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

JUN 28, 2016
1:40 P.m
OLGA

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE GENERAL MANAGER
RECEIVED
JUN 28 2016
TIME 1:40 P.M
BY

June 27, 2016

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

Sir:

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, 2015.

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the Authority because of the non-recognition of the financial impact of the Supreme Court (SC) ruling on the PIATCO case, ordering the National Government to pay PIATCO US$531 million (P24.5 billion) plus straight interest at 12 per cent per year from September 11, 2006 until June 30, 2013, and straight interest of 6 per cent per year from July 1, 2013 until full payment has been made. In addition, 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 SC for lack of publication and for the 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. Not recognized, likewise, were the disposal of a MIAA property to the DPWH for P569.66 million and the revenue earned therefrom; and the transfer of a 22.3-hectare property from the Nayong Pilipino Foundation to the Authority by virtue of Executive Order No. 58.

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

1. International Passenger Service Charge (IPSC) revenues from some air carriers were based on passenger load figures that carried large discrepancies against NAIA terminal operations reports thus indicating weaknesses in the validation procedures of IPSC remittances for accuracy and completeness.

   We recommended the following measures to improve operational controls currently in place:

   (a) Formulate measures to address the procedural weaknesses in the gathering and processing of passenger load data since revenues may be compromised; and

   (b) Consider the temporary restoration of inspectors at the boarding gates pending the introduction of alternative measures to countercheck air carrier data.

2. The continued application of a 65 per cent 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 recommended that Management revisit the continued application of a 65 per cent reduction rate on the domestic landing and take-off fees of the Philippine Airlines.

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 9, 2016, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

LEILA S. PARAS
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center

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

CORPORATE GOVERNMENT SECTOR
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THE BOARD OF DIRECTORS
Manila International Airport Authority
Pasay City

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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 9, 2016, 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
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The Secretary of the Department of Budget and Management
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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, 2015

EXECUTIVE SUMMARY

Introduction

The Manila International Airport Authority (MIAA), which was created by virtue of Executive Order (EO) 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 903 and 909 dated July 21, 1983 and September 16, 1983, respectively. This was further amended by EO 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 per cent to 20 per cent 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 2015. 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.

Financial Highlights

Comparative Financial Position

(In Thousand Pesos)

	2015	2014	Increase (Decrease)
Assets	35,149,294	33,461,212	1,688,082
Liabilities	11,478,406	11,158,465	319,941
Equity	23,670,888	22,302,747	1,368,141

Comparative Results of Operation

(In Thousand Pesos)

	2015	2014	Increase (Decrease)
Operating Income	10,412,798	9,291,103	1,121,695
Share of the National Government (NG)	(1,225,040)	(1,084,773)	(140,267)
Operating Income After Share of the NG	9,187,758	8,206,330	981,428
Operating Expenses	(4,935,790)	(4,322,728)	(613,062)
Net Profit from Operation	4,251,968	3,883,602	368,366
Non-Operating Income (Expenses)	(30,033)	274,733	(304,766)
Income Before Income Tax	4,221,935	4,158,335	63,600
Income Tax	(1,276,109)	(1,098,910)	(177,199)
Net Profit	2,945,826	3,059,425	(113,599)

Independent Auditor's Report on the Financial Statements

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the Authority as at December 31, 2015 and 2014 because the financial impact of the Supreme Court (SC) ruling has not been recognized in the books of the Authority. In April 2016 the High Court affirmed its September 2015 unanimous ruling with finality, ordering the National Government to pay the Philippine International Air Terminals Co. US$531 million (P24.5 billion) plus straight interest at 12 per cent per year from September 11, 2006 until June 30, 2013, and straight interest of 6 per cent per year from July 1, 2013 until full payment has been made. Total interest from September 2006 to December 2015 is estimated at about US$260 million (P12 billion).

In addition, 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 SC for lack of publication and for the 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. Not recognized, likewise, were the disposal of a MIAA property to the DPWH for P569.66 million and the revenue earned therefrom; and the transfer of a 22.3-hectare property from the Nayong Pilipino Foundation to the Authority by virtue of Executive Order 58.

Significant Audit Observations and Recommendations

The following are the other significant audit observations and recommendations:

1. International Passenger Service Charge (IPSC) revenues from some air carriers were based on passenger load figures that carried large discrepancies against NAIA terminal operations reports thus indicating weaknesses in the validation procedures of IPSC remittances for accuracy and completeness.

We recommended the following measures to improve operational controls currently in place:

(a) Formulate measures to address the procedural weaknesses in the gathering and processing of passenger load data since revenues may be compromised; and

(b) Consider the temporary restoration of inspectors at the boarding gates pending the introduction of alternative measures to countercheck air carrier data.

2. The continued application of a 65 per cent 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 recommended that Management revisit the continued application of a 65 per cent reduction rate on the domestic landing and take-off fees of the Philippine Airlines.

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2015, the Notice of Disallowance of P42.869 million, issued on February 10, 2014, for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM has remained unsettled.

In addition to said disallowance, other unsettled disallowances are as follows:

- Disallowances issued in 1995 to 2008 or those issued prior to the effectivity of the Revised Rules on Settlement of Accounts (RRSA) totaling P11.114 million.

- Disallowances on remuneration for consultancy services for the NAIA Terminal 2 Development Project in the amount of P149.052 million and on the overpayment of terminal maintenance services of P10.318 million which were recognized in the books in 2015 due to the finality of the COA decisions.

A Notice of Disallowance was also issued in 2008 disallowing payment of 10 per cent contingency and 5 per cent excess in profit in the amount of P0.677 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.

Status of Implementation of Prior Year's Recommendations

Of the thirteen (13) audit recommendations embodied in the CY 2014 Annual Audit Report, nine (9) were implemented, while three (3) were partially implemented and one (1) was not implemented.

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PART I - AUDITED FINANCIAL STATEMENTS

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

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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 statements of financial position as at December 31, 2015 and 2014, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the years 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 audits. We conducted our audits 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 adverse audit opinion.

Basis for Adverse Opinion

In April 2016, the Supreme Court (SC) affirmed its September 2015 unanimous ruling with finality, ordering the National Government to pay the Philippine International Air Terminals Co. US$531 million (P24.5 billion) plus straight interest at 12 per cent per year from September 11, 2006 until June 30, 2013, and straight interest of 6 per cent per year from July 1, 2013 until full payment has been made. Total interest from September 2006 to December 2015 is estimated at about US$260 million (P12 billion). The financial impact of the High Court's decision has not been recognized in the books of the Authority.

In addition, 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 SC in 2004 for lack of publication and for the 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. Not recognized, likewise, were the disposal of a MIAA property to the Department of Public Works and Highways for P569.66 million and the revenue earned therefrom; and the transfer of a 22.3-hectare property from the Nayong Pilipino Foundation to the Authority by virtue of Executive Order No. 58 issued in 2011.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Manila International Airport Authority as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years 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. Because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, it is inappropriate to, and we do not, express an opinion on the information referred to above.

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. Likewise, because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, it is inappropriate to, and we do not, express an opinion on the information herein referred to.

COMMISSION ON AUDIT

JOSE DENNIS G. ISIP
Supervising Auditor

May 30, 2016

Republic of the Philippines
MANILA INTERNATIONAL AIRPORT AUTHORITY
MIAA Administration Building, MIA Road, Pasay City, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Manila International Airport Authority is responsible for all information and representations contained in the financial statements as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015. The financial statements have been prepared in conformity with state accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's Internal Audit and Commission on Audit (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data, (ii) material weaknesses in the internal controls, and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Commission on Audit, the constitutional body mandated to audit government-owned and controlled corporations, has examined the financial statements of the Authority in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors.

HERMINIA D. CASTILLO
Assistant General Manager
Finance and Administration

MGEN JOSE ANGEL A. HONRADO (Ret)
General Manager

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014
(In Philippine Peso)

	Note	**2015**	2014
ASSETS			
Current Assets			
Cash and cash equivalents	3	**11,288,296,221**	10,163,325,755
Receivables, net	4	**2,685,638,878**	2,142,371,402
Prepayments	5	**320,214,201**	383,200,638
Other current assets	6	**230,670,593**	205,017,424
Total current assets		**14,524,819,893**	12,893,915,219
Non-Currrent Assets			
Investments	7	**12,505,000**	12,505,000
Property and equipment, net	8	**15,455,159,674**	15,391,378,011
Investment property, net	9	**43,890,141**	46,509,526
Other non-current assets	10	**5,112,919,039**	5,116,904,550
Total non-current assets		**20,624,473,854**	20,567,297,087
TOTAL ASSETS		**35,149,293,747**	33,461,212,306

	Note	**2015**	2014
LIABILITIES AND EQUITY			
Current Liabilities			
Payables	11	**2,241,151,695**	2,266,724,877
Inter-agency payables	12	**1,492,170,053**	934,803,225
Current portion of loans payable-domestic	14	**488,227,800**	488,227,800
Current portion of loans payable-foreign	15	**350,231,816**	333,737,508
Other current liabilities	13	**1,043,292,488**	884,210,987
Total current liabilities		**5,615,073,852**	4,907,704,397
Non-Current Liabilities			
Loans payable-domestic	14	**2,685,252,900**	3,173,480,700
Loans payable-foreign	15	**2,442,708,284**	2,648,822,875
Other long-term liabilities		**434,517**	434,517
Total non-current liabilities		**5,128,395,701**	5,822,738,092
Deferred Credits	16	**734,936,189**	428,022,255
Equity		**23,670,888,005**	22,302,747,562
TOTAL LIABILITIES AND EQUITY		**35,149,293,747**	33,461,212,306

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF PROFIT OR LOSS
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015	2014
OPERATING INCOME			
Toll and terminal fees		**3,924,312,746**	3,505,621,791
Landing and parking fees		**2,870,194,871**	2,748,437,230
Rent income		**1,865,368,540**	1,501,939,328
Other business income		**1,330,018,510**	1,149,755,808
Other service income		**422,903,426**	385,348,849
		10,412,798,093	9,291,103,006
National Government share on MIAA's gross income	19	**(1,225,040,021)**	-1,084,773,358
MIAA'S SHARE ON OPERATING INCOME		**9,187,758,072**	8,206,329,648
OPERATING EXPENSES			
Personal services	20	**726,061,962**	709,647,930
Maintenance and other operating expenses	21	**4,209,727,948**	3,613,080,234
		4,935,789,910	4,322,728,164
PROFIT FROM OPERATIONS		**4,251,968,162**	3,883,601,484
OTHER INCOME (EXPENSES)			
Gain on foreign exchange		**105,503,561**	443,759,950
Interest income		**91,601,409**	98,099,741
Fines and penalties		**5,160,703**	3,113,488
Gain(loss) on disposal of assets		**308,565**	-4,549,199
Miscellaneous income		**52,827,779**	54,242,026
Financial expenses		**(285,435,486)**	-319,932,681
		(30,033,469)	274,733,325
PROFIT BEFORE INCOME TAX		**4,221,934,693**	4,158,334,809
INCOME TAX EXPENSE		**(1,276,109,083)**	-1,098,909,838
NET PROFIT		**2,945,825,610**	3,059,424,971

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Donated Capital (Note 18)	Government Equity (Note 17)	Retained Earnings	Total
Balances, December 31, 2013	0	**7,191,934,321**	**13,379,379,840**	**20,571,314,161**
Changes in Equity for 2014				
Net profit for the year	0	0	3,059,424,971	3,059,424,971
Dividends declared	0	0	-1,312,538,020	-1,312,538,020
Dividends adjustment	0	0	-15,453,550	-15,453,550
Balances, December 31, 2014	0	**7,191,934,321**	**15,110,813,241**	**22,302,747,562**
Changes in Equity for 2015				
Net profit for the year	0	0	2,945,825,610	2,945,825,610
Dividends declared	0	0	-1,578,457,827	-1,578,457,827
Donated capital	772,660	0	0	772,660
Balances, December 31, 2015	**772,660**	**7,191,934,321**	**16,478,181,024**	**23,670,888,005**

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
(In Philippine Peso)

	Note	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from operations		**9,962,363,029**
Trust receipts		**3,126,641,921**
Miscellaneous income		**277,186,773**
Payment of operating expenses		**(4,524,157,980)**
Remittance of trust receipts		**(2,907,199,442)**
Remittance of share of National Government		**(898,146,018)**
Advances to other agencies		**(18,399,216)**
Advances to officers and employees		**(9,392,505)**
Net cash generated from operations		**5,008,896,562**
Interest income received		**73,549,746**
Corporate income tax paid		**(1,079,527,139)**
Net cash provided by operating activities		**4,002,919,169**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment		**(750,157,197)**
Proceeds from sale of property and equipment		**5,837,095**
Net cash used in investing activities		**(744,320,102)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid		**(1,312,538,020)**
Debt servicing		**(947,536,022)**
Net cash used in financing activities		**(2,260,074,042)**
Effects of exchange rate changes on cash and cash equivalents		**126,445,441**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,124,970,466**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**10,163,325,755**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**11,288,296,221**

See accompanying Notes to Financial Statements.

2014
9,114,306,672
2,333,777,050
164,643,319
(3,814,199,740)
(1,945,094,392)
(1,103,980,902)
(29,225,614)
(13,512,461)
4,706,713,932
94,023,605
(1,064,800,244)
3,735,937,293
(1,180,927,072)
3,481,794
(1,177,445,278)
(1,165,632,623)
(1,209,702,930)
(2,375,335,553)
27,062,974
210,219,436
9,953,106,319
10,163,325,755

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.) 778 which was approved on March 04, 1982. The Charter of the Authority was amended by E.O. 903 and E.O. 909 signed on July 21, 1983 and September 16, 1983, respectively. E.O. 298 was issued on July 26, 1987 to amend Sections 7, 10, 11 and 13 of E.O. 778, as amended by E.O. 903 and E.O. 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 (P50 million and above) completed in CY 2015:

- NAIA Terminal-1 Rehabilitation Project;
- Architectural Upgrading of Parapet Walls, Eaves and Elevated Roadway at NAIA Terminal-1;
- Retrofitting and Upgrading of Chillers 2 & 3 at NAIA Terminal 2;
- Replacement of Weighing and Feeder Conveyor at NAIA Terminal 1 (Mechanical Works Package 2);
- Construction of Taxiway November Extension (Package 2 Electrical Works);
- Re-waterproofing of Terminal-1 Roofdeck Slab, Canopy, Level 5 and Boarding Bridges ;
- Asphalt Supply Agreement (Repair and Maintenance of Asphalt Pavement within NAIA Complex);

- Construction of Taxiway November Extension – Civil Works; and

- Supply, Installation and Commissioning of Fourteen (14) Units Advanced Body Imaging Technology System at All Terminals.

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 in 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 receivables, 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. Presented on the following page 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:

	2015	2014
Cash (Collecting/Disbursing Officers)	**26,831,261**	49,397,821
Savings Account – Dollar and Peso	**636,967,085**	308,268,046
Current Account – Dollar and Peso	**377,823,933**	738,914,237
Time Deposits – Peso	**10,246,673,942**	3,336,718,867
Time Deposits – Dollar	**0**	5,730,026,784
	11,288,296,221	10,163,325,755

Foreign currency/dollar deposits are revalued at P47.20 and P44.70 to US$1.00 as of December 31, 2015 and 2014, respectively.

Time Deposits – Dollar account was pre-terminated and transferred to *Time Deposits – Peso* which accounts for the decrease/increase in the balances.

4. RECEIVABLES

This account consists of the following:

	2015	2014
Trade Receivables		
Non-Government Entities	**2,598,579,788**	2,657,946,732
Government Owned and Controlled Corp.	**749,955,685**	623,746,222
National Government Agencies (NGAs)	**24,389,885**	22,224,684
	3,372,925,358	3,303,917,638
Allowance for Doubtful Accounts	**(1,635,607,440)**	(1,696,095,824)
	1,737,317,918	1,607,821,814

Non-Trade Receivables		
Local Government Unit (LGU)	**100,004,438**	100,004,438
National Government Agencies (NGAs)	**20,819,224**	23,005,999
Bureau of the Treasury (BTr)	**0**	69,555
	120,823,662	123,079,992
Other Receivables		
Passenger Terminal Fee	**359,840,070**	0
COA Disallowances	**170,425,174**	11,113,981
Interest Receivables	**32,594,133**	14,542,470
Advances to Officers and Employees	**6,082,198**	5,065,818
Others	**258,555,723**	380,747,327
	827,497,298	411,469,596
	2,685,638,878	2,142,371,402

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-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.

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 P16.35 million, to the DBM Procurement Service of P1.45 million and to the National Printing Office of P3 million. This also includes receivables from the Bureau of the Treasury (BTr) in CY 2014 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 differences.

Receivables-Passenger Terminal Fee represents receivables from airline companies for passenger service charge integrated in the sale of airline tickets.

COA Disallowances pertains to disallowances in audit. The increase was due to disallowances on remuneration for consultancy services for NAIA Terminal 2 Development Project of P149.05 million and overpayment of aircraft terminal maintenance services of P10.32 million that were recognized due to the finality of the COA decisions (Note 16).

Other Receivables of P258.56 million and P380.75 million as of December 31, 2015 and 2014, respectively, consists mainly of the 12% expanded value-added tax (EVAT) billed to concessionaires.

5. PREPAYMENTS

This account consists of the following:

	2015	2014
Inventories	**17,180,976**	19,018,111
Advances to Contractors	**49,765,879**	139,364,366
Prepaid Insurance	**23,717,236**	16,174,982
Other Prepaid Expenses	**146,456,589**	125,506,042
Deferred Charges	**82,804,963**	82,848,579
Deposit on Letters of Credit	**288,558**	288,558
	320,214,201	383,200,638

Advances to Contractors decreased due to deduction of mobilization fees on various projects from contractors' progress billings.

6. OTHER CURRENT ASSETS

This account consists of the following:

	2015	2014
Creditable Input Taxes	**225,468,217**	201,189,642
Guaranty Deposits	**5,202,376**	3,827,782
	230,670,593	205,017,424

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:

	2015	2014
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 but is not operational and is for dissolution. The investment of P655,000 is recoverable and is deposited with the Philippine National Bank. Management will request the transfer of the ASTI funds to MIAA's account upon approval of the dissolution.

8. PROPERTY AND EQUIPMENT

This account consists of the following:

	LAND AND LAND IMPROVEMENT	CONSTRUCTION IN PROGRESS	BUILDING & STRUCTURES	MACHINERY & EQUIPMENT	TOTAL
At December 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**
Year Ended December 31, 2015					
Opening Net Book Value	7,983,608,402	223,771,371	4,960,645,786	2,223,352,452	15,391,378,011
Adjustments/Additions	142,244,235	262,972,556	3,459,652	298,362,778	707,039,221
Disposals	0	0	0	(5,534,228)	(5,534,228)
Depreciation	(128,783,718)	0	(240,734,747)	(268,204,865)	(637,723,330)
Closing Net Book Value	**7,997,068,919**	**486,743,927**	**4,723,370,691**	**2,247,976,137**	**15,455,159,674**
At December 31, 2015					
Cost	13,630,824,872	486,743,927	8,808,894,889	7,095,412,319	30,021,876,007
Accumulated Depreciation	(5,633,755,953)	0	(4,085,524,198)	(4,847,436,182)	(14,566,716,333)
Net Book Value	**7,997,068,919**	**486,743,927**	**4,723,370,691**	**2,247,976,137**	**15,455,159,674**

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 the 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 Foundation 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 which consists of 22.3 hectares, more or less, and is located 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. 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 its 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 P569.66 million for 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 P445.76 million and this was recorded under "Deferred Credits" (Note 16) in the absence of the contract or deed of absolute sale.

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:

	2015	2014
Restricted Fund Assets	**4,927,364,960**	4,927,364,960
Work/Other Animals	**10,362,317**	14,347,828
Other Assets	**175,191,762**	175,191,762
	5,112,919,039	5,116,904,550

Restricted Fund Assets represents fund transfers of US$82.158 million (P3.479 billion) and US$34.191 million (P1.448 billion) to the 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:

	2015	2014
Accounts Payable	**552,262,230**	836,191,957
Dividends Payable	**1,578,457,827**	1,312,538,020
Interest Payable	**83,774,333**	90,866,826
Due to Officers and Employees	**26,657,305**	27,128,074
	2,241,151,695	2,266,724,877

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, 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. 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 P1.312 billion in CY 2014 was fully paid to the Bureau of the Treasury per remittances in May and August 2015.

12. INTER-AGENCY PAYABLES

This account consists of the following:

	2015	2014
Due to Bureau of the Treasury	**834,641,953**	425,859,744
Due to Bureau of Internal Revenue	**537,106,628**	441,827,869
Due to GSIS	**9,471,954**	9,702,028
Due to Pag-IBIG	**1,669,009**	1,377,162
Due to PhilHealth	**650,025**	639,825
Due to Other NGAs	**108,630,484**	55,396,597
	1,492,170,053	934,803,225

Due to Bureau of the Treasury (BTr) represents the National Government's unremitted share on the Authority's income for the second semester totaling P 613 million for CY 2015 and for the fourth quarter totaling P286.21 million for CY 2014; share on international terminal fees amounting to P183.67 million for September to November 2015 and P90.88 million for December 2014; and share of the Office for Transportation Security (remitted thru the BTr) of P37.67 million for September to November 2015 and P48.77 million for CY 2014.

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 represents mainly the unremitted share of the Office for Transportation Security (OTS) on international terminal fees of P100.72 million for CY 2015 and P54.53 million for CY 2014.

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. 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. 30, dated September 30, 1998, increasing the collection of terminal fee to P60 and P15, respectively. LOI 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) 99-53, later amended by MIAA BR No. 2005-078, following the mandate of E.O. 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 BR No. 2003-074 was passed increasing the domestic passenger terminal fee for all departing passengers from P100 to P200, subject to existing rules and regulations.

In 2006, MIAA BR No. 2006-032 was passed 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. 298, dated July 26, 1987, amending Section 11 of E.O. 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:

	2015	2014
Guaranty Deposits Payable	**371,839,778**	300,336,293
Performance/Bidders Bonds Payable	**51,007,360**	26,405,867
Tax Refund Payable	**30,818,921**	24,779,892
Other Payables	**589,626,429**	532,688,935
	1,043,292,488	884,210,987

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).

	2015	2014
LBP PN NO. 4808 TL12 4076 000, dated April 11, 2012	**1,830,854,250**	2,074,968,150
DBP PN 2012-29-021, dated April 11, 2012	**1,830,854,250**	2,074,968,150
Less: Semi-Annual Amortizations	**(488,227,800)**	(488,227,800)
	3,173,480,700	3,661,708,500
Less: Current Portion	**(488,227,800)**	(488,227,800)
	2,685,252,900	3,173,480,700

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 P12.206 million 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.

	2015	2014
French Loan to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal 2 contracted with Natixis (formerly Credit Nacionale)		
FF 5,573,213 = Euro 849,630.89 = US $ 1,034,765.46 @ 47.20	**36,914,040**	46,254,016
FF 6,732,496 = Euro 1,026,362.61 = US $ 1,405,397.91 @ 44.70		
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 44.20	**2,756,026,060**	2,936,306,367
Y 8,787,380,000 = US $ 83,875,542.10 @ P 44.70		
	2,792,940,100	2,982,560,383
Less: Current Portion	**(350,231,816)**	(333,737,508)
	2,442,708,284	2,648,822,875

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:

	2015	2014
Contra Acct. of Receivables-COA Disallowances	**170,425,174**	11,113,981
Others	**564,511,015**	416,908,274
	734,936,189	428,022,255

Contra Acct. of Receivables-COA Disallowances (Note 4) increased due to disallowances that were recognized due to the finality of the COA decisions.

Deferred Credits-Others pertains to the airport lessees' and/or concessionaires' one month advance rental/concessions privilege fee. The account includes also the partial payments of P227.86 million in CY 2013, P113.93 million in CY 2014 and P103.96 million in CY 2015 made by DPWH for the transfer through sale in the amount of P569.66 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, now Civil Aviation Authority of the Philippines , and the Department of Transportation and Communications 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. 298.

18. DONATED CAPITAL

This consists of various airport equipment that were turned over and donated to the Authority by the DOTC in the amount of P.440 million and by the Duty Free Philippines, Inc. of P.333 million for use at NAIA Terminal 1.

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. 298 dated July 26, 1987, computed as follows:

	2015	2014
Landing & Parking Fees (Aeronautical Fees)	**2,799,444,667**	2,544,147,863
Rentals	**1,720,140,832**	1,502,941,602
Other Business Income (Concession Privilege Fees)	**1,215,575,362**	1,072,510,567
Other Service Income (Miscellaneous Revenues)	**390,039,245**	304,266,757
	6,125,200,106	5,423,866,789
Rate of Government's Share	**20%**	20%
National Government's Share	**1,225,040,021**	1,084,773,358

20. PERSONAL SERVICES

This account consists of the following:

	2015	2014
Salaries and Wages	**330,415,435**	315,880,838
Other Compensation		
Overtime and night differential	**100,718,734**	108,348,355
Personal economic relief allowance	**31,108,900**	29,738,133
Year-end bonus	**28,275,225**	26,043,152
Representation allowance	**18,423,249**	16,760,981
Hazard pay	**10,277,522**	9,882,479
Clothing/uniform allowance	**9,026,575**	0
Cash gift	**6,479,799**	6,131,250
Productivity incentive allowance	**2,552,000**	2,628,000
Subsistence allowance	**64,050**	64,725
Other bonuses and allowances	**128,796,030**	72,580,281
Personal Benefits Contribution		
Life and retirement insurance contribution	**40,428,733**	38,203,596
PhilHealth contribution	**3,888,650**	3,522,425
ECC contribution	**1,573,900**	1,487,800
Pag-IBIG contribution	**1,573,500**	1,487,700
Other Personnel Benefits		
Terminal leave	**2,745,325**	5,465,283
Retirement benefits	**0**	986,392
Other personnel benefits	**9,714,335**	70,436,540
	726,061,962	709,647,930

21. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2015	2014
Professional Services	**1,282,986,531**	1,190,083,749
Repairs and Maintenance	**840,409,906**	532,398,163
Utility Expenses	**761,139,976**	779,776,803
Depreciation	**640,342,715**	596,435,725
Rent Expenses	**184,629,819**	187,078,451
Service Fee	**158,187,737**	54,865,156
Supplies and Materials	**113,730,836**	129,412,672
Taxes, Insurance Premiums and Other Fees	**65,535,449**	71,349,676
Bad Debts	**63,445,024**	17,307,834
Extraordinary and Miscellaneous Expenses	**45,266,112**	34,721,866
Subsidy to Other Funds	**30,584,284**	0
Communication Expenses	**11,488,557**	9,374,329
Loss of Asset	**3,985,511**	0
Membership Dues and Contributions to Organizations	**1,860,807**	1,979,145
Training Expenses	**1,539,132**	2,863,854
Representation Expenses	**1,515,629**	1,399,880
Traveling Expenses	**1,429,456**	1,686,803
Subscription Expenses	**892,681**	894,661
Advertising Expenses	**557,030**	1,343,047
Donations	**191,580**	108,420
Other Operating Expenses	**9,176**	0
	4,209,727,948	3,613,080,234

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

The agreement between the National Government and PIATCO was nullified in September 2006 by the Supreme Court (SC), and MIAA was ordered to pay PIATCO P3.002 billion for the proffered value of the Terminal 3 (T3) facility. Furthermore, cash advances/ releases to the Office of the Solicitor General (OSG) for T3 arbitration expenses aggregated to P3.742 billion as of December 31, 2015.

On October 11, 2011, the Regional Trial Court (RTC) Pasay City Branch 117 issued an Order that granted the Republic's prayer to deposit the payment of just compensation in the amount of US$175.79 million less the proffered value, to an escrow account. The LBP and DBP were appointed as joint Escrow Agents. A Syndicated Term Loan Facility Agreement was executed in July 2011 by and among MIAA, as Borrower, and DBP and LBP as

Lenders and Joint Arrangers, and DBP-Trust Services as Facility Agent. On April 11, 2012, MIAA deposited US$82.16 million at LBP and US$34.19 million at DBP (equivalent to P4.93 billion) to cover payment of just compensation pursuant to the Escrow Agreement executed between the parties.

PIATCO appealed the case before the Court of Appeals (CA) which modified the RTC ruling on the amount of compensation, increasing the same to US$ 371.41 million, or around P16.7 billion. PIATCO elevated the case before the SC and in September 2015, the High Court fixed the just compensation at US$326.93 million as of December 31, 2004, less the proferred value, in keeping with the 2004 SC ruling that said builder should receive payment before actual takeover of the Terminal. On April 19, 2016, the SC affirmed its September 2015 ruling with finality, ordering the NG to pay PIATCO US$ 531 million (P24.5 billion) plus interest of about US$16 million (P720 million) annually until full payment is made. Interest from September 2006 to December 2015 is estimated to reach US$260 million (P12 billion).

The OSG, on May 18, 2016, filed a Motion for Leave to File Motion for Partial Reconsideration of the Resolution dated April 19, 2016 with the SC.

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23. OTHER MATTERS

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

The Supreme Court (SC) 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 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 Concessionaire with Pending Case

Philippine Airport and Ground Services (PAGS) (Civil Case No.000363) – P112.39 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. MIAA had sent its intention to compromise but no response was received from PAGS.

c. Airspan Case: Rate Adjustments

In December 2004, the SC 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 SC 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 (RTC) 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 the Authority to pay a fine of 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 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 judgment 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, 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(CA) on a Petition for Certiorari.

In a decision, dated March 13, 2009, the CA annulled and set aside the orders of the RTC declaring MIAA in contempt and denying MIAA's Manifestation and Motion for Approval of the Methodology for the Payment of Refund and ordered the RTC 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 SC assailing the CA's decision. The SC dismissed the Petition. Airspan filed a Motion for Reconsideration, which was denied with finality per Resolution dated November 16, 2009. The decision of the SC 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 SC 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 liabilities of P2.36 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 RTC 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 was 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 RTC affirmatively acted on the prayer for issuance of Mandamus and issued a decision upholding petitioner's position.

Dissatisfied with the said ruling, MIAA elevated on appeal the said decision to the CA. In a decision, dated July 30, 2010, the CA reversed and set aside the RTC's decision.

The case is now pending before the SC.

e. Accounts under Litigation

1) 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.

2) 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 CA decided in favor of LVVFC. MIAA elevated the case before the SC but the high court decided against MIAA. An out of court agreement has been signed and LVVFC is paying back rentals on top of current rentals.

3) 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 CA 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 SC by way of a Petition for Review on December 7, 2007.

The SC, in its Decision dated February 27, 2012, denied MIAA's petition and affirmed the resolution of the CA. A Motion for Reconsideration was filed by MIAA before the SC.

MIAA is awaiting the Writ of Execution but Avia Filipinas has not come forward to execute the judgment award.

4) 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 CA.

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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 P798,962,323 for the year based on the amount reflected in the Sales Account of P6,658,019,357.

   The Authority has zero-rated sales amounting to P3,010,427,403 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 P201,189,642

   b. Current year's purchases

I.	Goods for resale/manufacture or further processing	n/a
II.	Goods other than for resale or manufacture	23,492,038
III.	Capital goods subject to amortization	23,372,718
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	346,887,876

   c. Claims for tax credit/refund and other adjustments

I.	Prior year's set-up/accruals	6,510,201
II.	Current year's set-up/accruals	1,184,258
III.	Cancelled checks/transactions and adjustments	(28,406,191)
IV.	Available input tax and tax deferred for succeeding period	348,762,325

d. Balance at the end of the year 225,468,217

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

I.	Tax on compensation benefits	79,914,573
II.	Creditable withholding taxes	79,422,830
III.	Final withholding taxes	12,211,507
IV.	Value-Added Tax and Other Percentage taxes withheld	173,125,723

4. Schedule of Other Taxes and Licenses

Radio/network station and RLM certificate (National Telecommunication Commission)	1,105,260
Registration, emission testing and inspection (Land Transportation Office)	437,299
Airport Coordination Australia Annual fee	221,219
Tax on French loan and adjustment of foreign exchange	105,568
Firearms license (Firearms and Explosives Division –PNP)	35,000
Community tax (Pasay City Treasurer)	10,500

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **The Authority has yet to determine and recognize in its books the financial impact of the Supreme Court (SC) decision directing the National Government (NG) to pay the Philippine International Air Terminals Co. (PIATCO) at least US$531 million (P24.5 billion) in just compensation plus interest for the construction of the NAIA Terminal 3 (T3).**

The SC en banc has rejected with finality the Office of the Solicitor General's (OSG) plea to lower the just compensation ordered by the High Court last September 2015 to be paid to PIATCO, builder of NAIA Terminal 3, for the expropriation of the property. The High Court also ordered the government to pay PIATCO straight interest at 12 per cent per year from September 11, 2006 until June 30, 2013, and a straight interest of 6 per cent per year from July 1, 2013 until full payment has been made.

It could be remembered that the agreement between the NG and PIATCO was nullified in September 2006 by the SC, and MIAA was ordered to pay the builder P3.002 billion for the proffered value of the T3 facility. The NG secured a writ of possession to operate the facility which it partially opened for operation in 2008, or about six years after the NG took over the property. On May 23, 2011, the Pasay City Regional Trial Court (RTC) ordered the payment of US$175.787 million less the proffered value to PIATCO. The Authority deposited its payment equivalent to P4.927 billion in an escrow account with the Land Bank of the Philippines and the Development Bank of the Philippines pursuant to an Omnibus Order issued by said RTC on October 11, 2011.

The PIATCO appealed the case before the Court of Appeals which modified the RTC ruling on the amount of compensation, increasing the same to US$371.41 million, or around P16.7 billion. PIATCO elevated the case before the SC and in September 2015, the High Court, in a unanimous ruling, fixed the just compensation at US$326.93 million as of December 21, 2004, minus the proffered value and payment already received by PIATCO at US$59.44 million in keeping with a 2004 SC ruling that said builder should receive payment before actual takeover of the terminal. In April 2016, the SC affirmed its September 2015 ruling with finality, ordering the NG to pay PIATCO US$531 million (P24.5 billion) plus interest of about US$16 million (P720 million) annually until full payment is made. Total interest from September 2006 up to April 2016 is estimated to reach US$263.7 million (P12.15 billion).

In the light of this significant event, we recommended that the Authority determine and recognize in its books the impact of the SC ruling on its financial and operational future, particularly on the probable outflow of resources to settle this obligation.

Management Comment

Management explained that the Authority has yet to recognize in its books the financial impact of the SC ruling in view of the following: a) a Motion for Leave to File Motion for Partial Reconsideration was filed by the OSG on May 18, 2016; b) the case is a national issue and MIAA has never been involved or duly represented at the top level discussions by the Department of Transportation and Communications, Department of Finance and Department of Budget and Management, thus MIAA cannot resolve on its own the issue on whether the NG or the Authority should pay PIATCO, and; c) MIAA has no basis to book it as equity since pursuant to the SC decision, it is the NG that shall have full ownership over T3 upon payment of the just compensation.

Rejoinder

It is not yet certain if the SC would allow the filing of a second motion for reconsideration but, in the meantime, interest would continue to accrue on the unpaid balance of the just compensation. We believe that while this concerns a national issue, this will have a material financial impact on the Authority as having control and operator of the facility. MIAA has initially recognized in its books the proffered value of T3 and the escrow deposit ordered by the RTC, including related arbitration expenses and improvements done on the facility; thus, the asset and the probable outflow of resources to settle the obligation would eventually be recognized in MIAA's books of account. There is already a strong degree of certainty as to the ultimate conclusion of the matter.

2. **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 Philippine Accounting Standard/International Accounting Standard (PAS/IAS) 37.**

This is a reiteration of CYs 2009 to 2014 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 SC, 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 SC 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 reiterated our recommendation, embodied in CYs 2009 to 2014 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, but these will be recognized in the books upon receipt of the Office of the Government Corporate Counsel's (OGCC) approval on the execution thereof. The MIAA Board, under Resolution No. 2010-026, approved the application of these claims by the lessees against their future rental charges.

Management also stated that assessment of real estate taxes has been completed on leased properties in the General Aviation Area and still ongoing in other areas. MIAA proposed to recognize a provision for estimated liabilities on properties covered by tax declarations, based on which the amount of real estate taxes can be estimated reliably, and to set up instead a contingent liability for unpaid real estate taxes on properties not covered by tax declarations.

Moreover, MIAA has considered setting up a sinking fund and entering into a compromise agreement with the concerned local government units for the payment of back taxes.

3. The disposal of a MIAA property to the Department of Public Works and Highways (DPWH) and the revenue earned therefrom have not been duly recognized in the Authority's books of accounts.

This is a reiteration of a CY 2014 audit observation.

Relative to the C-5 Extension Project of the DPWH, the Authority disposed through sale to DPWH 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 P569.66 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.

On 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 and May 13, 2015, P113.932 million and P103.962 million were remitted to MIAA as third and fourth partial payments, respectively.

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 account.

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 is appropriate to recognize the sale and the corresponding revenue as acts are performed or cash is received.

We reiterated our recommendation that the appropriate accounting entries be made 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 (MOA). 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. The latter can be subsequently adjusted upon receipt of the balance from DPWH and after considering payment of all the necessary taxes.

Although the Deed of Absolute Sale or certificate of title entered in favor of the government is required in case of deeds to property, other evidence may suffice as basis for recording the transfer. In this case, Management may consider the MOA and DPWH's commitment to complete the payment or the aggregate of the payments already received by MIAA. The transfer of MIAA's equitable interest on the property to DPWH is deemed sufficient evidence to record the transaction.

4. The transfer of a real property from the Nayong Pilipino Foundation (NPF) to the Authority by virtue of Executive Order (EO) No. 58 has yet to be recognized in the latter's books of account.

EO 58 dated September 9, 2011 issued by President Benigno S. Aquino III mandated the transfer of NPF's remaining land in Pasay City to the MIAA. Said property, measuring 22.3 hectares, was part of the 45.9 hectares conveyed to the NPF in 1972 through Presidential Decree No. 37. A portion of this property hosts the Nayong Pilipino Cultural Park. In 2002, EO 111 authorized the transfer of 8.6 hectares of the NPF property to MIAA and the closure of the NPF park pending its redevelopment. Later in 2007, EO 615 mandated the transfer of the old NPF park to the 15-hectare property of the Philippine Reclamation Authority (PRA) identified by NPF as an alternative site for its new NPF park, and the transfer of 15 hectares of NPF's property to the PRA. MIAA needs the remaining 22.3 hectares for the new International Cargo Terminal Facility to support the operational requirements of Terminal 3 and at the same time accommodate the growth in passenger and aircraft movement at the NAIA.

Despite the clear directive of EO 58, MIAA is in a dilemma on whether to implement said EO due to certain issues raised by NPF's Executive Director. The NPF sought to revisit the rationale behind EO 58 in view of its mandate to preserve its assets as contained in its charter, and has expressed concern that it has not been dissolved.

On February 22, 2012, the OGCC, in its reply to MIAA's request for advice on the protracted transfer of the property, recommended that the Authority seek a definitive policy direction from the Office of the President. It also suggested that the MIAA, OGCC and NPF collaborate to come up with a joint position paper to be presented to the Office of the President to seek clarification on conflicting issues. On April 12, 2012, the Deputy Executive Secretary informed the parties that EO 58 was effective citing the Memorandum of the Chief Presidential Counsel, dated March 28, 2012, stating that "return to the State of the NPF property shall be without compensation" to which the NPF disagreed. It posited that, if the land is to be reverted back pursuant to PD 37, it should be to the National Government and not to a GOCC. Further, the NPF believes that any transfer of the Pasay property should be for an equivalent value and/or property in exchange therefor lest it be accused of reneging on its fiduciary obligation.

However, after a series of consultations, it has allowed MIAA to use the paved portions of the property as parking and staging areas for MIAA's transport concessionaires. It has maintained its reservation on the transfer of the property pending final resolution of the issues it raised. The MIAA has taken over the paved areas effective July 1, 2012 and has secured and maintained the whole area covered by EO 58.

We believe that the Authority has appropriate basis for the recognition of said property based on the stipulations of the Framework for the Preparation and Presentation of Financial Statements, viz:

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

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

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

The above standards give attention to substance over form in determining whether an item meets the definition of an asset for purposes of recognition. Although in case of deeds to property, a certificate of title entered in favor of the government is required, other evidence may suffice as in this case wherein EO 58 mandates the transfer of the NPF property to MIAA. It appears that NPF no longer questions the legality of EO 58 but is merely asserting remuneration for the property.

We recommended that MIAA initiate steps to facilitate the transfer of the NPF property and recognize this in its books of account.

Management Comment

MIAA claims that the property has remained unrecorded in its books because the owner's duplicate copies of the Transfer Certificates of Title are still in the custody of NPF and have not been transferred to the Authority. MIAA also needs to establish the basis and the required documentation in recording the property.

5. **International Passenger Service Charge (IPSC) revenues from some air carriers were based on passenger load figures that carried large discrepancies against NAIA terminal operations reports thus indicating weaknesses in the validation procedures of IPSC remittances for accuracy and completeness.**

Section 4 (b) of EO 903 creating MIAA states that the Authority shall formulate and adopt internationally acceptable standards of airport accommodation and service. Section 5 (c) of the same EO provides for the adoption of necessary measures to remedy congestion in the airport.

To address congestion at the Ninoy Aquino International Airport (NAIA) terminals, the Authority issued Memorandum Circular No. 08 dated September 15, 2014 which provided for the integration of the five hundred fifty peso (P550.00) IPSC, otherwise known as "terminal fee", into the airline tickets at point of sale, where collection thereof shall be performed by air carriers, on behalf of MIAA, for every international air ticket purchased with enplanement from Manila. The IPSC shall be integrated by default by the air carriers or its agents from point of sale on cash or credit basis covering purchases made through electronic sites/web; travel agents; and selling air carriers.

Responsibilities of the Authority and the air carriers for the collection; remittance and settlement; reportorial requirements; service fee charges; audit requirements; and other pertinent areas of concern are spelled out in the individual Memorandum of Agreement (MOA) signed by the parties. The integration took effect on February 1, 2015.

Given the introduction of this new procedure for the collection of the terminal fee, we found it necessary to test its efficacy giving utmost importance on the accuracy and completeness of the IPSC Remittance Report submitted by air carriers since Article VI – Reportorial Requirements (Section 03) of the MOA provides that the *"total number of passengers based on the remittance report shall be the basis for the Air Carrier's remittance of IPSC Collection to the MIAA."* Since discrepancies and submission of fraudulent collection reports were cited as significant areas of concern by the Authority in Article V – Remittance and Settlement (Sections 04 and 06), we believe that MIAA validation of the IPSC collection reports has become indispensable.

Our review, on a sampling basis, of relevant information pertaining to passenger load data obtained from terminal operations personnel disclosed the following:

a. Twenty-two (22) out of thirty-nine (39) international air carriers carried discrepancies ranging from 1,000 to 101,000 units for passenger load between terminal operations reports and airline data during the period February to December 2015;

b. Air China had zero IPSC remittance for the month of March 2015 despite of terminal operations reporting a total of 4,598 passengers;

c. Air North did not remit any amount despite having 1,097 passengers from February to October 2015;

d. Asiana Airlines had zero IPSC remittance for February 2015 despite having a total passenger load of 19,189 per terminal operations report;

e. Cathay Pacific had zero IPSC remittance for March 2015 despite having a total passenger load of 58,979 per terminal operations report;

f. Emirates IPSC remittance for February 2015 exceeded passenger load per terminal operations report by 8,927 units;

g. Malaysian Airlines had zero remittances for the months of February to June 2015 and August 2015 despite a total passenger load of 100,262 units;

h. Vietnam Airlines remitted IPSC for a total of 6,424 passengers from February to November 2015 despite terminal operations reporting zero passenger load for the same period; and

i. Air Asia Zest did not remit any IPSC for the period February to May 2015 despite terminal operations reporting a passenger load of 76,124.

We conducted follow-through interviews with terminal operations personnel in Terminals 1 and 3 to have an appreciation of the actual procedures being performed and noted the following:

a) At Terminal 1, air carriers submit the Flight Checklist and Manifest in a drop box at the aerobridge counter. There were some Flight Checklists that did not bear certifications from airline representatives. Likewise, with the withdrawal of inspectors who were previously tasked with validating actual passenger load and flight information, the Authority has ceased certification of said checklist/manifest as to correctness/accuracy.

b) At Terminal 3, the collection of boarding passes and Flight Checklist & Manifest has been assigned to aerobridge operators whose main task is to link aerobridges to the doors of aircraft during passenger loading and unloading. The boarding passes and flight checklist/manifest are turned over to terminal operations personnel for data encoding without verification at the point of passenger boarding.

c) We were informed that, with the integration of IPSC into the airline tickets, an adjustment in manpower complement at the terminals was made to streamline operations.

d) The Summary of IPSC Remittances prepared by the Collection Division is not reconciled with the Remittance Reports submitted by the air carriers.

We recommended the following measures to improve operational controls currently in place:

(a) Formulate measures to address the procedural weaknesses in the gathering and processing of passenger load data since revenues may be compromised; and

(b) Consider the temporary restoration of inspectors at the boarding gates pending the introduction of alternative measures to countercheck air carrier data.

Management Comment

Management commented that measures were undertaken to ensure that there are no under/late remittance of IPSC collected by air carriers, such as: a) passenger load as reported by air carriers in the remittance report is compared with the data gathered by MIAA and discrepancies noted are regularly reported to the Internal Audit Services Office for audit; b) demand payment of interest for late remittances, and; c) creation of a Technical Working Group by the Office of the President to study and review the integration of the IPSC in the cost of the airline passenger ticket. Further, the discrepancies noted have already been addressed by MIAA and outstanding payments, if any, were subsequently collected.

6. The continued application of a 65 per cent 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.

This is a reiteration of a CY 2014 audit observation. The 65 per cent reduction granted to the airline totaled to P19.834 million in 2014 and P43.637 million in 2015.

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 per cent of its total fees for the use of runways for domestic flights. Evidently, the 65 per cent 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 per cent 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 (DOJ).

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 reiterated that MIAA revisit the continued application of a 65 per cent 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 sought the opinion of the DOJ if the discontinuance of the discounted rate is legally feasible. DOJ stated that they support MIAA’s position that LOI 498, which authorized the reduction of rates in landing and take-off fees, is only an administrative issuance that can be repealed or invalidated by an executive issuance.

MIAA has referred the matter to the DOTC for it to prepare the request for the invalidation of the LOI.

7. 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, 2015	Issued (in Million Pesos)	Settled / Matured into Disallowance	Ending Balance December 31, 2015
Suspensions	0	0	0	0
Disallowances	42,868,768.10	0	0	42,868,768.10
Charges	0	0	0	0

The above disallowances represent excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM which was suspended in 2011 and has matured into disallowance 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. A Petition for Review on the said Decision was filed by MIAA with the Commission Proper.

In addition to said disallowances, the unsettled disallowances are as follows:

- Disallowances issued in 1995 to 2008 or those issued prior to the effectivity of the Revised Rules on Settlement of Accounts (RRSA) totaling P11.114 million.

- Disallowances on remuneration for consultancy services for the NAIA Terminal 2 Development Project in the amount of P149.052 million and on overpayment of terminal maintenance services of P10.318 million which were recognized in the books in 2015 due to the finality of the COA decisions.

Notice of Disallowance was also issued in 2008 disallowing payment of 10 per cent contingency and 5 per cent excess in profit in the amount of P0.677 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 Petition for Review on the said Decision was filed by MIAA with the Commission Proper.

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

8. Programs and projects undertaken by the GAD Committee

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

A. Client-Focused
   1. Provided equipment and supplies in the infant feeding station for lactating mothers
   2. Participated in the Women Month Celebration
   3. Conducted GAD meetings and updated GFPS with PAPs

B. Organizational-Focused
   1. Participated in GAD-related activities (CSC-TOT and PCW GAD Planning)

We observed higher percentage of accomplishments for GAD activities as planned compared with last year, except for other activities wherein no accomplishments were reported in 2015, such as the provision of waiting shed with covered walkway and pathway leading to the arrival level at Terminal 3; and the implementation of a priority lane for pregnant women, traveling with children and elderly in the terminal transport counters. MIAA claims that the provision of waiting shed is for rebidding due to contractor’s violation, while the designated areas for priority lane has yet to be finalized due to the ongoing infra projects at the terminals. We have also noted that the use of the budget allocated for GAD activities was not maximized.

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

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the thirteen (13) audit recommendations contained in the CY 2014 Annual Audit Report, nine (9) were implemented, three (3) were partially implemented and one (1) was not implemented. Details follow:

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
1, Page 30	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.	Comply with the requirements of PAS/IAS 37 to ensure that appropriate provision for estimated liabilities is recognized in the books at year end.	Partially Implemented On real estate taxes- Assessment of real estate taxes has been completed on leased properties in the General Aviation Area and still ongoing in other areas. MIAA proposed to recognize a provision for estimated liabilities on properties covered by tax declarations, based on which the amount of real estate taxes can be estimated reliably, and to set up instead a contingent liability for unpaid real estate taxes on properties not covered by tax declarations. MIAA has also considered setting up a sinking fund and entering into a compromise agreement with the concerned local government units for the payment of back taxes. On claims by lessees for refund of rentals- The Authority took cognizance of the

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
			claims for refund of rentals by lessees 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. This finding was first raised in CY 2009 and reiterated in CYs 2010 to 2014. Reiterated in the current year's AAR under Observation and Recommendation No. 2.
2, Page 31	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.	Recognize in the books of accounts a provision for the P255.8 million liability to White and Case LLP.	Implemented The liability has been recognized and was paid under Disbursement Voucher No. 1-15-03-0851 dated March 20, 2015.
3, Page 32	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.	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.	Implemented Billing Instruction No. 15-264 was issued to adjust the rental rate of Ding Velayo Sports Center, Inc. in compliance with the Supreme Court Decision on G.R. No. 161718. The receivables due for write-off in excess of

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
			the amounts actually due MIAA totaling P48.15 and P75.782 million were adjusted under Journal Entry Voucher Nos. 2015-09-036 and 2015-12-125, respectively.
4, Page 33	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.	Take up appropriate accounting entries to recognize the sale and revenue net of taxes due thereon.	Not Implemented Appropriate entries have yet to be recognized in the books as the Deed of Absolute Sale is not yet consummated pending receipt of the fourth/ final payment from DPWH. Reiterated in this AAR under Observation and Recommendation No. 3.
5, Page 35	The cost of the NAIA Terminal 3 Landmark Project amounting to P30.53 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.	Take up appropriate entries to adjust the Construction in Progress account and make strong representations with the leadership of the MMDA for the immediate settlement of the outstanding balance.	Implemented Appropriate entry was made under Journal Entry Voucher No. 2015-07-001; while the remaining unliquidated cash advance of P10.76 million was refunded on July 16, 2015 per Official Receipt No. 1092543.

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
6, Page 36	The continued application of a 65 per cent 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.	Revisit the continued application of a 65 per cent 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.	Partially Implemented Management sought the opinion of the DOJ if the discontinuance of the discounted rate is legally feasible. DOJ stated that it supports MIAA's position that LOI 498, which authorized the reduction of rates in landing and take-off fees, is only an administrative issuance that can be repealed or invalidated by an executive issuance. Management has referred the matter to DOTC for the latter to prepare the request for the invalidation of the LOI. Reiterated in this AAR under Observation and Recommendation No. 6
7, Page 37	Liability to the Philippine National Construction Corporation (PNCC) has remained unrecognized in the books.	Determine MIAA's obligation to PNCC and recognized it in the MIAA books, as appropriate.	Implemented Management has submitted the documents required by the COA Technical Services Office (TSO) to properly evaluate the project and has committed to recognize MIAA's liability to PNCC as soon as the actual amount to be settled has been verified by COA.

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
8, Page 38	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.	Submit written representation made by MIAA with the Department of Finance (DOF) 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.	Implemented Management has made its position clear with the DOF thru a letter dated May 8, 2015 that no dividends should accrue on gain on foreign exchange revaluation. The DOF recently published the Revised Implementing Rules and Regulations (RIRR) to Republic Act No. 7656 which, among others, redefined net earnings by using corporate income tax calculations, instead of accounting statements, in applying the dividend rate and; removed book earnings that have no effect on cash balances (e.g. unrealized gains and losses). The 2016 RIRR will be followed for FY 2016 earnings or for 2017 remittance onwards.
9, Page 39	Strict compliance with the provisions of the Revised IRR of RA 9184 on the duration of procurement activities and with COA Circular No. 2009-001 on the submission of contracts was not observed.	Strictly comply with the provisions of the Revised IRR 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.	Implemented .

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
10,Page 41	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.	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.	Implemented Requirements analysis and ISSP formulation is ongoing.
11, Page 42	A Disaster Recovery Plan and an off-site backup system for its major application systems and information database are not maintained by the Authority.	Initiate efforts to prepare a Disaster Recovery Plan and establish IT general controls particularly the maintenance of an off-site backup of its application system and data files.	Implemented For preparation of Terms of Reference after the submission of the Final ISSP by the UP Information Technology Development Center.
12, Page 43	Suspensions, disallowances and charges - Audit disallowances as of December 31, 2014 totaled to 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). Notice of Disallowance was also issued in 2008 on the payment of 10% contingency and 5% excess in	 Comply with the rules and regulations on settlement of accounts.	Partially Implemented MIAA appealed the disallowance of P0.677 million despite the issuance of a Notice of Finality of Decision on June 22, 2011 but this was denied under CGS-Cluster 4 Decision No. 2015-06 dated March 13, 2015. A petition for review of CGS Cluster 4 Decision No. 2015-07 dated April 13, 2015, which affirmed Notice

Reference (CY 2014 AAR Observation No.)	Observations	Recommendations	Status of Implementation
	profit in the amount of P0.677 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.		of Disallowance No. 2013-01 (2010) dated February 10, 2014 on the payment of excess overtimes, was filed with the Commission Proper by MIAA.
14, Page 44	Programs and projects undertaken by the GAD Committee -	Analyze the GAD issues and problems to meet targets as planned and to maximize the use of the budget allocated for GAD activities.	Implemented