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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 26, 2019

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE GENERAL MANAGER
RECEIVED
JUN 27 2019
TIME 4:55 P.M
BY TNG

Mr. EDDIE V. MONREAL
General Manager
Manila International Airport Authority
Pasay City

Sir:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Manila International Airport Authority (MIAA) for the years ended December 31, 2018 and 2017.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

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

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

1. The balance of the Customer's Deposit Payable (CDP) account aggregating P433.767 million could not be relied upon due to the absence of subsidiary ledgers and other supporting documents which is not in compliance with Par. 15 of Philippine Accounting Standard (PAS) No. 1

   We recommended that Management:

   a) Provide subsidiary ledger/schedules for CDP account;

   b) Intensify effort to locate the supporting documents of the account; and

   c) Consider the reversion of CDP which had been outstanding for more than ten (10) years, if efforts turn out futile.

2. Investments with the Philippine Aviation Security Corporation (PASSCOR) and Aviation Security and Training, Inc. (ASTI) amounting to P11,850,000 and P655,000, respectively, were left unmonitored exposing the said investments to possible losses which is not in accordance with Section 2 of Presidential Decree (PD) No. 1445.

   We recommended that Management:

   a) Demand the accounting of its investment with PASSCOR from those charged with governance, and initiate appropriate action, if necessary, to recover its investment; and

   b) Take the necessary actions to recover the cash deposited in the name of ASTI.

3. Contracts of Lease on MIAA properties and spaces were awarded mostly without the benefit of public bidding contrary to Section 20 of the Executive Order No. 903 dated July 21, 1983 and paragraph 2 of Part IV (A) of MIAA Memorandum Circular No. 35 Series of 1999, which consequently deprived the Authority of obtaining better/higher rental rates.

   a) Refrain/stop the practice of awarding contract of lease without public bidding; and

   b) Strictly comply with Section 20 of EO 903 and pertinent provision of MIAA MC No. 35 Series of 1999.

4. The practice of the Bids and Awards Committee (BAC) of shortening the period from Advertisement to the Receipt and Opening of Bid Envelope (ROBE) to an average of 25 days, instead of availing the 45/50/65 maximum period provided in Section 25.5 of the Implementing Rules and Regulations (IRR) of RA 9184, may have precluded other prospective bidders from completing the bid requirements and/or submitting their bids, thus depriving the Authority from obtaining the most reasonable price and offer for the projects.

   We recommended that Management direct the BAC to observe the maximum periods provided in Section 25.5 and Annex C of the IRR, particularly the period from Advertisement to the ROBE, in the absence of urgency of the requirements/project and/or some valid reasons.

5. Management did not effectively enforce COA Order of Execution (COE) in accordance with Section 3 Rule XIII of the 2009 Revised Rules of Procedure of the Commission on Audit in relation with Article 1254 of the Civil Code of the Philippines, resulting in the delay in the settlement of the amount disallowed.

   We recommended that Management:

   a) Strictly observe Section 3 Rule XIII of the 2009 RRPCOA in relation with Article 1254 of the Civil Code;

   b) Effectively monitor individual settlement of COE's to prevent delays on settlement of COA disallowances; and

c) Refrain from the further grant of loans to MIAA Officers and Employees with COA disallowances if such could compromise the timely settlement of disallowance.

6. The Authority had barely accomplished projects or activities on Gender and Development (GAD) resulting in its failure to address the identified gender issues and underutilization of the approved GAD budget. Moreover, the GAD allocation of at least five per cent of the Corporation's Operating Budget as required by law was not complied.

   We recommended Management to:

   a) Direct the GAD Focal point to formulate adequate GAD plans and programs that will address gender issues and concerns and effectively monitor the implementation of the said activities; and,

   b) Comply with the required 5% minimum budget allocation for GAD activities.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 10, 2019, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

Elsielin Chasangcay

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

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

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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

MANILA INTERNATIONAL AIRPORT AUTHORITY
OFFICE OF THE CORPORATE BOARD SECRETARY
RECEIVED
TIME 06/27/19 9:54
BY Lorette

June 26, 2019

The Board of Directors
Manila International Airport Authority
Pasay City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Manila International Airport Authority (MIAA) for the years ended December 31, 2018 and 2017.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

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

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

1. The balance of the Customer's Deposit Payable (CDP) account aggregating P433.767 million could not be relied upon due to the absence of subsidiary ledgers and other supporting documents which is not in compliance with Par. 15 of Philippine Accounting Standard (PAS) No. 1

   We recommended that Management:

   a) Provide subsidiary ledger/schedules for CDP account;

   b) Intensify effort to locate the supporting documents of the account; and

   c) Consider the reversion of CDP which had been outstanding for more than ten (10) years, if efforts turn out futile.

2. Investments with the Philippine Aviation Security Corporation (PASSCOR) and Aviation Security and Training, Inc. (ASTI) amounting to P11,850,000 and P655,000, respectively, were left unmonitored exposing the said investments to possible losses which is not in accordance with Section 2 of Presidential Decree (PD) No. 1445.

We recommended that Management:

a) Demand the accounting of its investment with PASSCOR from those charged with governance, and initiate appropriate action, if necessary, to recover its investment; and

b) Take the necessary actions to recover the cash deposited in the name of ASTI.

3. Contracts of Lease on MIAA properties and spaces were awarded mostly without the benefit of public bidding contrary to Section 20 of the Executive Order No. 903 dated July 21, 1983 and paragraph 2 of Part IV (A) of MIAA Memorandum Circular No. 35 Series of 1999, which consequently deprived the Authority of obtaining better/higher rental rates.

   a) Refrain/stop the practice of awarding contract of lease without public bidding; and

   b) Strictly comply with Section 20 of EO 903 and pertinent provision of MIAA MC No. 35 Series of 1999.

4. The practice of the Bids and Awards Committee (BAC) of shortening the period from Advertisement to the Receipt and Opening of Bid Envelope (ROBE) to an average of 25 days, instead of availing the 45/50/65 maximum period provided in Section 25.5 of the Implementing Rules and Regulations (IRR) of RA 9184, may have precluded other prospective bidders from completing the bid requirements and/or submitting their bids, thus depriving the Authority from obtaining the most reasonable price and offer for the projects.

   We recommended that Management direct the BAC to observe the maximum periods provided in Section 25.5 and Annex C of the IRR, particularly the period from Advertisement to the ROBE, in the absence of urgency of the requirements/project and/or some valid reasons.

5. Management did not effectively enforce COA Order of Execution (COE) in accordance with Section 3 Rule XIII of the 2009 Revised Rules of Procedure of the Commission on Audit in relation with Article 1254 of the Civil Code of the Philippines, resulting in the delay in the settlement of the amount disallowed.

   We recommended that Management:

   a) Strictly observe Section 3 Rule XIII of the 2009 RRPCOA in relation with Article 1254 of the Civil Code;

   b) Effectively monitor individual settlement of COE's to prevent delays on settlement of COA disallowances; and

   c) Refrain from the further grant of loans to MIAA Officers and Employees with COA disallowances if such could compromise the timely settlement of disallowance.

6. The Authority had barely accomplished projects or activities on Gender and Development (GAD) resulting in its failure to address the identified gender issues and underutilization of the approved GAD budget. Moreover, the GAD allocation of at least five per cent of the Corporation's Operating Budget as required by law was not complied.

   We recommended Management to:

   a) Direct the GAD Focal point to formulate adequate GAD plans and programs that will address gender issues and concerns and effectively monitor the implementation of the said activities; and,

   b) Comply with the required 5% minimum budget allocation for GAD activities.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 10, 2019, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

MANILA INTERNATIONAL AIRPORT AUTHORITY

For the Years Ended December 31, 2018 and 2017

EXECUTIVE SUMMARY

INTRODUCTION

The Manila International Airport Authority (MIAA), which was created by virtue of Executive Order (EO) 778, s. 1982, otherwise known as the "Charter of the Manila International Airport Authority," is an agency under the Executive Department attached to the Department of Transportation (DOTr), originally tasked to, among others, formulate a comprehensive and integrated policy and program for the Manila International Airport (now the Ninoy Aquino International Airport) and other airports in the Philippines, and to implement, review and upgrade such policy and program periodically; and control, supervise, construct, maintain, operate and provide such facilities or services as shall be necessary for its efficient functioning.

MIAA's Charter was amended by EO 903 and 909 dated July 21, 1983 and September 16, 1983, respectively. This was further amended by EO 298 issued on July 26, 1987. The amendments were the following: (a) modified the composition of the Authority's Board of Directors to afford better coordination; (b) increased the capital contribution of the National Government; (c) reduced the contribution of the Authority to the General Fund from 65 per cent to 20 per cent of its annual operating income excluding utilities and terminal fee collections; and (d) appointed the Government Corporate Counsel and/or the Solicitor General as legal counsel of the Authority.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

(In Thousand Pesos)

	2018	2017	Increase (Decrease)
Assets	59,323,059	54,622,861	4,700,198
Liabilities	11,699,179	10,454,003	1,245,176
Equity	47,623,880	44,168,858	3,455,022

Comparative Results of Operation

(In Thousand Pesos)

	2018	2017	Increase (Decrease)
Operating Income	14,876,590	16,742,633	(1,866,043)
Share of the National Government (NG)	(1,713,624)	(1,625,714)	87,910
Operating Income After Share of the NG	13,162,966	15,116,919	(1,953,953)
Operating Expenses	(6,246,154)	(9,635,418)	(3,389,264)
Income from Operations	6,916,812	5,481,501	1,435,311
Non-Operating Income (Expenses)	1,957,399	(71,112)	2,028,511
Income Before Income Tax	8,874,211	5,410,389	3,463,822
Income Tax Expense	(1,983,039)	(1,710,561)	272,478
Net Income	6,891,172	3,699,828	3,191,344

SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of MIAA for the period January 1 to December 31, 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2018 and 2017. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Authority for the years 2018 and 2017.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant audit observations and recommendations:

1. The balance of the Customer's Deposit Payable (CDP) account aggregating P433.767 million could not be relied upon due to the absence of subsidiary ledgers and other supporting documents which is not in compliance with Par. 15 of Philippine Accounting Standard (PAS) No. 1

   We recommended that Management:

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   We recommended that Management:

   a) Demand the accounting of its investment with PASSCOR from those charged with governance, and initiate appropriate action, if necessary, to recover its investment; and

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We recommended Management to:

a) Direct the GAD Focal point to formulate adequate GAD plans and programs that will address gender issues and concerns and effectively monitor the implementation of the said activities; and,

b) Comply with the required 5% minimum budget allocation for GAD activities.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2018, the Notice of Disallowance of P42.869 million issued on February 10, 2014 for excess overtimes rendered by the officials and employees of the Authority without authorization/approval from the DBM has remained unsettled.

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

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

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

A Notice of Disallowance was also issued in 2008 disallowing payment of 10 per cent contingency and 5 per cent excess in profit in the amount of P0.677 million. A Notice of Finality of Decision (NFD) was issued on June 22, 2011. Appellants filed their appeal but was denied under CGS-Cluster 4 Decision No. 2015-06 dated March 13, 2015 for having been filed out of time.

Partial settlements on the above disallowances effected thru payroll deductions totalled to P.943 million as of December 31, 2018.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the twenty (20) audit recommendations embodied in the CY 2017 Annual Audit Report, fourteen (14) were implemented, three (3) were partially implemented and three (3) were not implemented. Details are presented in Part III of this Report.

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AUDITED FINANCIAL STATEMENTS

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STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Manila International Airport Authority
Pasay City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Manila International Airport Authority (MIAA), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MIAA as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 32 of the financial statements which describes the uncertainties related to pending cases in several courts involving various claims against MIAA. The ultimate outcome of these cases could not be presently determined and no provisions for any liability that may result have been made in the financial statements. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIAA's internal control.

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 33 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

ELSA T. BALIÑA
OIC - Supervising Auditor

May 14, 2019

MIA Road, NAIA Complex
Pasay City, Philippines 1300

www.miaa.gov.ph
(632) 877.1109

MANILA INTERNATIONAL AIRPORT AUTHORITY

ANNEX M

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Manila International Airport Authority is responsible for the preparation of the financial statements as at and for the year ended December 31, 2018, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

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

Sec. Arthur P. Tugade
Chairman of the Board

Date Signed

DOTr-OSEC OUTGOING 19-00338

Grace D. Gulinao
OIC, Accounting Division

April 03, 2019
Date Signed

Eddie V. Monreal
General Manager

APR 03 2019
Date Signed

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017
(in Philippine Peso)

	Note	**2018**	2017
ASSETS			
Current Assets			
Cash and cash equivalents	6	**5,068,748,480**	3,762,212,913
Short-term investments	7	**12,298,735,714**	11,489,484,208
Trade and other receivables, net	8	**4,147,713,928**	1,974,057,827
Prepayments	9	**660,126,545**	449,116,773
Other current assets	10	**87,535,504**	87,535,504
Total Current Assets		**22,262,860,171**	17,762,407,225
Non-Current Assets			
Investments	11	**12,505,000**	12,505,000
Property and equipment, net	12	**35,600,919,421**	35,936,673,911
Investment property, net	13	**36,031,987**	38,651,372
Other non-current assets	14	**1,410,743,405**	872,623,681
Total Non-Current Assets		**37,060,199,813**	36,860,453,964
TOTAL ASSETS		**59,323,059,984**	54,622,861,189
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables, net	15	**4,731,722,045**	3,361,762,292
Inter-agency payables	16	**1,441,050,806**	1,249,181,662
Current portion of loans payable-domestic	17	**488,227,800**	488,227,800
Current portion of loans payable-foreign	18	**427,514,269**	397,721,316
Other current liabilities	19	**1,029,634,635**	689,780,378
Total Current Liabilities		**8,118,149,555**	6,186,673,448
Non-Current Liabilities			
Loans payable-domestic	17	**1,220,569,500**	1,708,797,300
Loans payable-foreign	18	**1,699,725,667**	1,978,242,428
Total Non-Current Liabilities		**2,920,295,167**	3,687,039,728
Deferred Revenue	20	**660,734,714**	580,289,598
Equity		**47,623,880,548**	44,168,858,415
TOTAL LIABILITIES AND EQUITY		**59,323,059,984**	54,622,861,189

The notes on pages 9 to 53 form part of these statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(in Philippine Peso)

	Note	**2018**	2017
REVENUES	23	**14,191,292,485**	13,133,110,529
National Government share on MIAA's gross income	24	**(1,713,623,946)**	(1,625,714,196)
MIAA'S SHARE ON OPERATING INCOME		**12,477,668,539**	11,507,396,333
EXPENSES			
Personnel services	25	**866,454,312**	840,667,624
Maintenance and other operating expenses	26	**5,379,699,261**	8,794,750,047
		6,246,153,573	9,635,417,671
INCOME FROM OPERATIONS		**6,231,514,966**	1,871,978,662
OTHER INCOME (EXPENSES)			
Gain (loss) on disposal of asset		**1,782,831,870**	(5,709,687)
Interest income	28	**349,471,860**	192,122,735
Fines and penalties		**82,034,766**	241,695,420
Miscellaneous income		**60,551,460**	59,184,429
Reversal of Impairment Loss		**38,898,216**	0
Loss on foreign exchange		**(163,421,390)**	(139,559,891)
Financial expenses	29	**(192,967,611)**	(418,845,261)
		1,957,399,171	(71,112,255)
INCOME BEFORE INCOME TAX		**8,188,914,137**	1,800,866,407
Income tax expense	30	**(1,983,039,413)**	(1,710,560,907)
INCOME AFTER TAX		**6,205,874,724**	90,305,500
Subsidy from National Government - DOTr - PIATCO		**685,298,217**	3,609,521,996
NET INCOME/TOTAL COMPREHENSIVE INCOME		**6,891,172,941**	3,699,827,496

The notes on pages 9 to 53 form part of these statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017
(in Philippine Peso)

	Government Equity (Note 21)	Contributed Capital (note 22)	Retained Earnings	Total
Balances, January 1, 2017	10,000,000,000	5,461,552,821	27,526,723,265	42,988,276,086
Changes in Equity for 2017				
Net profit/Total Comprehensive Income	0	0	3,699,827,496	3,699,827,496
Dividends declared	0	0	(2,250,721,254)	(2,250,721,254)
Tax deficiencies for CY 2011	0	0	(100,860,670)	(100,860,670)
Set-up payable to PNCC	0	0	(100,058,945)	(100,058,945)
Additional dividend for 2016	0	0	(67,604,298)	(67,604,298)
Balances, December 31, 2017	10,000,000,000	5,461,552,821	28,707,305,594	44,168,858,415
Changes in Equity for 2018				
Net profit/Total Comprehensive Income	0	0	6,891,172,941	6,891,172,941
Dividends declared	0	0	(3,423,662,888)	(3,423,662,888)
Reversal of December 2017 FOREX revaluation	0	0	(12,487,920)	(12,487,920)
Accrual of expenses for unliquidated cash advances to NGAs:				
Reversal of unliquidated balance, beginning of the year	0	0	10,025,001	10,025,001
Balance refunded by City of Parañaque in November 2018	0	0	(4,734,438)	(4,734,438)
Unliquidated cash advances, end of the year	0	0	(5,290,563)	(5,290,563)
Balances, December 31, 2018	**10,000,000,000**	**5,461,552,821**	**32,162,327,727**	**47,623,880,548**

Th The notes on pages 9 to 53 form part of these statements.

MANILA INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from operations		**13,856,875,628**	13,398,802,876
Trust receipts		**3,233,907,098**	3,174,907,994
Miscellaneous income		**78,582,924**	93,373,270
Interest income on bank deposits		**71,567,158**	75,911,503
Payment of operating expenses		**(5,607,219,776)**	(5,008,413,592)
Remittance of trust receipts		**(1,158,432,385)**	(1,328,865,479)
Remittance of share of National Government		**(3,223,558,540)**	(3,075,498,889)
Subsidy received from NG thru DOTr		**0**	3,609,521,996
Advances to other agencies		**(21,382,823)**	(18,519,828)
Advances to officers and employees		**(1,446,779)**	(2,672,898)
Net cash generated from operations		**7,228,892,505**	10,918,546,953
Corporate income tax paid		**(1,498,558,967)**	(1,617,009,355)
Net cash provided by operating activities		**5,730,333,538**	9,301,537,598
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds of short-term investments		**23,374,271,007**	9,779,854,715
Investment in time deposits		**(23,958,660,571)**	(20,693,644,786)
Deficiency payment to PIATCO - T3 building		**0**	(3,609,521,996)
Acquisition of property and equipment		**(481,061,714)**	(241,790,969)
Net cash used in investing activities		**(1,065,451,278)**	(14,765,103,036)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(2,250,721,253)**	(2,226,520,158)
Debt servicing		**(1,107,567,195)**	(1,091,081,655)
Net cash used in in financing activities		**(3,358,288,448)**	(3,317,601,813)
Effects of exchange rate changes on cash and cash equivalents		**(58,245)**	(2,765,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,306,535,567**	(8,783,932,966)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**3,762,212,913**	12,546,145,879
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**5,068,748,480**	3,762,212,913

The notes on pages 9 to 53 form part of these statements.

1. GENERAL INFORMATION

The Manila International Airport Authority (MIAA), an attached agency of the Department of Transportation (DOTr), was created by virtue of Executive Order (E.O.) 778 which was approved on March 04, 1982. The Charter of the Authority was amended by E.O. 903 and E.O. 909 signed on July 21, 1983 and September 16, 1983, respectively. E.O. 298 was issued on July 26, 1987 to amend Sections 7, 10, 11 and 13 of E.O. 778, as amended by E.O. 903 and E.O. 909. The amendments were the following: (a) modified the composition of the Authority's Board of Directors to afford better coordination; (b) increased the capital contribution of the National Government; (c) reduced the contribution of the Authority to the General Fund from 65 per cent to 20 per cent of its annual operating income excluding utilities and terminal fee collections; and (d) appointed the Government Corporate Counsel and/or the Solicitor General as legal counsel of the Authority.

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

The Authority's corporate thrusts and objectives aim for the continued implementation and development of projects with Key Results Area (KRA) for passengers' safety, security, comfort and welfare. The following are the major projects (P5 million and above) completed in CY 2018:

- Construction of Rapid Exit Taxiway at Runway 06/24;
- Upgrading of 9 Passenger Boarding Bridges (PBB) including Layout of New Power feeder Line Cable at NAIA Terminal 1;
- Replacement of Existing Conventional Lighting Figures and Lamps to LED Lightings at NAIA Terminal 3;
- Upgrading of Conveyor No. 4 and 5 into 4 units Carousel at International Arrival Terminal 2;
- Supply and Installation of Split Type Air Conditioning Units on Pre-Departure Area between Gates No. 107-115 at NAIA Terminal 3;
- Replacement of Cooling Coils for the Thirty (30) Primary Air Handling Units (PAU) at NAIA Terminal 3;

- Replacement of Conventional Apron Lightings and Departure Viaduct Lightings with LED Lightings at NAIA Terminal 2;

- Repair of Deteriorated Joint Sealant of Curtain Walls and Windows of V-Roof Headhouse at NAIA Terminal 3;

- Replacement of Defective Power Cable from Substation Roadway 2 to Substation South Concourse at Terminal 3; and

- Rehabilitation of Powerhouse Mimic Board Relay Interlocking System.

The MIAA has successfully upgraded its Certification from ISO 9001: 2008 to ISO 9001:2015 which was issued on October 10, 2018.

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2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

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

Basis of Preparation

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

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

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3. ADOPTION OF NEW AND AMENDED PFRSs

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments that are relevant to the Corporation effective beginning January 1, 2018:

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

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

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

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

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

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

Based on the Authority's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, the Authority has concluded that all of its financial assets and liabilities (shall continue to be measured on the same basis as under PAS 39) or shall be classified under the new classification categories of PFRS 9.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Authority's financial assets as at January 1, 2018:

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	3,762,212,913	3,762,212,913
Short-term investments	Held to maturity	Financial assets at amortized cost	11,489,484,208	11,489,484,208
Trade and other receivables	Loans and receivables	Financial assets at amortized cost	1,974,057,827	1,974,057,827

The Authority assessed that the adoption of PFRS 9, specifically on determining impairment loss using simplified approach (or general approach, as applicable), has no impact on the carrying amounts of the Authority's financial assets carried at amortized cost (and/or other comprehensive income).

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

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- Amendments to PAS 40, *Investment Property -Transfers of Investment Property* - The amendment clarify that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The adoption of the foregoing new and revised PFRSs did not have any material effect on the Authority's financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

Effective in 2018 that are not relevant to the Authority

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

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

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

- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E37 of PFRS 1, because it has now served its intended purpose.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

New and Amended PFRSs in Issue But Not Yet Effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements are summarized below.

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

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* Under PFRS 9, a debt instrument can be measured at amortized cost or FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

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

  For the Authority's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Authority will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Authority's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Authority complete the review.

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement.* The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures.* The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Authority currently does not have such long-term interests in its associate and joint venture, the amendments is not expected to have an impact on its financial statements.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately;

  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of uncertainty should be followed.

The Authority is currently assessing the impact of adopting this interpretation.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

    - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation.* The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

      A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

      An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Authority but may apply to future transactions.

    - Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity.* The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

      An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Authority because dividends declared by the Authority do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization.* The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Authority has yet to evaluate the impact on its consolidated financial statements of the adoption of these amendments.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business.* The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Authority.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material.* The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts* PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.* The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations.* Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition, Measurement and Classification of Financial Assets and Financial Liabilities

The Authority recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

All financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial assets and financial liabilities designated as at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

‘Day1’ Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Authority recognizes the difference between the transaction price and the fair value (a ‘Day 1’ difference) in the statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Authority determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial Assets

The Authority classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at FVPL. The classification depends on the business model of the Authority for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

  The Authority’s cash, short-term investments, and receivables are included under this category (Notes 6, 7 and 8).

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Authority has no financial assets classified as financial assets as at FVOCI and at FVPL as at December 31, 2018 and 2017.

Cash

Cash includes cash on hand and in banks which are stated at face value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Allowance for credit loss accounts is provided based on an evaluation of expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

Financial Liabilities

The Authority classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Authority determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value, and, in case of loans and borrowings, net of directly attributable transaction costs.

Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments that are not designated or classified as at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and any directly attributable transaction costs that are an integral part of the effective interest rate.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through amortization process.

This accounting policy applies primarily to financial liabilities (other than statutory liabilities), long-term debt and other noncurrent liabilities (Notes 15, 16, 17, 18 and 19).

<u>Impairment of Financial Assets at Amortized Cost and FVOCI</u>

The Authority records an allowance for “expected credit loss” (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Authority has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Authority compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Derecognition of Financial Assets and liabilities

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;

- the Authority retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Authority has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  When the Authority has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Authority's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Corporation could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Authority could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Authority; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

  If the Authority does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Equity instruments

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

Retained Earnings

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

Investment Properties

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

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

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

Impairment of Non-financial Assets

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

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

Derecognition of Non-financial Assets

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

Related Parties

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

Revenue Recognition

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

Terminal Fees

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

Landing Fees

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

Rental Revenue

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

Parking Fees

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

Fines and Penalties

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

Subsidy Income

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

Interest Revenue

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

Expense Recognition

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

Leases

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

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

Authority as Lessee

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

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

Authority as Lessor

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

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

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

Employee Benefits

Short-term Benefits

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

Terminal leave benefits

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

Income Tax

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

Current Tax

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

Deferred Tax

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

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

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

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

Current and Deferred Tax for the Year

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

Borrowing Costs

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

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

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

Provisions and Contingencies

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

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

Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policies retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The Authority recognized the effects of changes in accounting estimates prospectively by including in profit or loss.

The Authority corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Events after Reporting Date

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

5. JUDGMENTS AND ESTIMATES

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

Estimated allowance for impairment of receivables

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

At the end of 2018 and 2017, the Authority has recognized allowance for impairment of receivables in the amount of P 1.319 billion and P 1.338 billion, respectively.

Estimated useful lives of property and equipment

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

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

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

6. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018	2017
Cash on Hand	**141,350,494**	120,694,914
Savings Account – Dollar and Peso	**491,542,624**	804,660,384
Current Account – Dollar and Peso	**486,805,856**	213,897,561
Time Deposits – Peso	**3,949,049,506**	2,622,960,054
	5,068,748,480	3,762,212,913

Cash on Hand refers to cash with the collecting officers and petty cash fund.

Foreign currency deposits are translated into Philippine peso using the BSP reference rates of P52.65 and P50.00 to US$1.00 as of December 31, 2018 and 2017, respectively.

Total interest earned on cash and cash equivalents included in the statement of comprehensive income amounted to P124.610 million and P116.429 million in 2018 and 2017, respectively. (Note 28)

7. SHORT-TERM INVESTMENTS

The account *Short-term Investments* pertains to investments in peso time deposits with Authorized Government Depository Banks (AGDBs) for a period of 91 days or more of P12.299 billion in CY 2018 and P11.489 billion in CY 2017. The increase in the account represents additional placements that were transferred from peso time deposit (Note 6) to short-term investments.

Total interest earned on short-term investments included in the statement of comprehensive income amounted to P224.862 million and P75.694 million in 2018 and 2017, respectively. (Note 28)

8. TRADE AND OTHER RECEIVABLES

This account consists of the following:

	2018	2017
Trade Receivables		
Non-Government Entities	**2,403,910,352**	2,246,272,079
Passenger Terminal Fees	**372,403,614**	238,340,939
Government Owned and Controlled Corp. (GOCCs)	**272,322,258**	312,803,127
National Government Agencies (NGAs)	**27,148,955**	26,036,169
	3,075,785,179	2,823,452,314
Allowance for Impairment	**(1,318,867,027)**	(1,338,326,874)
	1,756,918,152	1,485,125,440
Non-Trade Receivables		
National Government Agencies (NGAs)	**1,847,342,000**	0
	1,847,342,000	0
Other Receivables		
Expanded Value-Added Tax	**244,580,330**	236,468,524
COA Disallowances	**166,844,119**	167,787,147
Interest Receivables	**107,627,635**	54,584,876
Others	**24,401,692**	30,091,840
	543,453,776	488,932,387
	4,147,713,928	1,974,057,827

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

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

Non-Trade Receivables consists mainly of the sale of the 61,148 sq.m. land to DPWH for C5 Road Extension Project. (Note 12)

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

COA Disallowances pertains to disallowances in audit, which consist mainly of disallowances on remuneration for consultancy services for NAIA Terminal 2 Development Project of P149.05 million and overpayment of aircraft terminal maintenance services of P10.32 million that were recognized in the books due to the finality of the COA decisions (Note 20).

A reconciliation of the allowance for impairment at the beginning and end of 2018 and 2017 is shown below.

	2018	2017
Balance at beginning of year	**1,338,326,873**	1,721,642,240
Provision for the year	**19,438,370**	43,014,885
Reversal	**(38,898,216)**	0
Write-off	**0**	(426,330,252)
	1,318,867,027	1,338,326,873

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

9. PREPAYMENTS

This account consists of the following:

	2018	2017
Creditable Input Taxes	**219,067,129**	151,977,538
Withholding Tax at Source	**195,912,282**	175,479,037
Advances to Contractors	**188,422,384**	84,649,571
Deferred Input Tax	**34,339,284**	19,727,998
Inventories	**21,122,385**	16,665,462
Prepaid Insurance	**1,263,081**	617,167
	660,126,545	449,116,773

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

10. OTHER CURRENT ASSETS

This account consists of the following deposits:

	2018	2017
Guaranty Deposits	**87,246,946**	87,246,946
Deposit on Letters of Credit	**288,558**	288,558
	87,535,504	87,535,504

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

11. INVESTMENTS

The Investments account consists of the following:

	2018	2017
PASSCOR	**11,850,000**	11,850,000
ASTI	**655,000**	655,000
	12,505,000	12,505,000

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

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

These investments are accounted for using the cost method.

12. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Land Improvements	Airport System	Construction in Progress	Buildings and Structures	Machineries and Equipment	Total
2018						
COST						
At January 1, 2018	19,135,597,833	25,781,764,936	0	410,012,528	7,497,507,822	52,824,883,119
Additions	0	272,866,180	194,662,514	0	645,908,268	1,113,436,962
Disposals/Write-off	(61,148,000)	0	0	0	(83,900,286)	(145,048,286)
Balance, December 31, 2018	**19,074,449,833**	**26,054,631,116**	**194,662,514**	**410,012,528**	**8,059,515,804**	**53,793,271,795**
ACCUMULATED DEPRECIATION						
At January 1, 2018	(4,086,466,191)	(7,156,896,868)	0	(309,996,658)	(5,334,849,491)	(16,888,209,208)
Depreciation	(39,184,731)	(1,005,397,249)	0	(6,427,310)	(331,476,998)	(1,382,486,288)
Disposals/Write-off	0	0	0	0	78,343,122	78,343,122
Balance, December 31, 2018	**(4,125,650,922)**	**(8,162,294,117)**	0	**(316,423,968)**	**(5,587,983,367)**	**(18,192,352,374)**
Carrying Amount, December 31, 2018	**14,948,798,911**	**17,892,336,999**	**194,662,514**	**93,588,560**	**2,471,532,437**	**35,600,919,421**
2017						
COST						
At January 1, 2017	19,135,597,833	25,378,499,897	462,792,113	385,144,565	7,412,721,961	52,774,756,369
Additions	0	0	0	0	134,498,906	134,498,906
Transfer/Reclassification	0	403,265,039	(428,148,002)	24,882,963	0	0
Adjustments	0	0	(34,644,111)	0	0	(34,644,111)
Disposals/Write-off	0	0	0	(15,000)	(49,713,045)	(49,728,045)
Balance, December 31, 2017	**19,135,597,833**	**25,781,764,936**	0	**410,012,528**	**7,497,507,822**	**52,824,883,119**

	Land and Land Improvements	Airport System	Construction in Progress	Buildings and Structures	Machineries and Equipment	Total
ACCUMULATED DEPRECIATION						
At January 1, 2018	(3,994,817,416)	(6,191,181,857)	0	(299,584,249)	(5,128,121,763)	(15,613,705,285)
Depreciation	(91,648,775)	(965,715,011)	0	(10,412,409)	(206,727,728)	(1,274,503,923)
Balance, December 31, 2017	**(4,086,466,191)**	**(7,156,896,868)**	0	**(309,996,658)**	**(5,334,849,491)**	**(16,888,209,208)**
Carrying Amount, December 31, 2017	**15,049,131,642**	**18,624,868,068**	0	**100,015,870**	**2,162,658,331**	**35,936,673,911**

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

In 2003 and 2004, purchases were made from the heirs of Eladio Santiago of 720 square meters valued at P2.16 million and from the Nayong Pilipino Foundation (NPF) of 86,000 square meters at P500 million, respectively.

On September 29, 2011, President Benigno Aquino III signed EO 58 mandating the transfer of real estate property owned by the NPF to the Authority which consists of 22.3 hectares, more or less, located in Pasay City. The owner's duplicate copies of the Transfer Certificates of Title (TCTs) are still under the custody of the NPF and have not been transferred to MIAA. This was recorded in the books of the Authority in 2017 at its Fair Market Value at the date of acquisition amounting to P8.258 billion as determined by an independent/third party appraiser.

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

As of December 31, 2016, the total land area owned by the Authority is 6,230,446 square meters inclusive of 232,647.74 square meters of segregated lots covered under a Presidential Proclamation but exclusive of the 22.3 hectares from the NPF and the 56,966 square meters transferred to the Department of Public Works and Highways (DPWH).

On December 18, 2018, MIAA and DPWH signed a Memorandum of Agreement (MOA) to implement the Republic's approved construction of the C5 South Link Expressway Project (C-5 SLEP). MIAA conceded to absolutely and irrevocably sell, transfer and convey to DPWH the 61,148 square meter total affected land area. DPWH agreed to buy the said land area of re: [Segment 3A-1: 18,959 sqm.; Segment 3A-2: 39,996 sqm.) 58,955 sqm and TCT No, 6735: 2,193 sqm.] for a total just compensation of P 1.847 billion.

13. INVESTMENT PROPERTY

At December 31, 2017	
Cost	334,126,026
Accumulated Depreciation	(295,474,654)
Carrying Amount	**38,651,372**
Year Ended December 31, 2017	
Opening Net Book Value	38,651,372
Depreciation Expense	(2,619,385)
Closing Net Book Value	**36,031,987**

At December 31, 2018	
Cost	334,126,026
Accumulated Depreciation	(298,094,039)
Carrying Amount	**36,031,987**

This account pertains to the 61 buildings and other structures owned by the Authority which are being leased to private and government entities. (Note 27)

14. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2018	2017
Restricted Fund Assets	**788,741,026**	286,864,710
Deferred Tax Asset	**622,002,379**	585,758,971
	1,410,743,405	872,623,681

Restricted Fund Assets represents the fund transfer from the Department of Transportation (DOTr) for the implementation of the Rapid Exit Taxiways Project and payment by airline companies from unflown and unrefunded terminal fees collected from passengers. (Note 19)

Deferred Tax Asset represents the differences between the carrying amounts of the assets and liabilities and their tax bases that may either be a future taxable amount or a future deductible amount (Note 30).

15. TRADE AND OTHER PAYABLES

This account consists of the following:

	2018	2017
Dividends Payable	**3,423,662,888**	2,250,721,253
Accounts Payable	**986,231,937**	723,758,266
Interest Payable	**31,564,518**	60,394,290
Other Payables	**290,262,702**	326,888,483
	4,731,722,045	3,361,762,292

Dividends Payable represents the 50 per cent of MIAA's annual net earnings (net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income taxes paid thereon) payable to the National Government and to be remitted to the Bureau of the Treasury (BTr), pursuant to RA 7656, dated November 9, 1993. Section 3 of this Act requires government-owned or controlled corporations to declare and remit at least 50 per cent of their annual net earnings as cash, stock or property dividends to the National Government. Section 7(a) of the Revised Implementing Rules and Regulations of the Act provides for the timing of remittance, to wit: "Except as otherwise provided herein, all GOCCs shall declare cash dividends and shall remit to the BTr at least fifty per cent (50%) of the dividend due, on or before May 15 following the dividend year, based on the financial statements submitted to COA for audit."

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.

The dividends payable of P 2.250 billion in CY 2017 was remitted to the BTr on April 17 and May 15, 2018.

16. INTER-AGENCY PAYABLES

This account consists of the following:

	2018	2017
Due to BIR	**806,192,250**	469,598,566
Due to BTr	**555,261,914**	682,738,044
Due to GSIS	**16,374,436**	15,497,823
Due to Pag-IBIG	**1,880,178**	1,619,323
Due to PhilHealth	**1,710,350**	1,370,921
Due to Other NGAs	**59,631,678**	78,356,985
	1,441,050,806	1,249,181,662

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

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

	2018	2017
Authority income	**447,278,111**	386,559,948
Terminal fees	**94,212,238**	62,319,141
OTS share on domestic terminal fees	**13,771,565**	14,156,445
Guaranty Fees	**0**	219,702,510
Total	**555,261,914**	682,738,044

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

Due to Other National Government Agencies (NGAs) account balances as of December 31, 2018 and 2017 represents the unremitted share of the Office for Transportation Security (OTS) on international terminal fees.

EO 277, dated January 30, 2004, created the OTS within the Department of Transportation and Communications (DOTr) and reconstituted the National Council for Civil Aviation Security (NCCAS) as the National Civil Aviation Security Committee (NCASC). Section 2 of EO 277 directs the OTS to be primarily responsible for the implementation of International Civil Aviation Organization (ICAO) Convention on national security.

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

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

	International	**Domestic**
MIAA	390	185
NG	100	0
NACAHT	60	15
	550	200

In 2003, MIAA BR 2003-074 was issued increasing the domestic passenger terminal fee for all departing passengers from P100 to P200, subject to existing rules and regulations.

In 2006, MIAA BR 2006-032 was issued 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, beginning on February 1, 2007 and ending on January 31, 2012.

EO 298 dated July 26, 1987 amending Section 11 of EO 903 dated July 21, 1983 provides: "Within 30 days after the close of each quarter, twenty per centum (20%) of the gross operating income, excluding payments for utilities of tenants and concessionaires and terminal fee collections, shall be remitted to the General Fund in the National Treasury to be used for the maintenance and operation of other international and domestic airports in the country" (Note 24).

17. 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.

	2018	2017
LBP PN No. 4808 TL12 4076 000 dtd. April 11, 2012	**1,098,512,550**	1,342,626,450
DBP PN No. 2012-29-021 dtd. April 11, 2012	**1,098,512,550**	1,342,626,450
Less: Semi-annual amortizations	**(488,227,800)**	(488,227,800)
	1,708,797,300	2,197,025,100
Less: Current Portion	**(488,227,800)**	(488,227,800)
	1,220,569,500	1,708,797,300

Loans from both the LBP and DBP are payable in 20 semi-annual installments commencing on October 11, 2012 and ending on April 11, 2022, with 2.5 per cent interest per annum (subject to quarterly re pricing) and penalty charge of 12 per cent per annum on the total amount due without grace period as additional charge in case certain stipulations are not met. Non-finance charge of P12.206 million for each loan was deducted. Both loans are guaranteed by the National Government.

18. LOANS PAYABLE - FOREIGN

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

	2018	2017
French Loan to finance consultancy services for the detailed architectural & engineering design of NAIA Terminal 2 contracted with Natixis (formerly Credit Nacionale)		
FF 3,221,792 = Euro 491,159.02 = US $592,436.01 @ 49.96		29,596,918
FF 2,496,794 = Euro 380,633.79 = US $434,988.30 @ 52.56	**22,864,290**	
Fund Releases made by Overseas Economic Cooperation Fund (OECF) of Japan financing the consultancy of Aeroport De Paris - Japan Airport Consultants (ADP-JAC) and contract with Mitsubishi Tokyo Oreta BF Corporation (MTOB)		
Y 5,272,428,000 = US $46,966,788.62 @ P49.96		2,346,366,826
Y 4,393,690,000 = US $40,035,303.28 @ P52.56	**2,104,375,646**	
	2,127,239,936	2,375,963,744
Less: Current Portion	**(427,514,269)**	(397,721,316)
	1,699,725,667	1,978,242,428

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

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

19. OTHER CURRENT LIABILITIES

This account consists of the following:

	2018	2017
Customer's Deposit Payable	**433,767,042**	421,411,574
Trust Liabilities	**311,162,814**	0
Guaranty/Security Deposits Payable	**119,220,039**	101,160,144
Leave Benefits Payable	**132,901,189**	131,845,848
Tax Refund Payable	**32,583,551**	35,362,812
	1,029,634,635	689,780,378

Customer's Deposit Payable represents the airport lessees' and/or concessionaires' deposits equivalent to two months or as stated in the contract/temporary permit.

Trust Liabilities represents remittances of various airline companies starting July 2018 for unrefunded Terminal Fees of unflown tickets. (Note 14)

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

Leave Benefits Payable pertains to the accumulated unused leave credits of employees.

Tax Refund Payable represents excess taxes withheld from employees' compensation.

20. DEFERRED REVENUE

This account pertains to the following:

	2018	2017
Deferred Output Tax	**244,580,330**	236,468,524
Contra Account of Receivables-COA Disallowances	**166,844,119**	167,787,147
Unearned Revenue/Income	**152,679,823**	149,105,191
Other Deferred Credits	**96,630,442**	26,928,736
	660,734,714	580,289,598

Deferred Output Tax represents VAT amount which is not due until actual payment of the billed amount from clients.

Contra Account of Receivables-COA Disallowances (Note 8) decreased due to partial settlements made during CY 2018.

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

Other Deferred Credits represents collected Output VAT from sale of goods and services.

21. GOVERNMENT EQUITY

This account includes the value of assets transferred to the Authority by the then Air Transportation Office, now Civil Aviation Authority of the Philippines, and the then Department of Transportation and Communications, now Department of Transportation. This also includes the P605 million share of the National

Government on the income of the Authority from 1983 to 1986 that was converted to National Government equity in accordance with EO 298. The increase in the account of P2.808 billion represents part of the value of the 22.3 hectares property of the Nayong Pilipino Foundation (NPF) that was transferred to the Authority pursuant to E.O. 58 dated September 29, 2011. The recorded value of said property amounting to P8.269 billion, includes the value of the building and land improvements of P11.018 million (Note 12), which includes the amount of P5.461 billion credited to the *Contributed Capital* account. (Note 22)

22. CONTRIBUTED CAPITAL

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

23. REVENUE

This account consists of the following:

	2018	2017
Transportation System Fees	**5,085,278,264**	4,685,783,878
Landing and Parking Fees	**4,935,047,399**	4,559,050,953
Rent/Lease Income	**3,539,281,161**	3,337,456,266
Parking Fees	**352,534,034**	309,774,556
Other Service Income	**279,151,627**	241,044,876
	14,191,292,485	13,133,110,529

Other Service Income represents income from visitors' stick-on pass of P8.06 million in CY 2018 and P8.10 million in CY 2017 and utilities of P271.09 million in CY 2018 and P232.94 million in CY 2017.

24. NATIONAL GOVERNMENT SHARE ON MIAA'S GROSS INCOME

This represents the 20 per cent share of the National Government on the Authority's annual operating income based on actual cash collection, excluding income from utilities and terminal fee [Airport Users' Charge (AUC) and Security Development Charge (SDC)] collections, to be remitted to the General Fund in the National Treasury to be used for the maintenance and operation of other international and domestic airports in the country in accordance with Section 3 of EO 298 dated July 26, 1987, computed as follows:

	2018	**2017**
Landing & Parking Fees (Aeronautical Fees)	**3,839,825,183**	**3,582,329,471**
Rentals	**2,318,624,740**	**2,420,062,074**
Other Business Income (Concession Privilege Fees)	**1,971,831,096**	**1,754,053,405**
Other Service Income (Miscellaneous Revenues)	**437,838,711**	**372,126,030**
	8,568,119,730	**8,128,570,980**
Rate of Government's Share	**20%**	**20%**
National Government's Share	**1,713,623,946**	**1,625,714,196**

25. PERSONNEL SERVICES

This account consists of the following:

	2018	2017
Salaries and Wages	**392,911,757**	356,274,746
Other Compensation		
Overtime and Night Differential	**120,918,953**	155,915,047
Year-end Bonus	**32,881,618**	30, 513,284
Personal Economic Relief Allowance	**29,063,964**	29,317,909
Representation Allowance	**22,428,211**	25,672,656
Hazard Pay	**10,052,317**	10,143,444
Cash Gift	**6,034,750**	6,149,500
Clothing/Uniform Allowance	**8,960,519**	5,655,159
Subsistence Allowance	**57,750**	59,850
Other Bonuses and Allowances	**130,776,720**	75,808,405
Personal Benefits Contribution		
Life and Retirement Insurance Contribution	**46,863,054**	42,073,772
PhilHealth Contribution	**4,880,901**	3,831,525
ECC Contribution	**1,459,100**	1,475,700
Pag-IBIG Contribution	**1,452,800**	1,480,500
Other Personnel Benefits		
Terminal Leave	**6,936,724**	23,585,656
Retirement Benefits	**1,303,169**	0
Other Personnel Benefits	**49,472,005**	72,710,471
	866,454,312	840,667,624

26. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2018	2017
Depreciation	**1,373,920,122**	1,390,878,748
Utility Expenses	**1,022,860,215**	896,310,947
Repairs and Maintenance	**873,812,205**	724,977,305
Professional Services	**744,237,864**	703,594,238
General Services	**767,770,632**	566,595,239
Service Fee	**221,525,019**	185,274,643
Rent Expenses	**157,698,354**	185,014,702
Supplies and Materials	**78,045,369**	91,255,010
Taxes, Insurance Premiums and Other Fees	**61,035,981**	66,134,142
Extraordinary and Miscellaneous Expenses	**28,401,902**	31,192,764
Impairment Loss	**19,438,369**	43,014,885
Communication Expenses	**12,971,939**	11,787,273
Membership Dues and Contributions to Organizations	**2,201,928**	2,130,514
Training Expenses	**1,624,461**	1,489,930
Representation Expenses	**1,409,993**	1,273,642
Travelling Expenses	**1,305,692**	2,507,604
Subscription Expenses	**1,105,215**	1,667,515
Advertising Expenses	**543,820**	1,009,780
Other Maintenance & Operating Expenses (MOOE) -PIATCO	**0**	3,610,628,846
Financial Assistance to NGAs	**0**	175,191,762
Financial Assistance to LGUs	**0**	102,820,558
Other MOOE	**9,790,181**	0
	5,379,699,261	8,794,750,047

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

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

Other Maintenance & Operating Expenses - PIATCO includes payment to PIATCO of the 12 per cent VAT.

27. LEASES

Authority as Lessee

The Authority rents its NAIA Terminal 3 sites from BCDA. The lease is for a period of twenty-five years, with annual rental of one per cent of the appraised value at P30,000 per square meter in area comprising 634,843 square meters with ten per cent escalation every five years. Minimum lease payments under operating leases recognized as expense amounted to P177 million for both CY 2018 and CY 2017.

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

	2018	2017
Not later than one year	**176,933,920**	176,933,920
Later than one year but not later than 5 years	**530,801,759**	707,735,678
Later than 5 years	**0**	0
	707,735,679	884,669,598

Authority as lessor

The Authority also rents some of its terminal facilities to various lessees. The lease terms range between one month to five years, with monthly rental ranging between P500 and P13.345 million. Escalation rate of two per cent per annum after the third year for concessionaires with lease term of five years. Lease payments under operating leases recognized as income amounted to P1.495 billion in 2018 and P1.531 billion in 2017.

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

	2018	2017
Not later than one year	**1,694,746,593**	1,631,784,237
Later than one year but not later than 5 years	**139,124,667**	665,025,012
Later than 5 years	**32,084,163**	63,312,212
	1,865,955,423	2,360,121,461

28. INTEREST INCOME

This account pertains to interests earned on cash deposits and short-term investments totaling P349.472 million in 2018 and P192.123 million in 2017 (Notes 6 and 7).

29. FINANCIAL EXPENSES

This account consists of:

	2018	2017
Interest expense	**167,855,471**	195,242,579
Guaranty fees	**19,529,112**	219,702,510
Bank charges	**83,439**	72,238
Other financial charges	**5,499,589**	3,827,934
	192,967,611	418,845,261

30. INCOME TAX

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

	2018	2017
Current	**2,019,282,821**	1,641,367,756
Deferred	**(36,243,408)**	69,193,151
	1,983,039,413	1,710,560,907

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

	2018	2017
Income tax at statutory rate	**2,662,263,706**	2,121,533,475
Non-deductible depreciation expense	**123,818,522**	121,306,269
Non-deductible interest expense	**43,246,407**	23,774,690
Interest income subject to final tax	**(104,841,558)**	(57,636,220)
Subsidy income	**(205,589,464)**	(1,581,273,906)
Non-deductible MOOEs	**0**	1,082,856,599
Capital Gains Tax borne by buyer	**(535,858,200)**	0
Effective income tax	**1,983,039,413**	1,710,560,907

An analysis of Deferred Tax Asset is as follows:

	2018	2017
Leave benefits payable	**39,870,357**	39,553,755
Allowance for impairment of receivables	**395,660,108**	401,498,062
Unrealized foreign exchange loss	**186,471,914**	144,707,154
	622,002,379	585,758,971

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

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

On September 30, 2016, MIAA paid PIATCO the full amount of just compensation, net of applicable taxes due thereon. However, the latter filed its claim against MIAA for refund of documentary stamp tax deducted from its claim amounting to P218.311 million (which includes adjustment on interest computation of P0.434 million) considering that it is the government agency implementing the expropriation that should be liable for said taxes, as concurred by the OSG. The amount was paid by MIAA in 2016.

In 2017, the Authority paid PIATCO the amount of documentary stamp tax deducted from its claim and the 12 per cent VAT.

32. OTHER MATTERS

a. Receivable from Private Concessionaire with Pending Case

Philippine Airport and Ground Services (PAGS) (Civil Case No.000363) – P112.39 million.

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

Hearing is ongoing. PAGS is presenting its witnesses. The Office of the Solicitor General has recommended Compromise Agreement in view of the prevailing doctrine in Airspan. MIAA had sent its intention to compromise but no response was received from PAGS.

b. Airspan Case: Rate Adjustments

The Philippine Airlines (PAL), Macroasia Airport Services Corporation, and Macroasia Catering Services have, likewise, filed separate claims with the Authority for refund of rentals pertaining to the increase that was invalidated for lack of publication as ruled by the SC in the Airspan case. Said claims for refund, estimated at P1.2 billion, are still subject to the approval of the Office of the Government Corporate Counsel and the adjudication of the money claims by COA (MIAA Board Resolution No.2010-026). However, the MIAA Board of Directors issued Resolution No. 2017-103 dated January 8, 2018 recalling and cancelling MIAA Board Resolution No. 2010-026. Management sent letters to PAL and Macroasia to file money claims before COA. On December 26, 2018, PAL filed money claim before COA against MIAA for the refund of rentals paid for the period June 1999 to October 2016 in the amount of P 2.09 billion.

In view of the prevailing doctrine in Airspan case, the Authority had determined total estimated liabilities of P2.36 billion for similarly situated accounts that may be subject to refund in case a proper claim is filed by the affected parties.

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

A petition for Mandamus was filed by petitioners SMPP before the RTC of Pasay City praying for the issuance of a Writ of Preliminary Mandamus ordering respondent MIAA to implement Section 4.1 of DBM Corporate Compensation Circular No. 10 by integrating, including and/or adding the Cost of Living Allowance (COLA) and Amelioration Allowance (AA) into the basic salaries for the respective positions of the individual petitioners effective July 16, 1999 up to the present.

Thereafter, respondent MIAA Board of Directors was directed to issue the necessary Board Resolution: (1) appropriating funds to pay COLA and AA of petitioners which were not integrated, included and/or added to their respective basic salaries commencing on July 16, 1999 up to the present; (2) directing the release of said funds as back pay for COLA and AA; and (3) allowing the grant of continuing COLA and AA.

The RTC affirmatively acted on the prayer for issuance of Mandamus and issued a decision upholding petitioner’s position.

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

The case is now pending before the SC. In January 2019, the SC is requiring the parties to inform the court if there are developments to assist the court in the resolution of the case.

d. Accounts under Litigation

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

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

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

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

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

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

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

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

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

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

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

   This is a case for collection of sum of money. DPRC is seeking the refund of the increase in rentals it allegedly paid under protest to MIAA in the principal amount of P9,593,179.87 plus legal interest computed from the time of judicial demand on July 27, 2006, and the sum of P300,000 as and for attorney's fees and the cost of the suit. MIAA appealed the case before the SC.

4. **Conrado P. Cosico, Jr. and Antonio P. Casico vs. MIAA**

   This is a case for consignation with prayer for issuance of TRO and Preliminary Injunction. The Cosicos are seeking to compel MIAA to honor the lease contract which was entered into by their predecessors and the CAA which they claim to have been renewed by MIAA. The plaintiff prayed for P200,000 attorney's fees. The case is on appeal with the Court of Appeals.

5. **Inter-Asia Services Corporation vs. MIAA**

   This is a case for breach of contract. MIAA terminated the contract of Inter Asia for the lease and operation of Parking A of NAIA Terminal 1 for failure of the plaintiff to comply with the conditions of the contract, i.e. construction of the multi-level parking lot. Plaintiff countered that MIAA was the first to breach the contract since it did not reduce the CPF by 40% It prayed for at least P1 million for actual damages and P600,000 for attorney's fees. The case is pending before the RTC, Makati City.

6. **SPS. Nocom and Kieng vs. MIAA**

   This is a case for recovery of possession and accounting of rental. Plaintiffs are the registered owner of parcel of land consisting of 9,867 sqm., more or less, covered by TCT No, 109416. NAIA occupied the said land without authority from the plaintiffs sometime in 1995. Hence, a claim for just compensation for the subject lot was filed by the Plaintiff.

   The Court of Appeals in its decision dated May 20, 2015 ordered MIAA to pay the Nocom's the sum of P41.24 million as rentals from December 1995 until December 2014 plus interest of 12% per annum from date of decision until fully paid; and, beginning January 2015 to pay monthly rental of P176,406.33

with 12% interest from the date of default until fully paid. The case is pending appeal before the SC.

7. Corazon Cruz vs. MIAA

This is a case for quieting of title with recovery of ownership and damages. Cruz claims to be the owner of a parcel of land in MIAA's possession and prayed for MIAA to pay P500,000 for moral damages; P200,000 attorney's fees; P500,000 for the costs of litigation and 3% of the gross value of property. The RTC and the CA decided in favor of MIAA. The case is pending appeal before the SC.

8. Aviation Technology Innovators, Inc. vs. MIAA

This is a case for damages, fixing the period of contract of lease and declaring the rental rate and interest null and void with application for issuance of preliminary injunction with prayer for TRO and/or Status Que Ante.

ATII entered to a contract of lease with the defendant MIAA for a period of one (1) year. On February 21, 2014, MIAA sent a demand letter to the plaintiff demanding the latter to pay its alleged outstanding account amounting to P59.74 million. On the strength of the Airspan decision, ATII proposed to pay the computed principal obligation in the amount of P6.04 million and interest of P42.48 million in 24 months. Hence the case where ATII prayed for MIAA to pay the sum of P500 thousand as and by way of moral damages. P100 thousand as exemplary damages and P200 thousand as and by way of attorney's fees. The case is pending before the RTC, Pasay City.

9. ARINC Incorporated vs. MIAA

This is a case for petition for money claim filed by ARINC Inc before the COA for services rendered in the amount of USD 261,112.40.

10. Duty Free Philippines vs. MIAA

This is a case pending before the Office of the Government Corporate Counsel for arbitration. Duty Free seeks the refund of payments. The claim for refund arose from the Supreme Court decision in Airspan et al.v MIAA G.R. 157581 (December 1, 2004) which declared null and void MIAA Board Resolutions which increased the rental charges for certain areas within the Airport. The amount claimed as of March 31, 2017 amounts to P77.13 million and USD.627 million plus 2% interest compounded annually.

33. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth under BIR Revenue Regulation No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

1. The Authority is a VAT-registered company with output tax declaration of P1,008,454,551 for the year based on the amount reflected in the Sales Account of P9,327,121,260.

   The Authority has Zero-Rated Sale of Services amounting to P 4,161,336,865 pursuant to Section 12 of RR-4-2007.

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

a. Beginning of the year	151,977,539
b. Current year's purchases	
I. Goods for resale/manufacture or further processing	n/a
II. Goods other than for resale or manufacture	24,107,286
III. Capital goods subject to amortization	14,650,253
IV. Capital goods not subject to amortization	n/a
V. Services lodged under cost of goods sold	n/a
VI. Services lodged under other accounts	442,066,288
	480,823,827
c. Claims for tax credit/refund and other adjustments	
I. Prior year's set-up/accrual	0
II. Current year's set-up/accruals	40,365,232
III. Cancelled checks/transactions and adjustments	8,526,660
IV. Available input tax and tax deferred for succeeding period	(462,626,128)
	(413,734,236)
d. Balance at the end of the year	219,067,129

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

I. Tax on compensation benefits	42,549,603
II. Creditable withholding taxes	92,894,861
III. Final withholding taxes	29,129,923
IV. Value-Added Tax and Other Per centage taxes withheld	213,243,296

4. Schedule of Other Taxes and Licenses

Airport Coordination Australia (Annual Admin Fee)	1,332,549
Network/Radio station license and RLM certificate (NTC)	829,330
Registration/Emission Testing and Inspection (LTO)	273,999
Tax on French Loan & adjustment of Foreign Exchange	72,283
Community Tax (Pasay City Treasurer)	10,500
Annual VAT Registration	1,000

OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. The balance of the Customer's Deposit Payable (CDP) account aggregating P433.767 million could not be relied upon due to the absence of subsidiary ledgers and other supporting documents which is not in compliance with Par. 15 of Philippine Accounting Standard (PAS) No. 1

1.1 Paragraph 15 of the Philippine Accounting Standards (PAS) No. 1 requires that:

> *"The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. x x x"*

1.2 Customer's *Deposit Payable* (CDP) is defined in the Revised Chart of Accounts as:

> *"An account used to recognize the receipt of cash deposits from customers for goods/services to be delivered and property to be leased. Debit this account upon application of the deposit to the cost of the goods/services delivered and of the damages to the leased property."*

1.3 The account is used to record the three months deposit of rental and Concession Privilege Fee (CPF) from its concessionaires within the NAIA Complex.

1.4 Section 4 (a) Part II of MIAA Administrative Order No. 4 Series of 2000 provides that:

> *"To guarantee prompt payment of fees and charges covered by contracts of lease and/or concession as well as compliance with the provisions of the contract or permit, the lessee/concessionaire shall, prior to the effectivity and/or exercise of the lease and/or concession privilege, comply with the following requirements:*
>
> *1) Pay one (1) month advance rental and concession privilege fee*
> *2) Deposit in cash or Manager's Check an amount equivalent to three (3) months rental and concession privilege fee*
> *3) x x x"*

1.5 Section 4 (c) further states that:

> *"The deposits shall be returned without interest to the lessee/concessionaire only after the expiration of the contract or permit and after the said lessee or concessionaire shall completely and satisfactorily vacated and delivered the leased premises to the MIAA, settled all obligations arising out of the expired contract or permit or any obligation arising out of permits or contracts with the Authority."*

1.6 As of December 31, 2018, the CDP account has a balance of P433,767,043. Supporting the account balance is a CDP schedule summarized hereunder:

Particulars	**Amount**	**Remarks**
Verified accounts	319,305,522	Concessionaires with receipted deposits
With Billing Instruction	107,361,377	Concessionaires with outstanding Billing Statements recorded as debit to Accounts Receivable (without ORs on record)
Unverified Accounts	7,100,144	A lump sum amount which cannot be identified
	433,767,043	

1.7 Verification and analysis of the CDP schedule along with the CY 2018 list of active MIAA Concessionaires and other related records disclosed the following:

1) The "verified accounts" pertain mostly to prior years' deposits and many of the concessionaires included in the schedule are already inactive (no longer in business with MIAA) based on the list of MIAA concessionaires/lessees in CY 2018. Breakdown are as follows:

Year	**Amount**
1985 –1999	31,785,705
2000–2010	70,631,490
2011 –2017	210,271,284
2018	6,617,043
	319,305,522

Lease contracts require the refund or return of the three-month deposit upon termination of the contract of lease, but there are no records/documents showing refund of the deposits to the concessionaires or debit to account *Customer's Deposit Payable*.

There were also deposits of various concessionaires included in the schedule with the same OR number but with different dates.

2) The accounts "with billing instructions" are not actual payables. Per inquiry made, some concessionaires were allowed to start or operate their

business in MIAA even without the three-month deposit as required in Sections 4.a of AO No. 1. The concessionaires were billed by the Accounting Office for the required advances and the entry made was debit to *Accounts Receivable* and Credit to *Customers Deposit payable*. Subsequent payments made by concessionaires, if any, could hardly be verified. The breakdown is presented below:

Year	Amount
1985 –1999	6,677,866
2000 –2010	30,533,150
2011–2017	57,798,999
2018	7,140,747
Year not determined	5,210,614
	107,361,376

3) The records and documents pertaining to the "unverified accounts" totaling P7,100,144 has yet to be located or traced.

4) There are concessionaires appearing in the list of active MIAA Concessionaires in CY 2018, but are not included in the CDP Schedule.

1.8 The Audit Team was precluded from verifying and establishing the correctness of the said balances because there are no Subsidiary Ledgers (SL) or equivalent document that were maintained by the Accounting Office for the above accounts, nor are there monitoring reports prepared to which these balances could be easily traced.

1.9 In view of the cited discrepancies and deficiencies, the balance of the account Customer's *Deposit Payable* of P433,767,043 is unreliable.

1.10 **We recommended that Management:**

a) Provide subsidiary ledger/schedules for CDP account;

b) Intensify effort to locate the supporting documents of the account; and

c) Consider the reversion of CDP which had been outstanding for more than ten (10) years, if efforts turn out futile

1.11 Management has already initiated the review and verification of the subject balances and P396,228,016 or 91.34% of the balance has been validated as actual CDP. Management committed to exert best effort to locate the records and documents of the remaining unverified amount.

B. Compliance

2. Investments with the Philippine Aviation Security Corporation (PASSCOR) and Aviation Security and Training, Inc. (ASTI) amounting to P11,850,000 and P655,000, respectively, were left unmonitored exposing the said investments to possible losses which is not in accordance with Section 2 of Presidential Decree (PD) No. 1445.

2.1 Record show that in March 1995, the Authority acquired 137,500 shares of stock of PASSCOR at P100 per share or a total amount of P13.75 million. A total of 118,500 shares amounting to P11.850 million were paid representing 39.5 per cent of the total PASSCOR capital. PASSCOR is an affiliate corporation of MIAA engaged in aviation security at the Ninoy Aquino International Airport (NAIA).

2.2 On August 2001, thru Board Resolution No. 2001-063, MIAA created ASTI, aimed at providing manpower and technical education and training services in the aviation and related industries. The creation of ASTI was approved by the Office of the President on October 2002 and was issued a Certificate of Incorporation by the Securities and Exchange Commission (SEC) on June 2003. The Authority invested P655,000 in the stocks of ASTI, a wholly-owned corporation, and amount was deposited with the Philippine National Bank (PNB).

2.3 However, ASTI failed to formally organize and commence its business operation. As disclosed in the Authority's Notes to Financial Statements from CY 2010 to CY 2017, the deposit with the PNB will be transferred to the Authority's account upon approval of ASTI's dissolution. However, to date, Management has yet to commence an action on this matter.

2.4 Inquiry from the Compliance Monitoring Division of the SEC on the status of the submission of the prescribed reports of PASSCOR and ASTI, revealed that both were not compliant. The latest submitted General Information Sheet (GIS) and Annual Financial Statement (AFS) by PASCCOR were for CY 2012 and 2011, respectively, while ASTI has not submitted any of the said reports.

2.5 Section 22 of Batasang Pambansa (BP) 29 also known as the "Corporation Code of the Philippines provides that *"Effects on non-use of corporate charter and continuous inoperation of a corporation. - If a corporation does not formally organize and commence the transaction of its business or the construction of its works within two (2) years from the date of its incorporation, its corporate powers cease and the corporation shall be deemed dissolved. However, if a corporation has commenced the transaction of its business but subsequently becomes continuously inoperative for a period of at least five (5) years, the* *same shall be a ground for the suspension or revocation of its corporate franchise or certificate of incorporation."*

2.6 PASSCOR's non-submission to SEC of the GIS for CY 2013 to CY 2018 and CY 2012 to CY 2018 for the AFS is considered as continuous inoperation during the said periods which is a ground for the suspension or revocation of its corporate franchise or certificate of incorporation. On the other hand, ASTI's failure to formally organize and commence its business within two (2) years from the date of its incorporation, ceased its corporate powers and the corporation is deemed dissolved.

2.7 Having invested funds in the said Corporations and consistent with sound financial management, it is incumbent upon the Authority to properly monitor and protect its investment from possible losses as provided under Section 2, PD 1445 which is quoted herewith, as follows:

Section 2 of PD No. 1445 provides that:

> *"All resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned."*

2.8 **We recommended that Management:**

a) Demand the accounting of its investment with PASSCOR from those charged with governance, and initiate appropriate action, if necessary, to recover its investment; and

b) Take the necessary actions to recover the cash deposited in the name of ASTI.

2.9 On investment with PASSCOR, Management commented that though MIAA has not recovered any amount from the P11.85M investment, PASSCOR has remitted a total amount of P17.4M in dividends from CY 1997 to CY 2009, while it was still in operation. Likewise, the structure at Terminal 1, Parking C which PASSCOR constructed at its own cost to serve as its office building is now being used by MIAA for its purposes. Nonetheless, MIAA thru its Legal Office, will pursue the available remedies due to it to protect the interest of the Authority.

2.10 On investment with ASTI, Management commented that with the classification of ASTI as Dissolved/Liquidated/Inactive Corporation by the Governance Commission for GOCCs (GCG) per its Memorandum Order No. 2013-06, the

Authority will work on the completion of the documentary requirements for the voluntary dissolution of ASTI and such requirements the Security and Exchange Commission (SEC) may require.

2.11 The preparation and processing of the application for dissolution will require various documentation and coordination with other government agencies before it can be approved by the SEC and subsequently issue a Certificate of Dissolution thereof. Pending approval of ASTI's dissolution, Management cannot act yet on the transfer of the amount deposited with PNB to MIA's account.

2.12 In view of the status of the subject investments, the Team, as a rejoinder further recommended and Management agreed to recognize an allowance for expected credit losses on investments in stocks with PASSCOR and ASTI pursuant to the requirements of PFRS 9.

3. Contracts of Lease for MIAA properties and spaces were awarded mostly without the benefit of public bidding contrary to Section 20 of Executive Order No. 903 dated July 21, 1983 and paragraph 2 of Part IV (A) of MIAA Memorandum Circular No. 35 Series of 1999, which could deprive the Authority of obtaining better/higher rental rates.

3.1 Section 20 of Executive Order No. 903 dated July 21, 1983 re Providing for a Revision of Executive Order No. 778 Creating the Manila International Airport Authority, Transferring Existing Assets of Manila International Airport to the Authority, and Vesting the Authority with Power to Administer and Operate the Manila International Airport provides that:

> *"Section 20. Competitive Tender. The General Manager, shall as far as practicable, grant permits or concessions to trade or business within the areas controlled by the Authority to the highest bidder after a competitive public bidding: Provided, That the bidding requirements may be waived in the case of banks, branches of post office, Bureau of Telecommunications, other government agencies with airport-related activities and those who are engaged in airline operations or where the fees, rates or assessments to be charged have been fixed by the Board." (Emphasis Supplied)*

3.2 Paragraph 2 of PART IV (A) of MIAA Memorandum Circular (MC) No. 35 series of 1999 re Policies and Guidelines Governing Concession Management provides that:

> *IV. STATEMENT POLICIES*
>
> A. General Policy Guidelines
>
> *"xxx*
>
> The *lease of MIAA spaces and land areas is governed by the provisions of Executive Order No. 903, Section 20 dated July 21, 1983 which provides that public bidding may be waived in the case of banks, branches of post office, Bureau of Telecommunications, other government agencies with airport-related activities and those who are engaged in airline operations or where the fees, rates or assessments to be charged have been fixed by the Board."*

3.3 From the cited rules, it can be deduced that public bidding may not be conducted or may be waived only in the following type/nature of business:

a. Banks;
b. Branches of post office;
c. Bureau of Telecommunications;
d. Other government agencies with airport-related activities; and
e. Those who are engaged in airline operations.

3.4 In the review of the 193 lease contracts submitted to the Audit Team, it was noted that the contracts were awarded as follows:

Terminal	Basis/Mode of Awarding of Lease Contracts			
	Exempted	**Public Bidding**	**Without Public Bidding (mere application)**	**Total**
1	15	7	13	35
2	10	2	6	18
3	11	7	74	92
4	7	0	10	17
ICT	0	0	1	1
General Aviation	10	1	19	30
	53	**17**	**123**	**193**

3.5 Verification disclosed that the 123 concessionaires/lessees which were awarded contract without the benefit of public bidding, are engaged in the business of Ground Handling, Services, Food and Beverages, Retail, Advertisement, Gasoline Station, and other similar businesses not falling within the business type or group exempted from public bidding.

3.6 This practice is contrary to the aforementioned law, rules and regulations and is disadvantageous to the best interest of MIAA. While these concessionaires are paying the rates prescribed in Administrative Order (AO) No. 1, these were determined/computed based on the conditions prevailing during CY 2000, hence, are lower than the current rental rates. Had public bidding been conducted in the award of lease contracts, the Authority could have probably obtained better or higher rental rate offers.

3.7 In like manner, this practice runs counter with the government's transparency principle in the awarding of contracts.

3.8 **We recommended that Management:**

a) Refrain/stop the practice of awarding contract of lease without public bidding; and

b) Strictly comply with Section 20 of EO 903 and pertinent provision of MIAA MC No. 35 series of 1999.

3.9 Management commented that Section 20 of Executive Order 903states the general rule that the General Manager shall grant permits or concessions to trade or business within the area controlled by the Authority to the highest bidder after a competitive public bidding. The same section also grants the exception to competitive tender to wit: in case of banks, branches of post office, Bureau of Telecommunications, other government agencies with airport related activities and those engaged in airline operations or where the fees, rates or assessments to be charged have been fixed by the Board, and whenever the General Manager deems it impractical to award an area thru public bidding.

3.10 Management further explained that pursuant to Section 17 of EO 903, the Authority is expressly granted the power to prescribe, revise or adjust the rates, dues, charges or assessments for the use of the properties, facilities and services and provide a satisfactory return on its assets. Administrative Order No. 1is the embodiment of this power and provides for the rules and regulations governing the use of MIAA's properties and facilities.

3.11 The General Manager deemed it impractical to award spaces to certain concessionaires thru public bidding as the demand for food and retail stores to passengers and well-wishers have increased tremendously in the terminals and the need to promptly provide for these amenities is imperative. Moreover, thru Memorandum Circular No. 35 grants the General Manager the discretion to decide which contracts may be awarded by public bidding.

3.12 As a rejoinder, we maintain our stand that Management should comply with the requirement of public bidding in the lease of MIAA properties and spaces as provided in Section 20 of EO 903 and pertinent provision of MIAA MC No. 35 Series of 1999, except for those expressly stated.

4. The practice of the Bids and Awards Committee (BAC) of shortening the period from Advertisement to the Receipt and Opening of Bid Envelope (ROBE) to an average of 25 days, instead of availing the 45/50/65 maximum period provided in Section 25.5 of the Implementing Rules and Regulations (IRR) of RA 9184, may have precluded other prospective bidders from completing the bid requirements and/or submitting their bids, thus depriving the Authority from obtaining the most reasonable price and offer for the projects.

4.1 The Government Procurement Act or RA 1984 requires transparency in the procurement process through wide dissemination of bid opportunities. The Act also requires competitiveness where the Procuring Entities (PE) are mandated to give and extend equal opportunity that enable private eligible and qualified contracting parties to participate in public biddings conducted.

4.2 In line with these principles, Section 25.5 of the IRR lays down the period of action for each procurement process, as follows:

> *"Bids shall be received by the BAC on the date, time and place specified in the Invitation to Bid/Request for Expression of Interest. The following periods from the last day of posting of the Invitation to Bid (ITB)/Request for Expression of Interest up to the submission and receipt of bids shall be observed:*
>
> a) *For Goods, a maximum period of forty-five (45) calendar days*
>
> b) *For infrastructure projects, the following maximum periods:*

Approved Budget for the Contract (in Philippine currency)	*Period*
Fifty (50) Million and below	*50 calendar days*
Above fifty (50) million	*65 calendar days*

> c) *For Consulting Services, a maximum period of seventy five (75) calendar days*."

4.3 Annex C of the IRR likewise provides the recommended earliest and maximum period of action for each procurement activity. The summary of the periods from the Last Day of Advertisement (LDA) in a newspaper to the Receipt and Opening of Bid Envelope (ROBE) and from ROBE to the issuance of the Notice to Proceed (NTP) is presented in the next page:

Periods of Action under Annex C:						
Nature of Procurement	LDA to ROBE		ROBE to NTP		Total	
	Minimum (a)	Maximum (b)	Minimum (c)	Maximum (d)	(a & c)	(b & d)
Goods and Services	14	39	6	84	20	130
Infrastructures Projects						
P50 million and below	14	44	6	91	20	135
Above P 50 million	14	59	6	91	20	150
Note: Period is less by 6 days, counting starts on the 7th day (last day of advertisement)						

4.4 It can be deduced that the framers of the law considered the nature, complexity and the amount of the goods/services to be procured/contracted in prescribing the period. The law also provided for the minimum period which allows the procuring entity to expedite the procurement processes, for reasons beneficial to the Procuring Entity (PE), (e.g. urgent/emergency requirements) and where public bidding is still practical to undertake.

4.5 To determine compliance with the prescribed periods of action cited above, review and analysis were made on 15 sample contracts of the Authority. The results are as follows:

Materials and Services	Approved Budget for the Contract (ABC)	Days utilized from LDA to ROBE	Actual Days utilized from ROBE to NTP
Goods and Services			
Labor and Materials - Replacement of Cooling Coils for the 30 AHU	28,543,542.67	24	78
Labor and Materials - Replacement of Switch gear and Transformers and Medium Voltage Fixed Type Capacitor	22,749,232.43	27	88
Infrastructure and Others			
Busgates at NAIA Terminal 2	20,584,114.52	28	63
MIAA Computerization Project, P-1	29,707,992.40	26	171
Supply and Installation of VRF Airconditioning System T-2	15,081,995.41	38	153
Repair and Maintenance of Asphalt Pavement within NAIA Complex	50,000,000.00	25	76
Thermoplastic Repainting of Pavement Markings – (T1 & T2)	22,879,935.80	21	126
Rapid Exit Taxiways – Civil Works	212,802,389.69	22	123
Rapid Exit Taxiways – Electrical Works	96,683,363.28	22	122

Materials and Services	Approved Budget for the Contract (ABC)	Days utilized from LDA to ROBE	Actual Days utilized from ROBE to NTP
Repair and upgrading of Taxiway - Hotel and Charlie	881,414,734.86	21	85
Repair and Overlay of Runway 06/24 (electrical Work)	165,941,130.13	36	82
Repair and Overlay of Runway 06/24 – Civil Works	540,783,894.97	19	79
Rehabilitation of NAIA Terminal 2	615,983,000.00	22	165
Supply and installation of Stop bar Lights at Runways Rehabilitation of Lines and Airfield Lighting System including Grading of Airfield Mounds	345,636,240.76	22	71
Supply and Installation of Stainless Seismic Expansion	15,998,641.40	21	141
Average Number of Days		25	108

4.6 As shown in the samples, the BAC did not avail the maximum 45/50/65 days, as provided in the IRR, from LDA to ROBE, even in big ticket projects such as the repair of taxiway and runway (P881.415 million & P540.784 million), rehabilitation of T2 (P615.983 million), Rapid Exit Taxiways (P212.802 million), installation of stop bars (P345.636 million) and others. The contractors, before they can complete and submit their bids on these projects have to perform tedious and complex activities like the conduct of site inspection, preparation of detailed plans/drawings, cost estimates, manpower allocation/pooling, financing and other similar other actions plus the various documentary requirements. Thus, unless the contractor is familiar with the MIAA facilities/structures, and/or the contractor has advance information about the project before it was officially made public, which is a prohibited act, the 25 day period seem not reasonable and feasible.

4.7 While the 25 day period is within the “recommended earliest possible time” provided in Annex C, the Team could not find a logical reason why the BAC had not availed the maximum periods considering that the bidded projects were not urgent/emergency as shown in the periods of action from ROBE to NTP, (Col.4 of the table) wherein the maximum days were utilized.

4.8 To shorten the period from LDA to ROBE, absence the urgency of the project/requirements and/or without a valid reason, is not in line with the cited provisions of law. The practice is disadvantageous to the Authority as it may have precluded other prospective bidders to timely complete and submit their bids, thereby depriving the Authority from obtaining the most reasonable price and offer, and defeating the purpose of public bidding. Using the same 15 samples, it can be gleaned that most of the projects have only one to three bidders and seven of which have lone bidders.

Materials and Services	ABC (in millions)	• Bidders	Winning Bidder
Replacement of Cooling Coils for the 30 AHU	28.544	• Top Source Maintenance and Contracting Services, Inc. • MCCD Engineering Services and Trading • Tru-Temp Corporation • Hanmhe Industrial Sales and General Services	Top Source Maintenance and Contracting Services, Inc.
Replacement of Switch gear and Transformers	22.749	• Marie-Kris Construction and Trading • Asiaphil. Inc. • Power Dimension, Inc. • Kempal Corporation	Asiaphil Inc.
Bus gates T2	20.584	• Global V. Builders • S.M. Castro Management and Construction Corporation	Global-V Builders
MIAA Computerization Project	29.708	Competitive I.T. Solutions	Competitive I.T. Solutions
Supply and Installation of VRF Air conditioning …	15.082	• Acmi Office System, Inc. • Hanmhe Industrial Sales and General Services • Phil. Nippon Kyoel Corporation	Acmi Office System, Inc.
Rapid Exit Taxiways – Civil Works	212.802	• Readycon Trading and Construction Corporation • E.C.de Luna Construction Corporation • Pacific Concrete Products, Inc.	Readycon Trading and Construction Corporation
Rapid Exit Taxiways – Electrical Works	96.683	Evercon Builders and Equipment Corp.	Evercon Builders and Equipment Corp.
Repair and Maintenance of Asphalt Pavement	50.000	Readycon Trading and Construction Corporation	Readycon Trading and Construction Corporation
Repair and upgrading of Taxiway Hotel and Charlie	881.415	• Readycon Trading and Construction Corporation • Tokwang Construction	Readycon Trading and Construction Corporation
Repair of Overlay Runway (electrical Work)	165.941	Evercon Builders and Equipment Corp.	Evercon Builders and Equipment Corp.
Repair and Overlay of Runway 06/24 – Civil Works	540.783	• Readycon Trading and Construction Corporation	Readycon Trading and Construction Corporation

Materials and Services	ABC (in millions)	• Bidders	Winning Bidder
Rehabilitation of T-2	615.983	• A.G. Araja Construction and Development Corporation • E.M. Cuerpo, Inc. • Emnocal Builders • BF Corporation • BM Marketing/Ron Daniel Construction Corporation	A.G. Araja Construction and Development Corporation
Supply and installation of Stop bar Lights and others …	345.636	Evercon Builders Equipment Corp.	Evercon Builders Equipment Corp.
Thermoplastic Repainting of Pavement Markings xxx	22.880	Traffic Supplies and Construction Corporation	Traffic Supplies and Construction Corporation
Supply and Installation of Stainless Seismic expansion	15.999	• Global-V Builders Co. • E.V. Jingco Construction Corporation	Global-V Builders Co.

4.9 This pattern of bidding results is also true in most of the other biddings conducted by the Authority.

4.10 **We recommended that Management direct the BAC to observe the maximum periods provided in Section 25.5 and Annex C of the IRR, particularly the period from Advertisement to the ROBE, in the absence of urgency of the requirements/project and/or some valid reasons.**

4.11 The summary of the Management's comments are as follows:

a) The 45/50/65 days prescribed in Sec. 25 is the maximum, not the minimum period and the 25 average days utilized by the BAC from the last day of advertisement to the ROBE, is within the earliest possible time provided in Annex C of the IRR.

b) The observance of the maximum period of 45/50/65 days is no guarantee that more bidders will participate in the bidding; that there are number of reasons why only few bidders join the bidding such as – the ABC is too low, lack of expertise and experience to handle the project, complexity of the projects and similar others.

c) MIAA prepares the technical plans/drawings, not the bidders/contractors hence the 25 day average period is reasonable.

d) The projects are urgently needed in fulfilment of MIAAs mission/vision and to comply with the MIAA Board directive. The MIAA Board of Directors has a directive to the Management that all projects requiring Board approval (and this includes the big-ticket projects) should be submitted to the Office of the Corporate Secretary at least two (2) weeks prior to any Board Meeting for the projects to be included in the agenda of the Board Meeting. Otherwise, they will have to wait for the next month's Meeting, hence, a delay in awarding the Project of at least one (1) month.

   Compliance with this Board directive is another reason why the BAC has to utilize the earliest possible time prescribed under Sec. 25.5 and Annex C of the IRR.

4.12 By way of rejoinder, we maintain our stand that the BAC should consider observing the maximum periods provided in Section 25.5 particularly the period from advertisement to the opening of bids, except in urgent requirements/projects and/or some valid reasons; or at least provide a reasonable or ample time to interested bidders/contractors to prepare and submit their bids.

4.13 We agree with the contention of the BAC that the 25 day period is within the recommended earliest time provided in Annex C of the IRR, and the use of the maximum period is not a guarantee that more suppliers will participate the bidding. However, we believe that a longer period from LDA to ROBE is more advantageous to the Authority as it will allow and encourage more bidders to participate, thus enhance the competitiveness of the procurement process which is the very purpose of public bidding. It may be true that the use of the maximum period is not a guarantee that more bidders will participate in the bidding, nonetheless, the possibility of it happening cannot also be negated or denied.

4.14 On the argument that the 25 day period is reasonable as it is the MIAA who prepared the technical plans/drawings, and not the contractors, we disagree. The contractors cannot simply quote/give their price quotations based on the data provided by Management, but will have to do its own computations, inspections, estimates, more so for complex and big ticket projects like some of the sample transactions. In fact, one of the reasons cited by Management for the longer processing period (average of almost 90 days or 3 months) from ROBE to NTP was the detailed review of the bids. Thus, if it took an average of 90 days for the BAC/Management to review the bids, despite their familiarity on the project, with more reason that the 25 day period cannot be considered reasonable for contractors who has no knowledge on the project and has to carefully/meticulously prepare their bids, which cannot be revised or change ones submitted.

4.15 The comment that the periods were shortened due to the urgency of the projects, is negated by the period utilized from ROBE to the issuance of NTP.

5. Management did not effectively enforce COA Order of Execution (COE) in accordance with Section 3 Rule XIII of the 2009 Revised Rules of Procedure of the Commission on Audit in relation to Article 1254 of the Civil Code of the Philippines, resulting in the delay of the settlement of the amount disallowed.

5.1 Section 3 Rule XIII of the 2009 Revised Rules of Procedure of the Commission on Audit (RRPCOA) provides that COE:

> *"COA Order of Execution (COE) - In case of failure of the person(s) liable to refund the amount disallowed/charged as provided in the preceding section, the COE directing the Cashier/Treasurer/Disbursing Officer to withhold payment of any money due such person(s) x x x"*

5.2 Article 1254 of the Civil Code provides that:

> *"When the payment cannot be applied in accordance with the preceding rules, or if application cannot be inferred from other circumstances, the debt which is most onerous to the debtor, among those due, shall be deemed to have been satisfied.*
>
> *If the debts due are of the same nature and burden, the payment shall be applied to all of them proportionately. (1174a)".*

5.3 As of December 31, 2018, the balance of the Receivable-Disallowances/Charges account was P166,844,119 composed of the following:

No.	Notice of Disallowance (ND) No.	Date	With COE dated	Balanced as of 12/31/2018
1	Various	1995 to 2000	Various	8,810,181
2	99-00-04 and 2008-018	Nov. 24, 1999 and Nov. 21, 2008	Aug. 11, 2015	149,052,612
3	MIAA 04-001 (200-2002)	Nov. 11, 2004	Jun. 8, 2015	525,426
4	(CNC) 01-001-101-(99)	Oct. 8, 2001	Apr. 30, 2015	8,450,809
5	2008-01 (08)	Oct. 17, 2001	Mar. 13, 2015	5,091
				166,844,119

5.4 In the analysis and review of the records pertaining to the above disallowances, the following information were gathered:

a) Most of the persons liable for the ND's covering the years 1995 to 2000 are already separated from service. There were minimal settlements in CY 2018 which were collected from the separation pay of some person's liable who retired from service during the year.

b) ND Nos. 99-00-04 and 2008-018 have not been settled to date. The amount P149,052,612 is the original amount of the ND pertaining to the transactions covering the payment of Consultancy Services for the NAIA Terminal 2 Development Project. The persons liable are no longer connected with the Authority and last known address of the payee ADP-JAC can no longer be found despite diligent efforts by the Management.

c) The remaining three NDs have settlements and the details are as follows:

Persons Liable	Disallowance	Settlement as of 12.31.18	Balance	% of settlement as to total ND
ND No. MIAA-04-001 (2000-2002) - P1,263,138				
A. B.	257,072	257,072	-	20%
M. C.	412,825	-	412,825*	-
M. I.	593,241	480,640	112,601*	38%
	1,263,138	**737,712**	**525,426**	**58%**
ND No. CNC 01-001-101-(99) - P10,318,581				
C. L.	1,043,532	940,168	103,364	9%
R. M.	8,702,361	304,558	8,397,802	3%
L. V.	572,688	623,045	-50,357	6%
	10,318,581	**1,867,771**	**8,450,809**	**18%**

Persons Liable	Disallowance	Settlement as of 12.31.18	Balance	% of settlement as to total ND
ND. No. 2001-08 - P676,686				
C. B.	112,781	117,547	-4,766	17%
M. I.	112,781	99,646	13,135	15%
C. L.	112,781	103,499	9,282	15%
R. M.	112,781	12,532	100,249	2%
L. O.	112,781	208,085	-95,304	31%
R. S. G.	112,781	130,286	-17,505	19%
	676,686	**671,595**	**5,091**	**99%**
**M. C. is already retired from service and with pending Petition for review while M. I. has an approved instalment payment from COA*				

5.5 As can be gleaned in the table, Mr. R. M., who has the highest liability, has the least settlement among the persons liable. Review of his monthly payrolls revealed the he frequently availed loans with MIAA Provident Fund Association Inc. (MPFAI) and MIAA Employees Multi-Purpose Cooperative (MEMPC) which resulted to his Net Take Home Pay pegged at P5,000. For CY 2018, the total payroll deductions of Mr. R. M's personal loans amounted to P523,180 while deductions for his disallowances amounted only to P112,473. To note, the other persons solidarily liable under the same NDs have either full/overpayments or have minimal balances.

5.6 Inquiry from the personnel charged with implementation of deductions disclosed that loans with MPFAI and MEMPC are prioritized than COA disallowances on the basis of Section 48 of the General Provision of General Appropriation Act (GAA) which provides that:

> *"Deduction from salaries and other benefits accruing to any government employee, chargeable against appropriations for Personnel Services, may be allowed for the payment of an individual employee's contributions or obligations due to the following, and in the order of preference stated below:*
>
> *(a) The BIR, PHILHEALTH, GSIS and HDMF;*
> *(b) Non-stock savings and loan associations and mutual benefit associations duly operating under existing laws and cooperatives which are managed by and/or for the benefit of government employees;*
> *(c) Association or provident funds organized and managed by government employees for their benefit and welfare;*
> *(d) GFIs authorized by law and accredited by appropriate government regulating bodies to engage in lending;*
> *(e) Licensed insurance companies; and*
> *(f) Thrift banks and rural banks accredited by the BSP.*

In no case shall the foregoing deductions reduce the employee's monthly net take home pay to an amount lower than Five Thousand Pesos (P5,000)."(emphasis supplied)

5.7 We find that Managements practice of prioritizing the settlement of. Mr. R. M. personal loans over COA disallowances is not in line with the 2009 RRPCOA in relation with Article 1254 of the Civil Code. Moreover, Management's tolerance of Mr. R. M's habit of availing loans unreasonably delayed the settlement of his disallowance and created undue advantage in his favor against all the other persons solidarily liable, who on the other hand, religiously paid under the same scheme of salary deductions.

5.8 **We recommended management to:**

a) Strictly observe Section 3 Rule XIII of the 2009 RRPCOA in relation with Article 1254 of the Civil Code;

b) Effectively monitor individual settlement of COE's to prevent delays on settlement of COA disallowances; and

c) Refrain from the further grant of loans to MIAA Officers and Employees with COA disallowances if such could compromise the timely settlement of disallowance.

5.9 Management commented that:

a) Liable personnel for various NDs issued from 1995 to 2000 were able to retire or separated from service without settling their disallowances, because at that time there were no Notice of Finality of Decision (NFD) and COA Order of Execution (COE) issued by COA. Likewise, records/documents pertaining to the NDs in 1998 and prior years, can no longer be located.

b) Demand letters have been sent to the persons liable for ND Nos. 99-00-04 and 2008-18 but to no avail**. T**he matter was referred to the Authority's Legal Office for the filing of the appropriate case. Unfortunately, there are no cases filed against the liable personnel to date.

Management has already reiterated the need to address the issue at hand to the Legal Office.

c) The Authority is not at liberty to choose which of Mr. R. M's personal loans will be prioritized over the other. The application of payments is merely based in the order of preference as provided in the GAA.

Further, the decision to grant loans to MIAA officer and employees with COA disallowances does not rest on MIAA but on the Association and Cooperative, to which they are members. As such, they are accorded rights and privilege the grant of loan or credit.

Nevertheless, Management have already directed Mr. R. M. to request for a payment scheme that would settle his audit disallowances to be settled his audit disallowances to be filed with COA Director of the Prosecution and Litigation Office for approval, thru the MIAA resident Auditor.

5.10 As a rejoinder, Mr. R. M has submitted a letter addressed to the Commission Proper proposing and requesting for an instalment payment of his outstanding disallowances, as of report date.

6. The Management did not file tax declaration with the Assessor's Office in the Cities of Pasay and Parañaque for its real properties used for public and commercial purposes contrary to Article 293 (a) Rule XXXI of the Administrative Order No. 270 – Prescribing the Implementing Rules and Regulations of the Local Government Code of 1991.

6.1 Article 293 (a) Rule XXXI of the Local Government Code on Declaration of Real Property by the Owner or Administrator provides that:

> *"(a) All persons, natural or judicial, or their duly authorized representatives, owning or administering real property, including improvements thereon, within a city or a municipality, shall prepare or cause to be prepared, and file with the provincial, city, or municipal assessor, a sworn statement declaring the true value of their property or properties, whether previously declared or undeclared, taxable or exempt, which shall be the current and fair market value of the property as determined by the declarant.*
>
> *xxx"*

6.2 The Business & Real Estate Investment Development Division (BREIDD), is the office in charge in the monitoring of the Authority's payment of the Real Property Tax (RPT). In relation thereto, inquiry from the personnel concerned disclosed that the Authority did not file its Tax Declaration with the Assessor's Office in the cities of Parañaque and Pasay relying on the Supreme Court's decision in the case of MIAA vs Court of Appeals, GR No. 155650 dated July 20, 2006 and MIAA vs City of Pasay, GR No. 163072 dated April 2, 2009.

However, reading of the aforementioned cases, it was not mentioned that the Authority is exempted in the filing of tax declaration.

6.3 We find the non-filing of the tax declaration contrary to Article 293 (a) Rule XXXI of the Administrative Order No. 270.

6.4 **We recommended that management file tax declaration for its real properties used for public and commercial purposes pursuant to Article 293 (a) Rule XXXI of the Administrative Order No. 270.**

6.5 Management agreed with the recommendation and committed to make the necessary coordination with the concerned local government units for filing of tax declaration.

7. Management did not to regularly furnish the Audit Team with a copy of the lease contracts as required in Section VII (D) 7 of Memorandum Circular No. 35 dated August 2, 1999, precluding its timely review and evaluation.

7.1 Section VII (D) 7 of Memorandum Circular No. 35 re Policies and Guidelines Governing Concession Management provides that the Concessions Management Division (CMD) shall distribute the copies of the contracts to the different divisions of Manila International Airport Authority (MIAA) including the Commission on Audit.

7.2 Pertinent provisions of COA Circular No. 2009-001 dated February 12, 2009, likewise requires the submission of a copy of government contracts and their supporting documents to the Commission on Audit within five (5) working days after perfection.

7.3 Notwithstanding these policies, records of this Office disclosed that Management does not regularly furnish the Audit Team with copies of the perfected contracts between the Authority and its concessionaires/lessees.

7.4 Thus, the Team in a letter dated February 7, 2018, requested from the Terminal Concession Division (TCD) an updated list of MIAA concessionaires/lessees as of December 31, 2017 and copies of the corresponding contracts.

7.5 Acting on the request, the TCD on February 26, 2018, submitted a list of MIAA Concessionaires operating at Terminals 1, 2, 3, 4 and ICT including a photocopy of some of the contracts. Then, on April 13, 2018, an updated list was submitted by the Business Dev't. & Concession Mgt. Dept. (BDCMD) on the concessionaires at Terminals 1 and 2 with corresponding contract of lease/concession for CY 2018.

7.6 Based on the review of the list submitted, it appears that the Authority has 553 concessionaires/lessees, of which only 193 were submitted, leaving a total of 360 unsubmitted contracts, details as follows:

Terminal	No. of Concessionaire/ Lessee	No. of Submitted Contracts	No. of Unsubmitted Contracts
1	115	34	81
2	27	18	9
3	240	93	147
4	28	17	11
ICT	6	1	5
General Aviation	137	30	107
	553	**193**	**360**

7.7 The late/non-submission of the contracts precluded the Team from conducting its prompt review and validation, which are necessary procedures in the audit of the Authority's revenue accounts.

7.8 **We recommended that management:**

a) Submit a copy of the remaining 360 lease contracts; and

b) Ensure the timely submission of all newly perfected contracts without the need for request from the Auditor.

7.9 As of report date, Management has already complied with the recommendation and committed to regularly submit perfected contracts.

8. Management did not strictly enforce Section 4 of Administrative Order (AO) No. 1 which requires concessionaires to pay one month advance rental and three months deposit, post surety bond, and issue post-dated checks prior to the commencement of lease.

8.1 In line with COA Resolution No. 2018-012, a compliance audit was conducted on the assessment of fees and charges of concessionaires, of MIAA. The audit focused on compliance to Sections 4, 5 and 6 of MIAA Administrative Order (AO) No. 1, Series of 2000. The Team randomly selected 153 out of 553 concessionaires of MIAA based on the List of MIAA Concessionaires in CY 2018, submitted by Concession Management Division (CMD). The Audit Team was limited to the review of the documents and records that were made available to them during the audit.

8.2 Sec. 4 Guarantee of Prompt Payment and Compliance with the Provision of the Contract/Permit of AO No. 1 provides that:

a. *To guarantee prompt payment of fees and charges covered by contracts of lease and/or concession as well as compliance with the provisions of the contract or permit, the lessee/concessionaire shall, prior to the effectivity and/or exercise of the lease and/or concession privilege, comply with the following requirements:*

1) *Pay one (1) month advance rental and concession privilege fee*

2) *Deposit in cash or Manager's Check an amount equivalent to three (3) months rentals and concession privilege fee (CPF)*

3) *Post a Surety Bond from the GSIS in the amount equivalent to the total rentals and CPF for the entire term of the contract but not exceeding Five million Pesos (P5,000,000.00) or a Cash Bond in the amount not exceeding Two Million Pesos (P2,000,000.00). If a Surety Bond cannot be posted upon contract signing, the lessee/concessionaire shall post a Surety Cash Deposit in the amount corresponding to four (4) months rental and CPF, refundable upon posting of a Surety Bond.*

4) *Deliver Post- Dated checks covering CPF and rental charges for the entire duration of the contract or permit but not more than one (1) year, whichever is of shorter duration, to be replenished accordingly. x x x.*

xxx

d. *The advance payment, deposit and surety bond (emphasis supplied) shall be maintained during the duration of the lease/concession and, in case of default, breach or damage to the MIAA, shall be forfeited in favor of the Authority or automatically applied to unsettled accounts."*

8.3 <u>On one month advance rental and Concession Privilege Fee (CPF) – (Sec 4.a.1)</u>

The Team used as basis the Schedule of Unearned Income (SUI) maintained by the Accounting Office. The one month advance rental is recorded under Unearned Income account. The Schedule shows the list of the concessionaires, amount paid, the corresponding Official Receipt No. and date.

Terminal	No of Samples	Compliant	Non-Compliant
1	38	28	10
2	19	14	5
3	79	45	34
4	21	15	6
	157	102	55
	100%	65%	35%

8.4 <u>On Deposit equivalent to three months rental and CPF (Sec 4.a.2)</u>

The basis was the Schedule of Customer's Deposit Payable (CDP). The three months rental deposit is recorded under CDP account.

Terminal	No of Samples	Compliant	Non-Compliant
1	38	37	1
2	19	19	0
3	79	72	7
4	21	19	2
	157	147	10
	100%	94%	6%

8.5 For the advance rental and three months deposit, the Accounting Office did not maintain Subsidiary Ledgers (SLs) or its equivalent, nor prepare monitoring reports for each concessionaire.

8.6 <u>On Posting of Surety bond equivalent to the total rentals and CPF for the entire term of the contract (Sec. 4.a.3)</u>

Terminal	No of Samples	Compliant	Non-Compliant
1	38	12	26
2	19	10	9
3	79	48	31
4	21	5	16
	157	75	82
	100%	48%	52%

8.7 The data was sourced from the letter reply of the OIC-Terminal Concessions Division. The Team, however, was unable to determine if the surety/cash bonds were maintained during the duration of the lease contract due to insufficiency of data provided by Management. Out of the seventy five (75) security bond/cash bond, only forty five (45) were verified as active or still intact as of audit period.

8.8 <u>On Issuance of Post Dated Check (PDC) and CPF equivalent to the entire contract period (4.a.4)</u>

8.9 Based on the List of PDC's submitted by the MIAA Concessionaires to the Collection Division, out of the 158 samples, it appears that only 73 concessionaires or 46.2 per cent delivered PDCs. Again, due to lack of available data, the Team could not ascertain if the issued PDCs, are being replenished accordingly.

8.10 Consequently, MIAA is being deprived of using the related cash or revenue due to non-payment of advance rental and deposit; likewise, it divested MIAA the guarantee of the concessionaires' faithful compliance with the terms and conditions of the lease contract.

8.11 **We recommended that Management:**

a) Identify the concessionaires who failed to comply with the requirements under Section 4 of AO 1 and demand the immediate payment/compliance;

b) Stop the practice of allowing concessionaires to start their business operation unless the requirements are fully complied; and impose sanctions on concerned MIAA officials/personnel who fails to implement the same; and

c) Maintain a Subsidiary Ledger for each concessionaire, and/or monitoring record/report which will facilitate verification/review.

8.12 Management commented that they will demand compliance on the collection of fees and charges from the concessionaires.

9. Rules on payment of fees and charges prescribed in Section 5 were observed. However, the correctness of the fees and charges paid by the concessionaires based on percentage of gross receipts or those maintaining Point of Sales System could hardly be ascertained due to non-submission/non-availability of sales report of concessionaires.

9.1 Sec. 5 of Rules of Payment provides:

a. The fees and charges prescribed herein shall be due and demandable on the following dates:

1) Fixed charges (rental, CPF, etc.) – on or before the 5th day of the month where the charges are due.

2) *Based on percentage of gross revenues derived from operations at the Airport (CPF, Royalty Fee, etc.) – on or before the fifteenth (15th) day of succeeding month.*

3) *Non-fixed charges/based on consumption (all other fees or charges not considered fix or in percentage) – within fifteen (15) days from receipt of billing.*

b. *Concessionaires paying on the basis of gross revenue shall submit a monthly sworn statement of their gross revenue from operations and to maintain a separate book of account for the purpose which shall be subject to the periodic inspection/audit of the Authority. Failure to submit the required statements shall be sufficient ground for termination of the contract without prejudice to the collection of whatever amount is due to the government including interest and penalties.*

9.2 Review and verification showed that fees and charges prescribed in Sec.5 of AO No. 1 were billed and collected when due and demandable. Details of sample transactions selected at random for each category (fixed charges, charges based on percentage of gross sales and non-fixed charges or charges based on consumption such as utilities), indicating the bill period and the date of payment among others, are shown below for purposes of presentation. The data for the succeeding billing periods are not presented herein but were validated and observed as also compliant.

Lessee/Concessionaire	Particulars	Bill Period (2018)	Date Paid	OR No.	Amount
Bank of the Phil. Island	Rent/CPF/GCF	January	4-Jan-18	1308606	21,968.83
Globe Telecommunications	✓	✓	21-Dec-17	1302441	204,170.37
Little Vin – Vin's Food Corp.	✓	✓	5-Jan-18	1307252	2,900,803.00
Bixbite (Henlin)	✓	✓	3-Jan-18	1303825	71,824.12
Eggs, Beans & Grains Inc	✓	✓	5-Jan-18	1305827	598,489.52
Magnum Air (Sky Jet, Inc.	✓	✓	5-Jan-18	1303412	41,830.64
A. Taberna Foods, Inc.	CPF	April	3-May-18	1338894	246,311.91
Café Maria del Cielo	✓	✓	16-May-18	1338184	9,795.10
Laughing Buddha	✓	✓	15-May-18	1342321	735,328.29
Little Vin – Vin	✓	✓	15-May-18	1342318	576,613.29
Lucky Together	✓	✓	9-May-18	1338133	513,944.64
Sky Go Cafe	✓	✓	16-May-18	1344440	84,233.10
Chevron Phils.	Royalty Fee	✓	16-May-18	1344457	2,166,777.00
Petron Corp.	✓	✓	12-May-18	1338421	7,463,424.33
Shell Aviation	✓	✓	9-May-18	1340473	1,747,102.62
Cebu Pacific	Utilities	January	25-Apr-18	1337873	226,731.99
Globe Telecom	✓	March	22-Jun-18	1351420	89,300.42

9.3 As regards Sec 5.b, copies of the concessionaires' monthly sworn statement of their gross revenue from operations or sales report for those maintaining Point of Sales (POS) System were not attached to the bill but were kept on separate file with the Billing Section causing difficulty in verifying the correctness of the charges due. Moreover, the Team was not provided with complete copies of said documents thus, the assessment was limited to compliance with due dates, and not on the correctness of the amount paid.

9.4 **We recommended that Management properly maintain complete records/documents on the transactions and promptly submit/provide the Audit Team with documents necessary in audit.**

9.5 Management commented that Concession Privilege Fee of concessionaires paying based on percentage of gross sales are unbilled receivables, hence no billing statement is served to them. Also, the monthly sworn statements of gross sales which are submitted to the Collection Division upon payment of CPF are endorsed to the Internal Audit Service Office (IASO) for verification of the correctness of the amount remitted.

10. Penalties and interests for late payment were imposed in accordance with Sec. 6 of AO No. 1, but collection thereof was not strictly enforced.

10.1 Sec. 6 of AO No. 1 on Interest for Late Payment states that:

> *"Unpaid account shall be subject to two per cent (2%) interest per month computed daily and compounded monthly, reckoned from due date, until the amount due is fully paid."*

10.2 Review of the sample concessionaires shows that unpaid accounts were subjected to interest as prescribed in Sec. 6 of AO 1. However, collection thereof was not strictly enforced. Details of the sample transactions follow:

Concessionaires	Particulars	2018 Bill Period	Principal	Interest	Remarks
Globe Telecom	Light & Power – T1	January	10,564.91	462.21	Uncollected as of Dec. 31, 2018
✓	✓	February	11,215.34	173.07	"
✓	Light & Power – T1	January	12,036.96	526.61	"
✓	✓	February	10,779.52	166.35	"
Philippine Airlines	Utilities	April	819,883.84	15,229.00	"
✓	✓	Sept (2017)	994,924.52	221,564.25	"
A. Taberna (Ka Tunying's Café)	Late Payment	January	-	1,689.99	"
✓	✓	February	-	3,430.29	"
J.P. Alabastro Food Services	Light & Power – T1	Jan – June	267.822.46	20,684.61	"
✓	Late Payment	✓	-	681.91	"
LVC Foods/Shakey's	Late Payment	April – May	-	3,413.46	"

Concessionaires	Particulars	2018 Bill Period	Principal	Interest	Remarks
Cookie Café Franchise System, Inc.	Rental/GCF/Late Payment	Mar – May	5,369.20	948.72	"
Cantinetta Espresso	Rental/Late Payment	Jan – June	12,276.00		"
The Chef's Treats	Utilities/Rental / GCF/ Late Payment	Jan – June	385,784.98	28,187.55	"

10.3 The data were based on the latest Statement of Account issued/served to the above lessees/concessionaires.

10.4 **We recommended that Management should be prudent not only in computing the interest and serving the billing to Concessionaires, but also in asserting its claim by collecting the amount due to MIAA.**

10.5 Management commented that Final Demand Letters will be served to concessionaires who failed to heed the initial demand letters sent to them. Should they fail to settle their accounts after the final demand, the Authority will strictly enforce the sanctions or remedies prescribed under Section 8, Part II of MIAA Administrative Order No. 1, Series of 2000.

11. The Authority had barely accomplished projects or activities on Gender and Development (GAD) resulting in its failure to address the identified gender issues and underutilization of the approved GAD budget. Moreover, the GAD allocation of at least five per cent of the Corporation's Operating Budget as required by law was not complied.

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

11.2 For CY 2018, the Authority identified 13 gender issues and concerns and targeted 21 activities with an approved budget allocation of P31,306,000.

11.3 Review of the GAD Accomplishment Report for the year vis-à-vis the GAD Plan and Budget (GPB), it shows that the Authority had only accomplished seven out of 21 targeted activities with fund utilization of only 2.34 per cent. Due to the failure of the Authority to fully accomplish its targeted activities, the identified gender issues were not addressed, and the amount allocated was underutilized.

11.4 Likewise, the budget for GAD activities of P31,306,000 is far less than five per cent of the Corporations Operating Budget (COB), as required by law, and the provisions under Joint Circular No. 2012-01 of NEDA, PCW and DBM.

11.5 **We recommended Management to :**

a) **Direct the GAD Focal point to formulate adequate GAD plans and programs that will address gender issues and concerns and effectively monitor the implementation of the said activities; and,**

b) **Comply with the required 5 per cent minimum budget allocation for GAD activities.**

11.6 Management has taken note of the observation and committed to strictly implement and monitor the Authority's GAD projects.

12. Status of suspensions, disallowances and charges

12.1 As of year-end, the status of issued audit suspensions, disallowances and charges issued is as follows:

Audit Action	Beginning Balance January 1, 2018	Issued (in Million Pesos)	Settled / Matured into Disallowance	Ending Balance December 31, 2018
Suspensions	0	0	0	0
Disallowances	42,870,948.35	0	0	42,870,948.35
Charges	0	0	0	0

12.2 The above disallowances represent excess OTs rendered by the officials and employees of the Authority without authorization/approval from the DBM which was suspended in 2011 and has matured into disallowance on February 10, 2014. MIAA appealed the disallowance but this was denied per CGS-Cluster 4 Decision No. 2015-07 dated April 13, 2015. The Petition for Review of the said Decision was dismissed under COA Decision No. 2017-476 dated December 28, 2017. The Commission proper issued En Bank Resolution No. 2019-030 dated December 20, 2018 denying the Authority's motion for reconsideration.

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

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

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

12.4 A Notice of Disallowance was also issued in 2008 disallowing payment of 10 per cent contingency and five per cent excess in profit in the amount of P0.677 million. A Notice of Finality of Decision (NFD) was issued on June 22, 2011. Appellants filed their appeal but were denied under CGS-Cluster 4 Decision No. 2015-06 dated March 13, 2015 for having been filed out of time.

12.5 Partial settlements on the above disallowances effected thru payroll deductions totalled to P.943 million as at December 31, 2018.

13. Compliance with the Government Service Insurance System (GSIS) Law– Republic Act (RA) 8291.

The authority withheld the total amount of P34,802,145 from its employees and remitted a total amount of P81,699,974inclusive of government shares for CY 2018.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the twenty (20) audit recommendations contained in the CY 2017 Annual Audit Report, fourteen (14) were implemented, three (3) were partially implemented and three (3) were not implemented. Details follow:

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
1, Page 53	The Adjustments in the amount of P183.248 million resulting from the adoption of the Philippine Financial Reporting Standards (PFRS) in CY 2017 did not conform to the specific transitional requirements of PFRS/COA rules.	Comply with the specific transitional PFRS/COA requirements.	Implemented The Authority has already effected the adjustments in the opening balance of the retained earnings account as of date of transition in compliance with the specific requirements of PFRS/COA rules.
2, Page 54	The payment of Representation and Transportation Allowance (RATA) of MIAA officials at a rate equivalent to 40 percent of their basic salary is wanting of legal basis thus incurring unauthorized expenditures aggregating P12 million.	(a) Limit the 40 percent RATA rate to the incumbents as of July 1, 1989 and who were receiving said benefit as of that date. Officials/personnel entitled to RATA other than the incumbents must be based on the rates prescribed in the GAA and/or budget circulars.	Implemented The Authority has already suspended the grant of RATA to next-in-rank Supervisors effective June 2018. For Division Managers and up, who are not incumbent, their RATA are computed based on the rates prescribed in the GAA effective December 2018.
		(b) Direct the concerned employees to refund the amount of RATA in excess of the	Not implemented Management filed an appeal to the Notice of Disallowance No. 2019-001 (2017)

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
		rates/amounts provided in Section 54 of the GAA (for CY 2017) and DBM Circular; and (c) Ensure that RATA is granted only to holders of positions duly authorized by existing laws and regulations.	issued by the Audit Team on January 21, 2019 Implemented RATA is granted only to holders of positions duly authorized by existing laws and regulations.
3, Page 58	MIAA's overtime expenses of P142.536 million grossly exceeded the ceiling of five percent of its Personal Services budget set by the DBM equivalent to P38.658 million, resulting in unauthorized expenditure of P103.878 million.	(a) Obtain approval from the DBM for the excess OT expenditure of P103.302 million or a clarificatory statement on the approval of the OT budget of P142.618 as reflected in the COB; (b) Direct the refund of P.111 million from the employees who were paid OT services in excess of the 50percent limit and not covered by the exemption; (c) Strictly comply with the provision of CSC and DBM Joint Circular No. 1, series of 2015 on the payment of OT services and;	Not implemented The Authority did not submit any document containing the approval/clarification for the OT. Implemented Effected through payroll deduction. Implemented The Authority issued a memorandum reiterating compliance with the provisions of CSC and DBM Joint Circular No. 1, series of 2015 on the

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
			payment of OT services. Expenses for overtime services decreased in CY 2018 compared to OT expenses in CY 2017.
		(d) Submit the documents (or its equivalent) required under COA Circular No. 2012-001 dated January 14, 2012, as follows: • OT authority stating the necessity and urgency of the work to be done and duration of the OT work; • OT Work Program; • Quantified OT accomplishment duly signed by the employee and supervisor; and • Certificate of service or duly approved DTR.	Implemented The Authority submitted the required documents to the Audit Team.

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
4, Page 60	The equity of P15.462 billion already exceeded the approved capitalization of P10.000 billion as a result of the transfer of the Nayong Pilipino Foundation (NPF) property as mandated under Executive Order (EO) No. 58.	Secure the required Board Resolution on the increase in capitalization and initiate or lobby for the amendment of its Charter increasing MIAA's capitalization.	Not implemented The Authority did not initiate any action on the matter.
5, Page 62	Status of suspensions, disallowances and charges.	Management to comply with the rules and regulations on settlement of accounts.	Partially implemented Persons liable made partial settlements on NDs in CY 2018.
6, Page 63	The Authority had barely accomplished projects or activities on Gender and Development (GAD) resulting in its failure to address the identified gender issues and underutilization of the approved GAD budget. Moreover, Management failed to submit a copy of the Annual GAD Plan and Budget (GPB) and Accomplishment Report (AR) to the Audit Team within the period	(a) Formulate adequate GAD plans and programs that will address gender issues and concerns; (b) Monitor the prompt implementation of the projects and activities; and (c) Comply with the prescribed date provided under COA Circular No. 2014-001 on the submission of the Annual GPB and AR to the COA Audit Team.	Partially implemented Partially implemented Implemented Management complied with the prescribed date on the submission of the Annual GPB and AR to the COA Audit Team.

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
	prescribed under COA Circular No. 2014-001 dated March 18, 2014.		
7, Page 64	The Implementing Guidelines adopted by MIAA on the integration of the Passenger Service Charge (PSC) to the airline tickets should be revisited considering the a) loss of revenue in the average amount of P174.366 million per year as a result of the 3.5 percent service fee deducted by the Air Carriers (ACs) from PSC collections; b) service fee is being charged by ACs for Locally Recognized Exempted Passengers (L-REP) despite non-collection of PSC; and c) absence of provisions with respect to the nature and retention period of PSC from unflown/unused tickets not refunded by passengers. Moreover, the absence of monitoring system on the processes and procedures in	(a) Revisit/review the implementing guidelines and policies governing the PSC Integration Scheme and make amendments/ revisions or additional guidelines, if necessary, to address the concerns and protect the interest of MIAA; (b) Include adequate controls and monitoring processes; (c) Create/designate a team that will focus on the review/audit of the Airline's PSC books and records, and monitor PSC transactions; (d) Require the Collection Division to obtain copies of the MSFPD as basis in validating the Remittance Report submitted	Implemented Management met with the representative/s of the Airline Companies regarding the proposed amendments/revisions on the existing PSC integration policies including the reduction of service fees paid to the Airline Companies. Implemented The on-going computerization project of MIAA considered the PSC collections. Implemented Management reviewed its policies and procedure on how to effectively monitor the PSC transactions. Implemented Part of the on-going computerization of MIAA.

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
	the collection and remittance of PSC under the integration scheme and the laxity of the Officials to act on the deviations and deficiencies noted in the said processes may bar the recovery of possible claims as a result of errors or fraud, putting MIAA in prejudice.	by ACs; and (e) Initiate appropriate action to enforce remittance of the PSC for unflown tickets by the ACs.	Implemented Management sent demand letters to the ACs. As of May 2019, all ACs remitted to MIAA the unrefunded PSC for unflown tickets amounting to P506.405 million.
8, Page 72	The continued grant to Philippine Airlines (PAL) of 65 percent discount on its landing and take-off fees anchored from the 1977 Letter of Instruction (LOI) which is deemed ineffective given the development and condition of the aviation industry, results in the loss of revenue averaging P42.82 million per year based on the five year collections. Moreover, this privilege accorded to PAL does not promote a level playing field among key players in the domestic aviation industry.	Follow-up with DOJ the status of the clarificatory letter dated August 19, 2015, citing the urgency of its resolution; and/or make representation with proper authorities for the repeal of the LOI as appropriate.	Implemented Management sent a follow-up letter to the Department of Transportation (DoTr). MIAA also issued Resolution No. 2019-027 regarding the matter.

Reference (CY 2017 AAR Observation No.)	Observations	Recommendations	Status of Implementation
9, Page 76	Laxity of Management in the collection of delinquent account of PETRON in CYs 2000-2005 amounting to P80.785 million, exclusive of interest charges of P1.278 billion and penalties of P34.911 million, deprived MIAA of the immediate use of the revenue and/or possible income from its investment giving undue advantage to the concessionaire.	Be more prudent in enforcing collection of MIAA's claim from PETRON, including all interest charges and penalties due.	Implemented As regards interest charges of P1.278 billion and penalties of P34.911 million, the same remained outstanding and settlement may be coursed through compromise or court proceeding.