañaque

The Supreme Court in the Cities ofParañaque (SC- G.R. No. 155650) and Pasay (SC-G.R. 163072) casesruled that the airport land and buildings of the MIAA are exempted from real estate taxes except for portions of land and buildings that are leased to private parties. MIAA has not received assessments on real estate taxes from these Cities to date.

b. Receivables from Private Concessionaires with Pending Cases

The following receivables from private concessionaires with court cases were not taken up in the books but billing and collection of which are continuous:

<u>Ding Velayo (Civil Case No. 8847) – P169.24 million</u>

A case was filed by Ding Velayo Sports Incorporated for Injunction, Consignation, Damages and Preliminary Injunction in March 1992. It was prayed in said complaint that MIAA be ordered to renew the contract for another twenty-five (25) years counted from February 15, 1992. In the alternative, it was prayed that should the renewal be not allowed, MIAA should be ordered to pay expected unrealized rental income in the amount of P1 million per year. Award of attorney's fees was also prayed for.

The Regional Trial Court and the Court of Appeals both decided the case in favor of Ding Velayo. MIAA appealed the case before the Supreme Court. The Supreme Court, in its Decision dated December 14, 2011, sustained the ruling of the Court of Appeals, which likewise denied MIAA's motion for reconsideration.

<u>Philippine Airport and Ground Services (PAGS) (Civil Case No.000363) – P195.45 million</u>

This is an action to enjoin MIAA from increasing the rental rates for the premises (Open Area A and Open Area B) mentioned in the Revised and Restated Contract of Lease between parties. PAGS claims that the Restated Contract does not

contain any escalation clause. MIAA, however, claims that the Restated Contract is null and void as it was not approved by the MIAA Board.
Hearing is ongoing. PAGS is presenting its witnesses. The Office of the Solicitor General has recommended Compromise Agreement in view of the prevailing doctrine in Airspan.

c. Contract of Lease with Bases Conversion Development Authority (BCDA)

An arbitration case was filed before the DOJ in connection with the Contract of Lease, dated April 14, 1997, entered into by and between the MIAA and BCDA. The main issue is the determination of the exact date when MIAA's obligation to pay lease rental to BCDA shall commence. Under the contract, MIAA shall pay per annum, as rentals, the amount of one percent (1%) of the appraised value fixed at twenty-five thousand pesos (P25,000) per square meter in an area comprising approximately sixty-five (65) hectares with ten percent (10%) escalation every five (5) years effective from the transfer of Clean Possession of the Site up to the end of the twenty-fifth (25^{th}) year of the concession period reckoned from the "In-Service Date".

In a resolution, dated December 23, 2003, the DOJ resolved that the payment of rentals should be reckoned from the transfer of the clean possession of the site by MIAA to PIATCO (August 17, 1998). The Authority filed a Motion for Reconsideration praying that the DOJ Resolution be reconsidered and set aside and that the Contract of Lease be declared without legal effect or, in the alternative, that the commencement of the payments of rentals be reckoned from the In-Service Date.

On April 17, 2007, the Motion for Reconsideration was partially granted. The DOJ ruled that: (1) the Contract of Lease is an independent contract; thus, it is not affected by the nullity of the Concession Agreement; and (2) based on the settled rules of contract interpretation, the Contract of Lease should be interpreted such that the payment of rentals by MIAA shall commence from the In-Service Date. However, considering that MIAA has possessed/used the BCDA property since transfer of clean possession of the site up to the present time, the principles of fairness and equity as well as *quantum meruit*dictate that reasonable compensation should be accorded to BCDA - the rates, terms of payment and reckoning point shall be subject to further negotiations by the parties.

The BCDA has appealed the DOJ Resolution dated April 17, 2007, with the Office of the President. The MIAA filed its Reply Memorandum on March 10, 2008 and is awaiting further orders from the Office of the President. In the meantime, BCDA has requested for a negotiation considering that the determination of the "In-Service Date" has become impossible and, likewise, filed a Motion for Early Resolution before the Office of the President.

On April 15, 2013, MIAA and BCDA filed a Joint Motion to Withdraw the Appeal indicating that they have entered into a Compromise Agreement dated March 25, 2013, duly approved by their respective Board of Directors. Said Compromise Agreement constitutes the full amicable settlement of the Parties of the arbitration case between MIAA and BCDA. The Joint Motion to Withdraw the Appeal was approved by the Office of the President on June 17, 2013. The case is deemed terminated in view of the Compromise Agreement.

d. Airspan Case: Rate Adjustments

In December 2004, the Supreme Court nullified MIAA Resolution Nos. 98-30 and 99-11 effecting rate increases because of the lack of prior notice and public hearing. In a Resolution dated June 8, 2005, the Supreme Court also denied MIAA's Motion for Leave to File a Second Motion for Reconsideration and to elevate the Case to the Court En Banc. The Court also resolved to deny, for lack of merit, the Department of Finance's Motion for Leave to Intervene.

The petitioners have secured a Writ of Execution from the Regional Trial Court Branch 58, Makati City. The MIAA filed an Urgent Motion to Defer Execution, which motion was denied by the Court.

The petitioners have, likewise, filed a Motion to Cite MIAA in Contempt for its failure to implement the refund despite the finality of the decisions in 2005. On December 26, 2007, the Court declared MIAA in contempt of court and ordered MIAA to pay a fine of thirty thousand pesos (P30,000), without prejudice to the imprisonment of the General Manager and/or Assistant General Manager should MIAA fail to comply with the Order of the Court denying the MIAA's Manifestation and Motion for Approval of the Methodology for the Payment of Refund dated October 5, 2007, until MIAA fully complies with the Decision dated February 17, 2003.

RTC Branch No. 58, Makati City, after due hearing, rendered a summary judgement on the Complaint for Injunction, nullifying MIAA's Resolution Nos. 98-30 and 99-11 as well as their accompanying administrative orders for want of the required notice and public hearing. Defendant MIAA was permanently enjoined from collecting the increases and was ordered to refund to plaintiffs all amounts paid pursuant to the implementation of the assailed resolutions.

On June 24, 2008, the Court denied the Motion for Reconsideration filed by MIAA on the contempt and on the Motion for Approval of Methodology of Payment of Refund. Subsequently, the MIAA paid the fine of P30,000 and elevated the matter – contempt and motion for approval of methodology of payment of refund – to the Court of Appeals on a Petition for Certiorari.

In a decision dated March 13, 2009, the Court of Appeals annulled and set aside the orders of the Regional Trial Court declaring MIAA in contempt and denying MIAA's Manifestation and Motion for Approval of the Methodology for the Payment of Refund and ordered the Regional Trial Court to defer the implementation of the Writ of Execution, as the amounts to be refunded to each of the private respondents still have to be determined and the money claims filed with the COA. The latter needs to examine, audit and settle the same in accordance with law and government auditing rules and regulations.

Airspan filed a Petition with the Supreme Court assailing the CA Decision. The Supreme Court dismissed the Petition. Airspan filed a Motion for Reconsideration, which was denied with finality per Resolution dated November 16, 2009.

The decision of the Supreme Court nullifying MIAA Resolution Nos. 98-30 and 99-11 effecting the rate increase because of lack of prior notice/publication and public hearing has attained finality and the lower court, Regional Trial Court, Branch 58, Makati, has already issued a Writ of Execution.

The Philippine Airlines, Macroasia Airport Services Corporation, and Macroasia Catering Services have, likewise, filed separate claims with the Authority for refund of rentals pertaining to the increase that was invalidated for lack of publication as ruled by the Supreme Court in the Airspan case. Said claims are estimated at P1.2 billion and are still subject to: (1) the approval of the Office of the Government Corporate Counsel on the refund; (2) the examination, audit and settlement by the Commission on Audit; and (3) the procedure which shall be in accordance with accounting and auditing rules and regulations.

e. SamahangManggagawa ng Paliparan ng Pilipinas (SMPP) vs. MIAA
Civil Case No. 05-1422-CFM
RTC, Branch 119, Pasay City

A petition for Mandamus was filed by petitioners SMPP before the Regional Trial Court of Pasay City praying for the issuance of a Writ of Preliminary Mandamus ordering respondent MIAA to implement Section 4.1 of DBM Corporate Compensation Circular No. 10 by integrating, including and/or adding the Cost of Living Allowance (COLA) and Amelioration Allowance (AA) into the basic salaries for the respective positions of the individual petitioners effective July 16, 1999 up to the present.

Thereafter, respondent MIAA Board of Directors were directed to issue the necessary Board Resolution: (1) appropriating funds to pay COLA and AA of petitioners which were not integrated, included and/or added to their respective basic salaries commencing on July 16, 1999 up to the present; (2) directing the release of said funds as back pay for COLA and AA; and (3) allowing the grant of continuing COLA and AA.

The Regional Trial Court affirmatively acted on the prayer for issuance of Mandamus and issued a decision upholding petitioner’s position.

Dissatisfied with the said ruling, the MIAA elevated on appeal the said decision to the Court of Appeals. In a Decision dated July 30, 2010, the Court of Appeals reversed and set aside the Regional Trial Court’s Decision.

The case is now pending before the Supreme Court.

f. Accounts under Litigation

1) Joaquin Rodriguez vs. MIAA
Civil Case No. 97- 0499
RTC, Branch 209, Paranaque City

Joaquin Rodriquez filed a case against MIAA for the recovery of ownership and possession of a parcel of land situated in Parañaque City which is Lot 3412-B ParañaqueCadastre, covered by Transfer Certificate of Title(TCT) No. 109416, having acquired the same from Buck Estate sometime in April 29, 1996. A decision dated August 30, 1999, was already rendered ordering MIAA to pay the amount of P70.868 million as rental for the property from 1972 to 1998, at P15,000 per square meter as purchase price of the property, exemplary damage of P1,000,000 and attorney's fees equivalent to 5% of the amount due. MIAA appealed the decision to the Court of Appeals which affirmed the earlier decision but with modification. MIAA then moved for partial reconsideration which was denied on January 28, 2004.

Joaquin Rodr

A petition for review with the Supreme Court was filed on March 22, 2004. In a decision promulgated on February 28, 2006, the Supreme Court granted MIAA's petition as follows:

> "**WHEREFORE,** the petition is GRANTED IN PART. The decision of the Court of Appeals is modified as follows:
>
> a. The MIAA is ordered to pay Joaquin Rodriguez just compensation for the subject lot, the portion actually occupied by the runway consisting of or based on the value thereof at the time of taking in 1972, with interest thereon at the legal rate of six percent (6%) per annum from the time of the taking until full payment is made. For the purpose of determining said value, the case is remanded to the lower court. Said court is ordered to make the determination with deliberate dispatch;
>
> b. The award of back rentals as damages is DELETED;
>
> c. TheMIAA is ordered to PAYexemplary damages in the reduced amount of P200,000 attorney's fees equivalent to one percent (1%) of the amount due.
>
> No pronouncement as to costs.
>
> SO ORDERED."

On January 21, 2009, a hearing was held at the Regional Trial Court Branch 360, Parañaque City for the purpose of determining the just compensation.

On August 11, 2009, the Office of the Solicitor General (OSG) issued a letter confirming MIAA's proposal to tender payment of just compensation in the amount of P275,004.25 and consignation with the lower court in order to stop accrual of interest thereon.

At the RTC Parañaque, the OSG filed a Manifestation and Motion to substitute Rodriguez with the RCBC as the real party in interest last March 4, 2009. The Motion has been submitted for resolution by the Court.

Meanwhile, Rodriguez filed a Notice of Appeal with the Court of Appeals from the RTC's decision.

The Court of Appeals rendered a decision in favor of the MIAA affirming the RTC's decision. Rodriguez's appeal before the Supreme Court has been decided in favor of MIAA. A Writ of Execution has already been issued.

2) People's Aircargo and Warehousing Co., Inc. (PAIRCARGO) vs. MIAA
Civil Case No. 00-304
RTC, Branch 110, Pasay City

This is a case filed by PAIRCARGO against the Authority questioning the increase in rental rates as mandated by Administrative Orders issued by the MIAA Board. Said concessionaire alleged that MIAA has no legal right to increase its rental rates because its lease contract with the then Civil Aeronautics Administration, which was renewed in 1991 under the pre-emptive right of the lessee, does not provide an escalation clause. By agreement of the parties, the status quo will be maintained during the pendency of the case.

Hearing is ongoing. The OSG is recommending Compromise Agreement in view of the prevailing doctrine in Airspan. The terms of the Compromise Agreement is being reviewed by the MIAA.

3. Little Vin-Vin's Food Corporation (LVVFC) vs.MIAA
Civil Case No. 02-0215
RTC, Branch 115, Pasay City

This is a case filed by LVVFC against MIAA for Specific Performance and Damages, praying that: (1) MIAA be liable for the rectification of the electrical defects in the concession area at its costs; (2) LVVFC's construction period be extended until the electrical defects have been rectified; (3) MIAA deliver the areas fully operational; (4) LVVFC's expenses on the electrical installations be offset against the rentals already paid; (5) LVVFC be absolved from the charges and fees stated in the Contract of Lease and Concession until the electrical defects are rectified; and (6) MIAA pays LVVFC damages plus costs.

The parties entered into a Compromise Agreement pursuant to Board Resolution No. 2005-023 dated May 4, 2005 and Board Resolution No. 2005-017 dated March 28, 2005.

While the Compromise Agreement has been signed by the parties, the same has not been filed in court. LVVFC wants a renegotiation of the Compromise Agreement. The Court of Appeals decided in favor of LVVFC. MIAA filed its appeal before the Supreme Court.

4. **Avia Filipinas Int'l. Inc. vs. MIAA**
   G.R. No. 180168
   Supreme Court

This is a case filed by Avia Filipinas against MIAA stemming from the increase in the former's monthly lease rentals from P6,580 per month to P15,966.50 (P9,386.50 increase per month) effective September 1, 1991 to September 30, 1994, for a total of P347,300.50. The increase was based on Section 2.04 of the lease contract and Administrative Order No. 1, Series of 1990, which embodied the increase in rentals of the properties being leased by MIAA to its lessees and concessionaires. However, Avia Filipinas refused to pay the increased rentals, claiming that under Sec. 8.13 of the lease contract, *"any amendment, alteration, or modification thereof shall not be valid and binding, unless and until made in writing and signed by the parties thereto"*. It claimed that since it did not sign the rental increase embodied in Administrative Order No. 1, Series of 1990, the said increase is not valid and binding.

On March 21, 2003, the lower court rendered a decision in favor of Avia Filipinas ordering MIAA to pay Avia Filipinas P2 million actual damages, P2 million exemplary damages, to refund the monthly rental payments beginning July 1, 1997 up to March 11, 1998 with 12% interest, P100,000 attorney's fees, and costs of suit.

MIAA appealed to the Court of Appeals which rendered a decision on June 19, 2007, deleting the award of actual and exemplary damages, reduction from 12% to 6% of the interest on the monthly rentals to be refunded beginning July 1, 1997 up to March 11, 1998. The 6% interest is to begin from date of filing of the complaint until finality of the decision. A 12% interest shall be imposed on any unpaid balance from such finality until judgment is fully satisfied. The award of attorney's fees still stands.

MIAA brought the case to the Supreme Court by way of a Petition for Review on December 7, 2007.

The Supreme Court, in its Decision dated February 27, 2012, denied MIAA's petition and affirmed the resolution of the Court of Appeals. A Motion for Reconsideration shall hereafter be filed by MIAA before the Supreme Court.

MIAA is awaiting the Writ of Execution.

5) **DL ADMARK vs. MIAA, et. al.**
Civil Case No. 02-0047
RTC Pasay Br. 111

DL Admark filed a case for damages against MIAA for terminating its manpower service contract. The case has been submitted for decision of the Regional Trial Court. The OSG will move for the dismissal of the case since DL Admark is not appearing in the court anymore. The case was dismissed for lack of interest.

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28. PROCUREMENT OF SUPPLIES THRU PROCUREMENT SERVICE – DBM

The Authority purchased its commonly used office supplies from the Procurement Service (PS) of the Department of Budget and Management (DBM) in compliance with Section 53(2) of the Implementing Rules and Regulations A (IRR-A) of Republic Act No. 9184, otherwise known as the Government Procurement Reform Act. The items purchased from the PS-DBM are included in the approved Annual Procurement Plan of the Authority.

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29. SUPPLEMENTARY INFORMATION REQUIRED UNDER BIR REVENUE REGULATION NO. 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

1. The Authority is a VAT-registered company with output tax declaration of P724,315,326 for the year based on the amount reflected in the Sales Account of P6,035,961,054.

   The Authority has zero-rated sales amounting to P2,987,367,981 pursuant to the provisions of RR-4-2007, Section 12, Zero-Related Sale of Services.

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

   a. Beginning of the year P40,409,510

   b. Current year's purchases

I.	Goods for resale/manufacture or further processing	n/a
II.	Goods other than for resale or manufacture	21,144,026
III.	Capital goods subject to amortization	29,205,968
IV.	Capital goods not subject to amortization	n/a
V.	Services lodged under cost of goods sold	n/a
VI.	Services lodged under other accounts	264,500,255

c. Claims for tax credit/refund and other adjustments

I.	Prior year's set-up/accruals	3,221,739
II.	Current year's set-up/accruals	3,958,675
III.	Cancelled checks/transactions and adjustments	2,279,028
IV.	Available input tax and tax deferred for succeeding period	(307,829,138)

d. Balance at the end of the yearP56,890,063

The amount of withholding taxes paid/accrued for the year amounted to:

I.	Tax on compensation benefits	P72,686,588
II.	Creditable withholding taxes	64,181,850
III.	Final withholding taxes	213,885
IV.	Value-Added Tax and Other Percentage taxes withheld	138,292,941

3. Schedule of Other Taxes and Licenses

Firearms license (Firearms and Explosives Division –PNP)	203,838
Radio station license (National Telecommunication Commission)	193,458
RLM operator certificate (National Telecommunication Commission)	2,250
Emission testing and inspection (Land Transportation Office)	23,570
Registration (Land Transportation Office)	187,438
Annual VAT Registration	500
Tax on French loan and adjustment of foreign exchange	213,885
Community tax (Pasay City Treasurer)	10,500

COMMENTS AND RECOMMENDATIONS

1. Depreciation for CYs 2008 to 2013 on NAIA Terminal 3 (T3) Facility assets not recognized in the books.

This is a reiteration of a CY 2012 audit observation.

The NAIA Terminal 3 (T3) Facility assets, recognized at P3.068 billion as of December 31, 2013, consists of: (a) the P3.002 billion payment to the Philippine International Air Terminals Co., Inc. (PIATCO) made in compliance to the Decision of the Supreme Court dated December 19, 2005, representing the proffered value of T3; and (b) the P65.95 million costs of Project Management Services for the completion, testing, and commissioning of NAIA T3 (prior to opening and operationalization), including structural design review and evaluation. The NAIA T3 Project was about 98 percent completed in 2002 when the National Government decided to cancel the contract with PIATCO. It was opened only in 2008 or six years after the Government took over the property. At present, T3 facility is operating at 50 percent capacity due to structural issues.

The Supreme Court nullified the Concession Agreement between PIATCO and the Government of the Republic of the Philippines which led the Government to expropriate the terminal project through an Order of the Pasay City Regional Trial Court. On May 23, 2011, the Court rendered its Decision and ordered payment of just compensation to PIATCO in the amount of US$175,787,245.10 less the proferred value of P3.002 billion. On October 11, 2011, the Court issued an Omnibus Order which granted MIAA's prayer to deposit its payment for just compensation in an escrow account at the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) which were appointed as Joint Escrow Agents by the Court. The MIAA then deposited US$82,157,716.73 at LBP, and US$34,190,924.59 at DBP on April 11, 2012, to cover payment of just compensation pursuant to the Escrow Agreement executed between the parties. The Court recognized MIAA's right to exercise full rights of ownership over the property upon payment of the net amount of just compensation. The escrow account was made known to the Court and to PIATCO but the latter has not drawn on the escrow account. The escrow deposit which is equivalent to P4.927 billion is apart from the recorded cost of the NAIA T3 Facility of P3.068 billion.

Records disclosed that depreciation was not recognized for CYs 2008 to 2013 on NAIA T3 Facility assets since these were still lodged under construction in progress and have not been reclassified to their appropriate asset accounts. The non-recognition of depreciation affected the assets' carrying amount and income and expense as well.

We recommended that Management reclassify the T3 assets from construction in progress to their appropriate asset accounts and recognize depreciation due to its effect on the carrying amount of the assets, income and expenses.

Management Comment

Initially, Management maintained that depreciation cannot be accurately ascertained pending full documentation of the cost components of the assets and because ownership of the NAIA T3 Facility still remains a legal issue. However, during the exit conference, we discussed our position as contained in the rejoinder paragraph below that the T3 Facility may now be recorded as an asset since it meets the criteria provided by the International Financial Reporting Standards (IFRS). Although Management expressed reservation on the legal implication that may arise as to the ownership of the T3 Facility, it has agreed in principle to provide depreciation on the assets beginning CY 2014. We concur that reasonable estimates may be used to determine the asset costs so as to provide a basis for the computation of depreciation.

Rejoinder

We believe that it is proper for MIAA to recognize the asset and provide depreciation as earlier discussed for the following reasons:

- The Framework for the Preparation and Presentation of Financial Statements adopts the following standpoint on assets:

  1.a "An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity." (Section 49)

  1.b "In assessing whether an item meets the definition of an asset xxx, attention needs to be given to its underlying substance and economic reality and not merely its legal form." (Section 51)

  1.c "Many assets, for example receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the results of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control." (Section 57)

- The above standards give attention to substance over form in determining whether an item meets the definition of an asset for purposes of recognition. Since the legal issue that has remained unsettled is the determination of the amount of just compensation to PIATCO, MIAA having been granted full rights of ownership by the Court, T3 assets may be recognized in the books and provided the corresponding depreciation.

- In 2012, MIAA implemented the NAIA Structural Retrofit Project to operate T3 Facility at full capacity. The project was completed in 2013 at a cost of P164.922 million and depreciation on the building was accordingly provided by MIAA. While depreciation was recognized on the said building, T3 Facility assets to which the building belongs were not provided with depreciation.

2. **Depreciation on the reduced segment of Runway 06/24 was not adjusted to consider its derecognized portion.**

On January 2012, contracts were awarded for civil and electrical works for a project called the "Repair and Overlay of Runway 06/24". The project was finished in the 4th quarter of 2012 and recorded in the books of accounts as completed in December 2013 per JEV No. 2013-12-076.

The account Runways and Taxiways (GL 203) was initially recorded in the books at P2.577 billion less accumulated depreciation of P1.729 billion or at a net carrying amount of P847.490 million. However, on account of the works described on the preceding paragraph, costs amounting to P353.082 million were booked to recognize the expenses incurred for the repair and overlay of said runway. Consistent with the provisions of International Accounting Standard (IAS) 16 – *Property, Plant and Equipment*, the costs were capitalized and the replaced portion of the runway was derecognized using the same amount of P353.082 million. Henceforth, the new or repaired segment was depreciated separately from the remaining portion of the runway.

However, upon review of the entries for the depreciation of the remaining old portion of the runway, we noted that there was no corresponding decrease in the depreciation expense despite the exclusion of the repaired segment. In effect, it appears that the newly repaired portion is being depreciated twice because it was still included in the previous computation.

An analysis of what should be the revised depreciable cost of the old portion of Runway 06/24 showed the following:

Historical cost (2,577,467,667.63 – 353,082,018.19)	P2,224,385,649.44
Accumulated depreciation (1,729,977,999.80 – 312,477,586.10)	(1,417,500,413.70)
Revised book value	806,885,235.74
Salvage value (10% of cost)	(80,688,523.57)
Revised depreciable cost	P 726,196,712.17

Prior to this replacement and derecognition, Runways and Taxiways had a monthly depreciation of P9.666 million or an annual depreciation of P115.986 million. We believe that this should be adjusted accordingly in recognition of the revised depreciable cost of the remaining old portion of the runway.

We recommended that Management adjust the depreciation rate based on the revised depreciable cost of the remaining old portion of the runway.

Management Comment

Management explained that they inadvertently missed to reverse the depreciation for the derecognized portion which resulted in higher depreciation expense and lower loss on derecognition of asset incurred. They explained further that since both are expense accounts which were closed to Income and Expense Summary and closed subsequently to retained Earnings, the adjustment may not be taken up. However, the depreciation for the reduced or remaining portion of the old runway was adjusted accordingly over its remaining useful life.

3. **The financial impact of recent developments on the case on disputed accounts affecting contingent assets of P169.24 million, and total receivables recognized in the books at P124.52 million was not determined.**

This is a reiteration of a CY 2012 audit observation.

Receivables from concessionaires are recognized as income as billed, except those that are under litigation and/or appeal which the Authority considers as contingent assets. The latter are not recognized in the books although billings are continuous, but are appropriately disclosed in the Notes to Financial Statements.

Our verification disclosed that as of December 31, 2013, MIAA has total receivables from disputed accounts in the amount of P169.24 million from Ding Velayo Sports, Incorporated (Ding Velayo for brevity), which covered contested billings from 2003 to 2012. The amounts were considered as contingent assets and were not recorded in the books. MIAA, however, has recognized in the books total receivables at P124.52 million from Ding Velayo for 2002 and prior years' billings. The latter filed a case against MIAA (Civil Case No. 8847) for Injunction, Consignation, Damages and Preliminary Injunction in March 1992. It was prayed that MIAA be ordered to renew the contract for another twenty-five (25) years from February 15, 1992. Alternatively, it was prayed that should the renewal be disallowed, MIAA should be ordered to pay expected unrealized rental income in the amount of P1 million per year. The Regional Trial Court and the Court of Appeals both decided the case in favor of Ding Velayo. MIAA appealed the case before the Supreme Court which sustained the ruling of the Court of Appeals in its Decision dated December 14, 2011 ordering MIAA to: (1) grant the renewal of the lease contract for the same term as stipulated in the old contract and the rental to be based on the applicable rate at the time of the renewal; (2) respect and maintain Respondent's peaceful possession of the premises; and (3) accept the rental payment consigned by the Respondent to the court beginning December 1991 onward until and after a renewal has been duly executed. MIAA's Motion for Reconsideration was denied by the Supreme Court. Ding Velayo, meanwhile, requested MIAA to renew the contract pursuant to the Writ of Execution issued by the RTC. MIAA, on the other hand, requested the Office of the Government Corporate Counsel to file the necessary pleading for collection of the consigned rentals from the Court.

The effect of these developments on contingent assets vis-a-vis the recorded receivables should have been determined to ensure that the accounts are adjusted as appropriate.

We have recommended that Management determine the effect on contingent assets and on the recorded receivables of recent developments on the case to ensure that accounts are adjusted, as appropriate.

Management Comment

Management stated that they will adjust the accounts after securing the necessary approvals and upon full documentation thereof.

4. Provision for estimated liabilities on real estate taxes and on the P1.231 billion claims by lessees for refund of rental rate increases invalidated by the Supreme Court for lack of publication were not recognized in the books.

This is a reiteration of CYs 2009 to 2012 audit observation.

Paragraph 14 of PAS/IAS 37 on Provisions, Contingent Liabilities and Contingent Assets provides that "A provision shall be recognized when:

(a) An entity has a present obligation (legal or constructive) as a result of a past event;
(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) A reliable estimate can be made of the amount of the obligation."

We have noted that the Authority, contrary to the requirement of PAS/IAS 37, did not recognize in its books the following obligations:

(a) Claims for refund of rental rate increases estimated at P1.231 billion by Philippine Airlines, Macroasia Airport Services Corporation and Macroasia Catering Services. The Supreme Court has nullified MIAA Resolution Nos. 98-30 and 99-11 effecting rate increases for lack of prior notice and public hearing. The MIAA Board, under Board Resolution No. 2010-026, approved the application of these claims by the lessees against their future rental charges; and

(b) Claims for Real Estate Taxes by the City Governments of Parañaque and Pasay on all portions of airport lands and buildings that are leased to private parties after the Supreme Court ruled that airport lands and buildings of the Authority are exempted from real estate taxes except *for portions that are leased to private parties.*

The non-recognition resulted in the overstatement of retained earnings, understatement of real estate tax expenses and understatement of liabilities.

We have reiterated our recommendations embodied in CYs 2009 to 2012 Annual Audit Reports on MIAA for Management to comply with the requirements of PAS/IAS 37 to ensure that appropriate provision for estimated liabilities is recognized in the books at year end for all the Authority's obligations.

Management Comment

Management explained that claims for refund of rentals by Philippine Airlines and Macroasia amounting to P1.231 billion were approved by MIAA Board in February 2010 but execution thereof is subject to the approval of the Office of the Government Corporate Counsel (OGCC); thus, it may be premature to recognize such claims in the books of accounts.

In view of the prevailing doctrine in Airspan case, MIAA is preparing a summary of all similarly situated accounts to determine estimated liabilities.

As to the real estate taxes, Management explained that they will set up the provision upon receipt of updated assessments from the Cities of Pasay and Parañaque to ensure accuracy of amounts to be set up as liability. They, however, took note of the recommendation and have completed the inventory of properties leased to private entities for purposes of determining real estate tax liabilities and by way of counterchecking the assessments to be issued by the Cities of Pasay and Parañaque. MIAA informed further that the Cities of Pasay and Parañaque accepted their position to pass the liability for taxes to MIAA's lessees and concessionaires, but have requested the assistance of MIAA in the collection through submission of copies of contracts and in serving the tax assessments.

5. Liability to the Philippine National Construction Corporation (PNCC) has remained unrecognized in the books.

In July 2002, the Engineering Department received reports of water leaks due to corrosion at the steel deck of the International Passenger Terminal (IPT) 1. Inspections conducted by the same Department revealed structural damage to the roof decks due to failed trusses and column structural members affecting areas within Gates 2, 7, 9 and 15. A joint site investigation was conducted by representatives of the MIAA, PNCC and the Commission on Audit (COA) on November 18, 2000. It was concluded that the continued deterioration of the structures will result in the possible collapse of the peripheral cantilevered parapet surrounding IPT1.

On November 21, 2000, the Officer-in-charge, Buildings Division, prepared an Engineer's Instruction directing PNCC to implement emergency/temporary measures to provide safety in the areas while MIAA engineers were determining the extent of the structural damage. On November 29, 2000, the MIAA Board issued Resolution No. 2000-125 authorizing Management to negotiate with PNCC. On December 6, 2000, the MIAA Bids & Awards Committee requested PNCC to submit its Technical and Financial Proposal for the project.

On December 20, 2000, the Board of Directors approved the award of the contract to PNCC and a notice of Award was issued on the same day. The Memorandum of Agreement was signed on February 12, 2001. The pre-contract period was from November 21, 2000 to February 12, 2001. Within this period, PNCC commenced works in compliance with the Engineer's Instruction. The Contract officially started on February 14, 2001 and ended on October 11, 2001. The project was accepted by the Authority on October 14, 2002.

However, after acceptance of the project, processing for payment was delayed due to additional items being claimed for payment by PNCC that have remained unsettled between the parties such as:

a) Pre-contract costs;
b) Variation Order Nos. 1-4;
c) Rentals and materials and equipment; and
d) Computation of labor man-hours

Records show exchanges of communications between the MIAA Engineering and Legal Offices and a PNCC representative. However, after more than a decade, the determination of the liability to PNCC has remained unresolved. On July 1, 2010, then Asst. General Manager for Engineering Ricardo L. Medalla, Jr. recommended that MIAA pay PNCC the amount of P14, 855,162.10 for the work done on project. To date however, no payment has been made nor is a liability recognized in the books of accounts for the project.

We recommended that Management determine its obligation to PNCC and recognize liability in the books, as appropriate.

Management Comment

Management has submitted the documents required by the COA Technical Services Office (TSO) to properly evaluate the project and has committed to recognize its liability to PNCC as soon as all issues regarding the said claim are settled.

6. **The recording and disposition of the 5 percent service fee charged by the Authority are not in harmony with the provisions of the General Appropriations Act (GAA) and Administrative Order (AO) No. 279.**

Section 5(K) of Executive Order No. 903 or the MIAA Charter empowers the Authority to levy and collect dues, charges or fees for any service it provides. This is also authorized under Section 46, Chapter 5, Book VI of the 1987 Administrative Code entitled “National Government Budgeting”. The service fee is collected by the MIAA for the collection and remittance of the Aviation Security Fee due to the Office for Transportation Security (OTS).

Section 38 of the FY 2013 GAA provides that service fees shall be deposited with the National Treasury and be recorded in the agency’s books of accounts as trust receipts. Further, said service fees shall be used exclusively for the operation of a Provident Fund in favor of all its employees in accordance with AO No. 279, s. 1992. The Provident Fund shall be used for loaning operations and other purposes beneficial to all members as may be approved by the governing board.

The MIAA Provident Fund Association, Inc. (MPFAI) commenced operations in November 1994 with a seed capital of P40 million sourced from accumulated service fees collected by the Authority which totalled P68.630 million as of December 1992. The balance of P28.630 million was authorized to be directly distributed to MIAA employees through Board Resolution No. 93-71 dated July 1, 1993. Henceforth, service fees were periodically remitted by the MIAA to the MPFAI.

Our review of transactions pertaining to service fees disclosed the following:

a) *The 5 percent service fees are not recorded by MIAA as trust receipts as required by the GAA.*

<u>Recording of collections of PTF and SDC:</u>

Cash in Bank-Local Currency, C/A (111)	xxx	
Due to National Treasury (411)		xxx
Due to Bureau of Internal Revenue (412)		xxx
Due to Other National Govt. Agencies (416)		xxx
Other Payables (439)		xxx
Toll and Terminal Fees (623)		xxx

<u>Remittance of the share of the government agencies:</u>

Due to National Treasury (411)	xxx	
Due to Bureau of Internal Revenue (412)	xxx	
Due to Other National Govt. Agencies (416)	xxx	
Other Payables (439)	xxx	
Cash in Bank-Local Currency, C/A (111)		xxx

<u>Remittance of 5 percent service fees to the MIAA Provident Fund:</u>

Other Payables (439)	xxx	
Cash in Bank-Local Currency, C/A (111)		xxx

Since receipts from service fees are debited as Cash in Bank-Local Currency and not deposited in a separate trust account, it is co-mingled with the Authority's operating funds. Further, its accounting treatment as other payables gives the impression that it refers to liabilities incurred in the ordinary course of business and not as a fund held in trust for the MPFAI as intended in A.O. 279 and the GAA. Service fees remitted to MPFAI in 2013 amounted to P40.518 million.

b) *The service fees remitted by MIAA to the MPFAI are not retained for the latter's operational use as required by the GAA, but are held in trust for distribution.*

After granting the initial seed capital of P40 million to the MPFAI, the Authority continued to remit service fees to the former. As stated in the financial statements of the MPFAI, the remittances are carried in the books as Trust Liabilities-MIAA and refer to, among others, as undistributed service fees. Its distribution is not consistent with the provisions of the GAA and A.O. 279

We recommended that Management observe the proper recording of the service fees as trust receipts and ensure that remitted amounts to the MPFAI are retained and used by the Provident Fund for its operational use.

Management Comment

Management has agreed to record the 5 percent service fees as trust receipts and to adopt the provisions of AO 279 and the GAA.

7. **The continued grant of medical allowance to MIAA employees who are not incumbents of their positions as of July 1, 1989 is bereft of legal basis.**

Republic Act 6758 or the Salary Standardization Law which took effect on July 1, 1989 provided for the consolidation of allowances and compensation in the prescribed standardized salary rates except certain specified allowances and such other additional compensation as may be determined by the Department of Budget and Management (DBM).

Although it was the clear policy intent of RA 6758 to standardize salary rates among government personnel, the Legislature under Sections 12 and 17 of said law, nonetheless, saw the need for equity and justice in adopting the policy of non-diminution of pay when it authorized incumbents as of July 1, 1989 to receive salaries and/or allowances over and above those authorized by RA 6758. The statute clearly did not revoke existing benefits being enjoyed by incumbents of government positions at the time of the passage of RA 6758 by virtue of Sections 12 and 17 thereof (SSS vs. COA, G.R. No. 149240). The Supreme Court in PPA vs. COA (GR. No. 160396) and MIAA vs. COA (G.R. No. 104217) emphasized that the date July 1, 1989 does not serve as a cut-off date with respect to the amount of RATA. It became crucial only to determine that as of said date, the officer was an incumbent and was receiving RATA for purposes of entitling him to its continued grant.

Likewise, the Court had the occasion to interpret Section 12 of RA 6758 which held that the benefits excluded from the standardized salary rates are the "allowances" or those which are usually granted to officials and employees of the government to defray or reimburse expenses incurred in the performance of their official functions. These are RATA, clothing and laundry allowances, subsistence allowance of marine officers and crew on board government vessels and hospital personnel, hazard pay and others, as specified thereon. Clearly, medical allowance was not among those listed in Section 12 which government personnel can continue to receive under RA 6758 over and above their standardized salary rates (National Tobacco Administration vs. COA / Bulacan State University vs. COA).

Records show that the DBM had previously ruled out as variances the excess provisions for medical allowance in MIAA's Proposed Corporate Operating Budget for CYs 2010 to 2013. Details are as follows:

Year	Proposed Budget	Overprovision disallowed by DBM	Approved Budget
2010	26,235,000	24,550,000	1,685,000
2011	21,180,000	19,490,000	1,690,000
2012	21,015,000	19,325,000	1,690,000
2013	19,755,000	18,066,000	1,689,000

Despite DBM's position, MIAA continued the grant of medical allowance to all its employees irrespective of the dates of their employment with the Authority. This observation has been previously raised in the 2011 Annual Audit Report with respect to payments made in CYs 2010 and 2011. For this audit year and the immediately preceding year, our verification disclosed payments made as against approved budgets as follows:

	Actual Payment	Approved Budget	Variance
2012	19,552,500	1,690,000	17,862,500
2013	18,806,250	1,689,000	17,117,250
Total	**38,358,750**	**3,379,000**	**34,979,750**

Recently, in a letter dated January 7, 2014, of the Chairman of the Governance Commission for GOCCs (GCG) addressed to the General Manager of the Philippine Reclamation Authority (PRA) relative to the latter's request for approval for the continued grant of benefits to PRA employees, the Commission did not find sufficient basis to recommend the approval of PRA's request to the Office of the President for the following reason, among others, which we quote:

> *"(1) In two separate letters of the DBM to the Commission on Audit dated 29 August 1997 and 19 June 1998, it was clarified that the DBM's position on the term "appropriate authorization" as used in sub-paragraph 5.5 of Corporate Compensation Circular No. 10 refers NOT to board resolution of GOCCs/GFIs even if adopted prior to June 30, 1989 but rather to the authorization specifically issued by the Department of Budget and Management (DBM); Office of the President (OP) or by Congress in the form of Legislative Authorization;"*

In view thereof, it is our position that continued payment of medical allowance to employees who are not incumbents of positions as of July 1, 1989 is bereft of legal basis and should be discontinued.

We recommended that Management discontinue the grant of medical allowance for want of legal basis and cause the refund of payments already made.

Management Comment

Management cited the following basis for the continued grant of medical allowance to MIAA employees who are not incumbents of their positions as of July 1, 1989, to wit:

- Civil Service Commission (CSC) Resolution No. 001295 dated June 1, 2000 re: Re-employment benefits of Gloria H. Arevalo, Salient provision of which we quote, thus:

  "The Commission, however, is of the view that this provision of law does not imply that such other additional compensation not integrated into the salary rates shall not be received by employee appointed after July 01, 1989 x x x x x.The correct interpretation therefore is that, additional compensation being received by

employees not integrated into the standardized rates as of July 01, 1989 shall continue to be authorized and received/enjoyed by said employees, whether or not said employee was appointed prior to or after July 01, 1989.

A different interpretation will result in the creation of two classes of employees, i.e. one class receiving less pay than another class for substantially equal work."
x x x x x

- Supreme Court Decision in Irene V. Cruz, et al vs. Commission on Audit, G.R. No. 134740 promulgated en banc on October 23, 2001, ruled that there is no legal basis in excluding employees hired after October 31, 1989 from the grant of social amelioration benefit to Sugar Regulatory Administration employees.

- Supreme Court Decision in Philippine Ports Authority (PPA) Employees Hired after July 01, 1989, Petition for Certiorari in G.R. No. 160396 promulgated on September 06, 2005, ruled, thus:

  "Hence, in consonance with the equal protection clause of the Constitution, and considering that the employees were all similarly situated as to the matter of COLA and the Amelioration Allowance, they should all be treated similarly. All – not only incumbents as of July 01, 1989 – should be allowed to receive back pay corresponding to the said benefits, from July 01, 1989 to the new effectivity date of DBM CCC No. 10 dated March 16, 1999." It further ruled, that:

  "The principle of equal protection is not a barren concept that may be casually swept aside. While it does not demand absolute equality, it requires that all persons similarly situated be treated alike, both as to privileges conferred and liabilities enforced. Verily, equal protection and security shall be accorded every person under identical or analogous circumstances."

Rejoinder

- The Chairman of the Governance Commission for GOCCs (GCG), in its reply to the request for approval of the continued grant of benefits to Philippine Reclamation Authority's employees as discussed in the preceding paragraphs, emphasized among others, that:
  x x x x x

  "(4) The OGCC opinion to the Infrastructure Utilities Group of GOCCs (Opinion No.298, s.1990, dated 14 November 1990) was merely an opinion and cannot be taken as authorization to grant benefits / bonuses."

  In like manner, CSC's Resolution is more of an interpretative opinion and cannot be taken as authorization to grant benefits.

- In the PPA case, the only issue is whether PPA employees hired after July 1, 1989 should have continued to receive the benefits during the period of the "ineffectivity" of DBM-CCC No. 10; that is, from July 1, 1989 to March 16, 1999, the period during which those allowances were not deemed integrated into their standard salary rates. The subject matter refers to those deemed included, but were placed “in limbo” as a result of Supreme Court’s ruling in the De Jesus vs. COA. Hence, there was no reason or basis to distinguished or classify PPA into two categories for purposes of their entitlement to the back payment of unpaid allowances during the period in dispute.

8. Accomplishments vis-à-vis MIAA’s plans and programs

The plans and programs of MIAA for CY 2013 is consistent with the Mission – Vision Statements of the Management for CY 2011 to 2016.

The Authority’s corporate thrusts and objectives aim for the continuance of the implementation and development of projects with Key Results Areas (KRAs) for passengers’ safety, security, comfort and welfare as well as for operational efficiency. In 2013, the Authority has reported the following accomplishments which we observed were in line with their mandate per MIAA’s Corporate Charter:

A. NAIA operations

For total NAIA operations, flight movements registered a decrease of 0.6 percent from 273,078 to 270,333; while passenger movements increased by 2.73 percent from 32,121,653 to 32,999,342 and; for cargo movements it was down by 5.10 percent from 461,587 to 438,025 metric tons.

The decrease in flight movements was due to the cancellation of domestic flights brought about by the typhoon in Visayas, earthquake in Bohol and the Zamboanga siege, although there was an increase in international flight movements due to introduction of new flights at non-peak and several swapping of domestic to international time slots. The latter were also the reasons for the increase in passenger movements. Cargo movements decreased due to slowdown of flight cargo operations in Asia in 2013.

B. Major projects

MIAA has completed nine (9) major projects in 2013 (please refer to Note 1 of the Notes to Financial Statements) and has twelve (12) on-going projects that are due for completion in 2014.

9. Status of suspensions, disallowances and charges

As of year-end, the status of audit suspensions, disallowances and charges issued is as follows:

Audit Action	Beginning Balance January 1, 2013	Issued (in Million Pesos)	Settled	Ending Balance December 31, 2013
Suspensions	42,868,768.10	0	0	42,868,768.10
Disallowances				
Charges				

As of December 31, 2013, the unsettled balance of audit disallowances is P11.081 million, which covered disallowances issued in 1995 to 2008 or those issued prior to the effectivity of the Revised Rules on Settlement of Accounts (RRSA).

Notice of Disallowance was also issued in 2008 disallowing payment of 10 percent contingency and 5 percent excess in profit in the amount of P.677 million, while Notice of Suspension totaling P42.869 million, issued in 2011 for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM has matured into disallowance and the corresponding Notice of Disallowance was issued on February 10, 2014.

We recommended that Management comply with the rules and regulations on settlement of accounts.

10. Programs and projects undertaken by the GAD Committee

During the year, the GAD Committee has undertaken the following projects:

A. Client-Focused
   1. Provision of breastfeeding / infant feeding station at Terminals 2 and 3

B. Organizational-Focused
   1. GAD Information and Awareness Activities
   2. Purchase of equipment and paraphernalia
   3. Installation of GAD bulletin boards
   4. Attendance to GAD Focal Point System (GFPS) meetings and activities

The projects/activities undertaken are timely and are intended to address the needs of the clients and the MIAA community. The construction of breastfeeding/ infant feeding station at the Terminals will address the concerns of travelling fathers and mothers on where to feed their infants and small children and put them to sleep. Breastfeeding rooms at Terminals 1 and 4 are already operational, while the pre-construction phase has been completed for Terminals 2 and 3. The conduct of GAD information and awareness activities to MIAA employees through team building cum

GAD awareness and workshop is an activity that will have positive impact on the working conditions of the employees due to the elimination of gender biases and discriminations in the workplace. In 2013, MIAA has provided fourteen (14) batches of mandatory training to its employees. The purchase of equipment, paraphernalia and other administrative requirements for the use of GAD Committee will make them effective in informing the employees about the activities and projects of the GAD Committee. MIAA has procured and installed eight (8) GAD bulletin boards and projector screen for this purpose. Meetings and other GAD activities were also conducted to enhance GFPS.

We observed higher percentage of accomplishments for these activities as planned compared with last year, but the use of the budget allocated for GAD activities was not maximized.

We recommended that Management analyze the GAD issues and problems to meet targets as planned and to maximize the use of the budget allocated for GAD activities.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the eleven (11) audit recommendations, five (5) were implemented, three (3) were partially implemented and three (3) were not implemented. Details follow:

Reference (CY 2012 AAR Observation No.)	Observations	Recommendations	Status of Implementation
1, Page 33	Depreciation was not recognized for CYs 2008 to 2012 on NAIA Terminal 3 (T3) Facility assets costing P3.068 billion since the assets were still lodged under the Construction in Progress account and have not been reclassified to their appropriate asset accounts.	We recommended the reclassification for the T3 assets from construction in progress to their appropriate asset accounts and the recognition of depreciation due to its effect on the carrying amount of the assets and its effect on income.	**Not Implemented** MIAA claimed that depreciation cannot be accurately ascertained pending full documentation of the cost components of the asset and that ownership of the NAIA T3 Facility remained a legal issue, although MIAA has already deposited in escrow with LBP and DBP the just compensation pursuant to the decision of the RTC. This is in view of the complexities of the expropriation case pending with the Court of Appeals (CA) which MIAA will elevate by way of appeal to the Supreme Court in the event that the CA reaffirms its decision on the amount of just compensation. Reiterated in this AAR under Comments and Observation No. 1.

2, Page 34	Capitalized costs amounting to P168.434 million (net of VAT of P20.212 million) and investments of P6.757 million in relation to Panglao-Bohol International Airport Development Project (PBDIAP) were charged against Prior Years' Adjustments, and unrecovered advances to contractors totalling P15.236 million were reclassified to Other Receivables due to the temporary suspension of the Project by the DOTC.	We required the submission of basis for treating disbursement for the project as capitalized costs or as an investment and the Board approval for the write-off of the assets, as well as a copy of the inventory and turnover report of all required deliverables from the consultant.	**Partially Implemented** MIAA is considering the reversal of the previous entry on the asset that was written-off. Efforts to recoup the remaining balance of the 15% advance payment are underway and as advised, all deliverables completed by the Consultant were already transferred to the DOTC as the new implementing agency of the project.
3, Page 36	The P1.102 billion fund transferred by the DOTC to MIAA to cover part of the NAIA Terminal 1 Rehabilitation Project has remained unutilized seventeen (17) months after both agencies entered into a Memorandum of Agreement (MOA) for the implementation of the project.	We required Management to submit the status of the project implementation considering the availability of the fund for the project and the period that has lapsed from the date of the MOA.	**Implemented** The MOA between MIAA and DOTC has been cancelled and the cash transfer of P1.102 billion currently deposited with the Bureau of the Treasury under MIAA's account was reverted back to DOTC's General Fund.
4, Page 37	Effects of recent developments on the case on disputed accounts affecting contingent assets of P153.86 million, and total receivables recognized in the books at P124.52 million were not determined to ensure that these are appropriately reflected in the financial statements and/or adjusted as	We recommended that management determine the effects on the accounts of recent developments on the case to ensure that these are reflected in the financial statements and/or adjusted as necessary.	**Not Implemented** This will be adjusted after securing the necessary approval and upon full documentation thereof. Reiterated in this AAR under Comments and Observation No. 3.

	necessary.		
5, Page 38	Provision for estimated liabilities on real estate taxes and on the P1.231 billion claims by lessees for refund of rental rate increases invalidated by the Supreme Court lack of publication were not recognized in the books, thus, understating liabilities and expenses and overstating retained earnings.	We reiterated our recommendations embodied in the CYs 2009 to 2011 Annual Audit Reports that management comply with PAS 37 to ensure that appropriate provision for estimated liabilities has been set up at year end for all the Authority's obligations.	**Not Implemented** The MIAA Board has approved the claims for refund of rental rate increases but these were not recognized in the books pending approval of the execution thereof by the Office of the Government Corporate Council (OGCC). Provision for estimated tax liabilities on real estate taxes will be set up by MIAA upon receipt of the updated assessments from the cities of Pasay and Parañaque. Said cities accepted MIAA's position to pass the liability for taxes to MIAA's lessees and concessionaires but requested the assistance of MIAA in the collection through submission of copies of contracts and in serving the tax assessments. This finding was first raised in CY 2009 and reiterated in CYs 2010 to 2012 AARs. Reiterated in the current year's AAR under Comments and Observations No. 4.

6, Page 39	Variance of 84,122 square meters in the area of land was not reconciled and some 1.2 million square meters of land owned by the Authority remained untitled	We reiterated our recommendations in the CYs 2009 to 2011 Annual Audit Reports that management require the Accounting Division and the BRIDD to reconcile the variance in their records and to take steps to have the lands titled in the name of the Authority upon which ownership is based	**Partially Implemented** The variance pertains to portions of lot covered by a Special Patent. As of date, the consolidated approved plans are still with the DENR for signature and endorsement by the DENR Secretary to the Office of the President. This finding was first raised in CY 2009 and reiterated in CYs 2010 to 2012 AARs.
7, Page 40	Uniform application of a 10% allowance for doubtful account for all receivables other than those determined to be totally uncollectible	We recommended that management revisit its basis for estimating potential losses in trade receivables, particularly its uniform application of a 10% allowance for doubtful accounts on both current and non-current accounts.	**Implemented** Review of the present policy in providing allowance for doubtful accounts was made. It was established that provision for doubtful accounts is sufficient.
8, Page 41	Additional allowance for doubtful accounts amounting to P3.039 million was recognized as prior period adjustment instead of current period adjustment.	We recommended compliance with PAS 8	**Implemented**
9, Page 41	Offsetting of expenses/ payables totalling P4.074 million against the Authority's receivables from NAIA concessionaires	We recommended compliance with PAS 1	**Implemented** The offsetting arrangement was based on the policy guidelines of MIAA and on the offsetting arrangements with MIAA concessionaires as agreed by the parties.

10,Page 42	Unsettled suspensions, disallowances and charges	We recommended compliance with the rules and regulations on settlement of accounts	**Partially Implemented** Management filed before the Supreme Court a petition for certiorari from COA Decision No. 2010-118 dated November 19, 2010, which affirmed the disallowance of P44.79 million on the payment of signing bonus in 2003 under LAO-Corporate Decision dated February 18, 2008. The Supreme Court in its decision (G.R. No. 194710) dated February 14, 2012 partially granted the petition limiting the disallowance to P480,000.00 to cover only the Board of Directors and officers of MIAA. Clarification on the manner of execution will be requested from COA to enforce settlement of the remaining disallowance. MIAA will likewise file its appeal on the disallowance on excess overtimes rendered and; representations with the OGCC will be made to determine possible legal steps to recover the disallowance on the payment of ten percent contingency and five percent excess in profit on the amountof P676,686.78 since most of the persons

			found to be liable are no longer in the service.
11, Page 43	Programs and projects undertaken by the GAD Committee	We recommended that Management: a) Conduct an in-depth analysis of GAD problems and issues so that the projects and activities undertaken will achieve the intended results that will be felt by the whole community including the MIAA employees; and a) Maximize the use of the budgets allocated for GAD activities.	**Implemented** The programs and projects of GAD are geared towards Sensitivity Information and Awareness taking into account the effective utilization of available government resources in the prosecution thereof.