MANILA INTERNATIONAL AIRPORT AUTHORITY
EXECUTIVE SUMMARY

A. Introduction

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

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

B. Financial Highlights

1. Comparative Financial Position

(In Thousand Pesos)			
	2012	2011	Increase (Decrease)
Assets	32,243,478	28,017,303	4,226,175
Liabilities	13,414,913	10,549,038	2,865,875
Equity	18,828,565	17,468,265	1,360,300

2. Comparative Results of Operation

(In Thousand Pesos)			
	2012	2011	Increase (Decrease)
Operating Income	8,276,460	8,648,656	(372,196)
Share of the National Government (NG)	(933,829)	(936,843)	(3,014)
Operating Income After Share of the (NG)	7,342,631	7,711,813	(369,182)
Operating Expenses	(4,112,533)	(4,504,144)	(391,611)
Net Profit from Operation	3,230,098	3,207,669	22,429
Non-Operating Income (Expenses)	236,025	(423,042)	659,067
Income Before Income Tax	3,466,123	2,784,627	681,496
Income Tax	(825,564)	(900,733)	(75,169)
Net Profit	2,640,559	1,883,894	756,665

C. Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of MIAA for calendar year 2012. It was aimed at expressing an opinion on the fairness of presentation of the Authority's financial position, results of operations and cash flows and at determining the Authority's compliance with pertinent laws, rules and regulations as well as the efficiency and effectiveness of operations.

D. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Authority as at December 31, 2012 because of non-recognition of depreciation for CYs 2008 to 2012 on the NAIA Terminal 3 Facility assets costing P3.068 billion; non-recognition of provision for estimated liabilities on the P1.231 billion claims by lessees for the refund of the collected rental rate increases invalidated by the Supreme Court for lack of publication; non-recognition of real estate taxes due on portions of the Authority's airport land and buildings leased to private parties which the Supreme Court ruled as not exempted from taxes; and non-determination of the effects of recent developments on the case on disputed accounts affecting contingent assets of P153.86 million and total receivables recognized in the books of P124.57 million to ensure that these developments are appropriately reflected in the financial statements and/or adjusted as necessary.

Significant Audit Observations and Recommendations

The following are the other significant audit observations and recommendations:

1. Capitalized costs amounting to P168.434 million (net of VAT of P20.212 million) and investments of P6.757 million in relation to Panglao-Bohol Airport Project were written-off as an expense and charged against Prior Year Adjustments, and unrecovered advances to contractors totaling P15.236 million were closed to Other Receivables due to the temporary suspension of the Project by the DOTC.

   We have required the submission of basis for treating disbursements for the project as capitalized costs or as an investment and the Board approval for the write-off of the assets, as well as a copy of the inventory and turnover report of all required deliverables from the consultant.

2. The P1.102 billion fund transferred by the DOTC to MIAA to cover part of NAIA Terminal 1 Rehabilitation Project has remained unutilized (17) months after both agencies entered into a Memorandum of Agreement for the implementation of the project.

   We have required Management to submit the status of the project implementation considering the availability of the fund for the project and the period that has lapsed from the date of the MOA.

3. Variance of 84,122 square meters in the area of land was not reconciled and some 1.2 million square meters of land owned by the Authority remained untitled.

   We reiterated our recommendation in the CY 2009, 2010 and 2011 Annual Audit Reports that management require the Accounting Division and the Business and Real Estate Development Division (BRIDD) to reconcile the variance in their records and take steps to have the lands titled in the name of the Authority upon which ownership is based.

E. Suspensions, Disallowances and Charges

Audit disallowances as of last year totaling P57.635 million, which covered disallowances issued in 1995 to 2008, was reduced by P44.40 million in 2012 in view of Supreme Court's Decision dated February 14, 2012 which partially granted MIAA's petition for certiorari from COA Decision No. 2010-118 dated November 19, 2010. Said COA Decision affirmed the disallowance issued by the COA Legal and Adjudication

Office in 2006 on the payment of signing bonus in 2003 in the amount of P44.79 million. The Supreme Court granted MIAA's petition reducing the disallowance to P480,000.

Notice of disallowance was also issued in 2008 disallowing payment of 10% contingency and 5% excess in profit in the amount of P676,686.78, while Notice of Suspension totaling P42.869 million was issued in 2011 for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM.

F. Status of Implementation of Prior Year's Recommendations

Of the twelve (12) audit recommendations embodied in the CY 2011 Annual Audit Report, three (3) were implemented, five (5) were partially implemented and four (4) were not implemented.

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Manila International Airport Authority
Pasay City

Report on the Financial Statements

We have audited the accompanying financial statements of the Manila International Airport Authority**,** which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Depreciation was not recognized for CYs 2008 to 2012 on the NAIA Terminal 3 Facility assets costing P3.068 billion since the assets were still lodged under Construction in Progress account and have not been reclassified to their appropriate asset accounts. Likewise, provision for estimated liabilities was not recognized for the P1.231 billion claims by lessees for the refund of the collected rental rate increases invalidated by the Supreme Court for lack of publication, and for the Authority's real estate taxes due on potions of its airport land and buildings leased to private parties which the Supreme Court ruled as not exempted from taxes. Further, effects of recent developments on the case on disputed accounts affecting contingent assets of P153.86 million and total receivables recognized in the books at P124.57 million were not determined to ensure that these are appropriately reflected in the financial statements and/or adjusted as necessary.

Qualified Opinion

In our opinion, except for the effects and the possible effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Manila International Airport Authority as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 27 to the financial statements. The Authority has various pending cases/petitions in various courts and administrative bodies. These cases involve various claims against the Authority and contested receivables. The ultimate outcome of some of these cases/ petitions could not presently be determined and no provision for any liability that may result has been made in the financial statements. Our opinion is not qualified in respect to this matter.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

By:

JOSE DENNIS G. ISIP
Supervising Auditor

June 28, 2013

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF FINANCIAL POSITION
December 31, 2012
(With comparative figures as at December 31, 2011)
(In Philippine Peso)

	Notes	**2012**	2011
ASSETS			
Current Assets			
Cash and cash equivalents	3	**9,424,630,513**	10,034,502,049
Receivables, net	4	**2,715,923,793**	2,101,275,437
Inventories	5	**23,414,022**	21,108,530
Prepayments	6	**202,665,456**	182,924,141
Other current assets	7	**43,713,616**	121,805,961
Total current assets		**12,410,347,400**	12,461,616,118
Non-Currrent Assets			
Long-term receivables, net	8	**138,006,063**	496,821,828
Investments	9	**12,505,000**	12,505,000
Property and equipment, net	10	**14,688,539,943**	14,847,572,346
Investment property, net	11	**52,164,651**	56,774,284
Other non-current assets	12	**4,941,914,945**	142,014,271
Total non-current assets		**19,833,130,602**	15,555,687,729
		32,243,478,002	28,017,303,847
LIABILITIES AND EQUITY			
Current Liabilities			
Payables	13	**1,719,597,859**	2,034,503,167
Inter-agency payables	14	**1,691,226,551**	1,728,877,255
Current portion of loans payable-domestic	16	**488,227,800**	-
Current portion of loans payable-foreign	17	**429,321,203**	505,745,514
Other current liabilities	15	**608,466,573**	639,883,032
Total current liabilities		**4,936,839,986**	4,909,008,968
Non-Current Liabilities			
Loans payable-domestic	16	**4,149,936,300**	-
Loans payable-foreign	17	**4,252,898,182**	5,521,061,752
Other long-term liabilities		**434,517**	434,517
Total non-current liabilities		**8,403,268,999**	5,521,496,269
Deferred Credits	18	**74,804,430**	118,533,132
Equity		**18,828,564,587**	17,468,265,478
		32,243,478,002	28,017,303,847

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2012
(With comparative figures for the year ended December 31, 2011)
(In Philippine Peso)

	Notes	2012	2011
OPERATING INCOME			
Toll and terminal fees		**3,234,524,397**	3,088,468,491
Landing and parking fees		**2,366,465,762**	2,306,436,097
Rent income		**1,372,678,603**	1,289,244,268
Other service income		**340,708,603**	1,142,846,180
Other business income		**962,082,853**	821,661,904
		8,276,460,218	8,648,656,940
National Government share on MIAA's gross income	21	**(933,828,758)**	(936,842,951)
MIAA'S SHARE ON OPERATING INCOME		**7,342,631,460**	7,711,813,989
OPERATING EXPENSES			
Personal services	23	**695,672,731**	831,279,657
Maintenance and other operating expenses	24	**3,416,861,090**	3,672,864,457
		4,112,533,821	4,504,144,114
PROFIT FROM OPERATIONS		**3,230,097,639**	3,207,669,875
OTHER INCOME (EXPENSES)			
Gain (loss) on foreign exchange, net		**471,845,748**	(261,229,981)
Interest income		**147,464,026**	112,596,678
Fines and penalties		**4,073,474**	1,672,907
Gain on disposal of assets		**74,691**	1,303,224
Dividend income		**-**	13,000
Miscellaneous income		**37,848,186**	38,755,912
Financial expenses		**(425,280,696)**	(316,154,527)
		236,025,429	(423,042,787)
PROFIT BEFORE INCOME TAX		**3,466,123,068**	2,784,627,088
INCOME TAX EXPENSE		**(825,563,969)**	(900,733,045)
NET PROFIT		**2,640,559,099**	1,883,894,043

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2012
(With comparative figures for the year ended December 31, 2011)
(In Philippine Peso)

	Notes	2012	2011
GOVERNMENT EQUITY			
Balance at beginning of the year	19	**7,191,934,321**	7,191,934,321
DONATED CAPITAL			
Balance at beginning of the year	20	**221,200**	280,063,639
Additions/deductions		**-**	(279,842,439)
Balance at end of the year		**221,200**	221,200
RETAINED EARNINGS			
Balance at beginning of the year		**10,276,109,957**	9,054,041,037
Net profit during the year		**2,640,559,099**	1,883,894,043
Dividends declared		**(1,008,034,245)**	(1,086,717,760)
Prior years' adjustments	22	**(272,225,745)**	424,892,637
Balance at end of the year		**11,636,409,066**	10,276,109,957
		18,828,564,587	17,468,265,478

See accompanying Notes to Financial Statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012
(With comparative figures for the year ended December 31, 2011)
(In Philippine Peso)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from operations		**8,113,548,660**	8,788,303,559
Trust receipts		**1,874,706,323**	2,071,404,306
Miscellaneous income		**29,111,308**	1,128,622,716
Payment of operating expenses		**(3,873,151,156)**	(4,198,754,144)
Remittance of trust receipts		**(1,813,606,160)**	(1,932,250,382)
Remittance of share of National Government		**(909,911,116)**	(1,166,848,182)
Advances to other agencies		**(127,082,879)**	(10,251,219)
Advances to officers and employees		**(13,810,068)**	(22,006,169)
Net cash generated from operations		**3,279,804,912**	4,658,220,485
Interest income received		**153,397,912**	105,475,843
Corporate income tax paid		**(786,414,132)**	(624,021,538)
Net cash provided by operating activities		**2,646,788,692**	4,139,674,790
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		**(508,540,319)**	(438,717,942)
Proceeds from sale of property and equipment		**1,474,191**	4,738,992
Net cash used in investing activities		**(507,066,128)**	(433,978,950)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		**4,882,278,000**	-
Other outflows - Escrow account		**(4,927,364,960)**	-
Dividends paid		**(1,405,879,810)**	(1,525,419,385)
Debt servicing		**(1,122,138,382)**	(780,303,727)
Net cash used in financing activities		**(2,573,105,152)**	(2,305,723,112)
Effects of exchange rate changes on cash and cash equivalents		**(176,488,948)**	30,404,022
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(609,871,536)**	1,430,376,750
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**10,034,502,049**	8,604,125,299
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**9,424,630,513**	10,034,502,049

See accompanying Notes to Financial Statements.

1. INTRODUCTION

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

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

The following are the major projects completed in CY 2012 in line with the Authority's thrusts and objectives aimed at the continued implementation and development of projects with Key Results Area (KRA) for passengers' safety, security, comfort and welfare:

- Integration of the Domestic Passenger Service Charge (DPSC) at the point of sale of airline ticket per Memorandum of Agreement (MOA) made with Air Philippines Corporation (AirPhil Express), Cebu Air (Cebu Pacific Air), Inc., Philippine Airlines (PAL), Inc., Southeast Asian Airlines (SEAIR), Inc., WCC Aviation Company (Sky Pasada) and Zest Airways (Zest Air), Inc.;

- Completion of Repair and Overlay of NAIA Terminal 2 to NAIA Terminal 4 Access Road;

- Repair and Resurfacing of North and South General Aviation Area;

- Relocation / Upgrading of Vehicular Road from Lima Gate to NAIA Terminal 4 Ramp;

- Upgrading of Lighting Protection System of NAIA Terminal 2, Air Control Tower, MIAA Administration Building and Power House (9 units with isolation transformer);

- Renovation of Ramp Control Tower Facility at NAIA Terminal 1;

- Rehabilitation and Repainting of Structures and Replacement of Mechanical Parts for Tanks at STP 1;

- Leveling / Construction of Steel / Concrete Flooring on the Escalator Opening in NAIA Terminal 1;

- Re-waterproofing of MIAA Powerhouse building and Fire and Rescue Building Roof Deck;

- Supply and Installation of Lift and Delivery Piping from MIAA Administration Building to South Wing LPS NAIA Terminal 2;

- Restoration of Damaged Security Fence and Riprap at NAIA Complex;

- Replacement and Retrofitting of Main Circuit Breaker and Replacement of Burned-out Feeder Cables for the Power Supply of Chiller at the MIAA Administration Building; and

- Direction of Flying Restrictions to Flying Schools during the hours from 5:00 AM to 5:00 PM to Lessen Flight Traffic Congestion.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

The financial statements of the Authority have been prepared on the historical cost basis and are presented in Philippine pesos.

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Inventories

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

Property and Equipment

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

Recognition of Income and Expenses

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

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

Foreign Exchange Currency Transaction

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

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2012	2011
Cash (Collecting/Disbursing Officers)	**76,763,980**	11,525,772
Cash – National Treasury	**1,102,000,000**	-

Savings Account – Dollar and Peso	**245,170,091**	153,746,049
Current Account – Dollar and Peso	**127,997,337**	1,247.418,826
Time Deposits – Peso	**5,017,317,559**	981,987,191
Time Deposits – Dollar	**2,855,381,546**	7,639,824,211
	9,424,630,513	10,034,502,049

Foreign currency/dollar deposits are revalued at P41.10 and P43.95 to US$1.00 as of December 31, 2012 and 2011, respectively. *Cash – National Treasury (MDS)* represents the fund received from DOTC on December 29, 2011 intended for the rehabilitation of Terminal 1. Said amount was deposited with the Treasurer of the Philippines on March 30, 2012 in the meantime that the project implementation is still in process by the DOTC. It is held in trust by MIAA and recorded under the account "Due to Other NGAs" (Note 14).

4. RECEIVABLES

This account consists of the following:

	2012	2011
Trade Receivable		
Non-Government Entities	**3,052,492,534**	2,640,698,966
National Government Agencies	**24,821,244**	21,283,523
Government Owned and Controlled Corp.		
CAAP (formerly ATO)	**605,594,333**	601,332,600
Others	**62,380,237**	56,639,646
	3,745,288,348	3,319,954,735
Allowance for Doubtful Accounts	**(1,635,612,079)**	(1,539.507,992)
	2,109,676,269	1,780,446,743
Non-Trade Receivables		
Due to National Treasury	**6,838,102**	'-
National Government Agencies (NGAs)	**86,713,905**	35,115,949
Local government Unit (LGU)	**100,004,438**	270,000
	193,556,445	35,385,949
Other Receivables		
COA Disallowances	**11,113,981**	55,513,981
Interests Receivables	**11,946,919**	17,880,805
Advances to Officers and Employees	**24,000,000**	12,426,864
Others	**365,630,179**	199,621,095
	412,691,079	285,442,745
	2,715,923,793	2,101,275,437

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

Non-Trade Receivables-NGAs consists of the balances of cash advances to the Office of the Solicitor General (OSG) for Terminal 3 arbitration expenses of P73 million, to the MMDA for the Authority's share in the development of the NAIA T3 landmark of P12.47 million, and to the National Printing Office, DBM Procurement Service and DPWH of P1.24 million. This also includes receivables from the Bureau of the Treasury (BTr) for the excess payments made by the Authority to the BTr on the amount advanced by the latter for loan payment to JBIC (now JICA). Excess payments arose due to foreign exchange rate difference.

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

Other Receivables of P365.630 million and P199.621 million as of December 31, 2012 and 2011, respectively, consist mainly of the 12% EVAT billed to concessionaires.

5. INVENTORIES

This account consists of the following:

	2012	2011
Spare Parts Inventory	**5,692,061**	5,689,282
Gasoline, Oil and Lubricants	**694,981**	1,164,397
Accountable Forms Inventory	**-**	1,935,000
Office and Other Supplies Inventory	**17,026,980**	12,319,851
	23,414,022	21,108,530

6. PREPAYMENTS

This account consists of the following:

	2012	2011
Prepaid Insurance	**39,822,800**	40,825,564
Advances to Contractors	**44,472,945**	49,733,701
Deferred Charges	**27,553,117**	7,760,117
Other Prepaid Expenses	**90,816,594**	84,604,759
	202,665,456	182,924,141

7. OTHER CURRENT ASSETS

This account consists of:

	2012	2011
Creditable Input Taxes	**40,409,510**	118,501,855
Guaranty Deposits	**3.304.106**	3,304,106
	43,713,616	121,805,961

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

8. LONG-TERM RECEIVABLES

This account pertains to the following:

	2012	2011
Trade Receivable - PAL	**552,024,253**	966,042,443
Less: Current Portion	**414,018,190**	414,018,190
	138,006,063	552,024,253
Allowance for Doubtful Accounts	-	55,202,425
	138,006,063	496,821,828

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

9. INVESTMENTS

This account represents investments in:

	2012	2011
Philippine Aviation Security Corp. (PASSCOR)	**11,850,000**	11,850,000
Aviation Security & Training Institute, Inc.	**655,000**	655,000
	12,505,000	12,505,000

The Authority's investment in PASSCOR, an affiliate corporation engaged in aviation security at the Ninoy Aquino International Airport (NAIA) for 137,500 shares at P100 per share, or a total amount of P13.750 million, was acquired by the Authority in March 1995. A total of 118,500 shares were paid representing 39.5% of the total PASSCOR capital.

The Aviation Security and Training Inc. (ASTI), created on March 26, 2003, is 100% owned by the Authority. ASTI is not operational and is for dissolution. The investment of P665,000 is recoverable. The Philippine National Bank, its depository bank, will be requested to transfer ASTI funds, with a balance of P716,620.62 as of October 31, 2011, to the MIAA-PNB Account.

10. PROPERTY AND EQUIPMENT

This account consists of the following:

	LAND AND LAND IMPROVEMENT	CONSTRUCTION IN PROGRESS	BUILDING & STRUCTURES	MACHINERY & EQUIPMENT	TOTAL
At Dec. 31, 2011					
Cost	13,223,961,215	3,461,597,952	5,541,660,685	5,650,790,504	27,878,010,356
Accumulated Depreciation	(5,195,217,106)	-	(3,390,391,053)	(4,444,829,851)	(13,030,438,010)
Net Book Value	**8,028,744,109**	**3,461,597,952**	**2,151,269,632**	**1,205,960,653**	**14,847,572,346**
Year Ended Dec. 31, 2012					
Opening Net Book Value	8,028,744,109	3,461,597,952	2,151,269,632	1,205,960,653	14,847,572,346
Adjustments / Additions	183,921,124	64,457,278	-	68,461,070	316,839,472
Disposals	-	-	-	(20,338,762)	(20,338,762)
Depreciation	(230,557,296)	-	(119,162,617)	(149,101,577)	(498,821,490)
Prior year's adjustment -					
On depreciation	21,642,295	-	-	21,646,082	43,288,377
Closing Net Book Value	**8,003,750,232**	**3,526,055,230**	**2,032,107,015**	**1,126,627,466**	**14,688,539,943**
At Dec. 31, 2012					
Cost	13,407,882,339	3,526,055,230	5,541,660,685	5,698,912,812	28,174,511,066
Accumulated Depreciation	(5,404,132,107)	-	(3,509,553,670)	(4,572,285,346)	(13,485,971,123)
Net Book Value	**8,003,750,232**	**3,526,055,230**	**2,032,107,015**	**1,126,627,466**	**14,688,539,943**

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

In 2003 and 2004, purchases were made from the heirs of Eladio Santiago of 720 square meters valued at P2.160 million and from the Nayong Pilipino of 86,000 square meters at P500 million, respectively. To date, the total land area owned by the Authority is 6,230,446 square meters inclusive of 232,647.74 square meters of segregated lots covered under a Presidential Proclamation.

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

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

11. INVESTMENT PROPERTY

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

12. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2012	2011
Restricted Fund Assets	**4,927,364,960**	-
Advances to BCDA	-	127,464,286
Work / Other Animals	**14,347,828**	14,347,828
Items in Transit / For Disposal	**202,157**	202,157
	4,941,914,945	142,014,271

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

Advances to BCDA represents the balance of rental payments to the Bases Conversion and Development Authority (BCDA) which was fully expended this CY 2012 *(Note 27 c).*

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

13. PAYABLES

This account consists of the following:

	2012	2011
Accounts Payable	**553,729,666**	493,051,204
Dividend Payable	**1,008,034,245**	1,405,879,810
Interest Payable	**131,311,660**	118,140,539
Due to Officers and Employees	**26,522,288**	17,431,614
	1,719,597,859	2,034,503,167

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

Dividend Payable represents the fifty percent (50%) of MIAA's annual net earnings (net of deductions allowed under Section 29 of the National Internal Revenue Code [NIRC], as amended, and income taxes paid thereon) for CY 2012 payable to the National Government to be remitted thru the Bureau of the Treasury, pursuant to R.A. No. 7656, dated November 9, 1993.

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

The dividend payable of P1.406 billion in CY 2011 was fully paid to the Bureau of the Treasury per remittances on February 6, 2012 and October 10, 2012.

14. INTER-AGENCY PAYABLES

This account consists of the following:

	2012	2011
Due to Bureau of the Treasury (BTr)	**301,322,278**	277,410,502
Due to Bureau of Internal Revenue (BIR)	**229,014,737**	295,718,788
Due to GSIS	**9.294.949**	8,527,397
Due to PAG-IBIG	**1,940,819**	86,424
Due to Philhealth	**610,112**	592,862
Due to Other NGAs	**1,149,043,656**	1,146,541,282
	1,691,226,551	1,728,877,255

Due to Bureau of the Treasury represents the National Government's share on the Authority's income for the fourth quarter of CY 2012 totaling P252.92 million and the November and December 2012 share on international terminal fees and domestic terminal fees of P48.40 million.

Due to Bureau of Internal Revenue represents income tax of P176 million, Value Added Tax of P31 million and taxes withheld for P22 million.

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

Due to Other NGAs represents the November and December 2012 share of the Office for Transportation Security (OTS) on international terminal fees of P47 million. this also includes the P1.102 billion held in trust by the Authority per Memorandum of Agreement (MOA) entered into with the DOTC on December 29, 2011 for the renovation of the NAIA Terminal 1.

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

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

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

	International	Domestic
MIAA	390	85
NG	100	-
NACAHT	60	15
	550	100

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

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

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

15. OTHER CURRENT LIABILITIES

This account consists of the following:

	2012	2011
Guaranty Deposits Payable	**175,693,805**	171,506,471
Performance / Bidders Bonds Payable	**15,700,445**	34,194,218
Tax Refund Payable	**21,624,205**	35,956,791
Other Payables	**395,448,118**	398,225,552
	608,466,573	639,883,032

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

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

16. LOANS PAYABLE - DOMESTIC

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

LBP PN NO. 4808 TL12 4076 000 dated April 11, 2012	2,441,139,000
DBP PN 2012-29-021 dated April 11, 2012	2,441,139,000
Less: first semi-annual amortization - October 11, 2012	(244,113,900)
	4,638,164,100
Less: Current portion	(488,227,800)
	4,149,936,300

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

17. LOANS PAYABLE – FOREIGN

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

	2012	2011
FRENCH LOAN to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal II contracted with Natixis (formerly Credit Nationale)		
FF 7,891,778 = Euro 1,203,093.73 = US $ 1,592,655.48 @ 41.10	**65,458,140**	
FF 9,051,060 = Euro 1,379,825.15 = US $ 1,785,493.74 @ 43.95		78,472,450
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 9,666,118,000 = US $ 112,329,957.28 @ P 41.10	**4,616,761,245**	
Y 10,544,856,000 = US $ 135,343,226.76 @ P 43.95		5,948,334,816
	4,682,219,385	6,026,807,266
Less:Current portion	**429,321,203**	505,745,514
	4,252,898,182	5,521,061,752

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

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

18. DEFERRED CREDITS

This account pertains to the following:
Deferred Credits - Others pertains to the airport lessees' and/or concessionaires' one month

	2012	2011
Contra Account of Receivables-COA Disallowances (Note 4)	**11,113,981**	55,513,981
Others	**63,690,449**	63,019,151
	74,804,430	118,533,132

advance rental/concessions privilege fee.

19. GOVERNMENT EQUITY

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

20. DONATED CAPITAL

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

21. NATIONAL GOVERNMENT SHARE ON MIAA'S GROSS INCOME

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

	2012	2011
Landing & Parking Fees (Aeronautical Fees)	2,445,577,638	2,534,242,159
Rentals	1,265,294,284	1,210,529,239
Other Business Income (Concession Privilege Fees)	734,870,769	722,557,199
Other Service Income (Miscellaneous Revenues)	223,401,100	216,886,157
	4,669,143,791	4,684,214,754
Rate of Government's Share	20%	20%
National Government's Share	933,828,758	936,842,951

22. PRIOR YEARS' ADJUSTMENTS

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

	2012	2011
Adjustment of Prior Years' Income	**222,308,130**	(16,607,045)
Adjustment of Prior Years' Expenses	**49,917,615**	441,499,682
	272,225,745	424,892,637

23. PERSONAL SERVICES

This account consists of the following:

	2012	2011
Salaries and Wages	**310,199,694**	296,656,093
Other Compensation		
Overtime and night differential	**100,772,489**	103,773,610
Year-end bonus	**33,227,594**	25,768,507
Personal economic relief allowance	**30,662,182**	31,770,602
Representation allowance	**16,656,202**	15,851,038
Hazard pay	**10,216,473**	10,576,848
Clothing uniform allowance	**7,278,995**	-
Cash gift	**6,380,500**	6,611,250
Productivity incentive allowance	**5,080,000**	2,568,000
Subsistence allowance	**68,891**	70,275
Other bonuses and allowances	**85,009,002**	241,714,795
Personal Benefits Contribution		
Life and retirement insurance contribution	**37,717,539**	36,000,204
Pag-IBIG contribution	**6,256,257**	6,001,529
Philhealth contribution	**3,623,813**	3,538,675
ECC contribution	**1,540,351**	1,590,807
Other Personnel Benefits		
Retirement benefits	**3,247,749**	5,369,579
Terminal leave	**1,769,380**	2,704,712
Other personnel benefits	**35,965,620**	40,713,133
	695,672,731	831,279,657

24. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2012	2011
Professional Services	**1,012,625,225**	1,565,462,619
Utility Expenses	**807,486,790**	694,579,344
Repairs and Maintenance	**641,659,125**	367,319,543
Depreciation	**503,431,124**	481,754,675
Rent Expenses	**146,410,377**	242,217,442
Supplies and Materials	**112,245,692**	111,547,701
Taxes, Insurance Premiums and Other Fees	**99,039,798**	118,549,424
Bad Debts	**37,862,811**	35,602,129
Extraordinary and Miscellaneous Expenses	**15,529,697**	30,518,390
Communication Expenses	**12,853,180**	12,382,991
Traveling Expenses	**1,967,994**	1,128,232
Representation Expenses	**1,861,269**	1,372,408
Membership Dues and Contributions to Organizations	**1,615,816**	1,623,366
Training Expenses	**1,319,712**	4,221,491
Advertising Expenses	**1,312,107**	642,495
Subscription Expenses	**875,500**	1,086,556
Donations	**456,257**	2,433,743
Other Operating Expenses	**18,308,616**	421,908
	3,416,861,090	3,672,864,457

25. COMPLIANCE WITH TAX LAWS

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

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

The MIAA paid P3.002 billion to PIATCO in September 2006 in compliance with the decision of the Supreme Court. The amount represents the *proffered value* of the Terminal 3 facility. Furthermore, cash advances/releases to the Office of the Solicitor General for T3 arbitration expenses aggregated to P3.052 billion as of December 31, 2012.

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

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

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

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

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

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

> "That in compliance with the Omnibus Order of the RTC of Pasay City (Branch 117) dated October 11, 2011, in the expropriation case docketed as Civil Case No. 04-0876-CFM, which mandated the payment of just compensation to Philippine International Air Terminal Co., Inc. (PIATCO); and pursuant to the requirements for the opening of an escrow account to cover the amount of the aforesaid just compensation, authority was given for and to (1) the MIAA General Manager to enter into and sign an Escrow Agreement and to open an Escrow Account in the form of a Special Savings Deposit/Time Deposit, with both the Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) at the amount as may be determined by the Management/Office of the Solicitor General respecting the net amount of just compensation due to PIATCO; (2) delegating the MIAA officials who will act and serve as signatories to the Escrow Account; (3) the Management to cause the release of the Escrow Deposit (inclusive of interest income, less escrow fees and other charges and expenses incurred in relation to the Escrow Agreement) to PIATCO and/or such

person(s) or other entity(ies) as shall have been held to be entitled to receive such Escrow Deposit by a final executor order or decision of the Court and upon fulfillment of the above stated conditions."

The escrow account has been opened and made known to the Court. PIATCO has not drawn from the escrow account.

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27. OTHER MATTERS

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

The claims for real estate taxes were rendered academic with the decision of the Supreme Court in the Parañaque (SC- G.R. No. 155650) and Pasay (SC-G.R. 163072) cases. In both cases, the Supreme Court ruled that the airport land and buildings of the MIAA are exempted from real estate taxes except for portions of land and buildings that are leased to private parties.

b. Receivables from Private Concessionaires with Pending Cases

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

<u>Ding Velayo (Civil Case No. 8847) – P153.86 million</u>

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

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

<u>Philippine Airport and Ground Services (PAGS) (Civil Case No. 000363) – P86.45 million</u>

This is an action to enjoin MIAA from increasing the rental rates for the premises (Open Area A and Open Area B) mentioned in the Revised and Restated Contract of Lease between parties. PAGS claims that the Restated Contract does not contain any escalation clause. MIAA, however, claims that the Restated Contract is null and void as it was not approved by the MIAA Board.

Hearing is ongoing. PAGS is presenting its witnesses. The Office of the Solicitor General has recommended Compromise Agreement in view of the prevailing doctrine in Airspan.

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

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

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

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

The BCDA has appealed the DOJ Resolution dated April 17, 2007, with the Office of the President. The MIAA filed its Reply Memorandum on March 10, 2008 and is awaiting further orders from the Office of the President. In the meantime, BCDA has requested for a negotiation considering that the determination of the "In-Service Date" has become impossible. The MIAA Legal Office requested BCDA to make a proposal but no proposal was received to date.

BCDA filed a Motion for Early Resolution before the Office of the President.

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

d. Airspan Case: Rate Adjustments

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

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

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

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

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

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

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

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

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

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

A petition for Mandamus was filed by petitioners SMPP before the Regional Trial Court of Pasay City praying for the issuance of a Writ of Preliminary Mandamus ordering respondent MIAA to implement Section 4.1 of DBM CCC 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 be directed to issue the necessary Board Resolution: (1) appropriating funds to pay COLA and AA of petitioners which were not integrated, included and/or added to their respective basic salaries commencing on July 16, 1999 up to the present; (2) directing the release of said funds as back pay for COLA and AA; and (3) allowing the grant of continuing COLA and AA.

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

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

The case is now pending before the Supreme Court.

f. Accounts under Litigation

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

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

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

"**WHEREFORE,** the petition is GRANTED IN PART. The decision of the Court of Appeals is modified as follows:

a. The MIAA is ordered to pay Joaquin Rodriguez just compensation for the subject lot, the portion actually occupied by the runway consisting of or based on the value thereof at the time of taking in 1972, with interest thereon at the legal rate of six percent (6%) per annum from the time of the taking until full payment is made. For the purpose of determining said value, the case is remanded to the lower court. Said court is ordered to make the determination with deliberate dispatch;

b. The award of back rentals as damages is DELETED;

c. The MIAA is ordered to PAY exemplary damages in the reduced amount of P200,000 attorney's fees equivalent to one percent (1%) of the amount due.

No pronouncement as to costs.

SO ORDERED."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MIAA is awaiting the Writ of Execution.

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

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

28. PROCUREMENT OF SUPPLIES THRU PROCUREMENT SERVICE – DBM

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

29. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS RR 15-2010

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

1. The Authority is a VAT-registered company with output tax declaration of P645,202,929 for the year based on the amount reflected in the Sales Account of P5,376,691,079.

   The Authority has zero-rated sales amounting to P2,414,563,336 pursuant to the provisions of RR-4-2007, Section 12, Zero-Related Sale of Services.

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

a.	Beginning of the year	P118,501,855
b.	Current year's purchases	
I.	Goods for resale/manufacture or further processing	n/a
II.	Goods other than for resale or manufacture	22,050,467
III.	Capital goods subject to amortization	8,594,513
IV.	Capital goods not subject to amortization	91,274
V.	Services lodged under cost of goods sold	n/a
VI.	Services lodged under other accounts	27,805,931
c.	Claims for tax credit/refund and other adjustments	
I.	Prior year's set-up/accruals	(2,983,323)
II.	Current year's set-up/accruals	4,151,757
III.	Cancelled checks/transactions and adjustments	(2,356,797)
IV.	Available input tax and tax deferred for succeeding period	(379,446,167)
d.	Balance at the end of the year	P40,409,510

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

I.	Tax on compensation benefits	P77,881,742
II.	Creditable withholding tax/es	53,837,082
III.	Final withholding tax/es	195,804
IV.	Value Added Tax and Other Percentage taxes withheld	128,334,144

3.Schedule of Other Taxes and Licenses

Firearms license (Firearms and Explosives Division -PNP	276,668
Radio station license (National Telecommunication Commission)	55,305
RLM operator certificate (National Telecommunication Commission)	8,085
Emission Testing and Inspection (Land Transportation Office)	13,185
Registration, Emission Testing and Inspection (Land Transportation Office)	976
Registration (Land Transportation Office)	313,106
Annual VAT Registration	500
Tax on French loan and adjustment of foreign exchange	195,804
Community tax (Pasay City Treasurer)	11,130

COMMENTS AND RECOMMENDATIONS

1. **Depreciation was not recognized for CYs 2008 to 2012 on NAIA Terminal 3 (T3) Facility assets costing P3.068 billion since the assets were still lodged under the Construction in Progress account and have not been reclassified to their appropriate asset accounts.**

   The NAIA Terminal 3 (T3) Facility assets recognized at P3.068 billion as of December 31, 2012, consists of: (a) the P3.002 billion payment to PIATCO made in compliance to the Decision of the Supreme Court dated December 19, 2005, representing the proferred value of T3; and (b) the P65.95 million costs of Project Management Services for the completion, testing, and commissioning of NAIA T3 (prior to opening and operationalization), including structural design review and evaluation. The NAIA T3 Project was about 98% completed in 2002, when the National Government decided to cancel the contract with PIATCO. However, NAIA T3 was opened only in 2008 or six (6) years after the Government took over the property. At present, T3 facility is operating at 50% capacity due to structural issues.

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

   Records disclosed that depreciation was not recognized for CYs 2008 to 2012 on NAIA T3 Facility assets since these were still lodged under construction in progress and have not been reclassified to their appropriate asset accounts. The non-recognition of depreciation affected the assets' carrying amount and income as well.

   We have recommended the reclassification for the T3 assets from construction in progress to their appropriate asset accounts and the recognition of depreciation due to its effect on the carrying amount of the assets and its effect on income.

Management Comment

Management stated that while MIAA has already deposited in escrow with LBP and DBP the just compensation pursuant to the decision of the RTC, they are still awaiting legal advice on whether the Authority can now book NAIA T3 assets as fully owned by MIAA. Management explained further that depreciation cannot be accurately ascertained pending full documentation of the cost components of the assets.

2. **Capitalized costs amounting to P168.434 million (net of VAT of P20.212 million) and investments of P6.757 million in relation to Panglao-Bohol International Airport Development Project (PBIADP) were charged against Prior Years' Adjustments, and unrecovered advances to contractors totalling P15.236 million were reclassified to Other Receivables due to the temporary suspension of the Project by the DOTC.**

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

In February 2009, MIAA entered into a consultancy contract with PHIL. JACK INC. (the Consultant) for the "Detailed Engineering Design and Construction Management Supervision of the Proposed Panglao-Bohol Airport" in the amount of P290,226,140.00. However, implementation of the Project was suspended by the MIAA in July 2010, in view of the Memorandum dated July 9, 2010 of the DOTC Secretary which directed to hold in abeyance any implementation, action or negotiation involving all procurement activities and projects of the Department and its attached agencies. The DOTC's suspension order caused Management to effect the following accounting treatment of costs related to the Project, as follows:

a) *The project cost was written-off as an expense and treated as a prior year adjustment which adversely affected current and prior year's income by the same amount.*

   Before the project contract was suspended, capitalized costs recorded under the Construction in Progress account amounted to P168,434,813.39 (excluding VAT of P20,212,177.61) which represented payments for the consultant's progress billings. In 2012, an adjustment was made under Journal Entry Voucher (JEV) No. 2012-12-077 to write-off the asset account by treating it as an expense, and recognizing the same as a prior period adjustment.

   We believe that the transaction is not a correction of a prior period error. Prior period errors are those that may arise in respect of recognition (as in this case), measurement, presentation or disclosure of elements of financial statements. When Management initially recognized disbursements for the project as capitalizable costs, the basis for recognizing the costs for the current period should not be affected by virtue of subsequently treating it as an expense.

By way of comment, the immediate dropping of affected accounts due to the DOTC suspension directive may not be parallel to the original concept of the project. Initially, MIAA envisioned the P3.0 billion funding assistance to the PBIADP as an investment which may be recovered based on the projections and approval by the National Economic Development Authority-Investment Coordination Committee (NEDA-ICC) which found it to be viable. If Management treated this as an investment, it would be prudent not to drop the asset accounts from the books unless there is a solid indication that MIAA may not recover its costs. The DOTC's directive is merely a temporary suspension to allow the Department to review all contracts/projects carried over from the previous administration. There seems to be no compelling indication that the project has been totally shelved.

b) *Costs in relation to PBIADP treated as an investment were also written-off as Prior Year's Adjustment.*

JEV No. 2011-12-095 dated December 31, 2011 disclosed the writing-off of PBIADP costs amounting to P6,756,948.93 which were accounted for as an investment. The write-off also included P57,420.13 in advances to the project contractors.

c) *Unrecovered advances to contractors were reclassified to Other Receivables.*

Records show that P15,236,872.35 or 35% of the 15% mobilization fee of P43,533,921.00 represented unrecovered advances to the Consultant that were later reclassified to Other Receivables under JEV No. 2012-12-077. We verified that the surety bond issued to guarantee repayment of the advances expired on February 18, 2010.

We also noted that the contract with the Consultant provides that all plans, drawings, specifications, designs, reports and software prepared for the Procuring Entity shall become and remain the property of the latter. Further, the Consultant shall, not later than thirty (30) days after the termination or expiration of the contract, deliver all such documents to the Procuring Entity together with a detailed inventory thereof. All computer programs developed by the Consultant under the contract shall likewise be the sole and exclusive property of the Procuring Entity.

We have required the submission of basis for treating disbursements for the project as capitalized costs or as an investment and the Board approval for the write-off of the assets, as well as a copy of the inventory and turnover report of all required deliverables from the consultant.

Management Comment

Management explained that the Journal Entry Vouchers were supported by Board Resolution No. 2012-023 regarding MIAA's financial support to the project that will be used instead for the NAIA T3 completion work project. Said Board Resolution has been the basis for closing the account in MIAA's books considering that the project will be undertaken by the DOTC under the Public-Private Partnership (PPP) scheme.

As to the mobilization fee of P15.2 million that were classified to Other Receivables, MIAA stated that they have requested the assistance of MIAA's Legal Office for the collection of the remaining advance payment from the consultant.

MIAA informed further that they will ask the consultant to turn over the required deliverables.

Rejoinder

We believe that the temporary suspension of the project and its mere transfer to a PPP scheme may not justify the write – off of the asset, the same not being parallel to the original concept envisioned by MIAA in treating disbursements to PBIADP as investment or capitalized cost.

Further, we see no compelling indication that the project has been totally shelved and that MIAA may no longer recover its costs.

3. **The P1.102 billion fund transferred by the DOTC to MIAA to cover part of the NAIA Terminal 1 Rehabilitation Project has remained unutilized seventeen (17) months after both agencies entered into a Memorandum of Agreement for the implementation of the project.**

On December 29, 2011, a Memorandum of Agreement (MOA) was entered into by and between the DOTC and MIAA for the NAIA Terminal 1 Rehabilitation Project. The MOA requires that the DOTC cause the release of P1.160 billion from the National Government to the MIAA, the implementing agency, to cover part of the cost of the Project. DOTC shall be responsible for the conduct of bidding activities, awarding of the project to the successful bidder, and for the inspection and acceptance of the project components upon completion. On the other hand, MIAA shall prepare the Terms of Reference, implement the project components, make payments, submit monthly liquidation reports to DOTC, and operate and maintain the components after its turnover by DOTC.

The DOTC, on December 24, 2011 transferred the amount of P1.102 billion to MIAA's Current Account No. 0272-1065-33 at the Land Bank of the Philippines (LBP), Baclaran Branch, pursuant to DOTC Letter of Advice of Allotment Release bearing the same date. On March 30, 2012, the amount was transferred to the Bureau of the Treasury (BTr) while the implementation of the project is still in process by the DOTC.

Our verification of accounting records disclosed that the Project fund has remained unutilized since its transfer to MIAA. This inclines us to presume that implementation of the Project has not been initiated. Although we are aware of several rehabilitation works being conducted at Terminal 1, we believe that these are not related to the NAIA Terminal 1 Rehabilitation Project.

We have required Management to submit the status of the project implementation considering the availability of the fund for the project and the period that has lapsed from the date of the MOA.

Management Comment

Management informed that the Notice of Award for the consulting services for the Review of the Performance-Based Structural Retrofit Design for NAIA Terminal 1 was issued by the DOTC on May 17, 2013 in favor ARUP (Philippines). Should the consultant confirm the design for adoption and implementation, the DOTC will then proceed with the procurement of a contractor who will undertake the retrofitting works.

Management, in its letter dated May 16, 2013 addressed to the Secretary of the DOTC, proposed to return the P1.102 billion fund to DOTC with the recommendation that the Project be funded, procured, executed and implemented by the DOTC. The Authority will, however, assist DOTC in the preparation of the Terms of Reference, as the latter deems fit.

4. **Effects of recent developments on the case on disputed accounts affecting contingent assets of P153.86 million, and total receivables recognized in the books at P124.52 million were not determined to ensure that these are appropriately reflected in the financial statements and/or adjusted as necessary.**

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

Our verification disclosed that as of December 31, 2012 MIAA has total receivables from disputed accounts in the amount of P153,857,232 from Din Velayo Sports, Incorporated, which covered billings from 2003 to 2012. These were considered as contingent assets and were not recorded in the books. MIAA, however, has recognized in the books total receivables at P124,518,952 from Ding Velayo for 2002 and prior years' billings. The latter earlier filed a case against MIAA (Civil Case No. 8847) for Injunction, Consignation, Damages and Preliminary Injunction in March 1992. It was prayed that MIAA be ordered to renew the contract for another twenty-five (25) years from February 15, 1992. Alternatively, it was prayed that should the renewal be disallowed, MIAA should be ordered to pay expected unrealized rental income in the amount of P1 million per year. The Regional Trial Court and the Court of Appeals both decided the case in favor of Ding Velayo. MIAA appealed the case before the Supreme Court which sustained the ruling of the Court of Appeals (Supreme Court Decision dated December 14, 2011) per update of cases from MIAA's Legal Office, wherein MIAA was ordered to: (1) grant the renewal of the lease contract for the same term as stipulated in the old contract and the rental to be based on the applicable rate at the time of the renewal; (2) respect and maintain Respondent's peaceful possession of the premises; and (3) accept the rental payment consigned by the Respondent to the court beginning December 1991 onward until and after a renewal has been duly executed. MIAA's Motion for Reconsideration was denied by the Supreme Court. A Writ of Execution was already issued by the RTC and Ding Velayo has requested MIAA to comply with the decision on the renewal of the contract. MIAA, on the other hand, opted to refer to the Office of the Government Corporate Counsel the collection of the consigned rentals from the Court.

The effects of these developments on contingent assets and on the recorded receivables should have been determined to ensure that these are appropriately reflected in the financial statements and/or adjusted as necessary.

We have recommended that Management determine the effects on the accounts of recent developments on the case to ensure that these are reflected in the financial statements and/or adjusted as necessary.

Management Comment

The recommendation was duly noted by Management.

5. Provision for estimated liabilities on real estate taxes and on the P1.231 billion claims by lessees for refund of rental rate increases invalidated by the Supreme Court for lack of publication were not recognized in the books, thus, understating liabilities and expenses and overstating retained earnings.

This is a reiteration of CYs 2009, 2010 and 2011 audit observation.

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

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

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

(a) Claims for refund of rentals estimated at P1.231 billion by Philippine Airlines, Macroasia Airport Services Corporation and Macroasia Catering Services pertaining to the increase that was invalidated by the Supreme Court for lack of publication. The MIAA Board, under Board Resolution No. 2010-026, approved the application of these claims by the lessees against their future rental charges; and

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

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

We have reiterated our recommendations embodied in CYs, 2009, 2010 and 2011 Annual Audit Reports on MIAA for Management to comply with the requirements of PAS/IAS 37 to ensure that appropriate provision for estimated liabilities has been recognized in the books at year end for all the Authority's obligations.

Management Comment

Management previously explained that claims for refund of rentals by Philippine Airlines and Macroasia amounting to P1.231 billion were approved by MIAA Board in February 2010 but execution thereof is subject to the approval of the Office of the Government Corporate Counsel (OGCC) and that they are still awaiting action from OGCC. The claim for refund was, however, disclosed in the Notes to Financial Statements.

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

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

6. Variance of 84,122 square meters in the area of land was not reconciled and some 1.2 million square meters of land owned by the Authority remained untitled.

This is a reiteration of CYs 2009, 2010 and 2011 audit observation.

The Authority has a total land area of 6.2 million square meters valued at P6.6 billion in the books at year-end. However, the report of the Business and Real Estate Investment and Development Division (BRIDD) as of December 31, 2012 disclosed a difference of 84,122 square meters in the total land area of MIAA's land assets when compared with the total area per records of the Accounting Division, as follows:

Titled lands with OCTs/TCTs in the custody of BRIDD	5,112,962 sq.m
With pending reconstitution of missing owner's duplicate OCTs/TCTs, lands expropriated/purchased by RP/BAT/MIAA subject to final determination of cases, and purchased by BAT/MIAA but still under mother titles	637,200 sq.m
Unregistered/untitled lands under MOA between MIAA and DENR (subject to final survey by DENR)	564,406 sq. m.

Total per BRIDD's records	6,314,568 sq. m.
Total per Accounting Division's records	6,230,446 sq. m.
Variance	84,122 sq. m.

Of the reported 6.3 million square meters per BRIDD's records, only 5.1 million square meters are evidenced by TCTs. The remaining 1.2 million square meters are untitled.

The last reconciliation done by BRIDD and the Accounting Division was in June 2009 that reduced the variance from 196,000 sq.m. to 84,122 sq.m.

We have reiterated our recommendations in the CYs 2009, 2010 and 2011 Annual Audit Reports that management require the Accounting Division and the BRIDD to reconcile the variance in their records and to take steps to have the lands titled in the name of the Authority upon which ownership is based.

Management Comment

Management explained that the Special Patent to the untitled land is with the Land Management Bureau which is coordinating with the Department of Public Works and Highways and the Department of Health on the application of MIAA. Reconciliation of the record is ongoing.

7. Uniform application of a 10% allowance for doubtful accounts for all receivables other than those determined to be totally uncollectible.

Generally accepted accounting principles require that receivables be valued at their recoverable amounts. As such, allowance for doubtful accounts should be provided at a level considered adequate to provide potential losses on receivables. This would require an evaluation of such factors as aging of the accounts, collection experience of the entity, write-off experience and other factors that may affect collectibility. The preparation of financial statements likewise requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities and income and expenses. These estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the financial statements.

MIAA currently estimates the level of allowance for doubtful accounts as a certain percentage of the total receivables as at given period, which is 100% for accounts determined to be totally uncollectible and 10% for all other receivables. The basis in estimating allowance for totally uncollectible accounts is sufficient. However, with respect to the application of 10% allowance on all other receivables, we observed that evaluation of such factors as mentioned and of relevant facts and circumstances as of the date of the financial statements is not being done by management since the 10% provision is automatically applied on the outstanding balance of both current and non-current accounts. Provision for doubtful accounts on these receivables amounted to P37,862,810.70 during the year.

We have recommended that Management revisit its basis for estimating potential losses in trade receivables, particularly its uniform application of a 10% allowance for doubtful accounts on both current and non-current accounts.

Management Comment

While Management believes that the provision on the allowance for doubtful accounts is sufficient, they will nonetheless review their present policy on this.

8. Additional allowance for doubtful accounts amounting to P3.039 million was recognized as prior period adjustment instead of current period adjustment.

The use of reasonable estimate is an essential part of the preparation of financial statements and does not undetermine their reliability. By its nature, the revision of an estimate does not relate to prior periods and is not a correction of an error. Hence, a change in the estimate of the amount of bad debts affects only the current period's profit and loss and therefore, is recognized in the current period in accordance with (PAS) 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

Records disclosed that additional allowance for doubtful accounts was set up under Journal Entry Voucher No. 2012-12-123 in the amount of P3,038,851.40. This was, however, taken up as a prior period adjustment instead as of an adjustment to current year's profit and loss thus, understating bad debts expense and overstating income for the period.

We have recommended compliance with PAS 8.

Management Comment

Management have agreed to effect the adjustment in the ensuing year.

9. A test of transactions disclosed the offsetting of expenses/payables totalling P4.074 million against the Authority's receivables from NAIA concessionaires.

Our conduct of a test of transactions for the Authority's expenses/payables vis-a-vis its receivables from NAIA concessionaires disclosed the offsetting of accounts, details of which are as follows:

Particulars	Reference	Amount
Food expenses against receivable from Central Manila Food Corporation	Various JEVs	2,972,824.56
Overpayment of DHL Express advances and deposits against rentals	JEV 2012-07-057	1,007,761.59
Food expenses against receivable from Nature Valley Corporation	JEV 2012-02-044	16,366.07
Electric and water	JEV 2012-01-047	42,792.56

consumption of MIAA GSD against receivable from Asia Industries Material Handling Equipment Corporation	JEV 2012-07-058	34,388.83

Paragraphs 32 and 33 of PAS 1 provide:

"32. Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or Interpretation.

33. It is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the income statement or balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess entity's future cash flows. xxx"

We have recommended compliance with PAS 1.

Management Comment

Management stated that the offsetting arrangement was based on the policy guidelines adopted by MIAA per Memo Circular No. 07-H, Series of 2010, and on the offsetting arrangements with MIAA concessionaires as agreed by the parties. They explained that these accounts are reported separately in the financial statements.

10. Summary of unsettled suspensions, disallowances and charges

Audit disallowances as of last year totaling P57.635 million, which covered disallowances issued in 1995 to 2008, was reduced by P44.40 million in 2012 in view of Supreme Court's Decision dated February 14, 2012 which partially granted MIAA's petition for certiorari from COA Decision No. 2010-118 dated November 19, 2010. Said COA Decision affirmed the disallowance issued by the COA Legal and Adjudication Office in 2006 on the payment of signing bonus in 2003 in the amount of P44.79 million. The Supreme Court granted MIAA's petition reducing the disallowance to P480,000.

Notice of disallowance was also issued in 2008 disallowing payment of 10% contingency and 5% excess in profit in the amount of P676,686.78, while Notice of Suspension totaling P42.869 million was issued in 2011 for excess overtimes rendered,

It is noteworthy to mention that the amount of ₱30,000 was settled by one of the parties liable who retired from the service.

Notice of Disallowance was also issued in 2008 disallowing in audit the payment of 10% contingency and 5% excess in profit in the amount of P676,686.78 in connection with the supply of labor and materials in the installation of heat rejection film for Terminal 2; while Notice of Suspension totaling P42.869 million was issued in CY 2011. These pertain to the payments of excess overtimes rendered by the officials and employees of the agency without authorization/approval from the DBM. The MIAA has requested for an authorization with the DBM in 2012.

We have recommended compliance with the rules and regulations on settlement of accounts.

11. Programs and Projects undertaken by the GAD Committee

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

A. Client-Focused
   1. Provision of strollers for infants and children at Terminal 1, 3 and 4
   2. Provision of breastfeeding / feeding station
   3. Expansion of Bahay Silungan sa Paliparan

B. Organizational-Focused
   1. GAD Information and Awareness Activities
   2. Purchase of equipment, paraphernalia and other GAD Committee administration requirements.

The projects/activities undertaken are timely and are intended to address the needs of the clients and the MIAA community. The provision of facilities and equipment needed by traveling men and women with children is a worthwhile project. The construction of breastfeeding/feeding station at the Terminals will address the concerns of travelling fathers and mothers on where to feed their infants and small children and put them to sleep. At present, breastfeeding room at Terminals 1 and 4 are already operational, while the pre-construction phase has been completed for Terminals 2 and 3. The expansion of the Bahay Silungan sa Paliparan to accommodate victims of human trafficking intercepted at NAIA was deferred to 2013 due to change in the design to include livelihood and skill training facility, thus, approved fund of P2.18 million was not utilized.

The conduct of GAD information and awareness activities to MIAA employees through team building cum GAD awareness and workshop is an activity that will have positive impact on the working conditions of the employees due to the elimination of gender biases and discriminations in the workplace. Also, the purchase of equipment, paraphernalia and other administrative requirements for the use of GAD Committee will make them effective in informing the employees about the activities and projects of the GAD Committee. We observed low percentage of accomplishments for these activities as planned.

We have recommended that Management:

a) conduct an in-depth analysis of GAD problems and issues so that the projects and activities undertaken will achieve the intended results that will be felt by the whole community including the MIAA employees; and

b) maximize the use of the budgets allocated for GAD activities.

Management Comment

Management stated that they decided to forgo some of the plans and projects for GAD to concentrate on the Sensitivity Information and Awareness Campaign of MIAA due to austerity measures being undertaken by the Authority.

STATUS OF IMPLEMENTATION OF CY 2011 AUDIT RECOMMENDATIONS

Of the twelve (12) audit recommendations, three (3) were implemented, five (5) were partially implemented and four (4) were not implemented. Details follow:

Recommendations	Status
1. **Non – recognition of provision for estimated liabilities** Management should comply with the requirements of PAS/IAS 37 to ensure that appropriate provision for estimated liabilities has been set up at year – end for all the Authority's obligation.	**Not Implemented.** The MIAA Board approved the claims for refund of rentals subject to the approval of the Office of the Government Counsel which to date has not been received. Provision for estimated tax liabilities on real estate taxes will be set up by MIAA upon receipt of the updated assessments from the cities of Pasay and Paranaque. The Cities of Pasay and Paranaque accepted MIAA's position to pass the liability for taxes to MIAA's lessees and concessionaires but requested the assistance of MIAA in the collection through submission of copies of contracts and in serving the tax assessments.
2. **Variance in the recorded land areas and untitled land** Management should require the Accounting Division and the Business and Real Estate and Investment Development Division (BRIDD) to reconcile the total land area owned by the Authority. Likewise, Management should take steps to have the lands titled in the name of the Authority to prove legal ownership of the same.	**Not Implemented.** The Special Patent to the untitled land is with the Land Management Bureau which is coordinating with the Department of Public Works and Highways and the Department of Health on the application of MIAA.
3. **Payment of Representation and Transportation Allowance (RATA) at the rate of 40% of the basic salary is without legal basis** Management should determine the officials and employees who are entitled to collect RATA of 40% of the basic salary, who are incumbents of positions as of June 30, 1989. It should also implement the rates prescribed under Sections 47 and 51 of the 2010 and 2011 GAA to officials and employees not entitled to received RATA of 40% of the basic salary.	**Not Implemented.** Management requested the DBM Secretary to maintain the status quo in respect to the grant of allowances and benefits being enjoyed by MIAA employees prior to the enactment of RA 10149, otherwise known as the GOCC Governance Act of 2011, subject to the approval of the MIAA Board of Directors and the condition that there will be no increases in the rates nor new additional allowances will be given.

4. **Extraordinary and Miscellaneous Expenses (EME) exceeded the rates prescribed in the General Appropriations Act (GAA)** Management should strictly implement the rates prescribed in the GAA and comply with the provisions of COA Circular No. 2006-001.	**Implemented.** The amounts claimed were in accordance with the rates prescribed in the GAA for equivalent ranks in the National Government.
5. **Payment of benefits and allowances is without legal basis nor has the approval of the Office of the President** Management should seek clarification from the DBM if the submission of the Board-approved COB is sufficient compliance to the evaluation /confirmation requirement on MIAA's COB, considering that MIAA is not receiving subsidy from the Government, but remits dividends instead. Approval by the DBM or by the Office of the President on the grant of benefits and allowances to MIAA officials and employees should likewise be submitted to avoid disallowance in audit.	**Not Implemented.** Management explained that approval of said benefits and allowances was pursuant to the Board of Directors' express powers as vested by the President through the MIAA Charter. MIAA appealed to the DBM to reconsider its earlier disapproval of part of MIAA's COBs for CY 2010 and 2011 as the audit observations were raised due to the disapproval of the budgetary provision for these benefits and allowances by the DBM or lack of approval from the Office of the President. MIAA likewise requested the DBM to maintain the status quo in respect to the grant of said benefits and allowances.
6. **Abandoned aircrafts pose risk to health and safety** Management should coordinate with concerned agencies in tracing the owners of the abandoned aircrafts at the General Aviation Area (GAA). It should also review its policies on the landing requirements for aircrafts, require complete data for proper identification of the owners and spell out owners' obligation while the aircraft is parked in the area. The aircrafts should be appraised and if the value is negligible, Management may opt to maintain the same as museum pieces or attractions at the airport. Otherwise, these must be auctioned if they command a high price.	**Implemented.** Removal of the unoperational aircrafts was initiated by Management. MIAA has sought the guidance of the Solicitor General on how to dispose these abandoned aircrafts. The service of an independent appraiser was also obtained to determine the value of the aircrafts which will be the floor price should MIAA auction off the same. MIAA likewise coordinated with the Civil Aviation Authority of the Philippines to identify the owners and a notice was published twice in the newspaper for the removal of the aircrafts.

7. Security Development Charge (SDC) of P3.931 billion not deposited in a separate trust account SDC collected should be maintained in a separate bank account to account properly collections and utilization of the fund. Likewise, there should be a policy / guidelines on the expenses that may be charged to SDC collections.	**Partially Implemented.** Management explained that they could always account for SDC collections at any point in time. There is also a MIAA Board Resolution on the SDC collection which provides that all expenses with regard to security maintenance are chargeable to SDC collections.
8. Disadvantages compromise agreement and non-compliance with its terms and conditions deprived MIAA of reasonable rental income from Salem Investment Corporation Management should look into the matter to put things in their proper perspective.	**Partially Implemented.** Management explained that the Authority has to implement the provisions of the Compromise Agreement. The Solicitor General concluded that the Supreme Court's approval is not a requisite to the implementation of the terms and conditions of the Compromise Agreement. On the contrary, the parties stipulation to fix and limit the amount of compensatory damage to P3.229 million without regard to the number of years that it has remained unpaid is beneficial to the interest of the government.
9. Non – implementation of the conditions in the compromise agreement resulted to lost income to the Authority Management should hasten the resolution of the case against Little Vin-Vin's Food Corporation, it appearing that the contract already expired on February 28, 2007.	**Partially Implemented.** Management informed that the Court of Appeals decided in favor of LVVFC. The Compromise Agreement is under renegotiation.
10. Payments to LBP Service Corporation for the contracted manpower services exceeded the contract amount Management should observe the applicable provisions of RA 9184 in the bidding, award of contract, issuance of Notice to Proceed and renewals and extensions of contracts with LBPSC. The contract amount as well as the contract period should be clearly stipulated in the contract and any adjustments or increases in the contract amount should be supported by documents.	**Partially Implemented.** Management committed to explain the differences found in audit and check if there were overpayments. Management also explained that the contract extensions are based on reasonable grounds and that it has taken steps to monitor the contracts to reduce such extensions.

11. **Unsettled suspensions, disallowances and charges** Compliance with the rules and regulations on settlement of accounts is enjoined.	**Partially Implemented.** Management filed before the Supreme Court a petition for certiorari from the COA Decision No. 2010-118 dated November 19, 2010, which affirmed the disallowance of P44.79 million on the payment of signing in 2003 under LAO-Corporate Decision dated February 18, 2008. The Supreme Court in its decision (G.R. No. 194710) dated February 14, 2012 partially granted the petition limiting the disallowance to P480,000.00, to cover only the Board of Directors and officers of MIAA. MIAA requested for an authorization from the DBM on excess overtime rendered by MIAA employees totaling P42.869 million, which was suspended in audit in 2011 for lack of authorization / approval from the DBM.
12. **Programs and projects undertaken by GAD Committee** Management should have an in-depth analysis of GAD problems and issues so that the projects and activities undertaken will achieve the intended results that will be felt by the whole community including the MIAA employees. The use of budgets allocated for GAD activities should be maximized.	**Implemented.**