Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 29, 2018

June 29, 2018
Sharelle Moreno

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 our report on the results of the audit of the accounts and transactions of the Manila International Airport Authority (MIAA) for the year ended December 31, 2017.

We expressed an unmodified opinion on the fairness of the presentation of the financial statements of the Authority.

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

1. Adjustments in the amount of P183.248 million resulting from the adoption of the Philippine Financial Reporting Standards (PFRS) in CY 2017 did not conform with the specific transitional requirements required by PFRS/COA rules.

   We recommended compliance with the specific transitional PFRS/COA requirements.

2. The payment of Representation and Transportation Allowance (RATA) of MIAA officials at a rate equivalent to 40 percent of their basic salary is wanting of legal basis thus incurring unauthorized expenditures aggregating P12 million.

   We recommended that Management:

   a. Limit the 40 percent RATA rate to the incumbents as of July 1, 1989 and those who were receiving said benefit as of that date. Officials/personnel entitled to RATA other than the incumbents must be based on the rates prescribed in the GAA and/or budget circulars.

   b. Direct the concerned employees to refund the amount of RATA in excess of the rates/amounts provided in Section 54 of the GAA (for CY 2017) and DBM Circular; and

   c. Ensure that RATA is granted only to holders of positions duly authorized by existing laws and regulations.

3. MIAA's overtime expenses of P142.536 million grossly exceeded the ceiling of five percent of its Personal Services budget set by the Department of Budget and Management equivalent to P38.658 million, resulting in unauthorized expenditure of P103.878 million.

   We recommended that Management:

   a. Obtain approval from the DBM for the excess OT expenditure of P103.302 million or a clarificatory statement on the approval of the OT budget of P142.618 as reflected in the COB;

   b. Direct the refund of P.111 million from the employees who were paid OT services in excess of the 50 percent limit and not covered by the exemption;

   c. Strictly comply with the provision of CSC and DBM Joint Circular No. 1, series of 2015 on the payment of OT services and;

   d. Submit the documents (or its equivalent) required under COA Circular No. 2012-001 dated January 14, 2012, as follows:

      - OT authority stating the necessity and urgency of the work to be done and duration of the OT work;
      - OT Work Program;
      - Quantified OT accomplishment duly signed by the employee and supervisor; and
      - Certificate of service or duly approved DTR.

4. The equity of P15.462 billion already exceeded the approved capitalization of P10.000 billion as a result of the transfer of the Nayong Pilipino Foundation (NPF) property as mandated under Executive Order (EO) No. 58.

   We recommended that management secure the required Board Resolution on the increase in capitalization and initiate or lobby for the amendment of its Charter increasing MIAA's capitalization.

5. The Implementing Guidelines adopted by MIAA on the integration of the Passenger Service Charge (PSC) to the airline tickets should be revisited considering the a) loss of revenue in the average amount of P174.366 million per year as a result of the 3.5 percent service fee deducted by the Air Carriers (ACs) from PSC collections; b) service fee is being charged by ACs for Locally-Recognized Exempt Passengers (L-REP) despite non-collection of PSC; and c) absence of provisions with respect to the nature and retention period of PSC from unflown tickets not refunded by passengers.

   Moreover, the absence of monitoring system on the processes and procedures in the collection and remittance of PSC under the integration scheme and the laxity of the Officials to act on the deviations and deficiencies noted in the said processes may bar the recovery of possible claims as a result of errors or fraud, putting MIAA in prejudice.

We recommended that Management:

a. Revisit/review the implementing guidelines and policies governing the PSC Integration Scheme and make amendments/revisions or additional guidelines, if necessary, to address the concerns and protect the interest of MIAA;

b. Include adequate controls and monitoring processes;

c. Create/designate a team that will focus on the review/audit of the Airline's PSC books records, and monitoring of the PSC transactions;

d. Require the Collection Division to obtain copies of the MSFPD as basis in validating the Remittance Report submitted by ACs; and

e. Initiate appropriate action to enforce the remittance of the PSC for unflown tickets by the ACs.

6. The continued grant to Philippine Airlines of 65 percent discount on its landing and take-off fees anchored from the 1977 Letter of Instruction (LOI) which is deemed ineffective given the development and condition of the aviation industry, results in the loss of revenue averaging P42.82 million per year based on the five year collections. Moreover, this privilege accorded to PAL does not promote a level playing field among key players in the domestic aviation industry.

   We recommended that Management follow-up with the Department of Justice the status of the clarificatory letter dated August 19, 2015, citing the urgency of its resolution; and/or make representation with proper authorities for the repeal of the LOI as appropriate.

The other audit observations and the recommended courses of action, which we have discussed with concerned Management officials and staff concerned during the exit conference conducted on May 24, 2018, are discussed in detail Part II of the report.

In a letter of even date, we requested the Authority's General Manager to take appropriate actions on 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:

ELSIELIN C. MASANGCAY
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 – Senate 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

June 29, 2018

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE GENERAL MANAGER
RECEIVED
JUN 29 2018
TIME 12:10 PM
BY

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 our report on the results of the audit of the accounts and transactions of the Manila International Airport Authority (MIAA) for the year ended December 31, 2017.

We expressed an unmodified opinion on the fairness of the presentation of the financial statements of the Authority.

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

1. Adjustments in the amount of P183.248 million resulting from the adoption of the Philippine Financial Reporting Standards (PFRS) in CY 2017 did not conform with the specific transitional requirements required by PFRS/COA rules.

   We recommended compliance with the specific transitional PFRS/COA requirements.

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   We recommended that Management:

   a. Limit the 40 percent RATA rate to the incumbents as of July 1, 1989 and those who were receiving said benefit as of that date. Officials/personnel entitled to RATA other than the incumbents must be based on the rates prescribed in the GAA and/or budget circulars.

   b. Direct the concerned employees to refund the amount of RATA in excess of the rates/amounts provided in Section 54 of the GAA (for CY 2017) and DBM Circular; and

   c. Ensure that RATA is granted only to holders of positions duly authorized by existing laws and regulations.

3. MIAA's overtime expenses of P142.536 million grossly exceeded the ceiling of five percent of its Personal Services budget set by the Department of Budget and Management equivalent to P38.658 million, resulting in unauthorized expenditure of P103.878 million.

   We recommended that Management:

   a. Obtain approval from the DBM for the excess OT expenditure of P103.302 million or a clarificatory statement on the approval of the OT budget of P142.618 as reflected in the COB;

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   c. Strictly comply with the provision of CSC and DBM Joint Circular No. 1, series of 2015 on the payment of OT services and;

   d. Submit the documents (or its equivalent) required under COA Circular No. 2012-001 dated January 14, 2012, as follows:

      - OT authority stating the necessity and urgency of the work to be done and duration of the OT work;

      - OT Work Program;

      - Quantified OT accomplishment duly signed by the employee and supervisor; and

      - Certificate of service or duly approved DTR.

4. The equity of P15.462 billion already exceeded the approved capitalization of P10.000 billion as a result of the transfer of the Nayong Pilipino Foundation (NPF) property as mandated under Executive Order (EO) No. 58.

   We recommended that Management secure the required Board Resolution on the increase in capitalization and initiate or lobby for the amendment of its Charter increasing MIAA's capitalization.

5. The Implementing Guidelines adopted by MIAA on the integration of the Passenger Service Charge (PSC) to the airline tickets should be revisited considering the a) loss of revenue in the average amount of P174.366 million per year as a result of the 3.5 percent service fee deducted by the Air Carriers (ACs) from PSC collections; b) service fee is being charged by ACs for Locally-Recognized Exempt Passengers (L-REP) despite non-collection of PSC; and c) absence of provisions with respect to the nature and retention period of PSC from unflown tickets not refunded by passengers.

Moreover, the absence of monitoring system on the processes and procedures in the collection and remittance of PSC under the integration scheme and the laxity of the Officials to act on the deviations and deficiencies noted in the said processes may bar the recovery of possible claims as a result of errors or fraud, putting MIAA in prejudice.

We recommended that Management:

a. Revisit/review the implementing guidelines and policies governing the PSC Integration Scheme and make amendments/revisions or additional guidelines, if necessary, to address the concerns and protect the interest of MIAA;

b. Include adequate controls and monitoring processes;

c. Create/designate a team that will focus on the review/audit of the Airline's PSC books records, and monitoring of the PSC transactions;

d. Require the Collection Division to obtain copies of the MSFPD as basis in validating the Remittance Report submitted by ACs; and

e. Initiate appropriate action to enforce the remittance of the PSC for unflown tickets by the ACs.

6. The continued grant to Philippine Airlines of 65 percent discount on its landing and take-off fees anchored from the 1977 Letter of Instruction (LOI) which is deemed ineffective given the development and condition of the aviation industry, results in the loss of revenue averaging P42.82 million per year based on the five year collections. Moreover, this privilege accorded to PAL does not promote a level playing field among key players in the domestic aviation industry.

   We recommended that Management follow-up with Department of Justice the status of the clarificatory letter dated August 19, 2015, citing the urgency of its resolution; and/or make representation with proper authorities for the repeal of the LOI as appropriate.

The other audit observations together with the recommended courses of action, which we have discussed with Management officials and staff concerned during the exit conference conducted on May 24, 2018, are discussed in detail in Part II of the report.

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:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
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, 2017

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 2017 and 2016. 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)

	2017	2016 (As Restated)	Increase (Decrease)
Assets	54,622,861	54,275,763	347,097
Liabilities	10,454,003	11,287,487	(833,484)
Equity	44,168,858	42,988,276	1,180,582

Comparative Results of Operation

(In Thousand Pesos)	2017	2016 (As restated)	Increase (Decrease)
Operating Income	16,742,633	32,737,941	(15,995,308)
Share of the National Government (NG)	(1,625,714)	(1,482,861)	142,853
Operating Income After Share of the NG	15,116,919	31,255,080	(16,138,161)
Operating Expenses	(9,635,418)	(18,849,668)	(9,214,250)
Net Profit from Operation	5,481,501	12,405,412	(6,923,911)
Non-Operating Income (Expenses)	(71,112)	463,165	(534,277)
Profit Before Income Tax	5,410,389	12,868,577	(7,458,188)
Income Tax Expense	(1,710,561)	(1,667,353)	43,208
Net Profit After Tax	3,699,828	11,201,224	(7,501,396)

Independent Auditor's Report on the Financial Statements

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Authority for the years 2017 and 2016. (As discussed in the *Other Matters* paragraph of the *Independent Auditor's Report,* our opinion on the 2016 financial statements, as expressed herein, is different from that expressed in our previous report since the Authority has already recognized the effects of the misstatements which were made the basis of our adverse opinion in 2016; and has restated the financial statements for the said year at transition date in accordance with Philippine Financial Reporting Standards).

Significant Audit Observations and Recommendations

The following are the significant audit observations and recommendations:

1. Adjustments in the amount of P183.248 million resulting from the adoption of the Philippine Financial Reporting Standards (PFRS) in CY 2017 did not conform with the specific transitional requirements required by PFRS/COA rules.

   We recommended compliance with the specific transitional PFRS/COA requirements.

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of revenue in the average amount of P174.366 million per year as a result of the 3.5 percent service fee deducted by the Air Carriers (ACs) from PSC collections; b) service fee is being charged by ACs for Locally-Recognized Exempt Passengers (L-REP) despite non-collection of PSC; and c) absence of provisions with respect to the nature and retention period of PSC from unflown tickets not refunded by passengers.

Moreover, the absence of monitoring system on the processes and procedures in the collection and remittance of PSC under the integration scheme and the laxity of the Officials to act on the deviations and deficiencies noted in the said processes may bar the recovery of possible claims as a result of errors or fraud, putting MIAA in prejudice.

We recommended Management to:

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   We recommended that Management follow-up with DOJ the status of the clarificatory letter dated August 19, 2015, citing the urgency of its resolution; and/or make representation with proper authorities for the repeal of the LOI as appropriate.

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2017, 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 P2.564 million as at December 31, 2017.

Status of Implementation of Prior Year's Recommendations

Of the eleven (11) audit recommendations embodied in the CY 2016 Annual Audit Report, nine (9) were implemented and two (2) were partially implemented.

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PART I - AUDITED FINANCIAL STATEMENTS

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Manila International Airport Authority (MIAA), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MIAA as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter

We draw attention to Note 35 to the financial statements which describes the uncertainties related to pending cases in several courts involving various claims against the Authority. The ultimate outcome of these cases could not be presently determined and no provisions for any liability that may result have been made in the financial statements. Our opinion is not qualified in respect of this matter.

Other Matters

In our report, dated May 30, 2017, we expressed an opinion that the 2016 financial statements did not present fairly, in all material respects, the financial position, results of operations and cash flows of the Manila International Airport Authority as at December 31, 2016 in accordance with state accounting principles generally accepted in the Philippines because of the non-recognition of the following: a) effects on income tax and dividends due to the National Government of the P7.043 billion capitalized portion of the program subsidy relative to the Philippine International Air Terminals Co. (PIATCO) case; b) claim of PIATCO for refund of taxes in the amount of P3.202 billion on the ground that the just compensation paid by MIAA should be VAT exclusive; 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 (DPWH) 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.

On the effects of income tax and dividends due to the National Government on the capitalized portion of the subsidy for the PIATCO case, subsidy is not subject to income tax based on the representation made by Management in a query with the BIR. Likewise, there is no dividend implication as subsidy is determined based on the taxable income.

Moreover, the Authority has recognized and restated the 2016 financial statements on the following: the claim of PIATCO for refund of taxes withheld; the provision for estimated liabilities regarding claims by lessees for refund on account of rental rate increases; the cost of completed rehabilitation of the NAIA Terminal 1; the depreciation of NAIA Terminals 1 and 3; the sale of MIAA property to DPWH; the impairment loss on the capitalized cost of the aborted Panglao-Bohol International Airport Development Project; and the transfer to MIAA of the Nayong Pilipino Foundation property.

Accordingly, our present opinion on the restated 2016 financial statements, as presented herein, is different from that expressed in our previous report.

Report on Other Legal and Regulatory Requirements

Our audits were 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 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

ELSA T. BALINA
OIC - Supervising Auditor

June 14, 2018

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 the Manila International Airport Authority is responsible for the preparation of the financial statements as at and for the years ended December 31, 2017 and 2016, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited financial statements of the Manila International Airport Authority in accordance with the Philippine Public Sector Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

Sec. Arthur P. Tugade
Chairman of the Board

Date Signed

Grace D. Gulinao
OIC, Accounting Division
June 14, 2018
Date Signed

Eddie V. Monreal
General Manager
JUN 14 2018
Date Signed

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(in Philippine Peso)

	Note	**2017**	2016 (As restated)	January 1, 2016 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	7	**3,762,212,913**	12,546,145,879	2,744,304,958
Short-term investments	8	**11,489,484,208**	500,000,000	8,543,991,264
Trade and other receivables, net	9	**1,974,057,827**	2,390,759,755	2,770,523,269
Prepayments	10	**449,116,773**	405,586,279	479,407,401
Other current assets	11	**87,535,504**	88,295,897	88,295,897
Total Current Assets		**17,762,407,225**	15,930,787,810	14,626,522,789
Non-Currrent Assets				
Investments in stocks	14	**12,505,000**	12,505,000	12,505,000
Property and equipment, net	12	**35,936,673,911**	37,161,051,084	37,925,044,525
Investment property, net	13	**38,651,372**	41,270,757	43,890,142
Other non-current assets	15	**872,623,681**	1,130,148,884	741,465,843
Total Non-Current Assets		**36,860,453,964**	38,344,975,725	38,722,905,510
TOTAL ASSETS		**54,622,861,189**	54,275,763,535	53,349,428,299
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables, net	16	**3,361,762,292**	3,604,497,188	2,571,465,479
Inter-agency payables	17	**1,249,181,662**	1,152,787,189	1,492,170,053
Current portion of loans payable-domestic	19	**488,227,800**	488,227,800	488,227,800
Current portion of loans payable-foreign	20	**397,721,316**	378,337,407	350,231,815
Other current liabilities	18	**689,780,378**	600,330,221	557,993,869
Total Current Liabilities		**6,186,673,448**	6,224,179,805	5,460,089,016
Non-Current Liabilities				
Loans payable-domestic	19	**1,708,797,300**	2,197,025,100	2,685,252,900
Loans payable-foreign	20	**1,978,242,428**	2,266,681,642	2,442,708,284
Total Non-Current Liabilities		**3,687,039,728**	4,463,706,742	5,127,961,184
Deferred Revenue	21	**580,289,598**	599,600,902	565,743,855
Equity		**44,168,858,415**	42,988,276,086	42,195,634,244
TOTAL LIABILITIES AND EQUITY		**54,622,861,189**	54,275,763,535	53,349,428,299

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF PROFIT OR LOSS
For the Years Ended December 31, 2017 and 2016
(in Philippine Peso)

	Note	2017	2016 (As restated)
REVENUES	26	**13,133,110,529**	11,962,104,774
National Government share on MIAA's gross income	27	**(1,625,714,196)**	(1,482,860,915)
MIAA'S SHARE ON OPERATING INCOME		**11,507,396,333**	10,479,243,859
EXPENSES			
Personnel services	28	**840,667,624**	782,350,745
Maintenance and other operating expenses	29	**8,794,750,047**	18,067,317,227
		9,635,417,671	18,849,667,972
PROFIT FROM OPERATIONS		**1,871,978,662**	(8,370,424,113)
OTHER INCOME (EXPENSES)			
Fines and penalties		**241,695,420**	126,673,836
Interest income	31	**192,122,735**	355,635,597
Miscellaneous income		**59,184,429**	62,425,351
Gain (loss) on foreign exchange		**(139,559,891)**	178,476,810
Loss on disposal of asset		**(5,709,687)**	(2,231,232)
Financial expenses	32	**(418,845,261)**	(257,814,814)
		(71,112,255)	463,165,548
PROFIT BEFORE INCOME TAX		**1,800,866,407**	(7,907,258,565)
Income tax expense	33	**(1,710,560,907)**	(1,667,352,553)
NET PROFIT (LOSS) AFTER TAX		**90,305,500**	(9,574,611,118)
Subsidy from National Government - DOTr - PIATCO		**3,609,521,996**	20,775,836,716
NET PROFIT		**3,699,827,496**	11,201,225,598

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2017 and 2016
(in Philippine Peso)

	Note	Government Equity	Contributed Capital	Retained Earnings	Total
Balances, December 31, 2016		7,191,934,321	0	24,888,812,212	32,080,746,533
Adjustment due to recognition of:					
Nayong Pilipino Foundation property transferred to MIAA	12, 22 & 23	2,808,065,679	5,461,552,821	0	8,269,618,500
Property and equipment - T1 Rehabilitation Project	2	0	0	1,317,090,442	1,317,090,442
Deferred tax asset	2	0	0	654,952,122	654,952,122
Terminal leave benefits payable	2	0	0	(110,767,903)	(110,767,903)
Subsidy Income	2	0	0	300,000,000	300,000,000
Gain on sale of real property	2	0	0	476,636,392	476,636,392
Balances, December 31, 2016 (As restated)		10,000,000,000	5,461,552,821	27,526,723,265	42,988,276,086
Changes in Equity for 2017					
Net profit for the year		0	0	3,699,827,496	3,699,827,496
Dividends declared		0	0	(2,250,721,254)	(2,250,721,254)
Tax deficiencies for CY 2011		0	0	(100,860,670)	(100,860,670)
Set-up payable to PNCC		0	0	(100,058,945)	(100,058,945)
Additional dividend for 2016		0	0	(67,604,298)	(67,604,298)
Balances, December 31, 2017		**10,000,000,000**	**5,461,552,821**	**28,707,305,594**	**44,168,858,415**

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	**2017**	2016 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from operations		**13,398,802,876**	12,073,485,272
Trust receipts		**3,174,907,994**	2,988,467,170
Miscellaneous income		**93,373,270**	60,366,046
Interest income on bank deposits		**75,911,503**	98,656,471
Payment of operating expenses		**(5,008,413,592)**	(4,226,529,946)
Remittance of trust receipts		**(1,328,865,479)**	(1,472,879,150)
Remittance of share of National Government		**(3,075,498,889)**	(3,197,933,347)
Subsidy received from NG thru DOTr		**3,609,521,996**	20,475,836,716
Advances to other agencies		**(18,519,828)**	(12,528,742)
Advances to officers and employees		**(2,672,898)**	(9,278,302)
Net cash generated from operations		**10,918,546,953**	26,777,662,188
Corporate income tax paid		**(1,617,009,355)**	(1,462,017,930)
Net cash provided by operating activities		**9,301,537,598**	25,315,644,258
CASH FLOWS FROM INVESTING ACTIVITIES			
Pre-termination of escrow deposits		**0**	4,927,364,960
Interest earned on escrow deposits		**0**	224,967,563
Proceeds of short-term investments		**9,779,854,715**	11,670,025,479
Investment in time deposits		**(20,693,644,786)**	(3,575,496,303)
Just compensation - T3 building (from NG subsidy)		**0**	(20,400,278,997)
Just compensation - T3 building (from MIAA subsidy)		**0**	(5,839,603,947)
Deficiency payment to PIATCO - T3 building		**(3,609,521,996)**	0
Acquisition of property and equipment		**(241,790,969)**	(213,035,262)
Net cash used in investing activities		**(14,765,103,036)**	(13,206,056,507)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(2,226,520,158)**	(1,578,994,797)
Debt servicing		**(1,091,081,655)**	(1,141,303,766)
Net cash used in in financing activities		**(3,317,601,813)**	(2,720,298,563)
Effects of exchange rate changes on cash and cash equivalents		**(2,765,715)**	412,551,733
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(8,783,932,966)**	9,801,840,921
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**12,546,145,879**	2,744,304,958
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	**3,762,212,913**	12,546,145,879

See accompanying Notes to Financial Statements.

1. GENERAL INFORMATION

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 2017:

- Extension of Airport Police Division Headquarters;
- Purchase of two units Aircraft Rescue and Fire Fighting Major Foam Vehicles (6x6);
- Purchase of one Rapid Intervention Vehicle (4x4);
- Replacement of 26.6 MVA Power Transformer at MIAA Substation No. 1;
- Repair of Deteriorated Waterproofing at Terminal 3;
- Supply of Labor and Materials for the Replacement of Cooling Coils of Eleven Air Handling Units at Terminal 3;
- Rehabilitation and Expansion of Existing Toilets M/F/PWD and Re-orientation of the Location of PWD at Terminal 1, 2, 3 by Administration;

- Replacement of Fixed Glass Panels at Terminal 1;

- Supply of Labor and Materials for the Replacement of Cooling Coils at 16 Air Handling Units at NAIA Terminal 3;

- Supply, Installation, Operation and Maintenance of Common User Terminal Equipment (CUTE) at NAIA Terminal 1 and 2;

- Replacement of Arrival Baggage Conveyor at Terminal 2;

- Thermoplastic Repainting of Pavement Markings in Taxiway Juliet, Charlie, Delta, Terminal 3 Ramp, Apron and Parking, and Terminal 4 Ramp and Apron including North and South General Aviation;

- Operation and Maintenance of Ventilation and Air-conditioning System including SSA of Spare Parts Material at Terminal 3;

- Operation and Maintenance of Common User Terminal Equipment (CUTE) System and Supply Support Agreement for CUTE Hardware for NAIA Terminal 3;

- Replacement of Joint Sealant at Terminal 3; and

- Supply, Installation and Commissioning of Two CCTV Cameras at F1B with Monitoring at Manila Control Tower and Domestic.

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. BASIS OF TRANSITION TO PFRS

Application of the Philippine Financial Reporting Standards (PFRS)

The Authority's financial statements for the year ended December 31, 2017 are its first annual financial statements prepared under accounting policies that comply with the PFRS. The Authority prepared its opening PFRS statement of financial position on January 1, 2016.

Reconciliation

The following reconciliations show the effect on the Authority's retained earnings of the transition from the previous accounting framework to the PFRS at January 1, 2016 and December 31, 2016, and the Authority's profit for the year ended December 31, 2016.

Recognition of Deferred Taxes

Under the previous financial reporting framework, the Authority is not required to recognize deferred taxes. PAS 12, requires recognition of deferred taxes whenever there are differences between the carrying amounts of assets and liabilities and their tax bases.

Reconciliation of Retained Earnings	**12/31/2016**	**1/1/2016**
Retained Earnings - Previous financial reporting framework	24,888,812,212	16,478,953,685
Adjustments:		
1 Recognition of deferred tax assets	654,952,122	566,274,081
2 Recognition of terminal leave benefits payable	(110,767,903)	(104,327,809)
3 Recognition of PPE	1,317,090,442	9,316,545,074
4 Recognition of subsidy income	300,000,000	0
5 Recognition of gain on sale of real property	476,636,392	476,636,392
Retained earnings PFRS	27,526,723,265	26,734,081,423

Reconciliation of Net Income	**2016**
Net income based on old financial reporting framework	10,862,827,872
Adjustments:	
1 Recognition of deferred tax expense	88,678,041
2 Recognition of terminal leave benefits expense	(6,440,094)
3 Depreciation on PPE recognized	(43,840,221)
4 Recognition of subsidy income	300,000,000
Net income based on PFRS	11,201,225,598

Recognition of Terminal Leave Payable

The previous financial reporting framework does not prescribe guidelines on how to account for terminal leave benefits. As a result, no liabilities for terminal leave benefits were recognized in the past. PAS 19 requires recognition of all forms of employee benefits including the corresponding liabilities.

Recognition of PPE

There are certain items of PPE that were not recognized in the past because they did not meet the criteria for recognition as assets under the previous financial reporting framework. PAS 16 requires recognition of these PPE when the Authority has control over substantial economic benefits. The recognition of these items also resulted in an increase in depreciation expense in 2017 in the Income Statement.

Recognition of Subsidy Income

Under the previous financial reporting framework, subsidy received was recognized as a liability. PAS 20 requires that such subsidy be recognized in profit and loss.

Recognition of Gain on Sale of Real Property

Under the previous financial reporting framework, the sale of a real property is recorded only when the title to the property has been transferred to the buyer. PFRS requires the derecognition of an asset when the risks and rewards of ownership are transferred to the buyer.

3. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Authority have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board Of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation

The financial statements of the Authority have been prepared on the historical cost basis unless otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Authority takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine peso, the currency of the primary economic environment in which the Authority operates. All amounts are rounded to the nearest peso, except when otherwise indicated.

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4. NEW AND REVISED ACCOUNTING STANDARDS

New and Amended PFRS in Issue But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ending December 31, 2017 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, Financial Instruments – This standard will replace PAS 39, Financial Instruments: Recognition and Measurement (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on the classification by reference to the business model within which these are held and its contractual cash flow characteristics.

  For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

  For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

  The derecognition provisions are carried over almost unchanged from PAS 39.

  The Authority has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017.

Apart from equity investments classified currently as available-for-sale and measured at fair value through other comprehensive income that should be measured at fair value through profit or loss under PFRS 9, all the other financial assets and financial liabilities should continue to be measured on the same bases as currently under PAS 39.

Concerning impairment, the Authority expects to apply the simplified approach to recognize lifetime expected credit loss for the Authority's trade receivables. Although the Authority is currently assessing the extent of this impact, it is anticipated that the application of the expected credit loss model of PFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed. In particular, the implementation of the new expected credit loss model proves to be challenging and might involve significant modifications to the Authority's credit management systems.

- Amendments to PFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and condition of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

- Amendments to PFRS 4, Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before implementing PFRS 17, Insurance Contracts ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9, thus continuing to apply PAS 39 instead ('the deferral approach').

- PFRS 15, Revenue from Contract with Customers – The new standard replaces PAS 11, Construction Contracts, PAS 18, Revenue and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

  The Authority intends to use the full retrospective method of transition to the new standard. Based on the current accounting treatment of the Authority's major sources of revenue, the Authority does not anticipate that the application of PFRS 15 will have a significant impact on its financial position and/or financial performance, apart from providing more extensive disclosures on the Authority's revenue transactions. However, as the Authority is still in the process of assessing the full impact of the application of PFRS 15 on the financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Authority complete the detailed review.

- Amendment to PFRS 15, Revenue from Contract with Customers - Clarification to PFRS 15 – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, Leases – This standard replaces PAS 17, Leases and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

  For the Authority's non-cancellable operating lease commitments as at December 31, 2017, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Authority will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Authority's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Authority complete the review.

  Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Authority except for PFRS 16.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Assets

Initial Recognition

Financial assets are recognized in the Authority's financial statements when the Authority becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Authority's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments (HTM), available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

The Authority classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Authority manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

As of the reporting date, the Authority does not have financial assets that are classified as fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents, short-term investment in time deposit, trade and other receivables, and refundable deposits (included in other non-current assets) fall under this category.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Authority has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

As of the reporting date, the Authority does not have financial assets that are classified as held-to-maturity investments.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM investments or financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognized in profit or loss when the Authority's right to receive the dividends is established.

AFS assets are included in non-current assets unless the investment matures or management intends to dispose it within 12 months after the end of the reporting period.

Investment in stocks is classified as available for sale financial asset.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Authority's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Authority derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another party. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risk and rewards of ownership of a transferred financial asset, the Authority continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Authority retains an option to repurchase part of a transferred asset), the Authority allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

Debt and equity instruments issued by the Authority are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Authority's financial statements when the Authority becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Authority's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Authority manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy, and information about the Authority is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in notes.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Trade and other payables, loans payable, inter-agency payables and loans payable are classified as other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather being contigent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition of financial liabilities

The Authority derecognizes financial liabilities when, and only when, the Authority’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Authority are recognized at the proceeds received, net of direct issue costs.

Retained earnings

Retained earnings represent accumulated profit attributable to equity holders of the Authority after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Investment properties, except land, are measured at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives.

The estimated useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefit from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by the ending of owner-occupation, commencement of an operating lease to another party or ending of the construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner occupation or commencement of development.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Property and equipment, except land, are stated in the financial statements at cost less accumulated depreciation, amortization and any impairment in value. Land is stated at cost less any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

Impairment of Non-financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial Assets

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.
Terminal fees

Revenue from terminal fee is recognized when passengers are given access to the terminal facilities.

Landing fees

Revenue from landing fees is recognized when the airlines are given access to runway facilities including lighting and aerobridge facilities.

Rental Revenue

Revenue from rental is recognized in the statement of comprehensive income on a straight line basis over the term of the lease of floor spaces, check-in-counters, buildings and land.

Parking fees

Parking fees are recognized as the customers use the parking facilities.

Fines and penalties

Fines and penalties are recognized when violation has occurred and when collectability of the amount is reasonably assured.

Subsidy income

Subsidy income is recognized when the subsidy becomes receivable and the Authority has complied with all the conditions attached to the subsidy.

Interest Revenue

Interest revenue is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rentals payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Authority as Lessee

Leases which transfer to the Authority substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Authority substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the income statement on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Authority as Lessor

Leases wherein the Authority substantially transfers to the lessee all risks and benefits incidental to ownership of the leased items are classified as finance leases and are presented as receivable at an amount equal to the Authority's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Authority's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the income statement on a straight-line basis over the lease term.

The Authority determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes as assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

Short-term Benefits

Short term benefits include salaries, bonuses, compensated absences and other forms of employee benefits that are expected to be settled within one year from the reporting date. Short-term employee benefits are recognized as expense in the period the related services are provided.

Terminal leave benefits

Terminal leave benefits are computed based on the actual leave credits earned by employees as of the reporting date. The amount reported as liability in the statement of financial position is based on the employees' salary grade as of the reporting dates.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

Current Tax

The current tax expense is the amount of tax due which is computed based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rate is that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Authority expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and Deferred Tax for the Year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Authority incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions and Contingencies

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

6. JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Authority to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Estimated allowance for impairment of receivables

The Authority maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Authority's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Authority made different judgments or utilized different estimates.

At the end of 2017 and 2016, the Authority has recognized allowance for impairment of receivables in the amount of P 1.338 billion and P 1.722 billion, respectively.

Estimated useful lives of property and equipment

The Authority estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

Property and Equipment	Years	Property and Equipment	Years
Buildings	20 / 30	Airport Equipment	10
Runways and Taxiways	20	Communication Equipment	10
Investment Property	20	Medical, Dental, Laboratory	10
Land Improvements	10	Military and Police Equipment	10
Leaseholds Asset	10	Firefighting Equipment	7
Furnitures and Fixtures	10	Motor Vehicles	7
Machineries	10	Other Equipments	5

7. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2017	2016
Cash on Hand	**120,694,914**	205,142,338
Savings Account – Dollar and Peso	**804,660,384**	779,828,108
Current Account – Dollar and Peso	**213,897,561**	277,059,154
Time Deposits – Peso	**2,622,960,054**	11,284,116,279
	3,762,212,913	12,546,145,879

Cash on Hand refers to cash with the Collecting Officers and Petty Cash Fund.

Foreign currency deposits are translated into Philippine peso using the closing rates of P50.00 and P49.80 to US$1.00 as of December 31, 2017 and 2016, respectively.

Total interest earned on cash and cash equivalents included in the statement of profit or loss amounted to P 82.24 million and P 106.65 million in 2017 and 2016, respectively.

8. SHORT-TERM INVESTMENTS

Short-term Investments pertains to investments in peso time deposits with Authorized Government Depository Banks (AGDBs) for a period of 91 days or more of P11.489 billion in CY 2017 and P500 million in CY 2016. The increase in the account represents additional placements that were transferred from peso time deposit (Note 7) to short-term investments.

Total interest earned on short-term investments included in the statement of profit or loss amounted to P 109.87 million and P 24.01 million in 2017 and 2016, respectively.

9. TRADE AND OTHER RECEIVABLES

This account consists of the following:

	2017	2016 (As restated)
Trade Receivables		
Non-Government Entities	**2,246,272,079**	2,420,284,658
Government Owned and Controlled Corp. (GOCCs)	**312,803,127**	718,323,770
National Government Agencies (NGAs)	**26,036,169**	26,407,383
Passenger Terminal Fees	**238,340,939**	346,656,171
	2,823,452,314	3,511,671,982
Allowance for Impairment	**(1,338,326,873)**	(1,721,642,240)
	1,485,125,440	1,790,029,741
Non-Trade Receivables		
Local Government Unit (LGU)	**0**	100,004,438
National Government Agencies (NGAs)	**0**	18,912,317
	0	118,916,755
Other Receivables		
Expanded Value-Added Tax	**236,468,524**	268,921,216
COA Disallowances	**167,787,147**	169,111,807
Interest Receivables	**54,584,876**	14,067,783
Others	**30,091,840**	29,712,453
	488,932,387	481,813,259
	1,974,057,827	2,390,759,755

Trade Receivables consists of receivables from airline companies and various concessionaires/lessees (non-government entities) and other government entities (GOCCs and NGAs) 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.

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

The decrease in *Non-Trade Receivables* is mainly due to the liquidation of the initial release of cash advance to the City Government of Parañaque to cover the cost of abatement of informal settlers near the perimeter fence of NAIA Runway 06 and approach areas and; settlement of the balances of fund transfers to the Office of the Solicitor General for Terminal 3 arbitration cases.

Expanded Value-Added Tax pertains to the balances of the 12 percent expanded value-added tax (EVAT) billed to concessionaires.

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 21).

A reconciliation of the allowance for impairment at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at beginning of year	**1,721,642,240**	1,635,607,440
Impairment loss during the year	**43,014,885**	86,034,800
Write-off	**(426,330,252)**	0
	1,338,326,873	1,721,642,240

MIAA's request for authority to write-off the receivable accounts of the Civil Aviation Authority of the Philippines covering CYs 1984 to 2007 was granted per COA-CGS Decision No. 2017-007 dated October 2, 2017.

10. PREPAYMENTS

This account consists of the following:

	2017	2016 (As restated)
Withholding Tax at Source	**175,479,037**	168,051,133
Creditable Input Taxes	**151,977,538**	146,277,702
Deferred Input Tax	**19,727,998**	22,367,297
Advances to Contractors	**84,649,571**	42,541,122
Inventories	**16,665,462**	13,418,699
Prepaid Insurance	**617,167**	12,930,327
	449,116,773	405,586,279

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 which are to be deducted/offset against output taxes.

11. OTHER CURRENT ASSETS

This account consists of the following deposits:

	2017	2016 (As restated)
Guaranty Deposits	**87,246,946**	88,007,339
Deposit on Letters of Credit	**288,558**	288,558
	87,535,504	88,295,897

Guaranty Deposits represents deposits received from various contractors/supplies to guarantee compliance with the terms of the contracts.

12. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Land Improvement	Airport System	Construction In Progress	Buildings and Structures	Machineries and Equipments	Total
2017						
COST						
At January 1, 2017	19,135,597,833	25,378,499,897	462,792,113	385,144,565	7,412,721,961	52,774,756,369
Additions	0	0	0	0	134,498,905	134,498,905
Transfer/Reclassification	0	403,265,039	(428,148,002)	24,882,963	0	0
Adjustments	0	0	(34,644,111)	0	0	(34,644,111)
Disposals	0	0	0	(15,000)	(49,713,044)	(49,728,044)
Balance, 12/31/2017	**19,135,597,833**	**25,781,764,936**	**0**	**410,012,528**	**7,497,507,822**	**52,824,883,119**
ACCUMULATED DEPRECIATION						
At January 1, 2017	(3,994,817,416)	(6,191,181,857)	0	(299,584,249)	(5,128,121,763)	(15,613,705,285)
Depreciation	(91,648,775)	(965,715,011)	0	(10,412,409)	(206,727,728)	(1,274,503,923)
Balance, 12/31/2017	**(4,086,466,191)**	**(7,156,896,868)**	**0**	**(309,996,658)**	**(5,334,849,491)**	**(16,888,209,208)**
Carrying Amount, December 31, 2017	**15,049,131,642**	**18,624,868,068**	**0**	**100,015,870**	**2,162,658,331**	**35,936,673,911**
2016						
COST						
At January 1, 2016	19,135,597,833	25,378,499,897	486,743,927	385,144,565	7,105,774,636	52,491,760,858
Additions	0	0	0	0	334,959,637	334,959,637
Adjustments	0	0	(23,951,814)	0	0	(23,951,814)
Disposals	0	0	0	0	(3,243,230)	(3,243,230)
Balance, 12/31/2016	**19,135,597,833**	**25,378,499,897**	**462,792,113**	**385,144,565**	**7,437,491,043**	**52,799,525,451**
ACCUMULATED DEPRECIATION						
At January 1, 2016	(3,949,911,298)	(5,535,886,538)	0	(233,482,315)	(4,847,436,182)	(14,566,716,333)
Depreciation	(44,906,118.00)	(655,295,319)	0	(66,101,934)	(305,454,663)	(1,071,758,034)
Balance, 12/31/2016	**(3,994,817,416)**	**(6,191,181,857)**	**0**	**(299,584,249)**	**(5,152,890,845)**	**(15,638,474,367)**
Carrying Amount, December 31, 2016 (As restated)	**15,140,780,417**	**19,187,318,040**	**462,792,113**	**85,560,316**	**2,284,600,198**	**37,161,051,084**

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.

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 still under the custody of the NPF and have not been transferred to MIAA. This was recorded in the books of the Authority in 2017 at its Fair Market Value at the date of acquisition amounting to P8.258 billion as determined by an independent/third party appraiser.

On December 11, 2013, the Office of the President approved the request of the DPWH for the transfer through sale in its favor of said MIAA property (Lot 3270-B-3-A-2-A-2 under TCT No. 141810), in the total amount of P569.66 million or at zonal value of P10,000 per square meter. Subject property was used by DPWH for the construction of the Circumference Road 5 (C-5) Extension Project from South Luzon Expressway in Pasay City to Sucat Road, Paranaque City.

At December 31, 2016, 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).

The net book value of 2016 *Property and Equipment* was restated due to the effect of correction of assets in 2016. There is no effect in 2017 (Note 25).

13. INVESTMENT PROPERTY

At December 31, 2016	
Cost	334,126,026
Accumulated Depreciation	(292,855,269)
Net Book Value	**41,270,757**
Year Ended December 31, 2017	
Opening Net Book Value	41,270,757
Depreciation Expense	(2,619,385)
Closing Net Book Value	**38,651,372**
At December 31, 2017	
Cost	334,126,026
Accumulated Depreciation	(295,474,654)
Net Book Value	**38,651,372**

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

14. INVESTMENTS IN STOCKS

This account represents investment in stocks of the following:

	2017	2016
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 on 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 on 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 which has yet to be filed.

These investments are accounted for using the cost method.

15. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2017	2016 (As restated)
Deferred Tax Asset	**585,758,971**	654,952,122
Restricted Fund Assets	**286,864,710**	300,005,000
Other Assets	**0**	175,191,762
	872,623,681	1,130,148,884

Deferred Tax Asset represents the differences between the carrying amounts of the assets and liabilities and their tax bases that may either be a future taxable amount or a future deductible amount (Note 33).

Restricted Fund Assets represents fund transfer from the Department of Transportation (DOTr) for the implementation of the Rapid Exit Taxiways Project (Note 26). The decrease in the account represents payment of mobilization fee to the contractor.

Other Assets balance in CY 2016 represents the capitalized cost of the Panglao-Bohol International Airport Development Project which was reclassified to *Financial Assistance to NGAs* in CY 2017 (Note 29). 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.

16. TRADE AND OTHER PAYABLES

This account consists of the following:

	2017	2016 (As restated)
Accounts Payable	**723,758,266**	1,064,178,001
Dividends Payable	**2,250,721,253**	2,158,915,860
Interest Payable	**60,394,290**	69,588,311
Other Payables	**326,888,483**	311,815,016
	3,361,762,292	3,604,497,188

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 May 15, following the dividend year, based on the financial statements submitted to COA for audit."

The dividends payable of P 2.159 billion in CY 2016, excluding additional dividend of P67.604 million for the same year, was remitted to the BTr on May 11 and 26, 2017.

17. INTER-AGENCY PAYABLES

This account consists of the following:

	2017	2016 (As restated)
Due to BIR	**469,598,566**	644,030,582
Due to BTr	**682,738,044**	430,865,807
Due to GSIS	**15,497,823**	9,126,891
Due to Pag-IBIG	**1,619,323**	1,622,403
Due to PhilHealth	**1,370,921**	1,911,932
Due to Other NGAs	**78,356,985**	65,229,574
	1,249,181,662	1,152,787,189

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 guarantee fees and National Government's and the Office for Transportation Security's (OTS) unremitted share on the following:

	2017	2016
Authority income	**386,559,948**	372,960,022
Guaranty Fees	**219,702,510**	-
Terminal fees	**62,319,141**	46,127,995
OTS share on domestic terminal fees	**14,156,445**	11,777,790
Total	**682,738,044**	430,865,807

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, 2017 and 2016 represents the unremitted share of the Office for Transportation Security (OTS) on international terminal fees.

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 27).

18. OTHER CURRENT LIABILITIES

This account consists of the following:

	2017	2016 (As restated)
Customers' Deposit Payable	**421,411,574**	399,107,572
Guaranty/Security Deposits Payable	**101,160,144**	59,844,071
Leave Benefits Payable	**131,845,848**	110,767,903
Tax Refund Payable	**35,362,812**	30,610,675
	689,780,378	600,330,221

Customers' Deposits Payable represents the airport lessees' and/or concessionaires' deposits equivalent to two 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.
Leave Benefits Payable represents the accumulated unused leave credits of employees; while *Tax Refund Payable* represents excess taxes withheld from employees' compensation.

19. 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.

	2017	2016
LBP PN No. 4808 TL12 4076 000		
dtd. April 11, 2012	**1,342,626,450**	1,586,740,350
DBP PN No. 2012-29-021		
dtd. April 11, 2012	**1,342,626,450**	1,586,740,350
Less: Semi-annual amortizations	**(488,227,800)**	(488,227,800)
	2,197,025,100	2,685,252,900
Less: Current Portion	**(488,227,800)**	(488,227,800)
	1,708,797,300	2,197,025,100

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 2.5 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.

20. LOANS PAYABLE - FOREIGN

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

	2017	2016
French Loan to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal 2 contracted with Natixis (formerly Credit Nacionale)		
FF 3,221,792 = Euro 491,159.02 = US $ 592,435.99 @ 49.958	**29,596,918**	
FF 3,946,790 = Euro 601,684.26 = US $ 624,932.83 @ 49.80		31,121,655
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 5,272,428,000 = US $ 46,966,789 @ P 49.958	**2,346,366,826**	
Y 6,151,166,000 = US $ 52,487,899 @ P 49.80		2,613,897,394
	2,375,963,744	2,645,019,049
Less: Current Portion	**(397,721,316)**	(378,337,407)
	1,978,242,428	2,266,681,642

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.

21. DEFERRED REVENUE

This account pertains to the following:

	2017	2016
Contra Account of Receivables-COA Disallowances	**167,787,147**	169,111,807
Deferred Output Tax	**236,468,524**	268,921,216
Unearned Revenue/Income	**149,105,191**	138,124,620
Other Deferred Credits	**26,928,736**	23,443,259
	580,289,598	599,600,902

Contra Account of Receivables-COA Disallowances (Note 9) decreased due to partial settlements made.

Unearned Revenue/Income pertains to the airport lessees' and/or concessionaires' one month advance rental/concessions privilege fee.

22. 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. The increase in the account of P2.808 billion represents part of the value of the 22.3 hectares property of the Nayong Pilipino Foundation (NPF) that was transferred to the Authority pursuant to E.O. 58 dated September 29, 2011. The recorded value of said property is P8.269 billion, including the value of the building and land improvements of P11.018 million (Note 12), of which the amount of P5.461 billion was credited to *Contributed Capital* account.

23. CONTRIBUTED CAPITAL

This represents part of the P8.269 billion value of NPF property recorded under the account in the amount of P5.461 billion (Notes 12 and 22).

24. RECLASSIFICATION OF CY 2016 ACCOUNT BALANCES DUE TO THE ADOPTION OF THE RCA FOR GCs AND TRANSITION TO PFRS

The Authority has adopted the conversion of the accounts to the Revised Chart of Accounts (RCA) for Government Corporations effective 2016 as prescribed under COA Circular No. 2015-010 dated December 1, 2015. The 2016 account balances were reclassified to conform with the 2017 financial statements presentation under PFRS, as follows:

As previously classified	Reclassification	Note	As reclassified
Other Receivables - PTF	Accounts Receivable	9	346,656,170
Other Investments	Investment in Associates	14	11,850,000
Other Investments	Investment in Subsidiaries	14	655,000
Other Deferred Credits	Unearned Revenue	21	138,124,620
Other Payables	Deferred Revenue	21	292,364,475
Deferred Charges	Guaranty Deposits	11	82,804,963
Other service income	Parking Fees	26	291,717,191
Service Concessions Revenue	Rent/Lease Income	26	1,540,307,610
Royalty Fees	Rent/Lease Income	26	98,607,582
Rent/Lease Income	Landing and Parking Fees	26	751,435,883
Water Expenses	Other Service Income	26	8,549,118
Electricity Expenses	Other Service Income	26	164,534,762

25. EFFECT OF PRIOR PERIOD ERRORS

The financial statements for CY 2016 was restated to correct errors on the financial information in CY 2016. The effect of the restatement is summarized below.

Effect on opening balance of *Property and Equipment*	
Net book value as previously reported	27,628,348,142
Adjustments:	
Increase in *Land* representing fair market value of NPF property transferred to MIAA (Notes 12 and 22)	8,258,600,000
Decrease in *Land* due to sale to DPWH (Note 12)	(54,006,000)
Increase in *Airport System* due to recognition of Terminal 1 Rehabilitation Project implemented by DOTr	1,317,090,442
Increase in *Buildings* representing value of NPF building transferred to MIAA	10,990,000
Increase in *Land Improvements* due to transfer of NPF property to MIAA	28,500
Net book value as restated, December 31, 2016	37,161,051,084

26. REVENUE

This account consists of following:

	2017	2016 (As restated)
Transportation System Fees	**4,685,783,878**	4,200,105,297
Landing and Parking Fees	**4,559,050,953**	4,017,033,538
Rent/Lease Income	**3,337,456,266**	3,224,992,615
Parking Fees	**309,774,556**	283,033,636
Other Service Income	**241,044,876**	236,939,688
	13,133,110,529	11,962,104,774

Subsidy Income from National Government represents subsidy to MIAA, through the Department of Transportation (DOTr), for the deficiency payment to PIATCO of P3.609 billion in CY 2017 and; of P20.475 billion in CY 2016 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 (Note 34). The balance in 2016 also includes the fund transfer from the DOTr for the implementation of the Rapid Exit Taxiways Project amounting to P300 million (Note 15).

Other Service Income represents income from visitors' stick-on pass of P8.10 million in CY 2017 and P8.40 million in CY 2016; and utilities of P232.94 million in CY 2017 and P228.54 million in CY 2016.

27. 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:

	2017	2016
Landing & Parking Fees (Aeronautical Fees)	**3,582,329,471**	3,546,748,753
Rentals	**2,420,062,074**	2,045,046,993
Other Business Income (Concession Privilege Fees)	**1,754,053,405**	1,328,297,384
Other Service Income (Miscellaneous Revenues)	**372,126,030**	494,211,447
	8,128,570,980	7,414,304,577
Rate of Government's Share	**20%**	20%
National Government's Share	**1,625,714,196**	1,482,860,915

28. PERSONNEL SERVICES

This account consists of the following:

	2017	2016 (As restated)
Salaries and Wages	**356,274,746**	318,903,248
Other Compensation		
Overtime and Night Differential	**155,915,047**	115,886,205
Year-end Bonus	**30, 513,284**	27,250,888
Personal Economic Relief Allowance	**29,317,909**	30,100,783
Representation Allowance	**25,672,656**	17,309,180
Hazard Pay	**10,143,444**	9,905,651
Cash Gift	**6,149,500**	6,292,718
Clothing/Uniform Allowance	**5,655,159**	11,477,709
Subsistence Allowance	**59,850**	59,775
Productivity Incentive Allowance	**0**	2,000
Other Bonuses and Allowances	**75,808,405**	105,638,139
Personal Benefits Contribution		
Life and Retirement Insurance Contribution	**42,073,772**	39,098,273
PhilHealth Contribution	**3,831,525**	3,813,838
Pag-IBIG Contribution	**1,480,500**	1,514,800
ECC Contribution	**1,475,700**	1,517,100
Other Personnel Benefits		
Terminal Leave	**23,585,656**	10,986,063
Retirement Benefits	**0**	1,838,224
Other Personnel Benefits	**72,710,471**	80,756,151
	840,667,624	782,350,745

29. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2017	2016 (As restated)
Depreciation	**1,390,878,748**	1,074,377,418
Utility Expenses	**896,310,947**	866,870,540
Repairs and Maintenance	**724,977,305**	652,250,658
Professional Services	**703,594,238**	468,570,762
General Services	**566,595,239**	538,185,267
Service Fee	**185,274,643**	179,634,234
Rent Expenses	**185,014,702**	185,400,485
Financial Assistance to NGAs	**175,191,762**	0
Financial Assistance to LGUs	**102,820,558**	0
Supplies and Materials	**91,255,010**	95,377,244
Taxes, Insurance Premiums and Other Fees	**66,134,142**	208,273,057
Impairment Loss	**43,014,885**	86,034,800
Extraordinary and Miscellaneous Expenses	**31,192,764**	33,101,142
Communication Expenses	**11,787,273**	11,825,589
Traveling Expenses	**2,507,604**	1,125,028
Membership Dues and Contributions to Organizations	**2,130,514**	1,999,988
Subscription Expenses	**1,667,515**	1,000,738
Training Expenses	**1,489,930**	942,842
Representation Expenses	**1,273,642**	1,231,902
Advertising Expenses	**1,009,780**	733,576
Donations	**0**	8,000,115
Other Maintenance & Operating Expenses-PIATCO	**3,610,628,846**	13,652,381,842
	8,794,750,047	18,067,317,227

Financial Assistance to NGAs pertains to the capitalized cost of the Panglao – Bohol International Airport Development Project (Note 15) which was reclassified under the account in CY 2017 since the project has been set aside by the government and placed under DOTr’s Private Partnership (PPP) scheme.

Financial Assistance to LGUs represents mainly the amount extended to the City Government of Parañaque to cover the cost of abatement of informal settlers near the perimeter fence of NAIA Runway 06 and approach areas pursuant to a Memorandum of Agreement entered into between the parties.

Other Maintenance & Operating Expenses in 2016 represents interests amounting to P 13.331 billion which are part of the total amount of just compensation payable to PIATCO as adjudged by the SC. It also includes documentary stamp taxes paid out of subsidy from NG. For 2017, it includes payment to PIATCO of the 12 percent VAT.

30. LEASES

Authority as Lessee

The Authority rents its NAIA Terminal 3 sites from BCDA. The lease is for a period of twenty-five years, with annual rental of one percent of the appraised value at P 30,000.00 per square meters in area comprising 634,843 square meters with ten percent escalation every five years. Minimum lease payments under operating leases recognized as expense amounted to P 170 million for 2017 and 2016.

At year end, the Authority has outstanding commitment under non-cancellable operating leases that fall due as follows:

	2017	2016
Not later than one year	**176,933,920**	170,047,232
Later than one year but not later than 5 years	**707,735,679**	884,669,598
Later than 5 years	**0**	0
	884,669,598	1,054,716,830

Authority as lessor

The Authority also rents some of its terminal facilities to various lessees. The lease terms range between one month to five years, with monthly rental ranging between P500 and P13.35 million. Escalation rate of two percent per annum after the third year for concessionaires with lease term of five years. Lease payments under operating leases recognized as income amounted to P 1.531 billion in 2017 and P 1.586 billion in 2016.

At year end, the Authority has outstanding receivable under non-cancellable operating leases that fall due as follows:

	2017	2016
Not later than one year	**1,631,784,237**	1,530,717,838
Later than one year but not later than 5 years	**665,025,012**	2,360,121,461
Later than 5 years	**63,312,212**	0
	2,360,121,461	3,890,839,299

31. INTEREST INCOME

This account pertains to interests earned on cash deposits and short-term investments totaling P192,122,735 in 2017 and P365,635,597 in 2016 (Notes 7 and 8).

32. FINANCIAL EXPENSES

This account consists of:

	2017	2016
Interest expense	**195,242,579**	250,902,496
Guaranty fees	**219,702,510**	0
Bank charges	**72,238**	83,000
Other financial charges	**3,827,934**	6,829,318
	418,845,261	257,814,814

33. INCOME TAX

Income tax expense for the years ended December 31 consists of:

	2017	2016
Current	**1,641,367,756**	1,756,030,594
Deferred	**69,193,151**	(88,678,041)
	1,710,560,907	1,667,352,553

The reconciliation of income tax expense computed at applicable statutory tax rates and income tax expense shown in the statement of comprehensive income is as follows:

	2017	2016
Income tax at statutory rate	**2,121,533,475**	3,783,725,511
Non-deductible depreciation expense	**121,306,269**	63,089,951
Non-deductible interest expense	**23,774,690**	40,237,991
Interest income subject to final tax	**(57,636,220)**	(106,690,679)
Subsidy income	**(1,581,273,906)**	(6,142,751,015)
Non-deductible MOOEs	**1,082,856,599**	4,029,740,794
Effective income tax	**1,710,560,907**	1,667,352,553

An analysis of Deferred Tax Asset is as follows:

	2017	2016
Leave benefits payable	**39,553,755**	33,230,371
Allowance for impairment of receivables	**401,498,062**	516,492,672
Unrealized foreign exchange loss	**144,716,507**	105,229,079
	585,768,324	654,952,122

34. 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 P0.434 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 paid by MIAA in 2016.

In 2017 the Authority paid to PIATCO the amount of documentary stamp tax deducted from its claim and the 12 percent VAT.

35. 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 (PAL), 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 (MIAA Board Resolution No.2010-026). However, the MIAA Board of Directors issued Resolution No. 2017-103 dated January 8, 2018 recalling and cancelling MIAA Board Resolution No. 2010-026. Management sent letters to PAL and Macroasia to file money claims before 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 may be subject to refund in case a proper claim is filed by the affected parties.

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 percent 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 percent the interest on the monthly rentals to be refunded beginning July 1, 1997 up to March 11, 1998. The 6 percent interest is to begin from date of filing of the complaint until finality of the decision. A 12 percent 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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36. 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 P1,067,026,935 for the year based on the amount reflected in the Sales Account of P8,891,891,126.

   The Authority has zero-rated sales amounting to P 4,085,839,461 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	146,277,703
b. Current year's purchases	
I. Goods for resale/manufacture or further processing	n/a
II. Goods other than for resale or manufacture	18,369,907
III. Capital goods subject to amortization	25,470,069
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	291,956,372
	335,796,348
c. Claims for tax credit/refund and other adjustments	
I. Prior year's set-up/accrual	(3,449,224)
II. Current year's set-up/accruals	9,387,791
III. Cancelled checks/transactions and adjustments	(4,721,401)
IV. Available input tax and tax deferred for succeeding period	(331,313,678)
	(330,096,512)
d. Balance at the end of the year	151,977,539

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

I. Tax on compensation benefits	99,649,360
II. Creditable withholding taxes	62,450,128
III. Final withholding taxes	29,563,997
IV. Value-Added Tax and Other Percentage taxes withheld	148,046,041

4. Schedule of Other Taxes and Licenses

Fire License (LBP for the acct. of PNP Firearms)	1,417,600
Network / Radio station license and RLM certificate (NTC)	682,749
Airport Coordination Australia (Annual Admin Fee)	571,732
Registration / Emission Testing and Inspection (LTO)	270,716
Tax on French Loan & adjustment of Foreign Exchange	109,386
Renewal Discharge Permit Fee for STP 2	44,002
Community Tax (Pasay City Treasurer)	10,500
Firing Range Accreditation	1,500
Annual VAT Registration	500
Notarial Fee	300

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. Adjustments in the amount of P183.248 million resulting from the adoption of the Philippine Financial Reporting Standards (PFRS) in CY 2017 did not conform to the specific transitional requirements of PFRS/COA rules.

COA Circular No. 2015-003 dated April 16, 2015 prescribed the mandatory adoption of the PFRS by all Government Business Entities (GBEs), while the guidelines on the implementation of specific PFRSs are provided under COA Circular No. 2017-004 dated December 13, 2017. The opening PFRS financial position requires MIAA to recognize/derecognize or reclassify and measure assets and liabilities in accordance with PFRS and/or; not recognize items as assets and liabilities if PFRS do not permit such recognition.

Accordingly, adjustments resulting from the application of PFRS shall be recognized as an adjustment to the opening balance of retained earnings at the date of transition to PFRS. Likewise, under the said guidelines, COA has set a capitalization threshold of P15,000 for tangible items in accordance with the policies prescribed in paragraph 5.4 of COA Circular No. 2016-006 on the conversion from the old chart of accounts to the Revised Chart of Accounts (RCA) for government corporations. Tangible items amounting to less than P15,000 shall be recognized as expenses upon issue to end-user. The carrying amount of semi-expendable property recognized as PPE already issued to end-user as of January 1, 2016 shall be recognized as an adjustment to the opening balance of retained earnings for CY 2016.

From the data gathered, adjustments were made on the following:

a) Capitalized cost of the Panglao-Bohol International Airport Development Project classified as *Other Assets* under previous Generally Accepted Accounting Principles (GAAP) was derecognized and reclassified as *Financial Assistance to NGAs* per JEV No. 2017-12-092 in the amount of P175,191,762. The project was suspended by the Department of Transportation (DOTr) in 2010 and has been set aside by the government which decided to pursue the same under the Public-Private Partnership (PPP) scheme.

b) Tangible items below the threshold of P15,000 were derecognized per JEV No. 2017-12-064. The acquisition cost of *Property and Equipment* totalling P81,276,271 was credited and *Accumulated Depreciation* of P73,219,336 debited to record the derecognition. The carrying amount of these PPE was shown as debit to *Semi-Expendable - Machinery and Equipment/Furniture and Fixture* in the total amount of P8,056,935.

These adjustments should be treated as transition adjustments to be recognized in the opening balance of retained earnings at the date of transition to PFRS. However, our review disclosed that said adjustments were recorded as current year's adjustments, presented in the profit and loss statement for CY 2017 under *Maintenance and Other Operating Expense* as *Financial Assistance to NGAs* and

Semi-Expendable Machinery and Equipment/Furniture and Fixtures, instead of adjustments to the opening balance of retained earnings.

We recommended compliance with the specific transitional PFRS/COA requirements.

Management Comment

Management commented that the adjustment on the capitalized cost of the Panglao-Bohol Project requires prospective application as MIAA has no prior information on whether the investment had become totally unrecoverable. They however agreed on the adjustment of semi-expendable items.

Rejoinder

We maintain that said adjustments should be recognized as adjustments to the opening balance of retained earnings at the date of transition to PFRS as clearly provided in the specific transitional requirements of the PFRS/COA rules. Moreover, prior to 2016, it is already certain that the investment could no longer be recouped.

B. Compliance Audit

2. The payment of Representation and Transportation Allowance (RATA) of MIAA officials at a rate equivalent to 40 percent of their basic salary is wanting of legal basis thus incurring unauthorized expenditures aggregating P12 million.

Section 54 of the General Provisions of the General Appropriations Act (GAA) of FY 2017 (R.A. 10924) reads as follows:

> *Representation and transportation allowances. - Government officials with the following ranks and their equivalent as determined by the DBM, while in the actual performance of their respective functions, are hereby authorized monthly commutable representation and transportation allowances at the rates indicated below, for each type of allowance:*
>
> *(a) P14,000 for Department Secretaries;*
> *(b) P11,000 for Department Undersecretaries;*
> *(c) P10,000 for Department Assistant Secretaries;*
> *(d) P9,000 for Bureau Directors and Department Regional Directors;*
> *(e) P8,500 for Assistant Bureau Directors, Department Assistant Bureau Directors, Bureau Regional Directors and Department Service Chiefs;*
> *(f) P7,500 for Assistant Bureau Regional Director; and*
> *(g) P5,000 for Chief of Division, identified as such in the Personnel Services Itemization and Plantilla of Personnel.*

These are the same rates provided in Par. 4.0 of National Budget Circular (NBC) No. 546 dated January 17, 2013, as amended, issued by the Department of Budget and Management (DBM).

For CY 2017, the Authority's expenses for RATA amounted to P24.496 million. This covers the RATA of 85 officials/personnel for the period January to December 2017, at a monthly rate equivalent to 40 percent of their basic salary. The rate was based on Section 5.g of Letter of Implementation (LOI) No. 97, s. 1979 which provides that representation and transportation allowances may be authorized by individual corporations for managerial and supervisory positions, subject to the approval of the Ministry of the Budget (now DBM), which shall not exceed 40 percent of basic pay.
However, the use of the 40 percent rate under LOI No. 97 has long been decided by the Supreme Court to apply only to the incumbents as of July 1, 1989 as held in Philippine Ports Authority vs. Commission on Audit where COA disallowed the portion of the RATA of some PPA officials based on the said rate (GR No. 100773, October 16, 1992). Here, the Court dealt primarily on the interpretation of Section 12 of Republic Act No. 6758 or the Salary Standardization Law of 1989. The meat of the discussion of the Court on the issue is quoted hereunder:

The first paragraph of Section 12 of R.A. No. 6758 provides:

> *Consolidation of Allowances and Compensation. – All allowances, except for representation and transportation allowances; clothing and laundry allowances; subsistence allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay; allowances of foreign service personnel stationed abroad; and such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates.* ***Such other additional compensation, whether in cash or in kind, being received by <u>incumbents</u> only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized" (****emphasis supplied).*

Xxx

Now, under the second sentence of Section 12, first paragraph, the RATA enjoyed by these PPA officials shall continue to be authorized only if they are **"being received by incumbents only as of July 1, 1989**." RA 6758 has therefore, to this extent, amended LOI No. 97. By **limiting the benefit** of the RATA granted by LOI No. 97 **to incumbents**, Congress has manifested its intent to gradually phase out this RATA privilege under LOI No. 97 without upsetting its policy of non diminution of pay.

The legislature has similarly adhered to this policy of non-diminution of pay when it provided for the transition allowance under Section 17 of RA 6758 which reads:

> Section 17. *Salaries of Incumbents – Incumbents of positions presently receiving salaries and additional compensation/fringe benefits including those absorbed from local government units and other emoluments, the aggregate of which exceeds the standardized salary rate as herein prescribed, shall continue to receive such excess compensation, which shall be referred to as transition allowance. The transition allowance shall be reduced by*

the amount of salary adjustments that the incumbent shall receive in the future.

> While Section 12 refers to allowances that are not integrated into the standardized salaries, Section 17 refers to salaries and additional compensation or fringe benefits that are integrated into the standardized salaries, both sections are intended to protect **incumbents** who are **receiving** said salaries and/or allowances at the time RA 6758 took effect.
>
> *Xxx*
>
> The consequential outcome, under Sections 12 and 17, is that **if the incumbent resigns or is promoted to a higher position, his successor is no longer entitled to his predecessor's RATA privilege under LOI No. 97 or to the transition allowance.**

This ruling was in fact cited in the case of MIAA vs. COA (G.R. 104217 12/5/94). Although the case was decided in favor of MIAA, it was limited to the basis of 40 percent RATA to be given after July 1. 1989 which as asserted by the petitioners should be based on the Standardized Salary not on the old rate as contended by COA. Nonetheless, the Court emphasized the incumbency of the recipient as of July 1, 1989 to be entitled to such benefit saying:

> "We disagree with the foregoing interpretation and rule for the petitioners. The date July 1, 1989 does not serve as a cut-off date with respect to the amount of RATA. The date July 1, 1989 becomes crucial only to determine that as of said date, the officer was an incumbent and receiving the RATA, for purposes of entitling him to its continued grant. This given date should not be interpreted as fixing the maximum amount of RATA to be received by the officials."

The ruling in PPA vs COA (GR No. 10073) was also reiterated and invoked by the High Court in PPA vs. COA (G.R No. 156537 1/24/07); Manolito Agra, et al. vs COA (G.R. No. 167807 12/6/11); and Amelia Aquino vs. PPA (G.R. No. 181973 4/17/13).

Therefore, the continued payment of RATA equivalent to 40 percent of the salary of the MIAA officials entitled to such benefit, except those incumbent and receiving the same as of July 1, 1989 is wanting of legal basis. MIAA should have followed/adopted the prescribed rates in the GAA and/or in the Circulars/issuance of the DBM.

Further, our audit disclosed the following:

(a) The total RATA expenditures of P24.496 million exceeded or is higher by P18.445 million compared with the RATA budget of P6.050 approved by DBM.

(b) Out of the 85 personnel granted RATA, only seven were incumbent and were actually receiving RATA as of July 1, 1989.

(c) The computation of the 40 percent RATA of some personnel designated in Officer-In-Charge (OIC) positions were based on the maximum step. To illustrate:

Plantilla Position of Designated Officials	Salary Grade (SG)	Current Designation	SG of the Position as OIC	Basis of RATA of the OIC
Division Manager	24-8	AGM	28	28-8
Division Manager	24-8	Dept. Manager	26	26-8
Chief Corp. Accountant B	20-8	Div. Manager	24	24-8

Under Civil Service Commission (CSC) and DBM Joint Circular No. 1, s. 2012, step increment resulting to a move to a higher step of the salary grade may be given to employees due to meritorious performance or length of service. Section 5 of the Joint Circular provides that two step increments may be granted to official or employee who attained two ratings of outstanding during the two rating period within a calendar year and one step if performance rating attained is one very satisfactory and one outstanding or two very satisfactory. On the other hand, Section 6 provides that one step increment due to length of service shall be granted to qualified personnel for every three years of continuous satisfactory service in the present position. This clearly shows that an official or employee can only move to a higher step of the salary grade of his present appointive position; thus, the payment of RATA of OICs which were based on a rate higher than step one of the salary grade of the position of the office where he is designated is erroneous and without legal basis.

(d) Entitlement to RATA of designated OIC's were not indicated in their Office Orders contrary to DBM Circular No. 546 dated January 17, 2013.
Some personnel whose positions were not among those enumerated in the GAA or DBM Circulars were granted RATA based on Board approval. These payments are questionable considering that the GAA and the governing circulars specifically identified the positions of the officials/personnel entitled to the benefit.

In view thereof, we recommended that Management:

(a) Limit the 40 percent RATA rate to the incumbents as of July 1, 1989 and who were receiving said benefit as of that date. Officials/personnel entitled to RATA other than the incumbents must be based on the rates prescribed in the GAA and/or budget circulars.

(b) Direct the concerned employees to refund the amount of RATA in excess of the rates/amounts provided in Section 54 of the GAA (for CY 2017) and DBM Circular; and

(c) Ensure that RATA is granted only to holders of positions duly authorized by existing laws and regulations.

Management Comment

The MIAA COB approved by DBM from 2011 to 2017 covered and included the grant of RATA at the rate of 40 percent of the basic salary of Division Managers and above. The seven year period of DBM approvals at 40 percent rate is very telling indeed. And relying on DBMs time-honored approval, MIAA again requested a RATA rate at 40 percent on its COB which is expected to be approved by July 2018. Thus, Management deemed it fair and prudent in the meantime to maintain the status quo of RATA rate of 40 percent of the basic salary. However, on the RATA of the designated OICs, the basis of the 40 percent has been adjusted from Step 8 salary rate to Step One effective the payroll period May 16 to 31, 2018.

On the other hand, the grant of RATA to Next-in Rank Supervisors (NIRS) was suspended effective June 1 to 15 payroll period. Management however, recognized that legal remedies may be availed of by the concerned personnel; thus, action on refund has been deferred.

Rejoinder

While the approved MIAA COB included the RATA of 40 percent, the RATA amount was with parallel note "limited to 40 percent of salary of personnel entitled hereto. (From Division Manager and above only)" We interpret the phrase **entitled hereto** as a qualifying note that the approval applies only to incumbents as of July 1, 1989 and receiving the same benefit as of that date. This is in line with the Salary Standardization Law and anchored from the decisions of the Supreme Court as discussed. Further, condition No. 8 of the COB states that *the review action of the DBM does not authorize any item of expenditure that is prohibited by or inconsistent with the provisions of law*. Thus, we maintain our position that MIAA should follow/adopt the RATA rates prescribed in the GAA and/or DBM issuances.

3. **MIAA's overtime expenses of P142.536 million grossly exceeded the ceiling of five percent of its Personal Services budget set by the DBM equivalent to P38.658 million, resulting in unauthorized expenditure of P103.878 million.**

Section 10 of CSC and DBM Joint Circular No. 1, s. 2015 dated November 25, 2015 provides that total overtime pay (OT) of an employee in a year shall not exceed 50 percent of his/her total basic salary for the year, while the total OT pay to be spent by an agency shall not exceed five percent of its total Personal Services (PS) budget for a given year. Any amount of OT pay in excess of the five percent limit shall be subject to the approval of DBM in accordance with existing budgeting rules and regulations.

The same Circular also provides that OT services shall be authorized only when extremely necessary; that as a general rule, the remuneration for OT services shall be through Compensatory Time Off (CTO), and that payment in cash of OT services through OT Pay may be authorized only in exceptional cases when the application of CTO for all OT hours would adversely affect the operations of the agency.

Relatedly, the Secretary of DBM in his letter to the MIAA General Manager dated December 14, 2017 approved the Authority's request for exemption from the 50 percent OT limitation. However, the approval was limited to the Security and Safety personnel, and the five percent OT ceiling was emphasized. The exemption given was due to the holding of the ASEAN events and the Martial Law declaration in Marawi.

For CY 2017, MIAA's approved budget for PS totaled P773.158 million including the supplemental budget of P91.075 million. Using the five percent ceiling, the authorized OT expenses was P38.658 million.

Audit however disclosed that the amount paid by the Authority for OT services during the year amounted to P142.536 million, exceeding the ceiling by P103.878 million. The huge excess in OT expenses was due to the Authority's practice of allowing almost all or 99 percent of its Plantilla personnel to render overtime services, and the non-implementation of the CTO in lieu of cash payment. It was also noted that the OT services exceeding the 50 percent limit amounted to P13.302 million of which P.111 million were paid to non-security and safety personnel. These practices are not in accordance with the cited Circular, and the excess OT pay of P103,878,269 are deemed unauthorized expenditures.

Management explained that while the Joint Circular provides for five percent ceiling, the DBM has approved the COB of MIAA for CY 2017 with an OT budget of P142.618 which is equivalent to 18.45 percent of the total PS allocation. Accordingly, the OT rates approved by DBM for CYs 2015 and 2016 were 16.33 and 21.33 percent respectively, of their PS budget. They further stated that MIAA has its international and domestic operations on 24/7 which necessitate the deployment of personnel on a 3-shift schedule to immediately respond to its operational, security and emergency requirements. These personnel account for the majority of their workforce, thus to compensate their OT services thru CTO will adversely affect the provision of services to the public, which is the very reason for their creation.

We agree with Management that the P142,618 OT budget was included in the COB approved by the DBM. However, as discussed above, the five percent ceiling mandated in the Joint Circular was emphasized and reiterated by the Secretary of DBM in his letter dated December 14, 2017, when he approved the exemption of MIAA on the 50 percent limitation.

We likewise recognize the necessity of the OT services of some MIAA personnel particularly the front line service or those assigned in terminals; but the grant of OT to almost all personnel and without availing the CTO is not in accordance with the provisions of the Joint Circular.

Also, we were precluded from evaluating the necessity of the OT services rendered as there were no accomplishment reports submitted or attached to the payrolls or a work plan/program supporting or justifying the grant of OT services with pay.

We recommended that Management:

a) obtain approval from the DBM for the excess OT expenditure of P103.302 million or a clarificatory statement on the approval of the OT budget of P142.618 as reflected in the COB;

b) direct the refund of P.111 million from the employees who were paid OT services in excess of the 50 percent limit and not covered by the exemption;

c) strictly comply with the provision of CSC and DBM Joint Circular No. 1, series of 2015 on the payment of OT services and;

d) submit the documents (or its equivalent) required under COA Circular No. 2012-001 dated January 14, 2012, as follows:

- OT authority stating the necessity and urgency of the work to be done and duration of the OT work;

- OT Work Program;

- Quantified OT accomplishment duly signed by the employee and supervisor; and

- Certificate of service or duly approved DTR.

Management Comment

Management commented that errors were inadvertently committed in the computation of OT of some personnel, due to the grant of salary differentials as a result of the implementation of the 2nd tranche of Salary Standardization Law – 4 in August 2017. Nevertheless, the concerned personnel were directed to immediately refund the entire overpayment either thru salary deduction or cash payment.

Management likewise issued a memorandum dated April 27, 2018 informing all MIAA officers and personnel on the policies and guidelines on OT Services Pay pursuant to CSC-DBM Joint Circular No. 1, s. 2015 and Memorandum Circular (MC) No. 8, s. 2018, for their compliance. Also, the documents supporting the OT claims were already submitted but are still for evaluation by the Audit Team.

4. The equity of P15.462 billion already exceeded the approved capitalization of P10.000 billion as a result of the transfer of the Nayong Pilipino Foundation (NPF) property as mandated under Executive Order (EO) No. 58.

On September 9, 2011, then President Benigno S. Aquino III issued Executive Order (EO) No. 58 mandating the transfer of the remaining land of Nayong Pilipino Foundation (NPF), measuring 22.3 hectares, to MIAA, to support the operational requirements of Terminal 3 and accommodate growth in passengers and aircraft movements at the Ninoy Aquino International Airport (NAIA). Said land was part of the 45.9 hectares property conveyed by the National Government to the NPF in 1972 through Presidential Decree (PD) 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.

The NPF, through its Executive Director, raised issues on the rationale behind EO No. 58 despite its clear directive to transfer the remaining 22.3 hectares of NPF property to MIAA. This is in view of its mandate under the NPF's charter to preserve its assets considering that the entity has not been dissolved. On February 22, 2012, the Office of the Government Corporate Counsel (OGCC) advised the Authority to seek a definitive policy direction from the Office of the President (OP) and suggested that MIAA, NPF and OGCC collaborate and come up with a joint position paper on the conflicting issues to be presented to the OP. On April 12, 2012, the Deputy Executive Secretary informed the parties that EO No. 58 was effective; citing the opinion of the Chief Presidential Counsel in its Memorandum dated March 28, 2012, that the *return to the State of the NPF property shall be without compensation.* The NPF posited that if the land is to be reverted back to the State pursuant to PD 37, it should be to the National Government and not to a GOCC and, that NPF should be compensated for the value of the property. However, after a series of consultations, NPF has allowed MIAA to use the property but maintained its reservation on the remuneration for the property, lest it be accused of reneging on its fiduciary obligation. On July 1, 2012, MIAA took over the property and initially used portions of this as parking and staging areas for MIAA's transport concessionaires.

In CYs 2015 and 2016, we recommended that MIAA should recognize said property in its books since it meets the definition of an asset for purposes of recognition. Emphasis was given to substance over form as MIAA already has the control over the use and the benefits that flow from said property.

Subsequently, MIAA recognized the property under Journal Entry Voucher (JEV) No. 2017-12-097, debiting the corresponding asset accounts in the total amount of P8,269,618,500 and crediting *Government Equity* in the amount of P2,808,065,679 and *Contributed Capital* account of P5,461,552,821. Thus, as of December 31, 2017, these accounts showed the following balances:

Government Equity, January 1	7,191,934,321
Add: Adjustment	2,808,065,679
Government Equity, December 31	10,000,000,000
Contributed Capital	5,461,552,821
Total	15,461,552,821

MIAA's initial capitalization as approved under its Charter (EO 778) was P10 billion. This was decreased to P2.5 billion under EO 903, but was again increased to P10 billion per EO 298, which amended EO 903. It is thus clear that any increase or decrease in capitalization requires an executive or legislative initiative. It is also understood that said amendment is duly approved/recommended by MIAA's Board of Directors.

Under the Revised Chart of Accounts (RCA) for GCs, *Government Equity* is used to recognize the amount paid by the NG, whether in cash or in kind, as approved under the GCs charter, while *Contributed Capital* is used to recognize capital contributed by the government to the entity. Both accounts form part of the approved capital to be contributed by the NG as defined in its charter; thus the recorded amount already exceeded the approved capitalization.

We recommended that Management secure the required Board Resolution on the increase in capitalization and initiate or lobby for the amendment of its Charter increasing MIAA's capitalization.

Management Comment

MIAA agreed with the recommendation and committed to initiate and lobby for the amendment of its Charter.

5. 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, 2017	Issued (in Million Pesos)	Settled / Matured into Disallowance	Ending Balance December 31, 2017
Suspensions	0	0	0	0
Disallowances	42,870,948.35	0	0	42,870,948.35
Charges	0	0	0	0

The above disallowances represent excess OTs 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. The Petition for Review of the said Decision was dismissed under COA Decision No. 2017-476 dated December 28, 2017.

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

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

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

Notice of Disallowance was also issued in 2008 disallowing payment of ten percent contingency and five percent excess in profit in the amount of P0.677 million in connection with the contract for the Supply of Labor and Materials in the Installation of Heat Rejection Film at NAIA Terminal 2. 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 strictly comply with the rules and regulations on settlement of accounts.

Partial settlements on the above disallowances effected thru payroll deductions totaled P2.564 million as at reporting date.

6. **The Authority had barely accomplished projects or activities on Gender and Development (GAD) resulting in its failure to address the identified gender issues and underutilization of the approved GAD budget. Moreover, Management failed to submit a copy of the Annual GAD Plan and Budget (GPB) and Accomplishment Report (AR) to the Audit Team within the period prescribed under COA Circular No. 2014-001 dated March 18, 2014.**

Government agencies and instrumentalities are required by law to allocate from their yearly appropriation or budget an amount of at least five percent for GAD projects and activities.

For CY 2017, MIAA targeted eight GAD related activities and allocated a total budget of P14,882,015 which is only 0.3 percent of the Authority's COB; however, despite a very few number of programmed GAD related activities and minimal budget allocated for the same, the Authority still failed to fully implement all the proposed activities. Out of the said amount only P.624 million was spent or utilized, based on the accomplishment report submitted for CY 2017.

Due to the failure of the Authority to fully accomplish its targeted activities, the identified gender issues were not addressed while the budget for GAD amounting to P14,882,015, which is very much below the required yearly budget under Philippine Commission on Women (PCW), NEDA, and DBM Joint Circular No. 2012-01, was underutilized.

Moreover, the Annual GPB was not submitted to COA as required by existing regulation. A copy of the GPB was furnished on February 28, 2018 only upon our request. Paragraph V of COA Circular No. 2014-001 dated March 18, 2014 requires that the audited agency shall submit a copy of the GPB to the COA Audit Team within five (5) working days from receipt of the approved plan from the PCW and a copy of the corresponding AR shall be furnished to the said Audit Team within five (5) working days from the end of January of the preceding year.

We recommended that the GAD Focal Point:

(a) formulate adequate GAD plans and programs that will address gender issues and concerns;

(b) monitor the prompt implementation of the projects and activities; and

(c) comply with the prescribed date provided under COA Circular No. 2014-001 on the submission of the Annual GPB and AR to the COA Audit Team.

Management Comment

Management explained that their priorities are set towards the provision of passenger comfort and convenience which is their mandate, but they still commit to identify programs and projects that will promote gender and development thru the adoption of the Harmonized Gender and Development Guidelines, although the magnitude of which may not be compliant with the requirements of law.

On the under utilization of the CY 2017 GAD Budget, Management explained that the P14 million allocated for the project construction of canopy-covered walk from the Administration Building to NAIA Terminal 1 will be implemented in 2018. As of date the project is in its documentation stage and is expected to be completed before the scheduled bidding in September 2018.

C. Value for Money Audit

7. The Implementing Guidelines adopted by MIAA on the integration of the Passenger Service Charge (PSC) to the airline tickets should be revisited considering the a) loss of revenue in the average amount of P174.366 million per year as a result of the 3.5 percent service fee deducted by the Air Carriers (ACs) from PSC collections; b) service fee is being charged by ACs for Locally Recognized Exempted Passengers (L-REP) despite non-collection of PSC; and c) absence of provisions with respect to the nature and retention period of PSC from unflown/unused tickets not refunded by passengers.

Moreover, the absence of monitoring system on the processes and procedures in the collection and remittance of PSC under the integration scheme and the laxity of the Officials to act on the deviations and deficiencies noted in the said processes may bar the recovery of possible claims as a result of errors or fraud, putting MIAA in prejudice.

To address the congestion of passengers in all Ninoy Aquino International Airport (NAIA) Terminals, the MIAA in agreement with ACs adopted the integration policy on the collection of PSC, commonly known as Terminal Fee (TF).

Under the scheme, the Domestic Passenger Service Charge (DPSC) in the amount of P200 and International Passenger Service Charge (IPSC) in the amount of P550 is integrated in the cost of tickets purchased by passengers from Airline Companies or from general sales agents/travel agents at the point of sale.

To implement the integration scheme, MIAA signed a Memorandum of Agreement with ACs for the collection and remittance of PSC for domestic and international flights in August 2012 and February 2015, respectively.

Provisions common to the implementing guidelines for DPSC and IPSC are as follows:

- ACs shall be entitled to 3.5 percent service fee based on the passenger load or flown tickets, excluding the exempted passenger which shall be deducted from the total proceeds due to MIAA;

- The collections for the month from flown non-exempt Departing Passengers shall be remitted by the AC on or before the last day of the following month without need of demand; and

- Remittance of PSC not made within the prescribed periods shall be subject to a penalty equivalent to 18 percent per annum based on the unremitted amount until full settlement is received.

On March 31, 2017, MIAA issued Memorandum Circular No. 06 providing uniform guidelines for both Domestic and International PSC including the honoring of exemption at the Point of Sale. The Circular also reduced the remittance period of the PSC from monthly to bi-monthly as stated in Section 7.2 which provides that:

"The due date of remittance for the PSC collection from 1st to 15th day of the month shall be on or before the end of the current month. The PSC collections from 16th day to end of the month shall be remitted on of before the 15th day of the succeeding month"

Review and evaluation of PSC related transactions of MIAA under the present integration scheme disclosed:

a) Loss of potential revenue in the average amount of P174.366 million per year as a result of the 3.5 percent service fee deducted by the ACs from PSC collections.

   As a result of the implementation of the integration scheme for DPSC and IPSC on August 2012 and February 2015, respectively, until December 31, 2017, the total service fee paid by MIAA to ACs amounted to P648.941 million, broken down as follows:

Year	**Service Fee** (in million pesos)
2012	17.459
2013	53.520
2014	54.865
2015	158.188
2016	179.634
2017	185.275
Total	**P648.941**

   Based on the figures for the last three years, where integration for both the DPSC and IPSC were fully implemented, the annual service fee incurred and paid by MIAA averaged P174.365 million.

   Further, analysis of the PSC transactions of ten sample ACs for the months of January, March, April, May, July, September and December 2017, yielded the following results for the seven-month period:

Air Carrier	PSC (in million pesos)		Service Fee (in million pesos)	
	Total Collections	Average Collection per month	Paid to Air Carriers	Average per month
Cebu Pacific*	1,231.078	175.868	44.319	6.331
Philippine Air Lines*	1,340.808	191.544	49.419	7.060
Air Asia*	286.385	40.912	10.326	1.475
Asiana**	70.752	10.107	2.745	.392
Cathay Pacific**	171.419	24.488	6.976	.997
Emirates**	101.480	14.497	3.963	.566
Singapore Airlines**	96.705	13.815	3.727	.532
Saudi Airlines**	70.284	10.041	2.649	.378
Qatar Airways**	70.663	10.095	2.966	.424
Etihad Airways**	59.828	8.547	3.334	.378

**Domestic and International*
***International*

Moreover, review of the period of collection (flight) to the date of remittance showed the following:

Air Carrier	Period of Collection/ (Flights)	Date of Remittance to MIAA	Retention/Holding Period (No of Days)
Cebu Pacific	January 1 to 31	February 28	28
	April 1 to 30	May 31	31
	May 16 to 31	June 15	15
Philippine Airlines	January 1 to 31	February 28	28
	April 1 to 30	May 31	31
	May 16 to 31	June 15	15
Cathay Pacific	January 1 to 31	February 28	28
	April 1 to 30	May 29	29
	May 16 to 31	June 15	15
Emirates	January 1 to 31	February 28	28
	April 1 to 30	May 31	25
	May 16 to 31	June 14	14
Singapore Airlines	January 1 to 31	February 17	17
	April 1 to 30	May 31	30
	May 16 to 31	June 14	14

As gleaned from the above data, the ACs have maximized and made effective use of the retention or holding period by remitting their respective collections of PSC on the exact deadline set. Thus, on top of the service fee, the ACs benefit from the use of PSC during the holding period or before its remittance to MIAA. This deprived MIAA of additional working funds or potential income from investment if PSC is remitted on a daily basis. From the sample transactions, Cebu Pacific alone collects from MIAA a monthly service fee of P6.331 million and an on hand cash of P175.868 million which they can use as operational capital.

ACs are also benefiting more from the present integration scheme in terms of advance bookings before the intended flights, ranging from months or a year, particularly on promo fares. These advance bookings result in longer holding period of the PSC collected by Air Carriers.

Likewise, the interest rate of 18 percent per annum for late remittance of PSC may not be commensurate if cost of money or its income-generating potential is considered.

b) Service fee is being charged by ACs for R-LEP despite non-collection of PSC.

The integration policies likewise grant exemption to some passengers from payment of IPSC, classified as Internationally - Recognized Exempted Passengers (I-REP) and Locally-Recognized Exempted Passengers (L-REP). The I-REP refers to Infants, Flight and Extra Crew while the L-REP refers to Overseas Filipino Workers (OFWs), Pilgrims, Philippine Sport Commission (PSC) Delegates or others authorized by law and the Office of the President.

However, Section 10.1 of Memorandum Circular No. 06 provides that:

"In consideration for collecting and remitting the IPSC receipts, the collecting Air Carrier shall be entitled to a 3.5percent service fee based on passenger load <u>excluding internationally-recognized exempted passengers</u>" (emphasis supplied)

While the I-REP are excluded in computing the 3.5 percent service fee, the Air Carriers, however, are charging the same service fee to the L-REP, although there is no corresponding PSC collected due to the said exemption.

Examination of the remittance report on service fees from July to December 2017 of 11 ACs who have completed the Systems upgrade requirement on on-line exemption, disclosed a total of 315,622 L-REP. This resulted in the incurrence of service fee amounting to P6.076 million (315,622 x P550 x 3.5 percent), which is obviously prejudicial to MIAA considering that no PSC were collected from these passengers. It is worthy to mention that the 11 ACs represent only 25 percent of the Airline Companies using the services/facilities of MIAA terminals.

We believe that service fee, as it connotes, should be charged only in consideration of the amount collected and remitted.

c) Absence of provisions with respect to the nature and retention period of PSC from unflown tickets not refunded by passengers.

Review of previous and present integration policies adopted by MIAA disclosed the absence of a provision on the treatment and retention period of PSC's from unflown tickets not refunded by passengers. MIAA is uncertain on whether it has the right to demand the remittance of these PSCs from the ACs, considering that the Authority's agreement with the latter is "remittance based on flown passengers." Hence, the Authority wrote a letter to the Solicitor General (SolGen) on May 16, 2016 to inquire on the matter.

On December 19, 2016, the SolGen replied to the query of MIAA and opined that:

- MIAA can demand the remittance of the terminal fees collected by the air carriers even if not yet flown, however, considering that terminal fees are assessed against departing passengers and MIAA is incapable to provide a mechanism for such purpose, it is advised that the terminal fees remain with the Air Carriers for the meantime;

- MIAA can demand the remittance of the terminal fees collected by Air Carriers on unused/cancelled tickets being the payee and beneficiary of the same; and

- MIAA has the duty to hold in trust the unrefunded IPSC collections and it must ensure that an account is set-up for refund purposes.

As of December 2017, however, the unrefunded PSC for unflown tickets have remained with the Air Carriers. Based on social media reports in March 2018 PAL and Cebu Pacific have unrefunded terminal fees aggregating P250 million each.

Furthermore, review of the reports and documents covering the collection and remittance of PSC yielded the following results:

a) MIAA has not conducted a full/complete audit and review of PSC transactions on any of the 45 Airline Companies since the implementation of the integration scheme.
Under Section 11 of MC No. 6 dated March 31, 2017, MIAA has the authority to conduct an audit of the ACs accounting records or similar books, equipment or recording devices used in PSC collections.

Review of the implementation of the scheme disclosed that since February 2012, the audit conducted by MIAA Internal Audit Service Office (IASO) only covered the following:

- Comparison of Remittance Report of Cebu Pacific with the Flight Checklist or Manifest and number of boarding passes covering the months of December 2012 and December 2013; and

- Determination of the timely remittance of PSC by Air Carriers of all domestic airline companies for CYs 2012 to 2016.

Apparently, the scope of the audit conducted is too limited compared to the magnitude of PSC transactions involved.

However, even with the limited data, discrepancies were already noted between the records of Cebu Pacific and MIAA, e.g. number of passenger load, number of flights and others. Considering that the PSC remitted by the AC is based on number of flown passengers, any discrepancy between the records of MIAA and AC would cast doubt on the correctness of the PSC remitted to MIAA. Late remittances of PSC by the Air Carriers were also noted during the audit.

Given these observations, MIAA should have created a team or a task-force to conduct a review and evaluation of the processes and procedures in the collection and remittance of PSC under the scheme. The IASO should have also conducted a more detailed and complete audit of the PSC transactions of at least two or more Airline Companies to determine the reliability of the integration processes and ascertain the correctness of the Remittance Reports prepared by the ACs.

b) MIAA rely mainly on the Remittance Report of the ACs as to amount of the PSC collected from passengers, without validating/verifying its correctness.
The Remittance Report is prepared by the AC showing among others, the number of passengers, the paying and exempted passengers from PSC, the service fee charged and the amount of PSC due to MIAA. The report is submitted to the Collection Division of MIAA by the AC for every remittance made. The Collection Division, however, receives the report as correct and accurate without validating the veracity of the data in such report.

Section 6 to 12 of Memorandum Circular No. 06 dated October 11, 2016 re Maintenance of Passenger Operations Data provides the following:

1) Responsibilities of the Terminal Operations Personnel (TOP):

- Collect boarding passes surrendered by Air Carrier Representative and count the same in the presence of the latter;

- Accomplish the Flight Checklist together with the Air Carrier Representative and certify that it contains the information of a) actual passenger load; b) Number of Internationally Recognized Exempted Passengers; and c) Number of Locally Recognized Exempted Passengers;

- Encode all data from the Flight Checklist on a daily basis in the Passenger and Flight Statistics System of MIAA; and

- Submit the data collected to the Plans and Programs Division (PPD).

2) The PPD shall be responsible in the preparation of the Monthly Summary of Flights and Passenger Data (MSFPD) and furnish the Assistant General Manager (AGM) for Finance and Administration and Internal Audit Services, among others, a consolidated MSFPD.

Thus, the Collection Division should have a copy of the MSFPD and use it as basis in validating the correctness of the Remittance Report submitted by the Air Carrier.

c) Issues on unrefunded PSC for unflown tickets had surfaced since April 2016 but remained unresolved to date
In CY 2016, issues regarding the PSC of unflown tickets started to crop up and on April 11, 2016, MIAA issued a Memorandum addressed to all Airlines requesting a report on the number of unrefunded airline tickets with paid terminal fee from February 2015 to February 2016.

Verification disclosed that only five (5) out of forty-five (45) Airline Companies substantially complied with the aforementioned memorandum and submitted a report which contained the following information:

Airline	Period	Date Submitted	Unflown/ Unused Tickets
Air China	Feb. to Mar. 2016	Apr. 17, 2017	98
All Nippon Airways	Feb. 2015 to Sept. 2016	Dec. 28, 2016	28,104
Air Swift	Mar. to Dec. 2016	Mar. 20, 2017	776
China Southern	Feb. 2015 to Sept. 2016	Jan. 11, 2017	5,572
Etihad	Feb. 2015 to Dec. 2016	Mar. 31, 2017	31,671

Remarkably, Cebu Pacific, Philippine Airlines and Air Asia, all locally based Airline Companies engaged in domestic and international flights did not heed the request of MIAA.

Considering that the Memorandum was twice addressed to the Airline Companies and the fact that these companies are charging 3.5 percent service fee, we find no cogent reason on the non-compliance. Yet, no further action was undertaken by MIAA to compel the airline companies to comply with the request.

The foregoing observations clearly showed the absence of monitoring system on the collection scheme adopted by the Authority. It also revealed laxity of the Authority's Officials to initiate immediate actions on the deficiencies noted and/on the issues and concerns that resulted from the adoption of the policy.

Considering that the ACs are required to preserve the PSC related documents, electronic format or otherwise, for three year period only, MIAA may be denied/barred from recovering claims that may result from fraud or errors as a result of the scheme adopted.

In view thereof, we recommended that Management:

(a) Revisit/review the implementing guidelines and policies governing the PSC Integration Scheme and make amendments/revisions or additional guidelines, if necessary, to address the concerns and protect the interest of MIAA;

(b) Include adequate controls and monitoring processes;

(c) Create/designate a team that will focus on the review/audit of the Airline's PSC books and records, and monitor PSC transactions;

(d) Require the Collection Division to obtain copies of the MSFPD as basis in validating the Remittance Report submitted by ACs; and

(e) Initiate appropriate action to enforce remittance of the PSC for unflown tickets by the ACs.

Management Comment:

a) *Loss of revenue averaging P174.355 million per year due to the 3.5 percent service fee*

The 3.5 percent is a product of numerous negotiations with the ACs who offered higher counter proposal rates ranging from five to seven percent of which the major component is the merchant discount rate.

b) *Service fee charged to L-REP*

ACs were authorized to charge service fee for L-REP as they incur administrative cost in processing the documents of these passengers

c) *On MIAAs reliance on the Remittance Report of the Air Carriers:*

The Remittance Reports of the ACs were not validated by the Collection Division vis-a-vis other source data as doing so would entail so much time that could have been spent by its personnel in doing its core function. It must be stressed that both MCs (Original and Amended), on the PSC Integration only provided for the conduct of random inspection and audit of any accounting records and the like.

However, with the new system employed by the MIAA thru the Common Use Terminal Equipment (CUTE), at the check-in-counters MIAA will be able to ascertain the exact passenger load of each air carrier on a per flight basis which can validate their Remittance Report.

d) *MIAA has not conducted a full/complete audit and review of the PSC transactions.*

The Internal Audit Service Office is currently conducting an audit of the previous year's transactions of at least two ACs. The said office is also coordinating with SITA, the service provider of CUTE System, for access to passenger data captured thru the system.

MIAA is also drafting a Service Agreement with all ACs which will require them, among others, to declare the total passenger load for each flight to safeguard the interest of the Authority.

e) *Issues on the unrefunded PSC for unflown tickets remain unresolved.*

It took some time for MIAA to demand the remittance of the unrefunded PSC on unflown tickets since the reply of the Office of the Solicitor General (OSG) to MIAA's query dated December 14, 2016 with regards to the custody of the unrefunded PSC came only on March 7, 2018, after a personal follow-up was made with the SolGen.
Thus, MIAA, in its letter to the ACs dated May 15, 2018, demanded for the submission of a list of passengers with unrefunded PSC on unflown ticket.

Another letter was sent demanding for the immediate remittance of the amount involved to be deposited in a special trust account set for the purpose.

f) *Other plans to be undertaken by Management to address the deficiencies of PSC transactions:*

- Management will work on the improvement of the current data based system in the electronic recording of flight and passenger statistics. Once a well organized system is established, there may be no need for the creation of a division/team that will *regularly* conduct the audit of PSC transactions, as recommended by COA.

- Meantime, we will reiterate compliance of Terminal Operations Personnel to the Systems and Procedure provided under MC No. 06-M on Maintenance of Passenger Operation Data to validate the number of passenger load declared in the Remittance Reports of the ACs.

- Management will continually work on the improvement of the PSC integration program at the same time review the service fee and other provisions of the Agreement towards a mutual beneficial relationship with the ACs.

Rejoinder:

Management should prioritize the review/amendment of the existing guidelines, taking into account the audit observations cited. Management should likewise initiate appropriate actions, and if necessary, impose sanctions or penalties to ACs who will fail to remit to MIAA the amount of PSC for unflown tickets as demanded.

Also, with the employment of the CUTE system, MIAA should work on the integration of the L-REP data/process so that MIAA will not be incurring service fee on said passengers.

8. The continued grant to Philippine Airlines (PAL) of 65 percent discount on its landing and take-off fees anchored from the 1977 Letter of Instruction (LOI) which is deemed ineffective given the development and condition of the

aviation industry, results in the loss of revenue averaging P42.82 million per year based on the five year collections. Moreover, this privilege accorded to PAL does not promote a level playing field among key players in the domestic aviation industry.

Our review of the billings for landing and take-off fees of airline companies servicing domestic flight routes showed that PAL is continuously accorded a discount of 65 percent on its domestic landing and take-off fees. Hereunder are the data of the PAL's billing from CYs 2013 to 2017.

Year of Billing	Total Bill	65% Reduction	Net Amount Paid to MIAA
2013	P101,496,309.54	P65,972,601.20	P35,523,708.34
2014	30,514,032.41	19,834,120.69	10,679,911.72
2015	68,633,575.64	44,611,825.27	24,021,750.37
2016	76,625,174.74	49,806,364.21	26,818,810.53
2017	52,130,379.50	33,884,746.60	18,245,632.90
	P329,399,471.83	**P214,109,657.97**	**P115,289,813.36**

PAL's average discount per year (214,109,658/5 years =P42,821,991.59)

The grant of the 65 percent discount to PAL dates back to the issuance of LOI No. 498 on July 25, 1977. Under the LOI, then President Ferdinand E. Marcos directed the Director of the Civil Aviation to *"correspondingly reduce across the board the rates of landing and take-off fees <u>for all aircraft engaged in domestic air</u> services in such amount or percentage as he may determine and fix in consultation with the domestic air carrier engaged in scheduled domestic air services."* At the same time, he directed *"an across the board increase of the rates of landing and take-off fees for all aircraft engaged in international air services, including the national aircraft xxx in consultation with the national flag carrier,"* in lieu of the indefinite suspension of the imposition of retaliatory or compensating charges, fees and rentals on foreign airlines.

The objective cited was *"the policy of the Government to develop and expand the domestic air transportation system adequately at the lowest cost possible to domestic passengers and shippers and at the same time, to ensure the economic viability of domestic air carriers xxx."* PAL at that time was the designated national flag carrier of the country.

PAL however, failed to pay its aeronautical fees to the Civil Aeronautics Administration (MIAA's predecessor-in-interest), compelling the latter to file a case against PAL. The case docketed as Republic of the Philippines vs PAL (Civil case No. 15471) was settled through a Compromise Agreement which covered the unpaid accounts of PAL to MIAA as of September 30, 1977. The LOI was made the basis of one of the stipulations embodied in the Decision of the Court of First Instance of Rizal (Branch XXXIII) dated March 20, 1978 , which reads:

> *"7. Plaintiff agrees to reduce across the board the rates of domestic landing and take-off fees provided for in Administrative Order Nos. 4 and 5, series of 1970 at the rate of 65 percent effective June 1977 in accordance with the provisions of LOI 498."*

Both parties have complied with their commitment, and the compromise agreement which has attained finality, formed part and parcel of the judgment/decision of the Court of First Instance on the subject case.

Meanwhile, the Bureau of Air Transportation in 1982 and MIAA in 1984 issued Administrative Orders (AO No. 4 - BAT; AO No.1 - MIAA) increasing the rates of both domestic and international landing and take-off fees. MIAA started billing PAL based on the increased rates which resulted in another dispute between the parties.

The dispute centered on the applicability of Stipulation No. 7 of the Compromise Agreement wherein MIAA claimed that said Stipulation applies only to AO 4 and 5, s. 1970 and the 65 percent reduction pertains only to the fees covered by the said AOs. PAL's contention was that the Compromise agreement applies even to subsequent AOs and that the agreement was to reduce the fees by 65 percent.

In a related development, the Office of the Government Corporate Counsel (OGCC), thru its Deputy Government Corporate Counsel, in its letter dated May 22, 1987, posited that *"Parenthetically*, *LOI 498 directed an across-the-board increase in the rates of landing and take-off fees for all aircraft engaged in international services, including the national aircraft, but at the same time directed the corresponding reduction across-the-board in the rates of domestic landing and take-off-fees* ***obviously to compensate PAL for the uniform increase in the international fees as mandated by treaty. The evident purpose of LOI 498 is to preserve the financial viability and ultimately the international prestige of PAL as the national flag carrier."***

With respect to the applicability of the compromise agreement to subsequent Administrative Orders (Item 7), the OGCC in the same letter cited the opinion of the then Minister of Justice (Opinion No. 73, s.1981) which held that *"xxx while subsequent Administrative Orders could not have been within the contemplation of the parties to the compromise agreement, nevertheless the increased rates of domestic landing and take-off fees may not be made applicable to PAL without transgressing the terms and intent of LOI No. 498."* The Justice Minister's Opinion in effect precluded the application of the increased domestic rates to PAL. Hence, the OGCC recommended that the only feasible recourse of MIAA at that point in time would be to seek a reconsideration or clarification of Opinion No. 73, or lobby for the amendment of LOI 498.

On the basis of the aforesaid opinion and comments, MIAA on June 7, 1988 issued Resolution No. 88-61 reducing across-the board the rates of domestic landing and take-off fees by 65 percent effective June 1977. MIAA did not seek reconsideration or clarificatory opinion on the matter as recommended by OGCC, nor were there documents showing that actions were taken by the Authority to lobby or make representation with the concerned agencies for the amendment of the LOI.

LOI 498 is undoubtedly an administrative issuance which can be repealed or superseded by an executive issuance, if warranted. We cite in this regard the pronouncement of the Supreme Court in *Philippine Association of Service Exporters, Inc. (PASEI) vs. Hon. Ruben Torres (GR No. 98472, August 19, 1993), viz:*

> In determining whether a presidential issuance under the 1973 Constitution may be considered a law, we held in Garcia – Padilla v. Enrile that *"to form part of the law of the land, the decree, order or LOI must be issued by the President in the exercise of his extraordinary power of legislation as contemplated in Section 6 of the 1976 Amendments to the Constitution, whenever in his judgment there exists a grave emergency or xxx whenever the interior Batasan Pambansa or the regular National Assembly fails or unable to act adequately on any matter for any reason that in his judgment requires immediate action….verily, not all LOI issued by the President should be dignified into forming part of the law of the land."*
>
> *"As we view it, LOI 1190 simply imposes a presidential review of the authority of the Minister of Labor and Employment to grant licenses, hence directed to him alone. Since this is undoubtedly an administrative action, LOI 1190 should properly be treated as an administrative issuance. Unlike Presidential Decrees which by usage have gained acceptance as laws xxx Letter of Instructions are presumed to be administrative issuances except when the conditions set out in Garcia – Padilla v. Enrile exist. xxx"*

Considering the purpose of the LOI, we believe that its applicability and effectivity had ceased with the developments in the domestic aviation industry and the subsequent events that happened from 1988 to present, including the privatization of PAL in 1992. To interpret otherwise would entitle other domestic carriers like Cebu Pacific to such discount considering that the LOI provides for the reduction of fees for all aircraft engaged in domestic air services.

In CYs 2014 and 2015, we reported and recommended that the 65 percent reduction policy granted to PAL be revisited given the presence of the key players in the domestic air transportation industry. As an action taken, MIAA wrote a letter to the Secretary of the Department of Justice (DOJ) dated August 19, 2015 seeking opinion on the matter. No reply has yet been received by MIAA as of this writing, neither was there further action initiated by the Authority.

The laxity of Management in initiating immediate appropriate actions in resolving the issue/policy results in the continued loss of revenue at an average amount of P42.82 million per year based on the five year collections. Likewise, the preferential rate accorded to PAL does not promote a level playing field among the key players in the domestic aviation industry and, is contrary to the policy of the Government *"xxx to assure the economic viability of domestic carriers"* earlier cited.

In view thereof, we recommended that Management follow-up with DOJ the status of the clarificatory letter dated August 19, 2015, citing the urgency of its resolution; and/or make representation with proper authorities for the repeal of the LOI as appropriate.

Management Comment

Management agreed with the recommendation and assured that they will make representation for the repeal of the LOI.

9. **Laxity of Management in the collection of delinquent account of PETRON in CYs 2000-2005 amounting to P80.785 million, exclusive of interest charges of P1.278 billion and penalties of P34.911 million, deprived MIAA of the immediate use of the revenue and/or possible income from its investment giving undue advantage to the concessionaire.**

Petron Corporation (PETRON) is one of the members of the JOCASP (Joint Oil Companies Aviation Fuel Storage Plant) authorized to supply fuel and provide aircraft refueling and de-fueling services, supply aviation gasoline and other petroleum products required by aircrafts operating at the Ninoy Aquino International and Domestic Airports pursuant to the Consolidated Lease and Concession Contract made and executed between MIAA and JOCASP members on July 24, 2001. Under the contract, JOCASP members are charged royalty fee based on their monthly sales volume at the following rates:

	Rate (Per Liter)
Aviation Fuel	0.09
Oil	0.27
Grease	2.31

From the data gathered, PETRON has unpaid royalty fees on its sale of aviation fuel to Philippine Airlines (PAL) for the years 2000 to 2005 totaling P80.785 million. PETRON maintained that it is exempt from payment of said charges in the light of PAL's express exemption under its charter (P.D. 1590) from all taxes, duties, charges, royalties, or fees due on its local purchases of aviation fuel. MIAA's position is that PETRON should pay royalty fees in consideration for the privilege of doing business at the Airport and; that the same is imposable on and is the liability of the fuel supply provider regardless of the purchaser. Consequently, PETRON was charged penalty charges aggregating P34.911 million for non-payment of the principal amount based on the report of MIAA's internal audit, exclusive of interest charges of P1.278 billion.

In March 2006, PETRON wrote MIAA and proposed to settle its account, subject to waiver of interest and penalties and without prejudice to its right to seek from the court for the refund of the payment and, without any admission that the payment of the fees are due.

Said proposed waiver and settlement by PETRON was submitted by MIAA to the Board of Directors (BOD) for its approval in accordance with the following terms and conditions:

1) *Waiver of accrued interest charges on the principal amount up to September 2006 sales;*

2) *Payment upfront of fifty percent (50 percent) of the amount due (principal plus VAT/EVAT);*

3) *Payment in full of the remaining fifty percent (50percent) of the amount due after six (6) months (principal plus VAT/EVAT);*

4) *The payment to be made is not considered as an admission or acceptance of liability, however, PETRON shall no longer invoke against MIAA exemption from the payment of said fees now and in the future;*

5) *Payment of current royalty fees beginning October 2006 Av-fuel sales to PAL and onwards as they fall due.*

MIAA stated that the proposed scheme, anchored on OGCC Opinion Nos. 181 and 182 dated August 28 and September 6, 2006, respectively, will generate immediate revenue for MIAA and; royalty fees on current sales of Av-fuel to PAL will be paid when due. The subject OGCC Opinions invariably stated that "t*he power to levy and collect dues, charges, fees or assessments for the use of the airport premises, works, appliances, facilities, or concessions, or for any service provided by the Authority, naturally carries with it the authority to compromise penalties charged from delinquent accounts."*

The proposal was approved by the Board under Resolution No. 2006-88 dated November 13, 2006. This was later amended by Board Resolution No. 2007-016 dated February 23, 2007, amending the word *"Waiver"* to *"Write-off"* in Item 1 of the same Board Resolution. However, despite the approval of the proposal, MIAA has not enforced collection of the subject past due account over the past ten (10) years. The account was settled by PETRON only in the current year, per Official Receipt No. 1234231 dated March 10, 2017 in the amount of P72.706 million (net of taxes due), covering the principal amount of P80.785 million. Thus, MIAA was deprived of the immediate revenue generated had the same been collected in 2007 as provided in the proposal approved by the BOD.

We recommended that Management should be more prudent in enforcing collection of MIAA's claim from PETRON, including all interest charges and penalties due.

Management Comment

Management explained that they will assert their claim on the interest charges and penalties due although they have decided to accept the principal amount in the meantime rather than wait until the issue on said interest charges and penalties are settled.

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

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the eleven (11) audit recommendations contained in the CY 2016 Annual Audit Report, nine (9) were implemented and two (2) were partially implemented. Details follow:

Reference (CY 2016 AAR Observation No.)	Observations	Recommendations	Status of Implementation
1, Page 33	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.	Take up in the books the increase in the value of Terminal 1 and its corresponding depreciation be taken up in the books of accounts of the Authority.	Implemented
2, Page 34	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.	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.	Implemented

Reference (CY 2016 AAR Observation No.)	Observations	Recommendations	Status of Implementation
3, Page 35	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.	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.	Implemented
4, Page 37	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.	Recognize provision for estimated liabilities in the Authority's books of accounts for the two aforementioned occurrences/events as required by PAS 37.	Implemented PNCC's liability was recognized, while claims for refund of rental rate increase was appropriately disclosed in the Notes to FS.
5, Page 38	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 accounts.	MIAA to initiate steps to facilitate the transfer of the NPF property and to recognize this in its books of accounts.	Implemented

Reference (CY 2016 AAR Observation No.)	Observations	Recommendations	Status of Implementation
6, Page 40	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.	Appropriate accounting entries be made to recognize the sale and revenue, net of taxes due thereon.	Implemented
7, Page 42	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.	Management to document instances of delays and take these 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.	Implemented
8, Page 43	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.	Partially Implemented There are still instances where the concessionaires are allowed to operate without the necessary contract and/or the contract has yet to be issued or renewed, particularly concessionaires with operation arrangements with MIAA on a month to month basis.

Reference (CY 2016 AAR Observation No.)	Observations	Recommendations	Status of Implementation
9, Page 44	Some rates for airport charges prescribed under Administrative Order (AO) 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	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.	Partially Implemented The revised AO No. 1 (2017 Version) has yet to be issued by MIAA.
10, Page 44	Misplaced conversion of certain accounts to the Revised Chart of Accounts (RCA) resulted in a significant impact on the fair presentation of the affected accounts.	Reclassify the accounts mentioned and make the necessary adjustments in the books.	Implemented
11, Page 46	Status of suspensions, disallowances and charges	Management to comply with the rules and regulations on settlement of accounts.	Implemented