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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 31, 2017

The Board of Directors
Manila International Airport Authority
Pasay City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Annual Audit Report (AAR) on the results of the audit of the accounts and transactions of the Manila International Airport Authority (MIAA) for the year ended December 31, 2016.

We rendered an adverse opinion on the financial statements of the Authority because these are materially misstated due to the non-recognition of the following: a) effects on income tax and dividends due to the National Government (NG) of the P7.043 billion portion of the P20.475 billion program subsidy from the NG relative to the Philippine International Air Terminals Co. (PIATCO) case which was capitalized as part of the cost of the NAIA Terminal III Building and not actually disbursed for interest and other operating expenses; b) claim of PIATCO for refund of taxes withheld in the amount of P3.202 billion on the ground that the just compensation paid by MIAA should be exclusive of VAT; c) provision for estimated liabilities of P1.231 billion in claims by lessees for refund on account of rental rate increases effected through MIAA Board Resolutions which were nullified by the Supreme Court in 2004 for lack of publication and P100 million in money claim of the Philippine National Construction Corporation for unpaid services adjudicated by the Office of the Government Corporate Counsel as affirmed by the Department of Justice and Office of the President, with money claim already filed with the Commission on Audit in 2012; d) cost of the completed rehabilitation of the NAIA Terminal 1 in the amount of P1.106 billion and the corresponding depreciation thereof; e) depreciation from 2008 to 2016 on the NAIA Terminal III Building costing P12.807 billion; f) installment sale for P569.66 million of a MIAA property costing P56.966 million to the Department of Public Works and Highways in 2012; g) impairment loss on the capitalized cost of the aborted Panglao-Bohol International Airport Development Project of P175.19 million, the original concept of which was restructured and now placed under the Public-Private Partnership scheme, with all the procurement activities related to the latter already completed; and h) transfer to MIAA of a 22.3-hectare property of the Nayong Pilipino Foundation in Pasay City by virtue of Executive Order No. 58 issued in 2011.

The following are the other significant audit observations and recommendations:

1. Audit sampling of CY 2016 transactions for the procurement of goods and services carried out through Alternative Methods of Procurement disclosed several instances of delays that averaged at least 16 working days in the processing thereof.

   We recommended that instances of delays be documented and taken up during coordination meetings between offices involved in the procurement process so that workable solutions to identified causes of delays can be formulated and integrated with the Authority's procedural standards. This will ensure that involved offices will provide factual inputs that will contribute to amending and/or updating policies that will reflect reasonable timeliness.

2. Several concessionaires with no valid contracts (expired/not renewed) continue to operate within NAIA terminals in contravention to Section 1 (j.) of the Authority's Revised Administrative Order No. 1, series of 2000.

   We requested to be informed as to what actions, if any, are being taken to address these concerns.

3. Some rates for airport charges prescribed under Administrative Order No. 1, s. 2000, have remained unchanged for an extended period and may no longer be current or comparable vis-à-vis present cost considerations.

   We recommended that Management consider giving this issue priority so that it can optimize its earning capacity and generate revenues that can be utilized to upgrade its operational capability and improve its service to the public.

The audit observations and recommended courses of action, which we discussed with the concerned Management officials and staff during the exit conference conducted on June 16, 2017, are presented in detail in Part II of the AAR.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

LEILA S. PARAS
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson - Senate Finance Committee
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
The National Library

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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE HEAD EXECUTIVE ASSISTANT
RECEIVED
JUL 31 2017
TIME [signature]
BY 1600H

July 31, 2017

Mr. EDDIE V. MONREAL
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 the Annual Audit Report (AAR) on the results of the audit of the accounts and transactions of the Manila International Airport Authority (MIAA) for the year ended December 31, 2016.

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   We recommended that Management consider giving this issue priority so that it can optimize its earning capacity and generate revenues that can be utilized to upgrade its operational capability and improve its service to the public.

The audit observations and recommended courses of action, which we discussed with the concerned Management officials and staff during the exit conference conducted on June 16, 2017, are presented in detail in Part II of the AAR.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed on the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

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

Very truly yours,

COMMISSION ON AUDIT

By:

LEILA S. PARAS
Director IV

Copy furnished:

The President of the Republic of the Philippines
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The Speaker of the House of Representatives
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Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

MANILA INTERNATIONAL AIRPORT AUTHORITY

For the Year Ended December 31, 2016

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 (DOTr), 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 years 2016 and 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)

	2016	2015 (As Restated)	Increase (Decrease)
Assets	44,043,808	48,032,273	(3,988,465)
Liabilities	11,963,062	37,080,208	(25,117,146)
Equity	32,080,746	10,952,065	(21,128,681)

Comparative Results of Operation

(In Thousand Pesos)	2016	2015 (As Restated)	Increase (Decrease)
Operating Income	11,915,694	10,417,959	1,497,735
Share of the National Government (NG)	(1,482,861)	(1,225,040)	(257,821)
Operating Income After Share of the NG	10,432,833	9,192,919	1,239,914
Operating Expenses	(5,193,842)	(4,935,790)	(258,052)
Net Profit from Operation	5,238,991	4,257,129	981,862
Non-Operating Income (Expenses)	336,492	(35,194)	371,686
Profit Before Income Tax	5,575,483	4,221,935	1,353,548
Income Tax Expense	(1,756,031)	(1,276,109)	(479,922)
Net Profit After Tax	3,819,452	2,945,826	873,626
Subsidy from the National Government re: PIATCO	20,475,836	0	20,475,836
Other Maintenance and Operating Expenses re: PIATCO	(1,007,155)	(770,382)	(236,773)
Net Profit	23,288,133	2,175,444	21,112,689

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 since the financial statements are materially misstated because of the non-recognition of the following: a) effects on income tax and dividends due to the National Government (NG) of the P7.043 billion portion of the P20.475 billion program subsidy from the NG relative to the Philippine International Air Terminals Co. (PIATCO) case which was capitalized as part of the cost of the NAIA Terminal III Building and not actually disbursed for interest and other operating expenses; b) claim of PIATCO for refund of taxes withheld in the amount of P3.202 billion on the ground that the just compensation paid by MIAA should be exclusive of VAT; c) provision for estimated liabilities of P1.231 billion in claims by lessees for refund on account of rental rate increases effected through MIAA Board Resolutions which were nullified by the Supreme Court in 2004 for lack of publication and P100 million in money claim of the Philippine National Construction Corporation for unpaid services adjudicated by the Office of the Government Corporate Counsel as affirmed by the Department of Justice and Office of the President, with money claim already filed with the Commission on Audit in 2012; d) cost of the completed rehabilitation of the NAIA Terminal 1 in the amount of P1.106 billion and the corresponding depreciation thereof; e) depreciation from 2008 to 2016 on the NAIA Terminal III Building costing P12.807 billion; f) installment sale for P569.66 million of a MIAA property costing P56.966 million to the Department of Public Works and Highways in 2012; g) impairment loss on the capitalized cost of the aborted Panglao-Bohol International Airport Development Project of P175.19 million, the original concept of which was restructured and now placed under the Public-Private Partnership scheme, with all the procurement activities related to the latter already completed; and h) transfer to MIAA of a 22.3-hectare property of the Nayong Pilipino Foundation in Pasay City by virtue of Executive Order No. 58 issued in 2011.

Significant Audit Observations and Recommendations

The following are the other significant audit observations and recommendations:

1. Audit sampling of CY 2016 transactions for the procurement of goods and services carried out through Alternative Methods of Procurement disclosed several instances of delays that averaged at least 16 working days in the processing thereof.

   We recommended that instances of delays be documented and taken up during coordination meetings between offices involved in the procurement process so that workable solutions to identify causes of delays can be formulated and integrated with the Authority's procedural standards. This will ensure that involved offices will provide factual inputs that will contribute to amending and/or updating policies that will reflect reasonable timeliness.

2. Several concessionaires with no valid contracts (expired/not renewed) continue to operate within NAIA terminals in contravention to Section 1 (j.) of the Authority's Revised Administrative Order No. 1, series of 2000.

   We requested to be informed as to what actions, if any, are being taken to address these concerns.

3. Some rates for airport charges prescribed under Administrative Order No. 1, s.2000, have remained unchanged for an extended period and may no longer be current or comparable vis-à-vis present cost considerations.

We recommended that Management consider giving this issue priority so that MIAA can optimize its earning capacity and generate revenues that can be utilized to upgrade its operational capability and improve its service to the public.

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2016, 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.

Partial settlements on the above disallowances effected thru payroll deductions totaled to P1.313 million as at December 31, 2016.

Status of Implementation of Prior Year's Recommendations

Of the nine (9) audit recommendations embodied in the CY 2015 Annual Audit Report, six (6) were implemented and three (3) were not implemented.

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PART I AUDITED FINANCIAL STATEMENTS

PART II AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Manila International Airport Authority
Pasay City

Report on the Financial Statements

We have audited the accompanying financial statements of Manila International Airport Authority, which comprise the statements of financial position as at December 31, 2016 and 2015, 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 Public Sector 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

The financial statements of the Authority are materially misstated because of the non-recognition of the following: a) effects on income tax and dividends due to the National Government (NG) of the P7.043 billion portion of the P20.475 billion program subsidy from the NG relative to the Philippine International Air Terminals Co. (PIATCO) case which was capitalized as part of the cost of the NAIA Terminal III Building and not actually disbursed for interest and other operating expenses; b) claim of PIATCO for refund of taxes withheld in the amount of P3.202 billion on the ground that the just compensation paid by MIAA should be exclusive of VAT; c) provision for estimated liabilities of P1.231 billion in claims by lessees for refund on account of rental rate increases effected through MIAA Board Resolutions which were nullified by the Supreme Court in 2004 for lack of publication and P100 million in money claim of the Philippine National Construction Corporation for unpaid services adjudicated by the Office of the Government Corporate Counsel as affirmed by the Department of Justice and Office of the President, with money claim already filed with the Commission on Audit in 2012; d) cost of the completed rehabilitation of the NAIA Terminal 1 in the amount of P1.106 billion and the corresponding depreciation thereof; e) depreciation from 2008 to 2016 on the NAIA Terminal III Building costing P12.807 billion; f) installment sale for P569.66 million of a MIAA property costing P56.966 million to the Department of Public Works and Highways in 2012; g) impairment loss on the capitalized cost of the aborted Panglao-Bohol International Airport Development Project of P175.19 million, the original concept of which was restructured and now placed under the Public-Private Partnership scheme, with all the procurement activities related to the latter already completed; and h) transfer to MIAA of a 22.3-hectare property of the Nayong Pilipino Foundation in Pasay City 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 paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Manila International Airport Authority as at December 31, 2016 and 2015, 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 30 to the financial statements which describes the uncertainties related to pending cases in several courts involving various claims against the Authority. Because of the significance of the matters described in the Basis for Adverse Opinion paragraph, it is inappropriate to, and we do not, express an opinion on the information referred to above.

Other Matters

In our report, dated May 30, 2016, we expressed an opinion that the 2015 financial statements did not fairly present the financial position, results of operations and cash flows of Manila International Airport Authority in accordance with state accounting principles generally accepted in the Philippines because of various departures, among which is the non-recognition of the financial impact of the Supreme Court's decision ordering the payment of P24.5 billion relative to the PIATCO case. As discussed in Note 20 to the financial statements, the Authority has already recognized the effects of the same and restated the 2015 financial statements to conform to state accounting principles generally accepted in the Philippines. Accordingly, our present opinion on the restated 2015 financial statements, as presented herein, is no longer modified concerning this matter.

Report on the Supplementary Information Required Under BIR Revenue Regulations 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 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. Because of the significance of the matters described in the Basis for Adverse Opinion paragraph, it is inappropriate to, and we do not, express an opinion on the information referred to above.

COMMISSION ON AUDIT

JOSE DENNIS G. ISIP
Supervising Auditor

May 30, 2017

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, 2016 and 2015 and for each of the two years in the period ended December 31, 2016. 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.

ARLENE B. BRITANICO
Officer-In-Charge
Office of the Assistant General Manager
for Finance and Administration

EDDIE V. MONREAL
General Manager
JUL 13 2017

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015
(in Philippine Peso)

	Note	2016	2015 (As restated)
ASSETS			
Current Assets			
Cash and cash equivalents	3	**12,546,145,879**	9,585,613,543
Short-term investments	4	**500,000,000**	1,702,682,678
Receivables, net	5	**2,368,825,331**	2,679,556,680
Prepayments	6	**466,025,984**	551,476,058
Other current assets	7	**5,490,934**	5,490,934
Total Current Assets		**15,886,488,128**	14,524,819,893
Non-Currrent Assets			
Investments in stocks	8	**12,505,000**	12,505,000
Property and equipment, net	9 & 20	**27,628,348,142**	28,348,501,361
Investment property, net	10	**41,270,757**	43,890,141
Other non-current assets	11	**475,196,762**	5,102,556,722
Total Non-Current Assets		**28,157,320,661**	33,507,453,224
TOTAL ASSETS		**44,043,808,789**	48,032,273,117
LIABILITIES AND EQUITY			
Current Liabilities			
Due to PIATCO	12	**0**	25,601,801,593
Payables	13	**3,321,235,310**	2,241,151,695
Inter-agency payables	14	**1,458,773,197**	1,492,170,053
Current portion of loans payable-domestic	16	**488,227,800**	488,227,800
Current portion of loans payable-foreign	17	**378,337,407**	350,231,816
Other current liabilities	15	**1,099,787,373**	1,043,727,005
Total Current Liabilities		**6,746,361,087**	31,217,309,962
Non-Current Liabilities			
Loans payable-domestic	16	**2,197,025,100**	2,685,252,900
Loans payable-foreign	17	**2,266,681,642**	2,442,708,284
Total Non-Current Liabilities		**4,463,706,742**	5,127,961,184
Deferred Credits	18	**752,994,427**	734,936,189
Equity		**32,080,746,533**	10,952,065,782
TOTAL LIABILITIES AND EQUITY		**44,043,808,789**	48,032,273,117

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY

STATEMENTS OF PROFIT OR LOSS

For the Years Ended December 31, 2016 and 2015

(in Philippine Peso)

	Note	2016	2015 (As Restated)
OPERATING INCOME			
Business income	22	**11,562,559,543**	10,114,835,142
Service income	23	**353,135,186**	303,123,654
		11,915,694,729	10,417,958,796
National Government share on MIAA's gross income	24	**(1,482,860,915)**	(1,225,040,021)
MIAA'S SHARE ON OPERATING INCOME		**10,432,833,814**	9,192,918,775
OPERATING EXPENSES			
Personal services	25	**776,310,651**	726,061,962
Maintenance and other operating expenses	26	**4,417,531,832**	4,209,727,948
		5,193,842,483	4,935,789,910
PROFIT FROM OPERATIONS		**5,238,991,331**	4,257,128,865
OTHER INCOME (EXPENSES)			
Interest income		**355,635,597**	91,601,409
Gain on foreign exchange		**178,476,810**	105,503,561
Miscellaneous income		**62,425,351**	52,827,779
Gain (loss) on sale of disposed assets		**(2,231,232)**	308,565
Financial expenses		**(257,814,814)**	(285,435,486)
		336,491,712	(35,194,172)
PROFIT BEFORE INCOME TAX		**5,575,483,043**	4,221,934,693
Income Tax Expense		**(1,756,030,594)**	(1,276,109,083)
NET PROFIT AFTER TAX		**3,819,452,449**	2,945,825,610
Subsidy from National Government - DOTr - PIATCO	27	**20,475,836,716**	0
Other Maintenance and Operating Expenses - PIATCO	28	**(1,007,155,584)**	(770,381,618)
NET PROFIT		**23,288,133,581**	2,175,443,992

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2016 and 2015

(in Philippine Peso)

	Note	Government Equity	Retained Earnings	Total
Balances, December 31, 2014		7,191,934,321	15,110,813,241	22,302,747,562
Correction of prior years' errors	20	0	-11,947,667,945	-11,947,667,945
Balances, December 31, 2015 (As restated)		7,191,934,321	3,163,145,296	10,355,079,617
Changes in Equity for 2015				
Net profit for the year (As restated)	20	0	2,175,443,992	2,175,443,992
Dividends declared		0	-1,578,457,827	-1,578,457,827
Balances, December 31, 2015 (As restated)		**7,191,934,321**	**3,760,131,461**	**10,952,065,782**
Changes in Equity for 2016				
Net profit for the year		0	23,288,133,581	23,288,133,581
Dividends declared		0	-2,159,452,830	-2,159,452,830
Balances, December 31, 2016		**7,191,934,321**	**24,888,812,212**	**32,080,746,533**

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Note	2016	2015 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Subsidy received from NG thru DOTr		**20,475,836,716**	0
Income from operations		**12,241,969,349**	9,962,363,029
Trust receipts		**2,467,864,463**	3,126,641,921
Interest income on bank deposits		**138,679,611**	73,549,746
Miscellaneous income		**117,354,602**	277,186,773
Payment of operating expenses		**-4,050,177,606**	(4,524,157,980)
Remittance of trust receipts		**-3,191,052,702**	(2,907,199,442)
Remittance of share of National Government		**-1,433,430,734**	(898,146,018)
Advances to other agencies		**-12,528,741**	(18,399,216)
Advances to officers and employees		**-9,278,302**	(9,392,505)
Net cash generated from operations		**26,745,236,655**	5,082,446,308
Corporate income tax paid		**-1,462,017,930**	(1,079,527,139)
Net cash provided by operating activiies		**25,283,218,725**	4,002,919,169
CASH FLOWS FROM INVESTING ACTIVITIES			
Pre-termination of escrow deposits		**4,927,364,960**	0
Proceeds of short-term investments	4	**1,202,682,678**	0
Interest earned on escrow deposits		**224,967,563**	0
Just compensation - T3 building (from NG Subsidy)		**-20,400,278,997**	0
Just compensation - T3 building (from MIAA Fund)		**-5,839,603,947**	0
Acquisition of property and equipment		**-109,911,401**	(750,157,197)
Proceeds from sale of property and equipment		**0**	5,837,095
Net cash used in investing activities		**-19,994,779,144**	-744,320,102
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(1,578,994,797)**	(1,312,538,020)
Debt servicing		**(1,140,263,265)**	(947,536,022)
Net cash used in in financing activities		**-2,719,258,062**	-2,260,074,042
Effects of exchange rate changes on cash and cash equivalents		**391,350,817**	126,445,441
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,960,532,336**	1,124,970,466
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	21	**9,585,613,543**	8,460,643,077
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**12,546,145,879**	9,585,613,543

See accompanying Notes to Financial Statements.

1. INTRODUCTION

The Manila International Airport Authority (MIAA), an attached agency of the Department of Transportation (DOTr), 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 percent to 20 percent of its annual operating income excluding utilities and terminal fee collections; and (d) appointed the Government Corporate Counsel and/or the Solicitor General as legal counsel of the Authority.

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 (P5 million and above) completed in CY 2016:

- Retrofitting of Medium Voltage Switchgears Minimum Oil Circuit Breakers and Protection Relays at Main Electrical Room T1;
- Maintenance and Calibration of VIS 108 and Examiner EDS of Level 1, 2 & 3 In Line X-ray Machine;
- Purchase of Digital Trunked Radio System;
- Improvement of Offices at Former PAL Mabuhay Lounge at NAIA Terminal 1;
- Commissioning of MIAA Telephone System at NAIA Terminals 1, 2, 4, Airport Police Department Headquarters and Fire & Rescue Building;
- Upgrading of Cooling Tower at the South Concourse, NAIA Terminal 3;
- Retrofitting of Public CR at NAIA Terminal 2;

- Installation of Fixed Tempered Glass Partition and Stainless Steel Base Board at Custom Area-Arrival Level, NAIA Terminal 1;

- Construction of Public Waiting Lounge at NAIA Terminal 1; and

- Replacement of Roofing and Repair of Ceiling at Baggage Build-up Areas T4.

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.

The Authority has adopted the conversion of the accounts to the Revised Chart of Accounts (RCA) for Government Corporations effective CY 2016.

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 Impairment

Allowance for impairment is computed at ten percent of the total trade receivables, current and non-current and 100 percent 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 percent of the acquisition cost/appraised value is deducted before dividing the same by the estimated useful life.

Recognition of Income and Expenses

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

- 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:

	2016	2015
Cash on Hand (Collecting Officer/Petty Cash)	**205,142,338**	26,831,261
Savings Account – Dollar and Peso	**779,828,108**	636,967,085
Current Account – Dollar and Peso	**277,059,154**	377,823,933
Time Deposits – Peso	**11,284,116,279**	8,543,991,264
	12,546,145,879	9,585,613,543

Foreign currency/dollar deposits are revalued at P49.80 and P47.20 to US$1.00 as of December 31, 2016 and 2015, respectively.

4. SHORT-TERM INVESTMENTS

Short-term Investments pertains to investments in peso time deposits with Authorized Government Depository Bank (AGDBs) for a period of 91 days or more of P500 million in CY 2016 and P1.702 billion in CY 2015. The decrease was due to the maturity of the investments.

5. RECEIVABLES

This account consists of the following:

	2016	2015
Trade Receivables		
Non-Government Entities	**2,420,284,658**	2,598,579,788
Government Owned and Controlled Corp.	**718,323,770**	749,955,685
National Government Agencies (NGAs)	**26,407,383**	24,389,885
	3,165,015,811	3,372,925,358
Allowance for Impairment	**(1,721,642,240)**	(1,635,607,440)
	1,443,373,571	1,737,317,918
Non-Trade Receivables		
Local Government Unit (LGU)	**100,004,438**	100,004,438
National Government Agencies (NGAs)	**18,912,317**	20,819,224
Bureau of the Treasury (BTr)	**5,986,008**	0
	124,902,763	120,823,662
Other Receivables		
Passenger Terminal Fee	**346,845,343**	359,840,070
COA Disallowances	**169,111,807**	170,425,174
Interest Receivables	**14,067,783**	32,594,133
Others	**270,524,064**	258,555,723
	800,548,997	821,415,100
	2,368,825,331	2,679,556,680

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, to the DBM Procurement Service and to the National Printing Office.

Non – Trade Receivables BTr pertains to 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, which consist mainly of 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 in the books due to the finality of the COA decisions (Note 18).

Other Receivable consists mainly of the 12 percent expanded value-added tax(EVAT) billed to concessionaires amounting to P270.15 million in 2016 and P258.25 million in 2015.

6. PREPAYMENTS

This account consists of the following:

	2016	2015
Withholding Tax at Source	**168,051,133**	146,456,589
Creditable Input Taxes	**146,277,702**	225,468,217
Deferred Charges	**82,804,963**	82,804,963
Advances to Contractors	**42,541,122**	49,765,879
Inventories	**13,418,698**	17,180,976
Prepaid Insurance	**12,930,326**	23,717,236
Advances to Officers and Employees	**2,040**	6,082,198
	466,025,984	551,476,058

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.

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

7. OTHER CURRENT ASSETS

This account consists of the following deposits:

	2016	2015
Guaranty Deposits	**5,202,376**	5,202,376
Deposit on Letters of Credit	**288,558**	288,558
	5,490,934	5,490,934

8. INVESTMENTS IN STOCKS

This account represents investment in stocks of the following:

	2016	2015
PASSCOR	**11,850,000**	11,850,000
ASTI	**655,000**	655,000
	12,505,000	12,505,000

Investment in Philippine Aviation Security Corporation (PASSCOR), an affiliate corporation engaged in aviation security at the Ninoy Aquino International Airport (NAIA), pertains to the 137,500 shares at P100 per share, or a total amount of P13.75 million, acquired by the Authority in March 1995. A total of 118,500 shares amounting to P11.850 million were paid representing 39.5 percent of the total PASSCOR capital.

Investment in Aviation Security and Training Inc. (ASTI) pertains to the Authority's P655,000 investment in stocks of ASTI, a wholly-owned, non-operational subsidiary of the Authority created in March 26, 2003. The amount is deposited with the Philippine National Bank and will be requested for transfer to MIAA's account upon approval of ASTI's dissolution.

9. PROPERTY AND EQUIPMENT

This account consists of the following:

	LAND AND LAND IMPROVEMENT /AIRPORT SYSTEM	CONSTRUCTION IN PROGRESS	BUILDING & STRUCTURES	MACHINERY & EQUIPMENT/ OTHER PPE	TOTAL
At December 31, 2015					
Cost	13,630,824,873	486,743,927	21,691,874,259	7,105,774,636	42,915,217,695
Accumulated Depreciation	(5,633,755,954)	0	(4,085,524,198)	(4,847,436,182)	(14,566,716,334)
Net Book Value *(As restated)*	**7,997,068,919**	**486,743,927**	**17,606,350,061**	**2,258,338,454**	**28,348,501,361**
Year Ended December 31, 2016					
Opening Net Book Value (As restated)	7,997,068,919	486,743,927	17,606,350,061	2,258,338,454	28,348,501,361
Adjustments/Additions	0	(23,951,814)	0	334,959,637	311,007,823
Disposals	0	0	0	(3,243,230)	(3,243,230)
Depreciation	(95,886,293)	0	(626,576,856)	(305,454,663)	(1,027,917,812)
Closing Net Book Value	**7,901,182,626**	**462,792,113**	**16,979,773,205**	**2,284,600,198**	**27,628,348,142**
At December 31, 2016					
Cost	13,630,824,873	462,792,113	21,691,874,259	7,437,491,043	43,222,982,288
Accumulated Depreciation	(5,729,642,247)	0	(4,712,101,054)	(5,152,890,845)	(15,594,634,146)
Net Book Value	**7,901,182,626**	**462,792,113**	**16,979,773,205**	**2,284,600,198**	**27,628,348,142**

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 but exclusive of the 22.3 hectares from the Nayong Pilipino Foundation (NPF) and the 56,966 square meters transferred to the Department of Public Works and Highways (DPWH) as discussed below.

On September 29, 2011, President Benigno Aquino III signed EO 58 mandating the transfer of real estate property owned by the NPF to the Authority which consists of 22.3 hectares, more or less, located in Pasay City. The owner's duplicate copies of the Transfer Certificates of Title (TCTs) are under the custody of the NPF and have not been transferred to MIAA; hence, the property is unrecorded in its books. Further, pursuant to Section 3 of EO903, s. of 1983 (MIAA's Charter), the Office of the President, on December 11, 2013,approved the request of the 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 P502.726 million and this was recorded under "Deferred Credits" (Note 18) in the absence of the contract or deed of absolute sale.

The net book value in 2015 was restated due to the effect of correction in 2015 of assets amounting to P7.043 billion shown under *Building and Structures* account. There is no effect in 2016 (Note 20).

10. INVESTMENT PROPERTY

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

	2016	2015
Cost	**334,126,026**	334,126,026
Accumulated Depreciation	**(292,855,269)**	(290,235,885)
	41,270,757	43,890,141

11. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2016	2015
Restricted Fund Assets	**300,005,000**	4,927,364,960
Other Assets	**175,191,762**	175,191,762
	475,196,762	5,102,556,722

Restricted Fund Assets balance in CY 2016 represents fund transfer from the Department of Transportation (DOTr) for the implementation of the Rapid Exit Taxiways Project (Note 12), while the balance in CY 2015 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 to cover payment of just compensation on the NAIA Terminal 3 expropriation case. These escrow accounts were pre-terminated in 2016 due to the settlement of the accounts due to PIATCO.

Other Assets represents the capitalized cost of the Panglao-Bohol International Airport Development Project. The project was suspended by the DOTr in 2010 and has been set aside by the government which decided to pursue the same under the Public-Private Partnership (PPP) scheme.

12. DUE TO PIATCO

This represents payable to PIATCO which consists of:

	2016	2015
Capital outlay-building	**0**	12,882,979,370
Interest from September 2006 to December 2015	**0**	12,426,299,569
Refund of annual guarantee fee	**0**	292,522,654
	0	25,601,801,593

These were settled in 2016 (Notes 20 and 29).

13. PAYABLES

This account consists of the following:

	2016	2015
Accounts Payable	**1,064,178,001**	552,262,230
Dividends Payable	**2,158,915,860**	1,578,457,827
Interest Payable	**69,588,311**	83,774,333
Due to Officers and Employees	**28,553,138**	26,657,305
	3,321,235,310	2,241,151,695

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 percent 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 to the Bureau of the Treasury (BTr), pursuant to RA 7656, dated November 9, 1993. Section 3 of this Act requires government-owned or controlled corporations to declare and remit at least 50 percent 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 timing of remittance, to wit: "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 P1.578 billion in CY 2015 was remitted to the BTr on March 22, 2016.

14. INTER-AGENCY PAYABLES

This account consists of the following:

	2016	2015
Due to BIR	**644,030,582**	537,106,628
Due to BTr	**436,851,815**	834,641,953
Due to GSIS	**9,126,891**	9,471,954
Due to Pag-IBIG	**1,622,403**	1,669,009
Due to PhilHealth	**1,911,932**	650,025
Due to Other NGAs	**365,229,574**	108,630,484
	1,458,773,197	1,492,170,053

Due to Bureau of Internal Revenue (BIR) represents corporate income tax, Value-Added Tax and taxes withheld.

Due to Bureau of the Treasury (BTr) represents the National Government's and the Office for Transportation Security's (OTS) unremitted share on the following:

	2016	2015
Authority income	372,960,022	613,304,905
Terminal fees	52,114,003	183,665,378
OTS share on domestic terminal fees	11,777,790	37,671,670
Total	436,851,815	834,641,953

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 National Government Agencies (NGAs) account balances as of December 31, 2016 represents mainly the P300 million transfer of funds from the DOTr for Rapid Exit Taxiways Project on December 22, 2016 (Note 10), and the unremitted share of the Office for Transportation Security (OTS) on international terminal fees of P62.87million for CY 2016 and P100.72 million for CY 2015.

EO 277, dated January 30, 2004, created the OTS within the Department of Transportation and Communication (DOTr) and reconstituted the National Council for Civil Aviation Security (NCCAS) as the National Civil Aviation Security Committee (NCASC). Section 2 of EO 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 EO 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) No. 99-53, later amended by MIAA BR 2005-078, following the mandate of EO 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 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 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.

EO 298, dated July 26, 1987, amending Section 11 of EO 903, dated July 21, 1983, provides: "Within 30 days after the close of each quarter, twenty per centum (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 24).

15. OTHER CURRENT LIABILITIES

This account consists of the following:

	2016	2015
Customers' Deposit Payable	**399,107,572**	371,839,778
Guaranty/Security Deposits Payable	**59,844,071**	51,007,360
Tax Refund Payable	**30,610,676**	30,818,921
Other Payables	**610,225,054**	590,060,946
	1,099,787,373	1,043,727,005

Customers' Deposits Payable represents the airport lessees' and/or concessionaires' deposits equivalent to two (2) months or as stated in the contract/temporary permit; while *Guaranty/Security Deposits 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.

16. LOANS PAYABLE - DOMESTIC

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

	2016	2015
LBP PN No. 4808 TL12 4076 000 dtd. April 11, 2012	**1,586,740,350**	1,830,854,250
DBP PN No. 2012-29-021 dtd. April 11, 2012	**1,586,740,350**	1,830,854,250
Less: Semi-annual amortizations	**(488,227,800)**	(488,227,800)
	2,685,252,900	3,173,480,700
Less: Current Portion	**(488,227,800)**	(488,227,800)
	2,197,025,100	2,685,252,900

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 percent interest per annum (subject to quarterly re pricing) and penalty charge of 12 percent 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.

17. LOANS PAYABLE – FOREIGN

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

	2016	2015
French Loan to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal 2 contracted with Natixis (formerly Credit Nacionale)		
FF 4,309,287 = Euro 656,946.76 = US $ 683,684.49 @ 49.80	**31,121,655**	
FF 4,671,786 = Euro 712,209.37 = US $ 782,077 @ 47.20		36,914,040
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 6,151,166,000 = US $ 52,487,899 @ P 49.80	**2,613,897,394**	
Y 7,029,904,000 = US $ 58,390,383 @ P 47.20		2,756,026,060
	2,645,019,049	2,792,940,100
Less: Current Portion	**(378,337,407)**	(350,231,816)
	2,266,681,642	2,442,708,284

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 percent 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 percent 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 percent interest per annum including 2 percent spread of the National Government.

18. DEFERRED CREDITS

This account pertains to the following:

	2016	2015
Contra Acct. of Receivables-COA Disallowances	**169,111,807**	170,425,174
Others	**583,882,620**	564,511,015
	752,994,427	734,936,189

Contra Acct. of Receivables-COA Disallowances (Note 5) decreased due to partial settlements made.

Deferred Credits-Others pertains to the airport lessees' and/or concessionaires' one month advance rental/concessions privilege fee. The account also includes the partial payments made by DPWH in CY 2013 to CY 2016 for the transfer through sale in the amount of P569.66 million of MIAA property consisting of 56,966 square meters, 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 9).

19. GOVERNMENT EQUITY

This account includes the value of assets transferred to the Authority by the then Air Transportation Office, now Civil Aviation Authority of the Philippines, and the then Department of Transportation and Communications, now Department of Transportation. 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 EO 298.

20. EFFECT OF PRIOR-PERIOD ERRORS – RE: PIATCO

The financial statements for CY 2015 have been restated to correct errors on the financial information due substantially to the PIATCO case (Note 29). The effects of the restatement on the CY 2015 financial statements are summarized below.

Effect on net profit

As previously reported	2,945,825,610
Increase in other maintenance and operating expense – PIATCO representing interest for 2015 (Note 28)	(770,381,618)
As restated	2,175,443,992

Effect on opening balance of property and equipment for 2015

Net book value as previously reported	15,465,521,991
Increase in buildings under property and equipment account (Note 12)	12,882,979,370
As restated	28,348,501,361

Effect on opening balance of retained earnings for 2015

Balance, December 31, 2014	15,110,813,241
Adjustments:	
Increase in maintenance and other operating expenses – PIATCO representing interests for the period September 2006 to December 2014	(11,655,917,951)
Refund of annual guarantee fee to PIATCO	(292,522,654)
Donated capital closed to retained earnings	772,660
As restated, January 1, 2015	3,163,145,296

The annual guarantee payment represents concession privilege fee paid by PIATCO in 1998 pursuant to the concession agreement entered into between the National Government and the latter, premised on the operation of the NAIA Terminal 3 and precautionary earnings thereat. This was refunded in 2016 in view of the nullification of the concession contract and the expropriation of the NAIA T3 by the Government.

Donated capital consists of various equipment that were turned over and donated to the Authority by the DOTr and Duty Free Philippines in the amount of P.44 million and P.33 million, respectively, for use at NAIA Terminal 1.

21. RECLASSIFICATION OF CY 2015 ACCOUNT BALANCES DUE TO THE ADOPTION OF THE RCA FOR GCs

The Authority has adopted the conversion of the accounts to the Revised Chart of Accounts (RCA) for the Government Corporations effective 2016 as prescribed under COA Circular no. 2015-010 dated December 1, 2015. The 2015 accounts balances were reclassified to conform with the 2016 financial statements presentation, as follows:

As previously classified	Reclassification	Note	As reclassified
Time deposit - peso	Short-term investments	7	1,702,682,678
Advances to officers and employees	Prepayments	5	6,082,198
Creditable input taxes	Prepayments	5	225,468,217
Deposits on letters of credit	Other current assets	6	228,558
Work/Zoo animals	Other property, plant and equipment	9	10,362,317
Other long-term liabilities	Other payables	15	434,517
Other service income	Royalty fees	22	95,317,680
Other service income	Fines and penalties – business income	22	29,622,795

The effect of the reclassification of time deposit – peso account to short-term investments is shown as an adjustment to the opening balance of cash and cash equivalents at January 1, 2015, as follows:

As previously reported	10,163,325,755
Reclassification to short-term investments	(1,702,682,678)
As restated	8,460,643,077

22. BUSINESS INCOME

This account consists of following:

	2016	2015
Transportation System Fees	**4,200,105,297**	3,924,312,746
Landing and Parking Fees	**3,265,597,656**	2,870,194,871
Rent/Lease Income	**2,337,513,305**	1,865,368,540
Service Concession Revenue	**1,540,307,610**	1,330,018,510
Royalty Fees	**98,607,582**	95,317,680
Fines and Penalties – Business Income	**120,428,093**	29,622,795
	11,562,559,543	10,114,835,142

23. SERVICE INCOME

This account consists of following:

	2016	2015
Other Service Income	**346,889,443**	297,962,951
Fines and Penalties – Service Income	**6,245,743**	5,160,703
	353,135,186	303,123,654

Other Service Income represents income from parking fees amounting to P283.033 million in CY 2016 and P239.794 million in CY 2015; from visitors' stick-on pass of P8.401 million in CY 2016 and P7.994 million in CY 2015; and 15 percent service fee for utilities of P55.455 million in CY 2016 and P50.174 million in CY 2015.

24. NATIONAL GOVERNMENT SHARE ON MIAA'S GROSS INCOME

This represents the 20 percent 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 EO 298 dated July 26, 1987, computed as follows:

	2016	2015
Landing & Parking Fees (Aeronautical Fees)	**3,546,748,753**	2,799,444,667
Rentals	**2,045,046,993**	1,720,140,832
Other Business Income (Concession Privilege Fees)	**1,328,297,384**	1,215,575,362
Other Service Income (Miscellaneous Revenues)	**494,211,447**	390,039,245
	7,414,304,577	6,125,200,106
Rate of Government's Share	**20%**	20%
National Government's Share	**1,482,860,915**	1,225,040,021

25. PERSONAL SERVICES

This account consists of the following:

	2016	2015
Salaries and Wages	**318,903,248**	330,415,435
Other Compensation		
Overtime and Night Differential	**115,886,205**	100,718,734
Personal Economic Relief Allowance	**30,100,783**	31,108,900
Year-end Bonus	**27,250,888**	28,275,225
Representation Allowance	**17,309,180**	18,423,249
Clothing/Uniform Allowance	**11,477,709**	9,026,575
Hazard Pay	**9,905,651**	10,277,522
Cash Gift	**6,292,718**	6,479,799
Honoraria	**400,000**	0
Subsistence Allowance	**59,775**	64,050
Productivity incentive Allowance	**2,000**	2,552,000
Other Bonuses and Allowances	**105,638,139**	128,796,030
Personal Benefits Contribution		
Life and Retirement Insurance Contribution	**39,098,273**	40,428,733
PhilHealth Contribution	**3,813,838**	3,888,650
ECC Contribution	**1,517,100**	1,573,900
Pag-IBIG Contribution	**1,514,800**	1,573,500
Other Personnel Benefits		
Terminal Leave	**4,545,969**	2,745,325
Retirement Benefits	**1,838,224**	0
Other Personnel Benefits	**80,756,151**	9,714,335
	776,310,651	726,061,962

26. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2016	2015
Depreciation	**1,030,537,196**	640,342,715
Utility Expenses	**693,786,659**	761,139,976
Repairs and Maintenance	**652,250,658**	840,409,906
General Services	**538,185,267**	526,804,579
Professional Services	**468,170,762**	756,181,952
Taxes, Insurance Premiums and Other Fees	**208,273,057**	65,535,449
Rent Expenses	**185,400,485**	184,629,819
Service Fee	**179,634,234**	158,187,737
Supplies and Materials	**95,377,244**	113,730,836
Impairment Loss	**86,034,800**	63,445,024
Extraordinary and Miscellaneous Expenses	**33,101,142**	45,266,112
Communication Expenses	**11,825,589**	11,488,557
Donations	**8,000,115**	191,580
Membership Dues and Contributions to Organizations	**1,999,988**	1,860,807
Representation Expenses	**1,231,902**	1,515,629
Traveling Expenses	**1,125,028**	1,429,456
Subscription Expenses	**1,000,738**	892,681
Training Expenses	**942,842**	1,539,132
Advertising Expenses	**733,576**	557,030
Subsidy to Other Funds	**0**	30,584,284
Loss of Asset	**0**	3,985,511
Other Maintenance & Operating Expenses - PIATCO	**219,920,550**	9,176
	4,417,531,832	4,209,727,948

Other Maintenance & Operating Expenses represents substantially to the amount of documentary stamp tax refunded the PIATCO pertaining to the settlement of the NAIA Terminal 3 expropriation case paid out of MIAA funds (Note 29).

27. SUBSIDY FROM THE NATIONAL GOVERNMENT – DOTr - PIATCO

This represents National Government subsidy to MIAA, through the Department of Transportation (DOTr), to cover the total just compensation payable to PIATCO pursuant to the April 19, 2016 Resolution by the Supreme Court (SC) in the consolidated cases relative to the expropriation of the NAIA Terminal 3 (T3) Facilities (Notes 29).

28. OTHER MAINTENANCE AND OPERATING EXPENSES – RE: PIATCO

This account includes interests amounting to P576.734 million in 2015 and P770.381 million in 2016 which are part of the total amount of just compensation payable to PIATCO as adjudged by the SC. It also includes documentary stamp taxes in the amount of P430.422 million in 2016 paid out of subsidy from NG.

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

In the April 19, 2016 Resolution by the SC in the consolidated cases (G.R. Nos. 181892, 209917, 209696, and 209731) relative to the expropriation of the NAIA Terminal 3 (T3) Facilities, it ruled that full ownership over the terminal facility shall be vested in the Republic of the Philippines, represented by the DOTr and MIAA, upon full payment of just compensation with legal interest as adjudged by the SC. Consequently, the Department of Budget and Management (DBM), through the DOTr, released to MIAA the amount of P20.475 billion under Special Allotment Release Order (SARO) BMB – A – 16 – 0027108, dated September 23, 2016, to cover the total just compensation payable to PIATCO.

On September 30, 2016, MIAA paid PIATCO the full amount of just compensation, net of applicable taxes due thereon. However, the latter filed its claim against MIAA for refund of documentary stamp tax deducted from its claim amounting to P218.311 million (which includes adjustment on interest computation of P.434 million) considering that it is the government agency implementing the expropriation that should be liable for said taxes, as concurred by the OSG. The amount was setup as liability in 2016 and refunded by MIAA in February 2017 (Note 26).

PIATCO has still a pending claim with MIAA for refund of the 5 per cent Final Withholding VAT and the 6 percent Creditable Withholding Tax totaling P3.202 billion on the ground that the just compensation as adjudged by the SC is VAT exclusive. PIATCO's claim was referred to the OSG for opinion/concurrence.

30. OTHER MATTERS

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

The 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 Court (RTC) 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, RTC, 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 for refund, estimated at P1.2 billion, are still subject to: the approval of the Office of the Government Corporate Counsel and the adjudication of the money claims by COA.

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) 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, or 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 and reducing from 12% to 6% 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.

3) 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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31. SUPPLEMENTARY INFORMATION REQUIRED UNDER BIR REVENUE REGULATIONS 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 P957,370,833 for the year based on the amount reflected in the Sales Account of P7,978,090,275.

   The Authority has zero-rated sales amounting to P3,015,440,267 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	225,468,217
b. Current year's purchases	
I. Goods for resale/manufacture or further processing	n/a
II. Goods other than for resale or manufacture	22,540,118
III. Capital goods subject to amortization	13,632,133
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	293,598,690
	329,770,941
c. Claims for tax credit/refund and other adjustments	
I. Prior year's set-up/accrual	1,412,004
II. Current year's set-up/accruals	2,842,216
III. Cancelled checks/transactions and adjustments	(27,013,005)
IV. Available input tax and tax deferred for succeeding period	(386,202,670)
	(408,961,455)
d. Balance at the end of the year	146,277,703

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

I. Tax on compensation benefits	73,889,766
II. Creditable withholding taxes	57,581,362
III. Final withholding taxes	25,390,156
IV. Value-Added Tax and Other Percentage taxes withheld	1,578,751,132

4. Schedule of Other Taxes and Licenses

Documentary Stamp Tax	142,753,871
Network / Radio station license and RLM certificate (NTC)	931,056
Airport Coordination Australia (Annual Admin Fee)	209,330
Registration / Emission Testing and Inspection (LTO)	171,050
Tax on French Loan & adjustment of Foreign Exchange	91,484
Community Tax (Pasay City Treasurer)	10,500
Firearms license (LBP for the acct. of PNP firearms)	1,140
Annual VAT Registration	500

COMMENTS AND RECOMMENDATIONS

1. **The increase in asset value of the Ninoy Aquino International Airport (NAIA) Terminal 1 due to the completion of its P1.106 billion rehabilitation by the then Department of Transportation and Communications (DOTC) has yet to be recognized in the Authority's books of accounts.**

   On December 29, 2011, a Memorandum of Agreement (MOA) was executed by and between the DOTC and MIAA for the NAIA Terminal 1 Rehabilitation Project which included, among others, the terminal's architectural and interior design, structural retrofit, complete rehabilitation of comfort room facilities and the construction of rapid exit taxiways. The MOA required the DOTC to cause the release of P1.106 billion from the National Government to the Authority (the implementing agency) to cover the cost of said Project. The DOTC shall be responsible for the conduct of the bidding of the different components of the Project, and for the inspection and acceptance thereof upon completion. On the other hand, MIAA shall prepare the Terms of Reference, implement the project components, make payments and submit liquidation reports to DOTC, and operate and maintain the project components after its turnover by the DOTC.

   On December 24, 2011, the DOTC transferred the amount of P1.102 billion to MIAA pursuant to the Department's Letter of Advice of Allotment Release bearing the same date. On February 7, 2012, the COA Auditor's Office at the DOTC issued an audit observation memorandum regarding the validity of the MOA and propriety of the fund transfer since the Project is not included in the Approved Procurement Plan of DOTC for FY 2011 contrary to Section 7.2 of the Revised Implementing Rules and Regulations of Republic Act 9184. On March 30, 2012, the DOTC instructed MIAA to transfer the project fund to the Bureau of Treasury pending the implementation of the Project. The Authority, in its letter dated May 16, 2013 to the DOTC Secretary, recommended that the Project be funded, procured, executed and implemented by the Department. Thereafter, the MOA was cancelled in 2013 and the P1.102 billion fund was reverted back to DOTC's general fund.

   The Project, now under the supervision and control of the DOTC, finally commenced during the first quarter of 2014 and was completed by the fourth quarter of 2015. While we have not been furnished copies of documents relative to the terminal's final turnover from the DOTC to MIAA, it appears that the renovation project has been implemented as planned. The Authority continues to control, operate and maintain the refurbished terminal, and reaps the benefits from the improved property.

   In light of the asset recognition principles presently obtaining, and to appropriately record events/transactions in the periods wherein they occur, we recommended that the increase in the value of Terminal 1 and its corresponding depreciation be taken up in the books of accounts of the Authority.

   Management Comment

   Management informed that, upon consultations with the DOTr, NAIA Terminal 1 will eventually be turned over to the MIAA upon acceptance by the former of the Project from the contractor. The DOTr has committed to provide the necessary documentation as basis for recording the asset in MIAA's books as soon as it becomes available.

2. **The Panglao-Bohol International Airport Development Project (PBIADP) lodged in the Other Assets account with a carrying amount of P175.19 million was not provided an impairment loss resulting in its non-presentation at not more than its recoverable value as required by Philippine Accounting Standard (PAS) 36.**

   PAS 36 requires that an entity assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset and make the corresponding adjustments to reflect its recoverable value.

   In 2008, the Authority was tapped to principally fund the PBIADP pursuant to Memorandum Order No. 282 of the President of the Philippines. Executive Order No. 341, which empowers MIAA to exercise administrative supervision and control over all international airports including others that may be established in the Philippines, was deemed as basis for the issuance of said Memorandum.

   The Authority initially envisioned the proposed P3.0 billion funding assistance to the PBIADP as an investment that may be recovered based on the projections of and approval by the National Economic Development Authority-Investment Coordination Committee (NEDA-ICC) which found the proposed project to be viable.

   In February 2009, MIAA entered into a consultancy contract with PHILJAC, INC. for the "Detailed Engineering, Design and Construction Management Supervision of the Proposed Panglao-Bohol Airport" in the amount of P290.22 million. However, MIAA suspended the implementation of the Project in July 2010 in view of the memorandum of then DOTC Secretary directing the Department and its attached agencies to hold in abeyance any implementation, action, or negotiation involving all procurement activities and projects carried over from the previous administration. Said directive caused Management to drop from the books of accounts the costs related to the Project amounting to P6.76 million in 2011, and P168.43 million in 2012 or a total of P175.19 million. The write-off of costs was raised as an audit issue in our Annual Audit Report for CY 2012 where we opined that said action may not be prudent given the absence of a solid indication that the Authority will not be able to recover its costs. The DOTC directive merely suspended the contract to enable it to conduct a review thereof and no conclusive decision to totally shelve the Project has been made. In 2014, Management favorably considered our position and reverted back the accounts previously written-off and reclassified the same as Other Assets.

   However, the Government, under then Aquino Administration, decided to discontinue or restructure the Project's original concept and came up with the "New Bohol (Panglao) Airport Operation, Maintenance and Development Project" and placed it under the Public-Private Partnership (PPP) scheme with the DOTC as implementing agency. As reflected in the Status of PPP Projects issued by the NEDA-PPP Center as of September 11, 2015, except for the award of the contract, all procurement activities related to the restructured Project have already been completed.

   In view of this development, we believe that there are convincing indications that the PBIADP has been impaired and that the recognition of an impairment loss has become necessary.

We recommended that Management recognize an impairment loss on the asset to ensure that it is carried at no more than its recoverable amount pursuant to PAS 36.

Management Comment

Management informed that the project concept for the PBIADP has been set aside because the previous administration decided to pursue the same via the PPP scheme. Consequently, the P175.19 million costs incurred had become totally unrecoverable. The Department of Transportation (DOTr) will be issuing a certification that the amount invested by the Authority can no longer be recouped, and this will be their basis for providing a 100 percent allowance for impairment loss on the asset.

3. The Authority has yet to determine the related income tax effect and dividend implication of the P20.475 billion National Government (NG) subsidy it received to cover the settlement of the NAIA Terminal 3 expropriation case, as well as the corresponding depreciation of the related asset account totalling P12.807 billion.

The April 19, 2016 Resolution by the Supreme Court (SC) in the consolidated cases (G.R. Nos. 181892, 209917, 209696 and 209731) relative to the expropriation of the NAIA Terminal 3 (T3) Facilities, ruled that full ownership over the terminal facility shall be vested in the Republic of the Philippines represented by the Department of Transportation (DOTr) and MIAA upon full payment of just compensation with legal interest as adjudged by the SC. Consequently, the Department of Budget and Management (DBM), through the DOTr, released to MIAA the amount of P20.475 billion under Special Allotment Release Order (SARO) BMB–A–16–0027108 dated September 23, 2016, to cover the total just compensation payable to the Philippine International Airport Terminals Co. (PIATCO). On September 30, 2016, MIAA paid the latter the full amount of P26.239 billion, P5.764 billion funded from MIAA's own funds, and the balance from the DBM.

Relative to this, we believe that there is sufficient basis for the Authority to determine the related income tax effect and dividend implication of the P20.475 billion NG subsidy which was recognized as income in the books in view of the following:

1) On tax on income, we cite pertinent provisions of the National Internal Revenue Code (NIRC), as amended, specifically:

   *1.a. "Section 23 (E). A domestic corporation is taxable on **all income** derived from sources within and without the Philippines." (Emphasis supplied)*

   1.b. "Section 31. Taxable Income Defined – The term "taxable income" means the pertinent items of gross income specified in this Code, less the deductions x xx, if any, authorized for such types of income by this Code or other special laws."

   *1.c. "Section 32. Gross Income - (A) General Definition – Except when otherwise provided in this Title, gross income means **all income derived from whatever source,** including (but not limited to) the following items x xx. " (Underscoring supplied)*

Further, the Code expressly enumerates the excluded items from gross income (tax-exempt items), and income from subsidy is not included in the enumeration.

2) On the definition of "net earnings" in computing the dividends due –

   The Revised Implementing Rules and Regulations (IRR) to Republic Act (RA) No. 7656 (2016), *"An Act Requiring Government–Owned or Controlled Corporations to Declare Dividends Under Certain Conditions to the National Government, and for Other Purposes,"* defined "net earnings" as income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 (now Section 34) of the NIRC, as amended, and income tax and other taxes paid thereon, but in no case shall any reserve for whatever purpose be allowed as a deduction from Net Earnings.

   Said Revised IRR redefined net earnings by explicitly not including program and tax subsidies from the definition of net earnings, **if included in the income statement as revenues, and actual disbursements of program subsidies treated as expenses (Section 3 (i), Paragraph 1).**

The P20.475 billion subsidy was recognized in the Statement of Profit or Loss as credit to Subsidy Income, while actual disbursements thereof, in the amount of P13.433 billion, treated as Other Maintenance and Operating Expenses – PIATCO in the amount of P 1.007 billion in 2016 and P770.381 million in 2015 and adjustment to the 2015 beginning balance of Retained Earnings of P11.656 billion. The remaining amount of P7.043 billion was taken up in the books as debit to the asset account (Buildings). It is apparent that the P7.043 billion or the capitalized portion of the program subsidy, should be considered part of net earnings in computing the dividends due the NG.

The asset account (Buildings) was also debited for P5.764 billion, funded from MIAA's own funds, to cover the full amount of just compensation of P26.239 billion upon settlement to PIATCO. This brings the cost of the asset to P12.807 billion.

We recommended that Management determine the effects on income tax and dividends due relative to the P20.475 billion NG subsidy to ensure that these are reflected in the financial statements and/or adjusted as appropriate. MIAA may likewise seek clarification regarding the issue with the concerned government agency (BIR/DOF). The corresponding depreciation on the related asset account of P12.807 billion from 2008 to 2016 should also be determined and recognized in the books of accounts.

Management Comment

Management stands by its position that the subsidy received from the National Government is not subject to tax. They have made representations with the BIR regarding the subsidy granted by the DBM for the PIATCO payment and according to them, the BIR will be issuing a written certification that the subsidy is not taxable.

4. **Provisions for estimated liabilities on the P100 million money claim of the Philippine National Construction Corporation (PNCC) and the P1.231 billion claims by lessees for refund of rental rate increases have not been recognized in the books contrary to PAS 37.**

Paragraph 14 of PAS 37 on "Provisions, Contingent Liabilities and Contingent Assets", states 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.

Contrary to the above Standard, we observed that the Authority did not recognize in its books any provision on the following:

1) *PNCC's P100 million money claim for unpaid services rendered in the construction and development of the Manila International Airport Development (MIAD) Project* –

PNCC undertook the construction and development of the MIAD Project from 1978 to 1982 pursuant to a contract entered into by the Construction Development Corporation of the Philippines (CDCP), its predecessor company, with the Civil Aviation Authority (CAA). Upon the abolition of the CAA, the Bureau of Air Transport (BAT) assumed the rights and obligations of the CAA in said Project. Subsequently, by virtue of Executive Order No. 903 dated July 21, 1983, the newly established MIAA took over the facilities, assets, rights and interests of the BAT relating to airport works or air operations, including its debts and obligations which include PNCC's receivables from BAT in the amount of P56.72 million, exclusive of interest.

The MIAD Project was a valid contractual undertaking between the PNCC and MIAA's predecessor and, in pursuance of the Project, the latter incurred obligations for the services of the former. In fact, on January 8, 1986, former President Marcos ordered MIAA to make a partial payment of P55 million to PNCC. However, despite repeated demands, MIAA failed to satisfy its obligations to PNCC which amounted to P95.19 million including accrued interest as of June 1989. This caused PNCC to file a complaint for arbitration of its claim against MIAA before the Office of the Government Corporate Counsel (OGCC). PNCC's claim was clearly established and arbitrated by the OGCC and the latter's decision was affirmed by the Department of Justice (DOJ) and the Office of the President (OP). MIAA took cognizance of the obligation and offered a payment scheme proposal to PNCC on June 1, 2004.

On August 2, 2004, MIAA paid PNCC the first installment of the principal obligation amounting to P14.18 million but failed to pay the remaining

installments and the adjudged interests despite repeated demands by PNCC. The latter was forced to file a motion for execution of the OP decision which was granted by the OGCC in its Order dated May 26, 2009.
Said money claim for unpaid services, even if already adjudicated by the OGCC as affirmed by the DOJ and OP, had to be resolved by the Commission on Audit. Hence, on March 2, 2012, PNCC's petition for money claim against MIAA was filed before COA based on the arbitral decision dated February 15, 1996 of the OGCC, as modified by the decision dated December 5, 2001 of the OP in the total amount of P114.23 million, representing the escalation billings and accrued interests as of December 31, 2011. COA, in its Decision No. 2016-105 dated June 14, 2016 granted PNCC's claim and directed MIAA to pay PNCC the balance of the principal obligation plus interest in the total amount of P114.23 million, less P14.18 million representing the initial payment made by MIAA on August 2, 2004.

2) *Claims for refund of rental rate increases estimated at P1.231 billion* –
(This is a reiteration of CYs 2009 to 2015 audit observation.)

The Supreme Court, in Airspan vs. MIAA case, nullified MIAA Resolution Nos. 98-30 and 99-11 effecting rental rate increases for lack of prior notice/publication and public hearing. Consequently, the Philippine Airlines, Macroasia Airport Services Corporation and Macroasia Catering Services filed separate claims with the Authority for refund of rental rate increases collected by MIAA on the basis of said MIAA Resolutions, estimated at P1.231 billion. The MIAA Board, under Resolution No. 2010-026, approved the application of these claims by the lessees against their future rental charges, hence, a provision for these obligations should have been provided.

We recommended and Management agreed to recognize a provision for estimated liabilities in the Authority's books of accounts for the two aforementioned occurrences/ events as required by PAS 37. No adjusting entry was, however, made at end of reporting date.

5. 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 by the National Government to the NPF in 1972 through Presidential Decree No. 37. A portion of this property, measuring 15 hectares, 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 passengers and aircraft movements 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 thereof, lest it be accused of reneging on its fiduciary obligation. However, after a series of consultations, NPF 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 xx, 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 accounts.

Management Comment

Management 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.

Rejoinder

We maintain that it would be appropriate to recognize the NPF property in the books of MIAA giving emphasis to substance over form in determining whether an item meets the definition of an asset for purposes of recognition. Evidently, MIAA already has the control over the use and the benefits that are expected to flow from said property at present.

6. MIAA property disposed through sale to the Department of Public Works and Highways (DPWH) was not derecognized and the revenue earned therefrom was not 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

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.

We, thus, maintain that it would be appropriate to derecognize the property and recognize the revenue from disposal thereof 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.

7. **Audit sampling of CY 2016 transactions for the procurement of goods and services carried out through Alternative Methods of Procurement disclosed several instances of delays that averaged at least 16 working days in the processing thereof.**

The Authority, as authorized by law, employs different methods of procurement for selected transactions it deems appropriate under prevailing circumstances. Subject to the prior approval of the Head of Procuring Entity and whenever justified by conditions provided by Rule XVI of Republic Act 9184, the Authority may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement.

We performed a review of sample procurement transactions conducted through alternative methods i.e., *Shopping* and *Negotiated Procurement*, which are authorized under Sections 52 and 53, respectively, of the IRR of RA 9184, purposely to determine if the Procurement Division administers the processing time within the period the Authority has set through published standards. Processing time refers to the number of days it takes to complete the activities from the preparation of the Request for Quotation (RFQ) up to the issuance and acceptance of the Purchase Order (PO) or Work Order (WO) by the winning proponent.

Under the Authority's published standards, normal processing time for the procurement of goods and services should only take about 24 days to be completed. However, based on data we gathered, it took an average of 40 days (ranging from 14 to 146 days) to complete the process thereby exceeding the standards set by the Authority by an average of 16 days.

Evaluation results of randomly selected transactions totaling P4.297 million showed that activities from the preparation of the Abstract of Price Quotation (APQ) up to the Preparation of the PO consumed the longest period, usually taking an average of 32 days, or 21 days more than the standard. It was disclosed that delays are usually encountered in the receipt of documents from the end-user after its technical evaluation of the proposal, and, in some instances, the late submission of documents required for the registration of an unaccredited supplier. The Authority transacts only with registered suppliers, a registry of which is maintained by the Procurement Division.

Though the published normal processing time has been revised as gathered through interviews, its implementation commenced only during the first quarter of 2017 and has yet to be evaluated.

We recommended that instances of delays be documented and taken up during coordination meetings between offices involved in the procurement process so that workable solutions to identified causes of delays can be formulated and integrated in the Authority's procedural standards. This will ensure that involved offices will provide factual inputs that will contribute to amending and/or updating policies that will reflect reasonable timelines.

Management Comment

The present Management had taken notice of the delays prevailing in previous years and has taken steps to address this issue. In September 2016, a memorandum was issued by the OIC-AGM for Finance & Administration to streamline the technical evaluation process. Initial assessment of the effects of the measures undertaken showed improvements in the processing of procurement transactions.

8. Several concessionaires with no valid contracts (expired/not renewed) continue to operate within NAIA terminals in contravention to Section 1 (j.) of the Authority's Revised Administrative Order No. 1, series of 2000.

Revised Administrative Order No. 1, series of 2000, Part I - Definition of Terms, Section 1(j.) defines a concessionaire as "*a company or an individual allowed by the Authority, through a contract or permit, to operate and maintain a business activity within the Airport.*"

Based on the list of active concessionaires provided by Management, 109 business units are at Terminal 1 (as of April 2017); 26 units at Terminal 2 (as of March 2017); 198 units at Terminal 3 (as of March 2017); and 28 units at Terminal 4, or a total of 361 concessionaires doing business thereat, composed of, but not limited to, the following nature of commerce, e.g. airlines; banks/ATMs/forex; food/beverage retailers; ground handlers; retail shops, storage facilities, etc.

Our selection, on a sampling basis, of concessionaires currently operating and maintaining business activities within said terminals revealed the following:

1. Of the 150 concessionaires whose contracts were requested for validation, only 99 contracts were presented by Management. Of the 99, only 38 were found to be valid or binding as the rest were, upon inquiry, either expired and have not been renewed, or the concessionaires have pending legal disputes with the Authority but were nevertheless, allowed to operate on a month to month basis despite non-issuance of account clearances; and

2. From the 99 contracts, a substantial majority had noticeable deficiencies thereon, e.g. the contract is not notarized; is only signed by one contracting party; contract date is not indicated; and/or contract terms appear to be incomplete.

We requested to be informed as to what actions, if any, are being taken to address these concerns.

Management Comment

Management took cognizance of the observations regarding the contracts with concessionaires and assured that all concessions will be issued contracts. Management also informed that there are operation arrangements on a month to month basis pending finalization of the developments in some lease areas, or because the exigency of the concession service necessitates an extension while the contract renewal is in process.

9. **Some rates for airport charges prescribed under Administrative Order No. 1, s.2000, have remained unchanged for an extended period and may no longer be current or comparable vis-à-vis present cost considerations**

Administrative Order (AO) No. 1, which took effect on September 1, 1984, provides for, among others, the rates for all airport charges which includes landing and take-off fees, lighting charges, parking, cargo terminal fees, etc. Further, Section 17 of Executive Order No. 903 dated July 21, 1983 granted the Authority the power to prescribe, revise and/or adjust the rates of fees, dues, charges or assessments collectible by the Authority.

From our cursory evaluation of rental/lease rates presently in use, we noted that, except for commercial spaces, rates prescribed in AO 1, which are at least sixteen (16) years old, continue to be charged for floor spaces in the various airport terminals. The same situation appears to be true for landing & take-off fees, parking, lighting charges and other airside charges.

We observed that Management has taken notice of this matter and, consequently, the General Manager issued MIAA Office Order No. 80-M, series of 2016, dated November 8, 2016 recomposing the Revision of Fees Committee created in 2013.

We recommended that Management consider giving this issue priority so that it can optimize the Authority's earning capacity and generate revenues that can be utilized to upgrade its operational capability and improve its service to the public.

Management Comment

Management informed that they are in the process of reviewing and evaluating the best product mix in the terminals. The results of the ongoing airline, customer and passenger surveys will be considered to optimize the services being accorded to airport users.

The Revision of Fees Committee is presently working on the review of existing rates vis-à-vis the schedules per AO 1 series of 2000. The Committee plans to issue before the year ends a revised AO 1 (2017 version) where all current schedules of fees and charges are incorporated. It is also working on the implementation of some of the fees and charges recommended by consultants from Incheon International Airport Corporation who were commissioned by the then DOTC in 2013-2014 to conduct a cost-based study of the Authority's fees and charges.

10. **Misplaced conversion of certain accounts to the Revised Chart of Accounts (RCA) resulted into a significant impact on the fair presentation of the affected accounts.**

The Authority adopted the RCA effective CY 2016 as prescribed by COA Circular No. 2015-010 dated December 1, 2015. We observed several incompatibilities on the classification of some accounts to the RCA that we believe had a significant impact on the fair presentation of the affected accounts, as follows:

(a) *Accounts Receivable* (1-03-01-010) under the RCA is used to recognize the amount due from customers arising from regular trade and business transactions. However, MIAA's *Accounts Receivable* account includes both trade receivable and receivable from lease of assets. On the other hand, *Rent/Lease Income* (4-02-02-050) is being recognized for income from use of MIAA's properties consistent with the RCA. It is therefore appropriate to segregate trade receivable from lease receivable or to recognize a corresponding asset account simultaneously with the recognition of rent/lease income. *Accounts Receivable* is shown at P3.165 million while *Rent/Lease Income* amounts to P2.337 million, which is about 20% of the total business income of P11.918 million as at reporting date.

(b) *Airport Systems* (1-06-03-080) under the RCA is used to recognize the cost incurred in the purchase or construction or fair value, if acquired through donation or transfers without cost, of landing and taking-off area for aircraft, **passengers' arrival and departure areas**, facilities for aircraft maintenance, xxx, and the like, for public use or for income generating purposes. (Emphasis supplied). We noted that MIAA's buildings and structure, such as: office buildings, warehouses, other structures, and the like, including the passengers' terminal facility or the passengers' arrival and departure areas at Terminals 1 to 4, are all lumped under one *Buildings* (1-06-04-010) account. The RCA, however, categorically includes the latter as part of *Airport Systems* account. *Buildings* account is carried in the Statement of Financial Position at P21.691 billion and *Airport Systems* account at P2.577 billion.

(c) *Litigation/Acquired Assets Expenses* (5-02-99-090) under the RCA is used to recognize expenses incurred in connection with litigation proceedings and registration/consolidation of ownership of acquired assets, as well as those incurred in their preservation/maintenance. Other *Maintenance and Operating Expenses* (5-02-99-990) on the other hand, is used to recognize operating expenses not falling under any of the specific maintenance and other operating expenses (MOOE) accounts. We observed that MIAA used the Other MOOE account in recording interest and other expenses relating to the settlement to PIATCO of the NAIA T3 expropriation case in the amount of P13.432 billion, instead of the *Litigation/Acquired Asset Expenses* account which is specifically provided in the RCA.

(d) *Investment Property – Buildings* (1-05-01-020) in the RCA is used to recognize for buildings held by MIAA to earn rentals or for capital appreciation or both. However, *Investment Property – Land* (1-05-01-010) in the RCA was not used by MIAA to recognize for land held by MIAA for the same purpose consistent with the policy adopted for buildings.

(e) *Work/Zoo Animals* (1-06-98-010) in the RCA was used by MIAA to recognize dogs costing P10.362 million. However, no corresponding accumulated depreciation account was set up to recognize allocation of cost of operations in accordance with the prescribed policy on depreciation.

Management Comment

Management took note of the recommendation to reclassify the accounts mentioned and to make the necessary adjustments in the books.

11. 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 thereon.

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.

Partial settlements on the above disallowances effected thru payroll deductions totaled to P1.313 million as at reporting date.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the nine (9) audit recommendations contained in the CY 2015 Annual Audit Report, six (6) were implemented and three (3) were not implemented. Details follow:

Reference (CY 2015 AAR Observation No.)	Observations	Recommendations	Status of Implementation
1, Page 29	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) was not determined and recognized.	Determine and recognize in MIAA's books the impact of the SC ruling on its financial and operational future, particularly on the probable outflow of resources to settle this obligation.	Implemented
2, Page 30	Provisions for estimated liabilities were not recognized on the following: (a) Real estate taxes on portions of airport lands and buildings that are leased to private portions which the SC ruled as not exempted from real estate taxes and (b) P1.231 billion claims by lessees for refund of rental rate increases.	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.	Implemented Not Implemented Reiterated in this AAR under Observation and Recommendation No. 4.

Reference (CY 2015 AAR Observation No.)	Observations	Recommendations	Status of Implementation
3, Page 31	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.	Make appropriate accounting entries to recognize the sale and revenue, net of taxes due thereon.	Not Implemented Reiterated in this AAR under Observation and Recommendation No. 6.
4, Page 33	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.	Initiate steps to facilitate the transfer of the NPF property and recognize this in MIAA's books of account.	Not Implemented Reiterated in this AAR under Observation and Recommendation No. 5.
5, Page 35	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.	Implement 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	Implemented

Reference (CY 2015 AAR Observation No.)	Observations	Recommendations	Status of Implementation
		(b) Consider the temporary restoration of inspectors at the boarding gates pending the introduction of alternative measures to countercheck air carrier data.	
6, Page 37	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.	Implemented
7, Page 38	Status of suspensions, disallowances and charges	Comply with the rules and regulations on settlement of accounts.	Implemented
8, Page 39	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