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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

August 3, 2015

THE BOARD OF DIRECTORS
Manila International Airport Authority
Pasay City

– Cherry (Lulu) 8/4/2015 2:24pm

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, 2014.

We expressed a qualified opinion on the fairness of the presentation of the financial statements of the Authority because of the non-provision for estimated liabilities on the P1.231 billion in claims for refund by lessees of the rental rate increases effected through MIAA Board Resolutions that were nullified by the Supreme Court (SC) for lack of publication and on real estate taxes due on portions of MIAA's airport land and buildings leased to private parties ruled by the SC as not exempted from taxes; non-recognition of P255.8 million in payables for legal fees for the NAIA Terminal 3 arbitration case; non-determination and recognition of the material financial impact of recent developments on the case on disputed accounts affecting contingent assets of P184.63 million and total receivables recognized in the books of P124.52 million to ensure that the accounts are adjusted as appropriate and; non-recognition of the disposal of a MIAA property to the DPWH for P569.66 million and of the revenue earned therefrom.

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

1. The cost of the NAIA Terminal 3 Landmark Project is still lodged under Construction in Progress account despite the Project's completion and eventual removal to make way for the NAIA Expressway Project Phase 2.

   We have recommended that the appropriate entries be drawn to adjust the Construction in Progress account.

2. The continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines may have to be revisited given the presence of other key players in the domestic air transportation industry.

We have recommended that Management revisit the continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines.

3. 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 this in the Authority's books, as appropriate.

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 26, 2015, 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 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

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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

August 3, 2015

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE GENERAL MANAGER
RECEIVED
AUG 04 2015
TIME 2:10 P.M
BY ANG

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, 2014.

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1. The cost of the NAIA Terminal 3 Landmark Project is still lodged under Construction in Progress account despite the Project's completion and eventual removal to make way for the NAIA Expressway Project Phase 2.

   We have recommended that the appropriate entries be drawn to adjust the Construction in Progress account.

2. The continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines may have to be revisited given the presence of other key players in the domestic air transportation industry.

We have recommended that Management revisit the continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines.

3. 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 this in the Authority's books, as appropriate.

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 26, 2015, 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
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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

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, 2014

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% to 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.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of MIAA for calendar year 2014. 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 2014 in relation to their mandate per MIAA’s Corporate Charter:

NAIA operations

For total NAIA operations, flight and cargo movements increased by 12.32% (from 237,050 to 266,260), while passenger movements posted an increase of 4.29% (from 32,866,599 to 34,277,972). Cargo volume was up by 13.86% (from 457,317.20 to 520,699.58).

For international operations, the substantial increase in flight movements by 6.98% and passenger movements by 5.91%, were due to the introduction of new flights at non-peak and to the several swapping of domestic with international time slots brought by the shift in operation of local carriers, particularly PAL and Cebu Pacific as both carriers recently gained access to the skies of Europe and the United States of America. Cargo movements were up by 21.39% which can be attributed to the growth in the semiconductor industry and other industry within the export processing zones.

For domestic operations, flight movements registered a decrease of 4.50% due to several swapping of domestic with international time slots as mentioned earlier, while passenger movements posted an increase of 1.87% due to the airline promos and partly due to the replacement of smaller aircrafts with bigger aircrafts. Finally, cargo movements went up by 0.24%. This increase can be attributed to the expansion of the manufacturing industry which allowed the fast movements of finished goods and raw materials particularly those in the export processing zones.

For general aviation operations, on a cumulative basis, the flight movements were down by 13.36%; while passenger movements also went down by 26.57%; and cargo movements also registered a decrease of 69.65%. These decreases in the general aviation activities were expected to happen since general aviation was given less priority due to air traffic congestion.

Major projects

MIAA has completed ten (10) major projects in 2014 (please refer to Note 1 of the Notes to Financial Statements) and has nine (9) on-going projects that are due for completion in 2015.

Financial Highlights

Comparative Financial Position

(In Thousand Pesos)

	2014	2013	Increase (Decrease)
Assets	33,461,212	32,363,956	1,097,256
Liabilities	11,158,465	11,792,642	(634,177)
Equity	22,302,747	20,571,314	1,731,433

Comparative Results of Operation

(In Thousand Pesos)	2014	2013	Increase (Decrease)
Operating Income	9,291,103	8,713,671	577,432
Share of the National Government (NG)	(1,084,773)	(1,176,645)	(91,872)
Operating Income After Share of the NG	8,206,330	7,537,026	669,304
Operating Expenses	(4,322,728)	(4,311,871)	10,857
Net Profit from Operation	3,883,602	3,225,155	658,447
Non-Operating Income (Expenses)	274,733	643,903	(369,170)
Income Before Income Tax	4,158,335	3,869,058	289,277
Income Tax	(1,098,910)	(955,133)	143,777
Net Profit	3,059,425	2,913,925	145,500

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, 2014 because of the non-recognition of provisions for estimated liabilities for the P1.231 billion in claims for refund by lessees of the rental rate increases effected through MIAA Board Resolutions that were nullified by the Supreme Court for lack of publication and on real estate taxes due on portions of MIAA's airport land and buildings leased to private parties ruled by the Supreme Court as not exempted from taxes; non-recognition of P255.8 million in payables for legal fees for the NAIA Terminal 3 arbitration case; non-determination and recognition of the material financial impact of recent developments on the case on disputed accounts affecting contingent assets of P184.63 million and total receivables recognized in the books of P124.52 million to ensure that the accounts are adjusted as appropriate and; non-recognition of the disposal of a MIAA property to the DPWH for P569.66 million and of the revenue earned therefrom.

Significant Audit Observations and Recommendations

The following are the other significant audit observations and recommendations:

1. The cost of the NAIA Terminal 3 Landmark Project in the amount of P30.58 million is still lodged under Construction in Progress account despite its completion and eventual removal to make way for the NAIA Expressway Project Phase 2.

   We have recommended that the appropriate entries be drawn to adjust the Construction in Progress account.

2. The continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines may have to be revisited given the presence of other key players in the domestic air transportation industry.

   We have recommended that Management revisit the continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines.

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

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

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2014, the unsettled balance of audit disallowances is P11.114 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).

A 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. A Notice of Finality of Decision (NFD) was issued on June 22, 2011; but despite the NFD, Appellants filed their appeal which was denied under CGS-Cluster 4 Decision No. 2015-06 dated March 13, 2015 for having been filed out of time.

A Notice of Suspension for P42.869 million was issued in 2011 for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM. This has matured into a disallowance and the corresponding Notice of Disallowance was issued on February 10, 2014. MIAA appealed the disallowance but this was denied per CGS-Cluster 4 Decision No. 2015-07 dated April 13, 2015 since the period of appeal had already lapsed.

Status of Implementation of Prior Year's Recommendations

Of the ten (10) audit recommendations embodied in the CY 2013 Annual Audit Report, six (6) were implemented and four (4) were partially 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, 2014, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on 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

Provisions for estimated liabilities were not recognized for the P1.231 billion in claims for refund by lessees of the rental rate increases effected through MIAA Board Resolutions which were nullified by the Supreme Court for lack of publication and on real estate taxes due on portions of MIAA's airport land and buildings leased to private parties ruled by the Supreme Court as not exempted from taxes. Not recognized, likewise, was the P255.8 million in payables for legal fees for the NAIA Terminal 3 arbitration case. Moreover, the material financial impact of recent developments on the case on disputed accounts affecting contingent assets of P184.63 million and receivables recognized in the books of P124.52 million were not determined to ensure that the accounts are adjusted, as appropriate and; the disposal of a MIAA property to the DPWH for P569.66 million and the revenue earned therefrom have not been recognized.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Manila International Airport Authority as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 23 to the financial statements. The Authority has pending cases in several courts involving various 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 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

JOSE DENNIS G. ISIP
Supervising Auditor

May 29, 2015

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(With comparative figures as at December 31, 2013)
(In Philippine Peso)

	Note	**2014**	2013 (As Restated)
ASSETS			
Current Assets			
Cash and cash equivalents	3	**10,163,325,755**	9,953,106,319
Receivables, net	4	**2,142,371,402**	1,974,148,204
Prepayments	5	**383,200,638**	522,148,531
Other current assets	6	**205,017,424**	60,194,169
Total current assets		**12,893,915,219**	12,509,597,223
Non-Currrent Assets			
Investments	7	**12,505,000**	12,505,000
Property and equipment, net	8	**15,391,378,011**	14,675,618,206
Investment property, net	9	**46,509,526**	49,128,911
Other non-current assets	10	**5,116,904,550**	5,117,106,707
Total non-current assets		**20,567,297,087**	19,854,358,824
		33,461,212,306	32,363,956,047
LIABILITIES AND EQUITY			
Current Liabilities			
Payables	11	**2,266,724,877**	1,982,297,371
Inter-agency payables	12	**934,803,225**	929,695,284
Current portion of loans payable-domestic	14	**488,227,800**	488,227,800
Current portion of loans payable-foreign	15	**333,737,508**	383,583,610
Other current liabilities	13	**884,210,987**	639,767,122
Total current liabilities		**4,907,704,397**	4,423,571,187
Non-Current Liabilities			
Loans payable-domestic	14	**3,173,480,700**	3,661,708,500
Loans payable-foreign	15	**2,648,822,875**	3,407,154,173
Other long-term liabilities		**434,517**	434,517
Total non-current liabilities		**5,822,738,092**	7,069,297,190
Deferred Credits	16	**428,022,255**	299,773,509
Equity		**22,302,747,562**	20,571,314,161
		33,461,212,306	32,363,956,047

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF PROFIT OR LOSS
For the Year Ended December 31, 2014
(With comparative figures for the year ended December 31, 2013)
(In Philippine Peso)

	Note	2014	2013 (As Restated)
OPERATING INCOME			
Toll and terminal fees		**3,505,621,791**	3,353,310,299
Landing and parking fees		**2,748,437,230**	2,517,623,763
Rent income		**1,501,939,328**	1,450,806,450
Other business income		**1,149,755,808**	1,119,593,064
Other service income		**385,348,849**	272,337,484
		9,291,103,006	8,713,671,060
National Government share on MIAA's gross income	19	**-1,084,773,358**	-1,176,645,570
MIAA'S SHARE ON OPERATING INCOME		**8,206,329,648**	7,537,025,490
OPERATING EXPENSES			
Personal services	20	**709,647,930**	681,248,139
Maintenance and other operating expenses	21	**3,613,080,234**	3,630,622,863
		4,322,728,164	4,311,871,002
PROFIT FROM OPERATIONS		**3,883,601,484**	3,225,154,488
OTHER INCOME (EXPENSES)			
Gain on foreign exchange		**443,759,950**	820,854,326
Interest income		**98,099,741**	128,439,890
Fines and penalties		**3,113,488**	2,021,602
Gain(loss) on disposal of assets		**-4,549,199**	713,282
Miscellaneous income		**54,242,026**	48,695,573
Financial expenses		**-319,932,681**	-356,821,520
		274,733,325	643,903,153
PROFIT BEFORE INCOME TAX		**4,158,334,809**	3,869,057,641
INCOME TAX EXPENSE		**-1,098,909,838**	-955,132,977
NET PROFIT		**3,059,424,971**	2,913,924,664

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2014
(With comparative figures for the year ended December 31, 2013)
(In Philippine Peso)

	Government Equity	Retained Earnings	Total
Balances, December 31, 2012	**7,191,934,321**	**11,636,409,066**	**18,828,343,387**
Net effect of adjustments in 2013 of prior years income	0	16,015,482	16,015,482
Correction due to final tax assesstment for deficiency tax in 2005	0	-232,673,487	-232,673,487
Correction due to capitalized costs for Panglao-Bohol International Airport Development Project erroneously written-off in 2012 as prior years expense	0	175,191,762	175,191,762
Adjustment on repairs and maintenance of runways and taxiways for 2012	0	20,470,226	20,470,226
Reclassification of donated capital to retained earnings account	0	221,200	221,200
Restated balance, January 1, 2013	7,191,934,321	11,615,634,249	18,807,568,570
Changes in Equity for 2013			
Net profit for the year, as restated (Note 18)	0	2,913,924,664	2,913,924,664
Dividends declared	0	-1,150,179,073	-1,150,179,073
Balances, December 31, 2013	**7,191,934,321**	**13,379,379,840**	**20,571,314,161**
Changes in Equity for 2014			
Net profit for the year	0	3,059,424,971	3,059,424,971
Dividends declared	0	-1,312,538,020	-1,312,538,020
Dividends adjustment	0	-15,453,550	-15,453,550
Balances, December 31, 2014	**7,191,934,321**	**15,110,813,241**	**22,302,747,562**

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(With comparative figures for the year ended December 31, 2013)
(In Philippine Peso)

	Note	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from operations		**9,114,306,672**
Trust receipts		**2,333,777,050**
Miscellaneous income		**164,643,319**
Payment of operating expenses		**(3,814,199,740)**
Remittance of trust receipts		**(1,945,094,392)**
Remittance of share of National Government		**(1,103,980,902)**
Transfer / return of Fund to DOTC's General Fund		**0**
Advances to other agencies		**(29,225,614)**
Advances to officers and employees		**(13,512,461)**
Net cash generated from operations		**4,706,713,932**
Interest income received		**94,023,605**
Corporate income tax paid		**(1,064,800,244)**
Net cash provided by operating activities		**3,735,937,293**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment		**(1,180,927,072)**
Proceeds from sale of property and equipment		**3,481,794**
Net cash used in investing activities		**(1,177,445,278)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid		**(1,165,632,623)**
Debt servicing		**(1,209,702,930)**
Net cash used in financing activities		**(2,375,335,553)**
Effects of exchange rate changes on cash and cash equivalents		**27,062,974**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**210,219,436**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**9,953,106,319**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**10,163,325,755**

See accompanying Notes to Financial Statements.

2013
9,379,031,461
2,074,513,846
265,458,728
(3,713,846,701)
(2,075,128,325)
(1,109,749,606)
(1,102,000,000)
(32,336,893)
(14,433,021)
3,671,509,489
129,920,805
(778,321,750)
3,023,108,544
(550,467,381)
3,066,796
(547,400,585)
(1,008,034,245)
(1,274,064,372)
(2,282,098,617)
334,866,464
528,475,806
9,424,630,513
9,953,106,319

MANILA INTERNATIONAL AIRPORT AUTHORITY
SCHEDULE OF PERSONAL SERVICES
For the Year Ended December 31, 2010
(With comparative figures for the year ended December 31, 2009)
(In thousand pesos)

	2011	2010
Salaries and wages		**278,218**
Other compensation		
Overtime and night differential		**160,263**
Additional compensation		**24,431**
Year-end bonus		**24,341**
Representation allowance		**13,499**
Hazard pay		**10,883**
Personnel economic relief allowance		**8,144**
Cash gift		**6,809**
Clothing uniform allowance		**5,904**
Productivity incentive allowance		**2,674**
Subsistence allowance		**74**
Other bonuses and allowances		**364,856**
Personnel benefits contribution		
Life and retirement insurance contribution		**33,493**
Pag-ibig contribution		**3,699**
Philhealth contribution		**3,365**
ECC contribution		**1,621**
Other personnel benefits		
Retirement benefits		**4,973**
Terminal leave		**3,025**
Other personnel benefits		**38,469**
		988,741

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
SCHEDULE OF MAINTENANCE AND OTHER OPERATING EXPENSES
For the Year Ended December 31, 2010
(With comparative figures for the year ended December 31, 2009)
(In thousand pesos)

	2010
Professional services	**1,278,069**
Utility expenses	**725,748**
Repairs and maintenance	**659,852**
Depreciation	**594,349**
Rent expenses	**249,027**
Taxes, insurance premiums and other fees	**123,431**
Supplies and materials	**102,714**
Donations	**94,496**
Bad debts	**33,701**
Loss of assets	**-**
Training expenses	**17,418**
Communication expenses	**12,486**
Confidential and intelligence expenses	**12,000**
Representation expenses	**2,844**
Advertising expenses	**2,685**
Membership dues and contributions to organizations	**1,800**
Subscription expenses	**927**
Traveling expenses	**725**
Subsidy to other funds	**259**
Awards and indemnities	**2**
Scholarship	**-**
Printing and binding	**-**
Extraordinary and miscellaneous expenses	**33,443**
	3,945,976

See accompanying Notes to Financial Statements.

	LAND AND LAND IMPROVEMENT	CONSTRUCTION IN PROGRESS	BUILDING & STRUCTURES	MACHINERY & EQUIPMENT
At Dec. 31, 2011				
Cost	13,223,961,215	3,461,597,952	5,541,660,685	5,650,790,504
Accumulated Depreciation	-5,195,217,106	-	(3,390,391,053)	-4,444,829,851
Net Book Value	**8,028,744,109**	**3,461,597,952**	**2,151,269,632**	**1,205,960,653**
Year Ended Dec. 31, 2012				
Opening Net Book Value	8,028,744,109	3,461,597,952	2,151,269,632	1,205,960,653
Adjustments / Additions	183,921,124	64,457,278	-	68,461,070
Disposals	-	-	-	(20,338,762)
Depreciation	(230,557,296)	-	(119,162,617)	(149,101,577)
Prior year's adjustment - On depreciation	21,642,295	-	-	21,646,082
Closing Net Book Value	**8,003,750,232**	**3,526,055,230**	**2,032,107,015**	**1,126,627,466**
At Dec. 31, 2012				
Cost	13,407,882,339	3,526,055,230	5,541,660,685	5,698,912,812
Accumulated Depreciation	(5,404,132,107)	-	(3,509,553,670)	(4,572,285,346)
Net Book Value	**8,003,750,232**	**3,526,055,230**	**2,032,107,015**	**1,126,627,466**

TOTAL
27,878,010,356
-13,030,438,010
14,847,572,346
14,847,572,346
316,839,472
(20,338,762)
(498,821,490)
43,288,377
14,688,539,943
28,174,511,066
(13,485,971,123)
14,688,539,943
-

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 65% to 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; 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 2014:

- Installation of Additional Escalators at Terminal 2;
- Repair and Re-waterproofing of Terminal 2 Main Roof;
- Supply and Delivery of Medical Tents;
- Acquisition of One Airport Rescue and Firefighting Vehicle;
- Commissioning of Four Explosive Detection System X-ray Machines;
- Commissioning of 24 X-ray Machines;
- Commissioning of 13 Units Hydraulic Security Vehicle Barrier;
- Construction of Secondary Fence;
- Installation of Display Information System at NAIA Terminal 4; and
- Upgrading of NAIA Terminal 1.

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.

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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 peso.

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 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 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; and
- 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:

	2014	2013
Cash (Collecting/Disbursing Officers)	**49,397,821**	11,366,821
Savings Account – Dollar and Peso	**308,268,046**	206,141,077
Current Account – Dollar and Peso	**738,914,237**	376,647,555
Time Deposits – Peso	**3,336,718,867**	4,638,500,785
Time Deposits – Dollar	**5,730,026,784**	4,720,450,081
	10,163,325,755	9,953,106,319

Foreign currency/dollar deposits are revalued at P44.70 and P44.45 to US$1.00 as of December 31, 2014 and 2013, respectively.

4. RECEIVABLES

This account consists of the following:

	2014	2013 (As Restated)
Trade Receivables		
Non-Government Entities	**2,657,946,732**	2,401,868,174
National Government Agencies(NGAs)	**22,224,684**	22,969,083
Government Owned and Controlled Corp.		
CAAP (formerly ATO)	**612,629,131**	604,625,710
Others	**11,117,091**	60,768,679
	3,303,917,638	3,090,231,646
Allowance for Doubtful Accounts	**(1,696,095,824)**	(1,678,787,990)
	1,607,821,814	1,411,443,656
Non-Trade Receivables		
Bureau of the Treasury(BTr)	**69,555**	11,081,064
National Government Agencies (NGAs)	**23,005,999**	48,072,763
Local Government Unit (LGU)	**100,004,438**	100,004,438
	123,079,992	159,158,265

Other Receivables		
COA Disallowances	**11,113,981**	11,113,981
Interests Receivables	**14,542,470**	10,466,541
Advances to Officers and Employees	**5,065,818**	12,020,735
Others	**380,747,327**	369,945,026
	411,469,596	403,546,283
	2,142,371,402	1,974,148,204

Trade Receivables consists of receivables from airline companies, concessionaires/lessees and other government entities for the use of facilities, services and utilities of the airport. This account also includes long-outstanding and non-moving trade receivables from concessionaires with rate disputes and collection cases.

Non-Trade Receivables-NGAs consists of the balances of fund transfers to the Office of the Solicitor General (OSG) for Terminal 3 arbitration expenses of P.28 million, to the MMDA for the Authority's share in the development of the NAIA T3 landmark of P10.76 million, to the DBM Procurement Service of P11.92 million and to the National Printing Office and DPWH of P.46 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. The decrease in the account of P25.06 million was due mainly to the liquidation of cash advances by the OSG.

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 P380.75 million and P369.94 million as of December 31, 2014 and 2013, respectively, consists mainly of the 12% expanded value-added tax (EVAT) billed to concessionaires.

5. PREPAYMENTS

This account consists of the following:

	2014	2013
Inventories	**19,018,111**	29,555,557
Advances to Contractors	**139,364,366**	149,399,439
Prepaid Insurance	**16,174,982**	37,520,711
Other Prepaid Expenses	**125,506,042**	121,701,060
Deferred Charges	**82,848,579**	27,553,117
Deposit on Letters of Credit	**288,558**	156,418,647
	383,200,638	552,148,531

The decrease in *Deposit on Letters of Credit* was due to the cancellation and refund of the marginal deposit of P156.13 million.

6. OTHER CURRENT ASSETS

This account consists of the following:

	2014	2013
Creditable Input Taxes	**201,189,642**	56,890,063
Guaranty Deposits	**3,827,782**	3,304,106
	205,017,424	60,194,169

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.

7. INVESTMENTS

This account represents investments in:

	2014	2013
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 P719,125.16 as of December 31, 2014, to the MIAA-PNB Account.

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	LAND AND LAND IMPROVEMENT	CONSTRUCTION IN PROGRESS	BUILDING & STRUCTURES	MACHINERY & EQUIPMENT	TOTAL
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**
Year Ended Dec. 31, 2014					
Opening Net Book Value	8,092,168,308	3,213,508,303	2,101,180,890	1,268,760,705	14,675,618,206
Adjustments / Additions	63,015,889	(2,989,736,932)	3,098,852,097	1,144,234,778	1,316,365,832
Disposals	0	0	0	(131,587,176)	(131,587,176)
Depreciation	(171,575,795)	0	(239,387,201)	(182,853,344)	(593,816,340)
Prior Year's Adjustment					
on Depreciation	0	0	0	124,797,489	124,797,489
Closing Net Book Value	**7,983,608,402**	**223,771,371**	**4,960,645,786**	**2,223,352,452**	**15,391,378,011**
At Dec. 31, 2014					
Cost	13,488,580,637	223,771,371	8,805,435,237	6,930,927,723	29,448,714,968
Accumulated Depreciation	(5,504,972,235)	0	(3,844,789,451)	(4,707,575,271)	(14,057,336,957)
Net Book Value	**7,983,608,402**	**223,771,371**	**4,960,645,786**	**2,223,352,452**	**15,391,378,011**

Land owned 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 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 square meters inclusive of 232,647.74 square meters of segregated lots covered under a Presidential Proclamation.

On September 29, 2011, President Benigno Aquino III signed Executive Order No. 58 mandating the transfer of real estate property owned by the Nayong 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 Transfer Certificates of Title (TCTs) are under the custody of the Philippine Reclamation Authority (PRA) and have not been transferred to MIAA; hence, the property 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 approved the request of the Department of Public Works and Highways (DPWH) for the transfer through sale in their favor of a 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 at zonal value of P10,000 per square meter is payable in five equal installments starting CY 2013 up to 2016. Partial payments made by DPWH totaled to P341,796,000 and this was recorded under “Deferred Credits” (Note 16) in the absence of the contract or deed of absolute sale.

Construction In Progress account decreased in 2014 mainly due to the reclassification of the NAIA Terminal 3 Facility to the appropriate asset account, recognized at P3.068 billion, which consist of: (a) the P3.002 billion payment to the Philippine International Air Terminals Co., Inc. (PIATCO) made in compliance to the Supreme Court’s Decision dated December 19, 2005, representing the proffered value of Terminal 3; and (b) the P65.96 million costs for the completion, testing and commissioning of the Facility prior to opening and operation in 2008.

9. INVESTMENT PROPERTY

This account pertains to 61 buildings owned by the Authority which are being leased to private and government entities.

10. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2014	2013 (As Restated)
Restricted Fund Assets	**4,927,364,960**	4,927,364,960
Work/Other Animals	**14,347,828**	14,347,828
Other Assets	**175,191,762**	175,191,762
Items in Transit/For Disposal	**0**	202,157
	5,116,904,550	5,117,106,707

Restricted Fund Assets represents fund 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 22).

Work/Other Animals pertains to the 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.

Other Assets represents capitalized cost of Panglao-Bohol International Airport Development Project that was closed to Prior Period Adjustment due to the suspension of the Project by the DOTC in 2010. This was reverted back and reclassified to Other Assets account in the absence of a solid indication that the project has been totally shelved and that MIAA may not recover its investment.

11. PAYABLES

This account consists of the following:

	2014	2013 (As Restated)
Accounts Payable	**836,191,957**	698,079,560
Dividends Payable	**1,312,538,020**	1,150,179,073
Interest Payable	**90,866,826**	107,131,090
Due to Officers and Employees	**27,128,074**	26,907,648
	2,266,724,877	1,982,297,371

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.

Dividends Payable represents the 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 and to 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 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 dividends payable of P1.150 billion in CY 2013 was fully paid to the Bureau of the Treasury per remittances in March, June and July 2014.

12. INTER-AGENCY PAYABLES

This account consists of the following:

	2014	2013 (As Restated)
Due to Bureau of the Treasury	**425,859,744**	376,690,958
Due to Bureau of Internal Revenue	**441,827,869**	512,929,017
Due to GSIS	**9,702,028**	9,107,906
Due to Pag-IBIG	**1,377,162**	1,387,644
Due to PhilHealth	**639,825**	560,300
Due to Other NGAs	**55,396,597**	29,019,459
	934,803,225	929,695,284

Due to Bureau of the Treasury (BTr) represents the National Government's unremitted share on the Authority's income for the fourth quarter totaling P286.21 million for CY 2014 and P296.01 million for CY 2013; share on international terminal fees amounting to P90.88 million for CY 2014 and P43.33 million for December 2013; and share of the Office for Transportation Security (remitted thru the BTr) of P48.77 million for July to December 2014 and P37.35 million for CY 2013.

Due to Bureau of Internal Revenue represents corporate income tax, 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 mainly represents the unremitted share of the Office for Transportation Security (OTS) on international terminal fees of P54.53 million for CY 2014 and P26 million for CY 2013.

Executive Order (E.O.) No. 277 dated January 30, 2004, created the 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	0
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 on 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 19).

13. OTHER CURRENT LIABILITIES

This account consists of the following:

	2014	2013
Guaranty Deposits Payable	**300,336,293**	196,110,780
Performance / Bidders Bonds Payable	**26,405,867**	15,581,096
Tax Refund Payable	**24,779,892**	20,203,613
Other Payables	**532,688,935**	407,871,633
	884,210,987	639,767,122

Guaranty Deposits Payable represents 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* represents cash received from contractors/suppliers to guarantee the performance of contracts.

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

14. 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 22).

	2014	2013
LBP PN NO. 4808 TL12 4076 000 dated April 11, 2012	**2,074,968,150**	2,319,082,050
DBP PN 2012-29-021 dated April 11, 2012	**2,074,968,150**	2,319,082,050
Less: Semi-Annual Amortizations	**(488,227,800)**	(488,227,800)
	3,661,708,500	4,149,936,300
Less: Current Portion	**(488,227,800)**	(488,227,800)
	3,173,480,700	3,661,708,500

Loans from both the LBP and DBP are payable in 20 semi-annual installments commencing on October 11, 2012 and ending on 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.

15. LOANS PAYABLE – FOREIGN

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

French Loan to finance consultancy services for the detailed architectural & engineering		
design of NAIA Terminal II contracted with Natixis (formerly Credit Nationale)		
FF 5,573,213 = Euro 849,630.89 = US $ 1,034,765.46 @ 44.70	**46,254,016**	62,469,937
FF 6,732,496 = Euro 1,026,362.61 = US $ 1,405,397.91 @ 44.45		
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 7,908,642,000 = US $ 65,689,180.45 @ P 44.70	**2,936,306,367**	3,728,267,846
Y 8,787,380,000 = US $ 83,875,542.10 @ P 44.45		
	2,982,560,383	3,790,737,783
Less: Current Portion	**(333,737,508)**	(383,583,610)
	2,648,822,875	3,407,154,173

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 42 semi-annual installments commencing on June 30, 2002 and ending on December 31, 2022 with 2.5% interest per annum, while the loan dated July 5, 1994 is payable in 29 semi-annual installments commencing on June 30, 2001 and ending on 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 41 semi-annual installments commencing on August 10, 2003 and ending on August 10, 2023 with 5% interest per annum including 2% spread of the National Government.

16. DEFERRED CREDITS

This account pertains to the following:

	2014	2013
Contra Acct. of Receivables-COA Disallowances (Note 4)	**11,113,981**	11,113,981
Others	**416,908,274**	288,659,528
	428,022,255	299,773,509

Deferred Credits-Others pertains to the airport lessees' and/or concessionaires' one month advance rental/concessions privilege fee. This includes also the partial payments of P227.864 million in CY 2013 and P113.932 million in CY 2014 made by DPWH for the transfer through sale in the amount of P569.660 million of MIAA property consisting of 56,966 square meters 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 8).

17. 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.

18. EFFECT OF PRIOR PERIOD ERRORS

The financial statements for 2013 have been restated to correct errors on the financial information in 2013, shown as an adjustment to net profit for the year. The effect of errors on the financial information prior to 2013 is presented in the statement of changes in equity as an adjustment to the opening balance of retained earnings for 2013 and, on the balance sheet for the effect of correction in 2013 assets and liabilities. The effects of the restatement on those financial statements are summarized below. There is no effect in 2014.

The 2013 net profit was restated as follows:

As previously reported:	2,934,123,242
Adjustments:	
Increase in operating income	12,157,836
Increase in interest income	208
Increase in personal services	(597,820)
Increase in MOOE	(36,485,785)
Decrease in interest expense	4,726,983
Decrease in net profit	**(20,198,578)**
As restated	2,913,924,664

Effect on opening balance of retained earnings for 2013:	
Increase in taxes due to deficiency tax	(232,673,487)
Increase in other non-current assets	175,191,762
Decrease in repairs and maintenance	20,470,226
Decrease in equity	**(37,011,499)**

19. NATIONAL GOVERNMENT SHARE ON MIAA'S GROSS INCOME

This represents the 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:

	2014	2013
Landing & Parking Fees (Aeronautical Fees)	**2,544,147,863**	2,735,427,899
Rentals	**1,502,941,602**	1,830,295,046
Other Business Income (Concession Privilege Fees)	**1,072,510,567**	1,065,223,561
Other Service Income (Miscellaneous Revenues)	**304,266,757**	252,275,344
	5,423,866,789	5,883,227,850
Rate of Government' s Share	**20%**	20%
National Government' s Share	**1,084,773,358**	1,176,645,570

20. PERSONAL SERVICES

This account consists of the following:

	2014	2013 (As Restated)
Salaries and Wages	**315,880,838**	310,083,819
Other Compensation		
Overtime and night differential	**108,348,355**	106,346,313
Personal economic relief allowance	**29,738,133**	29,573,455
Year-end bonus	**26,043,152**	32,225,144
Representation allowance	**16,760,981**	18,139,758
Hazard pay	**9,882,479**	9,855,299
Cash gift	**6,131,250**	6,176,375
Productivity incentive allowance	**2,628,000**	2,402,000
Subsistence allowance	**64,725**	66,300
Clothing uniform allowance	**0**	12,164,934
Other bonuses and allowances	**72,580,281**	34,589,256
Personal Benefits Contribution		
Life and retirement insurance contribution	**38,203,596**	37,741,220
PhilHealth contribution	**3,522,425**	3,542,175
ECC contribution	**1,487,800**	1,486,400
Pag-IBIG contribution	**1,487,700**	1,485,900
Other Personnel Benefits		
Terminal leave	**5,465,283**	2,472,537
Retirement benefits	**986,392**	8,273,974
Other personnel benefits	**70,436,540**	64,623,280
	709,647,930	681,248,139

21. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2014	2013 (As Restated)
Professional Services	**1,190,083,749**	1,237,335,609
Utility Expenses	**779,776,803**	741,656,696
Depreciation	**596,435,725**	485,603,545
Repairs and Maintenance	**532,398,163**	473,495,054
Rent Expenses	**187,078,451**	185,845,632
Supplies and Materials	**129,412,672**	101,323,708
Taxes, Insurance Premiums and Other Fees	**71,349,676**	196,294,688
Service Fee	**54,865,156**	53,520,125
Extraordinary and Miscellaneous Expenses	**34,721,866**	40,607,612
Bad Debts	**17,307,834**	43,175,912
Communication Expenses	**9,374,329**	8,549,278
Training Expenses	**2,863,854**	2,564,817
Membership Dues and Contributions to Organizations	**1,979,145**	1,731,158
Traveling Expenses	**1,686,803**	2,519,506
Representation Expenses	**1,399,880**	1,561,996
Advertising Expenses	**1,343,047**	603,726
Subscription Expenses	**894,661**	816,433
Donations	**108,420**	3,764,291
Loss on Replacement / Derecognition of Asset	**0**	40,604,432
Subsidy to Other Funds	**0**	1,840,670
Other Operating Expenses	**0**	7,207,975
	3,613,080,234	3,630,622,863

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

The Authority 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 P3.484 billion as of December 31, 2014.

On October 11, 2011, the Regional Trial Court 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.

MIAA deposited US$82,157,716.73 at LBP and US$34,190,924.59 at DBP on April 11, 2012 (equivalent to P4.927 billion), to cover payment of just compensation pursuant to the Escrow Agreement executed between the parties. The escrow account was made known to the Court and to PIATCO but the latter has not drawn on the escrow account. The Court of Appeals, however, has ordered the Philippine Government to pay PIATCO US$371.41 million or around P16.7 billion in just compensation, modifying the ruling of the said Court which only set US$175.79 million in just compensation. The case is on appeal with the Supreme Court.

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23. OTHER MATTERS

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

The Supreme Court in the Cities of Parañaque (SC-G.R. No. 155650) and Pasay (SC-G.R. 163072) cases ruled 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) – P184.63 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 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.

Philippine Airport and Ground Services (PAGS) (Civil Case No.000363) – P103.74 million

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. 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 its 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 Court of Appeals 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 increases 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.

In view of the prevailing doctrine in Airspan case, the Authority had determined total estimated contingent liabilities of P2.363 billion for similarly situated accounts that are subject to refund.

d. Samahang Manggagawa 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.

e. 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 Parañaque Cadastre, covered by Transfer Certificate of Title No. 109416, having acquired the same from Buck Estate sometime in April 29, 1996. A decision dated August 30, 1999 was rendered ordering MIAA to pay the amount of P70.868 million as rental for the property from 1972 to 1998, the purchase price of the property at P15,000 per square meter, 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.

A Petition for Review was filed with the Supreme Court 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. The MIAA is ordered to PAY exemplary 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 Rizal Commercial Banking Corporation 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 MIAA 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 the concessionaire's 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, P100,000 attorney's fees, and costs of suit and to refund the monthly rental payments beginning July 1, 1997 up to March 11, 1998 with 12% interest.

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 was filed by MIAA before the Supreme Court.

MIAA is awaiting the Writ of Execution.

5) **Domestic Petroleum Retailer Corp. vs. MIAA**
CA Second Division
RTC Branch 119, Pasay City

This is a case for collection of sum of money where MIAA was ordered by the RTC to pay Domestic Petroleum Retailer Corp. the principal amount of P9.59 million plus legal interest computed from the time of the extra-judicial demand on July 27, 2006, attorney's fees and cost of suit. The case is on appeal with the Court of Appeals.

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

In compliance with the requirements set forth by RR No. 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 P740,636,811 for the year based on the amount reflected in the Sales Account of P6,171,973,428.

   The Authority has zero-rated sales amounting to P2,575,678,131 pursuant to the provisions of RR-4-2007, Section 12, and Zero-Rated Sale of Services.

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

a.	Beginning of the year	P56,890,063
b.	Current year's purchases	
I.	Goods for resale/manufacture or further processing	n/a
II.	Goods other than for resale or manufacture	24,310,323
III.	Capital goods subject to amortization	27,983,471
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	340,459,321
c.	Claims for tax credit/refund and other adjustments	
I.	Prior year's set-up/accruals	2,365,617
II.	Current year's set-up/accruals	48,891,294
III.	Cancelled checks/transactions and adjustments	2,108,585
IV.	Available input tax and tax deferred for succeeding period	(301,819,032)
d.	Balance at the end of the year	P201,189,642

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

I.	Tax on compensation benefits	P88,473,817
II.	Creditable withholding taxes	75,803,620
III.	Final withholding taxes	435,012
IV.	Value-Added Tax and Other Percentage taxes withheld	167,332,734

4. Schedule of Other Taxes and Licenses

Firearms license (Firearms and Explosives Division –PNP)	309,489
Airport Coordination Australia Annual fee	285,532
Radio/network station and RLM certificate (National Telecommunication Commission)	257,925
Registration, emission testing and inspection (Land Transportation Office)	217,135
Tax on French loan and adjustment of foreign exchange	149,422
License to operate non-medical x-ray machine (Food and Drug Administration)	45,600
PRC license renewal (PICPA)	17,160
Community tax (Pasay City Treasurer)	10,500
Electrical permit	4,757
Annual VAT Registration	500

COMMENTS AND RECOMMENDATIONS

1. Provisions for estimated liabilities on real estate taxes and on the P1.231 billion claims by lessees for refund of rental rate increases were not recognized in the books contrary to PAS/IAS 37.

This is a reiteration of CYs 2009 to 2013 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, in Airspan vs. MIAA case, nullified MIAA Resolution Nos. 98-30 and 99-11 effecting rate increases for lack of prior notice and public hearing. Consequently, said lessees filed separate claims with the Authority for refund of rental rate increases collected by MIAA on the basis of said MIAA Resolutions. The MIAA Board, under 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 understatement of liabilities, understatement of real estate tax expenses and overstatement of retained earnings.

We have reiterated our recommendations embodied in CYs 2009 to 2013 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 the Authority took cognizance of the claims for refund of rentals by Philippine Airlines and Macroasia amounting to P1.231 billion as approved by the MIAA Board in February 2010, but these will be recognized in the books upon receipt of the Office of the Government Corporate Counsel's approval on the execution thereof. MIAA holds that the ruling in the Airspan case does not apply to non-petitioners or to lessees who were not parties to the case. However, in view of the prevailing doctrine in the said case, MIAA has prepared a summary of all similarly situated accounts to determine estimated liabilities arising therefrom.

As to the real estate taxes, Management is set to meet with the Pasay City's Assessor and Treasurer to thresh out the issues and concerns being raised by the Commission. MIAA shall also provide them with an updated list of MIAA concessionaires so that they can validate their tax assessments. Under existing lease contracts, the lessees shall be responsible for the payment of real estate taxes due on their leased areas. Once these Local Government Units have come up with their assessments, MIAA shall recognize the tax liabilities for said properties.

2. **A liability for legal fees amounting to US$5.722 million, or about P255.8 million, that has become due in view of the conclusion of the arbitration case between the Republic of the Philippines and the FRAPORT AG Frankfurt Airport Service has not been recognized in the books of accounts.**

The Government expropriated the NAIA Terminal 3 Project in 2004 following the cancellation of the contract with the PIATCO by the National Government. In 2006, the Supreme Court nullified the Concession Agreement between PIATCO and the Republic of the Philippines and ordered the Authority to pay the contractor P3.002 billion representing the proffered value of Terminal 3. PIATCO and its foreign partner, Germany's FRAPORT AG Frankfurt Airport Services (FRAPORT AG for brevity), have since filed legal suits here and overseas to recoup their investments in the Project. The Government won the case filed by PIATCO with the Singapore-based International Chamber of Commerce (ICC). The suit of FRAPORT AG was dismissed by the ICC, and this caused the former to file an appeal with the World Bank's International Center for Settlement of Investment Disputes (ICSD) in Washington D.C. The Government Corporate Counsel, thru the Office of the Solicitor General (OSG), MIAA's legal counsel, engaged the services of the law firm White and Case LLP as the Government's counsel in the FRAPORT ICSID arbitration case. Thereafter, funds were released to the OSG to cover billings by said law firm.

The MIAA Board, through Resolution No. 2015-002, approved the recommendation of Management, acting upon the request of the Solicitor General dated December 14, 2014, for the payment of MIAA's obligation to White and Case LLP which covered deferred fees totalling US$5.722 million or about P255.8 million. The deferred payment was in accordance with the Terms of Engagement with said law firm wherein thirty percent (30%) of legal fees for each month were withheld until the conclusion of the arbitration case. Said fees have now become due and payable to White and Case LLP.

Our examination of accounting records disclosed that no provision for the liability was set up to recognize said obligation, nor were there appropriate disclosures made in the Notes to the Financial Statements regarding the estimated liability.

We have recommended that a provision for the P255.8 million liability to White and Case LLP be recognized in the books of accounts.

Management Comment

The liability has been recognized and said legal fees were paid in the ensuing year per March 20, 2015 Disbursement Voucher No. 1-15-03-0851.

3. The financial impact of recent developments on the case on disputed accounts affecting contingent assets of P184.63 million, and total receivables recognized in the books at P124.52 million was not determined.

This is a reiteration of CYs 2012 and 2013 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, 2014, MIAA has total receivables from disputed accounts in the amount of P184.63 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 explained that they will recompute the amount due from Ding Velayo in compliance with the recommendation of the MIAA Board of Directors' Finance and Audit Committee (FAC) to take into consideration the statements of the Supreme Court in G.R. No. 161718 that (a) the renewed contract of lease of the subject property shall be based on the same terms and conditions as stipulated in the old contract and the rental lease to be based on the applicable rate at the time of the renewal from February 16, 1992 onwards; and (b) the adverted Administrative Orders were not published in full, thus, the same were legally invalid.

It is informed further that the recomputed amount still due MIAA and the receivables for write-off in excess of the amounts actually due from Ding Velayo will be adjusted as appropriate.

4. **The disposal of a MIAA property to the DPWH and the revenue earned therefrom have not been duly recognized in the Authority's books of accounts.**

Relative to the C-5 Extension Project of the DPWH, the Authority disposed through sale to the Department a portion of its land measuring approximately 56,966 square meters which is carried in the books at P1,000.00 per square meter. The sale was approved by the MIAA Board through Resolution No. 2011-079, and by the Office of the President pursuant to Executive Order No. 903 (MIAA Charter). The contracting parties agreed that payment of the contract price of P569.660 million (based on the zonal valuation of P10,000.00 per square meter) shall be made in five (5) equal tranches over a period of five (5) years commencing from the signing of the Memorandum of Agreement on January 5, 2012.

Last April 24, 2013, the Authority received from the DPWH the amount of P227.864 million representing the first and second partial payments for the property. On March 4, 2014, P113.932 million was remitted to MIAA as third partial payment.

However, since MIAA has yet to execute a Deed of Absolute Sale to implement the transfer of the lot to the DPWH, the asset has not been dropped from the Authority's books, and revenue from the sale has not been recognized. Payments received from the transaction have been lumped under the Other Deferred Credits accounts.

Philippine Accounting Standard (PAS) No. 16 provides that the carrying amount of an item of property, plant and equipment shall be derecognized upon disposal. In determining the date of disposal of an item, an entity applies the criteria in PAS No. 18 – Revenue in recognizing proceeds from sale. PAS 18 adopts the following standpoint on sale of real estate:

- Revenue is normally recognized when legal title passes to the buyer. However in some jurisdictions, the equitable interest in a property may vest in the buyer before legal title passes, and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognize revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognized as the acts are performed.

- A seller also considers the means of payment and evidence of the buyer's commitment to complete payment. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer provide insufficient evidence of the buyer's commitment to complete payment, revenue is recognized only to the extent cash is received.

For its part, the Authority still has to execute the necessary documents to effect the transfer of the property. On the other hand, the DPWH has yet to take a final survey of the lot to complete payment of the balance. As both parties have substantial acts to complete under the contract, it may be appropriate to recognize the sale and the corresponding revenue as acts are performed or cash is received.

We have recommended that the appropriate accounting entries be drawn to recognize the sale and revenue, net of taxes due thereon.

Management Comment

Management stated that appropriate accounting entries to record the sale of land would be effected in the books as soon as MIAA receives from DPWH the full payment for the property which is due on July 2015 as per Memorandum of Agreement. Further, the revenue cannot be recognized in the books as the Deed of Absolute Sale, which is the basis for the payment of capital gains tax, is not yet consummated pending final payment of the balance.

Rejoinder

We maintain that it would be appropriate to recognize the disposal of the property and the revenue therefrom, in consonance with PAS 16 and 18 as cited. The carrying amount of the asset may be derecognized in full and the difference between the amount received and the cost of the property may already be recognized as revenue. Moreover, revenue can be subsequently adjusted upon receipt of the balance from DPWH and after considering payment of all the necessary taxes.

5. **The cost of the NAIA Terminal 3 Landmark Project amounting to P30.58 million is still lodged under the Construction In Progress account despite its completion in 2010 and eventual removal in 2015 to make way for the NAIA Expressway Project Phase 2; while advances by the MMDA amounting to P10.76 million relative to the Project has remained outstanding.**

   a) *The cost of the NAIA Terminal 3 Landmark Project amounting to P30.58 is still lodged under Construction in Progress account despite its completion in 2010 and eventual removal in 2015 to make way for the NAIA Expressway Project Phase 2.*

      A Memorandum of Agreement was entered into between MIAA and the Metropolitan Manila Development Authority (MMDA) in 2008 for the development of two (2) landmark rotundas along Andrews Avenue in Pasay City not only to enhance the visual appearance of the area's vicinity, but also to improve traffic management along the NAIA complex. Both parties agreed to jointly fund the construction cost on a 50%-50% sharing basis.

      In 2010, the MIAA transferred P41.34 million in cash advances to the MMDA for the latter to implement the Project. Subsequent liquidations made by the MMDA totalling P30.58 million as of year-end were lodged in the Construction in Progress account. The Project, which was completed in 2010, was dismantled early this year to make way for the NAIA Expressway Project Phase 2.

      Despite this development, the amounts in the Construction in Progress account remain unadjusted thus overstating its balance by P30.58 million. Moreover, since said rotundas will eventually be handed over to the MMDA upon its completion pursuant to the MOA, it is our belief that the completed project should not be recognized as MIAA's asset.

      We have recommended that the appropriate entries be drawn to adjust the Construction in Progress account.

   b) *Advances by the MMDA amounting to P10.76 million relative to the Landmark Project has remained outstanding.*

      Records show that as of December 31, 2014, the MMDA has yet to liquidate P10.76 million out of the original cash advance of P41.34 million given by MIAA in February 2010 although the project has long been completed.

      The MOA states that the MMDA shall submit to MIAA a liquidation report and a written certification that the project was implemented in accordance with the approved plans. A report of disbursements containing the actual project expenses shall also be submitted within (30) days upon completion of the project.

      To date, however, the MMDA has failed to submit a liquidation report on the outstanding balance of P10.76 million despite MIAA's requests to do so. This continued disregard to account for the balance may cast doubt on whether the remaining fund can be judiciously accounted for.

      We have recommended that MIAA make strong representations with the leadership of the MMDA for the immediate settlement of the outstanding balance.

Management Comment

Management stated that appropriate entries to correct to Prior Years' Adjustment account the transaction earlier recorded as Construction in Progress will be made upon receipt of the liquidation papers from MMDA, consistent with the observation that the project should not be recognized as MIAA's asset. Likewise, Management claimed that they have already made strong representations with the MMDA to liquidate its outstanding cash advance, the latest of which is thru a letter dated June 24, 2015.

6. The continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines may have to be revisited given the presence of other key players in the domestic air transportation industry.

On January 25, 1977, then President Ferdinand E. Marcos issued Letter of Instructions (LOI) No. 498 to the then Director of Civil Aviation directing the latter to "*reduce across the board the rates of landing and take-off fees for all aircraft engaged in domestic air services in such amounts or percentage as he may determine or fix in consultation with the domestic air carrier engaged in scheduled domestic air services."*

The premise cited was "*the policy of the Government to develop and expand the domestic air transportation system adequately at the lowest cost possible to domestic passengers and shippers and at the same time, to ensure the economic viability of domestic carriers x x x."*

Our review of billings for landing and take-off fees of different airline companies servicing domestic flight routes disclosed that Philippine Airlines (PAL) was being charged only 35% of its total fees for the use of runways for domestic flights. Evidently, the 65% reduction policy, implemented by the Civil Aeronautics Administration (CAA) and later by the Bureau of Air Transportation (BAT) when the then Manila International Airport (MIA) was still under their jurisdiction, continues to be in place from the time the MIA became an Authority in 1982. While we were not able to obtain any document issued by the CAA or BAT implementing the rate reduction, we got hold of a copy of a Secretary's Certificate dated June 7, 1988 issued by then Corporate Secretary Antonio V. Reyes attesting to MIAA Board Resolution No. 88-61 which recognized the 65% across the board reduction as basis for effecting an adjustment on amounts due from PAL as embodied in Opinion No. 73, s. 1981 of the Department of Justice.

Relative thereto, we would like to seek clarification on two issues, viz:

1. If the directive of LOI No. 498 was to reduce the rates of landing and take-off fees *"x x x for all aircraft engaged in domestic air services x x x",* why was the reduction applied only on PAL billings and not to other airline companies when the latter started to operate domestic flights?

2. Now that there are other key players in the domestic aviation industry, does the continued implementation of the rate reduction policy only on PAL domestic landing and take-off fees not run counter to the premise "x x x to assure the

economic viability of domestic carriers" since it does not promote a level playing field?

We have recommended that Management revisit the continued application of a 65% reduction rate on the domestic landing and take-off fees of the Philippine Airlines given the presence of other key players in the domestic air transportation industry.

Management Comment

Management stated that the matter has been elevated to the MIAA Board for disposition. It was agreed that the DOTC Secretary, as Chairman of the MIAA Board, seek the opinion of the Department of Justice if the discontinuance of the reduced rates is legally feasible.

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

This is a reiteration of a CY 2013 audit observation.

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 million for the work done on the 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 it in the MIAA 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.

8. Unrealized gain on foreign exchange revaluation amounting to P469.17 million was not included as an income item in the computation of dividends due to the National Government.

Republic Act No. 7656 dated November 9, 1993 requires government-owned or controlled corporations (GOCCs) to declare and remit to the Bureau of the Treasury at least fifty percent (50%) of the dividend due computed based on the GOCC's annual net earnings, net of allowable deductions. Section 2 (d) of said Act defines "net earnings" as income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon, but in no case shall any reserve for whatever purpose be allowed as a deduction from net earnings.

Our review of records relative to the computation of dividends due to the National Government for CY 2014 disclosed that a total of P469.17 million representing gains on foreign exchange revaluation were excluded from the Authority's income items since *"no actual earnings or income has been derived therefrom x x x."*

RA 7656 defines net earnings to *"mean income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of National Internal Revenue Code, as amended, and income tax and other taxes paid thereon, x x x."* Our understanding of the provisions of the Act is that unrealized gain on foreign exchange due to revaluation is not excluded from the term "net earnings."

> Section 12 of the Revised Implementing Rules and Regulations to RA 7656 provides "*All cases for clarification and those not covered by the provisions of these Rules shall be referred to the Department of Finance for resolution."*

We recommended that Management submit written representation made by MIAA with the Department of Finance and/or written approval obtained by the Authority for the exclusion of the unrealized gain on foreign exchange from net earnings in the computation of dividends.

Management Comment

Management stated that the unrealized gain on foreign exchange revaluation was considered by the DOF as a deductible item from MIAA's net earnings in the computation of CY 2014 dividend. MIAA have made their position clear with the DOF that no dividends should accrue on unrealized gain on foreign exchange consistent with the rulings of the Bureau of Internal Revenue (BIR) and the Court of Tax Appeals (CTA) on the matter. MIAA cited that in CTA Case No. 6314, the Court categorically stated that *"while for financial accounting purposes, foreign currency accounts (e.g. receivables, liabilities and deposits) are periodically restated at the rate of exchange prevailing at year-end, any foreign gains/losses arising from this restatement shall be taxable or deductible only in the year of collection, payment or actual conversion into pesos as the case may be."*

Rejoinder

We agree that unrealized foreign exchange gain should be excluded in the computation of income subject to dividend. In view, however, of the assessment by the DOF of back dividends for CYs 2003-2013 due to said unrealized gains, it may be appropriate if MIAA obtain a categorical resolution of the issue from the DOF.

9. Strict compliance with the provisions of the RIRR of RA 9184 on the duration of procurement activities and with COA Circular No. 2009-001 on the submission of contracts was not observed.

a) *The duration of procurement activities for goods and infrastructure projects totalling P458.547 million and P106.330 million, respectively, has gone beyond the allowed period of time prescribed under Annex C of the Revised Implementing Rules & Regulations(RIRR) of Republic Act 9184.*

Pertinent provisions of the RIRR of RA 9184 provides:

"Section 38.1. The procurement process from the opening of bids up to the award of contract shall not exceed three (3) months, or a shorter period to be determined by the procuring entity concerned. x x x.

Section 38.2. The maximum periods and earliest possible time for action on specific procurement activities are provided for in Annex "C" of this IRR. In case the deadline for each activity falls on a non-working day (i.e. Saturday and Sunday), legal holiday, or special non-working holiday, the deadline shall be the next working day.

Section 37.3. When further approval of higher authority is required, the approving authority for contract or his duly authorized representative shall be given a maximum of fifteen calendar days from receipt thereof to approve or disapprove it. However, for infrastructure projects with an ABC of Fifty Million

Pesos (P50,000,000) and below, the maximum period is five (5) calendar days. In the case of GOCCS, the concerned board or its duly authorized representative shall be given a maximum of twenty-five calendar days from its issuance.

Section 37.4.1. The procuring entity shall issue the Notice to Proceed together with a copy of the approved contract to the successful bidder within three (3) calendar days from the date of approval of the contract by the appropriate government approving authority. x x x.

Review of sample contracts for goods and infrastructure projects totalling P458.547 million and P106.330 million, respectively, disclosed the following:

Procurement Activities	Latest Allowable Time for Goods	Reviewed Contracts for Goods	Excess	Latest Allowable Time for Infrastructure Projects (For ABC below 50M)	Reviewed Contracts for Infrastructure Projects	Excess
Total Time	124 calendar days	152-233 calendar days	26-109 calendar days	113 calendar days	123-250 calendar days	10-137 calendar days
Procurement process from the opening of bids up to the award of contract	3 months or 90 calendar days	17-79 calendar days	none		25-112 calendar days	0-22 calendar days
Notice of Award to contract preparation and approval	25 calendar days	27-151 calendar days	2-126 calendar days		35-75 calendar days	10-50 calendar days

The above table illustrates the results of the sample procurement activities we selected for evaluation. On several occasions, the duration of procurement activities went beyond the maximum periods allowed under Annex "C" of the RIRR of RA 9184. Additional days to complete the procurement process ranged from 26 to 109 calendar days for goods, and 10 to 137 calendar days for infrastructure projects.

We observed that the opening of bids up to the award of contracts is generally within the timeline provided by Annex "C" of the RIRR of RA 9184. Apparently, the contract preparation and approval thereof are the ones that exceeded the allowed period. As shown above, contract preparation and approval exceeded the maximum periods ranging from 2 to 126 calendar days for goods, and 10 to 50 calendar days for infrastructure.

We also noted that the date of the Notice to Proceed (NTP) in most contracts is earlier than the contract approval date which may indicate that the NTP was prepared ahead of the contract approval.

b) *Contracts totalling P235.838 million were not submitted within the period prescribed by COA Circular No. 2009-001.*

Moreover, contracts totalling P235.838 million were submitted to COA within 12 to 41 working days, contrary to the requirement of paragraph 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 which states:

> "Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government–owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. x x x"

We have recommended strict compliance with the provisions of the RIRR of RA 9184 and COA Circular No. 2009-001 particularly those covering the allowable periods for the processing of procurement activities and submission of contracts, respectively.

Management Comment

Management took note of the observation and enjoined all end-user units to strictly observe the prescribed periods for procurement activities as provided under the RIRR of RA 9184.

10. The Authority has yet to comply with Memorandum Order No. 237, s. 1989, requiring the preparation of an Information System Strategic Plan (ISSP) that will support the development and implementation of its Information Technology (IT) activities.

In order for the Ninoy Aquino International Airport (NAIA) to be competitive in the air transportation industry, there is a need for the Authority to align its management information systems to, among others, optimize operations, increase revenues, reduce/control costs and improve client relations. IT planning and program execution must be carefully aligned with the Authority's goals to ensure that these objectives are attained. Given the multi-faceted nature of the airport business, the vital role of IT-resource development and maintenance could not be overemphasized.

Recognizing the vital role of IT, the National Government issued Memorandum Order No. 237, s.1989, to provide the backbone for agencies and instrumentalities with projected IT resource requirements, to assess the same and to present their ISSPs to the Department of Budget and Management for approval, upon the recommendation of the National Computer Center, to serve as a basis for rationalizing the allocation of government funds.

Moreover, Executive Order No. 190 dated July 19, 1994 was issued directing all departments, major agencies, and government-owned and controlled corporations to designate an Information Systems Planner (ISP) who should at least be a Director or of equivalent rank. The ISP shall serve as the agency's action officer for the preparation, development, and implementation of the ISSP. Likewise, National Computer Center Memorandum Circular No. 2003-02 dated July 31, 2003 prescribes an ISSP standard template.

Our preliminary evaluation disclosed that the Authority has yet to comply with the preparation of the ISSP.

In view thereof, we have recommended that Management cause the preparation of MIAA's ISSP. An aspect that may be considered is the strengthening of IT controls for the Authority's revenue stream particularly on: (a) monitoring of service billings for both airside and landside income activities; and (b) property management for closer supervision of real properties earning lease income and concession-related revenues.

Management Comment

Management informed that they have already taken steps to address these issues. The Authority has engaged the services of the University of the Philippines Information Technology Development Center (UPITDC) for the crafting of a 3-year ISSP, among others.

11. A Disaster Recovery Plan and an off-site backup system for its major application systems and information database are not maintained by the Authority.

Application systems and databases are maintained by the Authority for its operational and administrative requirements which are accessible by common and/or specific users. Most of these systems are maintained on an in-house basis. Results of our interview with pertinent staff disclosed that back-up of files are done regularly. However, we were informed that there is no off-site backup system maintained by Management. In the event that a catastrophe hits the MIAA premises, vital data may be destroyed and never recovered.

Further, we learned that the MIAA has no Disaster Recovery Plan (DRP) in place. A DRP is a documented set of procedures to protect and/or recover a business IT infrastructure in the event of a disaster. Such plan specifically denotes procedures or actions an entity has to perform before, during, and after the occurrence of a disaster. While we commend the Authority for its continuous efforts to improve airport infrastructure e.g. maintenance and improvement of terminals, runway capacity, concession spaces for lease, etc., we believe that equal attention must also be given on the security of its application systems and financial/operational data files.

We have recommended that Management initiate efforts to prepare a Disaster Recovery Plan and establish IT general controls particularly the maintenance of an off-site back up of its application systems and data files.

Management Comment

Management stated that the crafting of a Disaster Recovery Plan and the development of an off-site facility will be included in the IT plans of MIAA.

12. 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, 2014	Issued (in Million Pesos)	Settled / Matured into Disallowance	Ending Balance December 31, 2014
Suspensions	42,868,768.10	0	42,868,768.10	0
Disallowances		42,868,768.10	0	42,868,768.10
Charges				

In addition to the above disallowances, the unsettled balance of audit disallowances, which covers disallowances issued in 1995 to 2008 or those issued prior to the effectivity of the Revised Rules on Settlement of Accounts (RRSA) is P11.114 million as of December 31, 2014.

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. A Notice of Finality of Decision (NFD) was issued on June 22, 2011 but despite the NFD, Appellants filed their appeal which was denied under CGS-Cluster 4 Decision No. 2015-06 dated March 13, 2015 for having been filed out of time.

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. MIAA appealed the disallowance but this was denied per CGS-Cluster 4 Decision No. 2015-07 dated April 13, 2015 since the period of appeal has already lapsed.

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

13. Accomplishments vis-à-vis MIAA's plans and programs

The plans and programs of MIAA for CY 2014 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 2014, 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 increased by 12.32% (from 237,050 to 266,260) while passenger movements posted an increase of 4.29% (from 32,866,599 to 34,277,972). Cargo volume were up by 13.86% (from 457,317.20 to 520,699.58).

For international operations, the substantial increase in flight movements by 6.98% and passenger movements by 5.91% was due to the introduction of new flights at non-peak and to the several swapping of domestic with international time slots brought by the shift in operation of local carriers, particularly PAL and Cebu Pacific as both carrier recently gained access to the skies of Europe and the United States of America. Cargo movements were up by 21.39% which can be attributed to the growth in the semiconductor industry and other industry under the export processing zones.

For domestic operations, flight movements registered a decrease of 4.50% due to several swapping of domestic with international time slots as mentioned earlier, while passenger movements posted an increase of 1.87% due to the airline promos and partly due to the replacement of smaller aircrafts with bigger aircrafts. Finally, cargo movements went up by 0.24%. This increase can be attributed to the expansion of the manufacturing industry which allowed the fast movements of finished goods and raw materials particularly those in the export processing zones.

For general aviation operations, on a cumulative basis, the flight movements were down by 13.36%; while passenger movements also went down by 26.57%; and cargo movements also registered a decrease of 69.65%. These decreases in the activities in the general aviation were expected to happen since general aviation was given less priority due to air traffic congestion.

B. Major projects

MIAA has completed ten (10) major projects in 2014 (please refer to Note 1 of the Notes to Financial Statements) and has nine (9) on-going projects that are due for completion in 2015.

14. Programs and projects undertaken by the GAD Committee

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

A. Client-Focused
   1. Maintenance of Bahay Silungan sa Paliparan

B. Organizational-Focused
   1. Information and Awareness Campaign on Gender Sensitivity Training (GST)
   2. Strengthening the GAD Committee

The maintenance of the Bahay Silungan sa Paliparan will provide a secured and standard facility where victims of human trafficking intercepted or passing through the NAIA can temporarily stay. MIAA has likewise conducted Information and Awareness Campaign on GST to increase the level of awareness on GAD issues and concerns; and has likewise strengthened the GAD Committee through the participation of GAD members to symposium, seminars and related activities.

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 have 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 ten (10) audit recommendations, six (6) were implemented and four (4) were partially implemented. Details follow:

Reference (CY 2013 AAR Observation No.)	Observations	Recommendations	Status of Implementation
1, Page 33	Depreciation was not recognized for CYs 2008 to 2013 on NAIA Terminal 3 (T3) Facility assets.	It was 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 and its effect on income and expenses.	**Implemented**
2, Page 35	The amount of depreciation chargeable against the reduced segment of Runway 06/24 was not adjusted to consider its derecognized portion.	It was recommended that Management adjust the depreciation rate based on the revised depreciable cost of the remaining old portion of the runway.	**Implemented**
3, Page 36	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.	It was 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.	**Partially Implemented** Full documentation will be completed within the 1st semester of CY 2015. Once management has finished the same, the effect of the adjustments on contingent assets vis-à-vis the recorded receivables will be recognized in the books including its full disclosure in the Notes to Financial Statements.

			This finding was first raised in CY 2012 and reiterated in CY 2013. Reiterated in the current year's AAR under Comments and Observations No. 3.
4, Page 37	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.	It was recommended that Management comply with the requirements of PAS/IAS 37 to ensure that appropriate provision for estimated liabilities has been recognized in the books at year end.	**Partially Implemented** On real estate taxes – MIAA has already furnished the City Government of Pasay with an updated list of concessionaires to assist the latter in the reassessment and collection of said taxes that were passed on by MIAA to the concessionaires. Liability for taxes was likewise incorporated in the contract provisions of the lease contracts. On claims by lessees for refund of rentals – The estimated amount of liabilities to be adjusted for both petitioners and non-petitioners have been determined. Non-petitioners were advised to file their claims through the court. However, claims for refunds will be recognized in the books upon receipt of OGCC's approval on the execution thereof. Meantime, full disclosure in the financial statements will be made as to the estimated amount of liabilities. This finding was first raised in CY 2009 and

			reiterated in CYs 2010 to 2013. Reiterated in the current year's AAR under Comments and Observations No. 1.
5, Page 38	Liability to the Philippine National Construction Corporation (PNCC) has remained unrecognized in the books.	It was recommended that Management determine its obligation to PNCC and recognize liability in the books, as appropriate.	**Partially Implemented** Management will recognize its liability to PNCC as soon as all the issues regarding the said claim are settled including the release of the evaluation of the project by the COA Technical Services Office. Reiterated in this AAR under Comments and Observations No. 7.
6, Page 39	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.	It was 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.	**Implemented** Management discontinued the distribution of service fees to its employees. The remitted amounts are retained to Provident Fund to be used exclusively for its operation.
7, Page 41	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.	It was recommended that Management discontinue the grant of medical allowance for want of legal basis and cause the refund of payments already made.	**Implemented**
8, Page 44	The Authority's corporate thrusts and objectives aim for the continuance of the implementation and development of projects with Key Results Areas (KRAs)		**Implemented**

	for passengers' safety, security, comfort and welfare as well as for operational efficiency. In 2013, the Authority has reported accomplishments which we observed were in accordance with its mandate.		
9, Page 45	Audit disallowances as of December 31, 2013 totaled to 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 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 has already matured into a disallowance.	It was recommended that Management comply with the rules and regulations on settlement of accounts.	**Partially Implemented** MIAA filed a timely appeal with COA on Notice of Disallowances (NDs) issued after CY 2008 and still awaiting COA's action on said appeal. MIAA wrote COA requesting for the write-off of accounts due from former MIAA employees who were held liable for NDs issued prior to CY 2008. Most of said employees are either retired, deceased or their whereabouts can no longer be traced.
10,Page 45	While the percentage of accomplishments for GAD activities as planned was higher compared with last year, the use of the budget allocated for these activities was not maximized.	It was 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.	**Implemented** For CY 2014. MIAA has conducted and/or attended GAD-related seminars to widen understanding on GAD issues and problems such as Gender Sensitivity Training, Executive Briefing on Gender and Development and DOTC-GAD Summit,

			with the end-in-view of mainstreaming GAD in all aspect of operations, program and projects of MIAA. The GAD Committee conducted planning conference in line with the thrusts of DOTC-GAD to ensure that the programs and projects are attainable and will address gender issues that are both client and organization-focused.