

EXECUTIVE SUMMARY

INTRODUCTION

The Millennium Challenge Corporation (MCC) is a United States Government corporation established to manage the Millennium Challenge Account (MCA), with a mission to reduce global poverty through sustainable economic growth, based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people. It extended a US \$433.910 million grant to the Philippine government in 2010 under a Compact Agreement.

As a requisite for its proposal for MCC funding and entering into a Compact, the government of a compact-eligible country must identify a legal entity that will be accountable for projects funded by the MCC.

By virtue of Executive Order 849 issued on December 15, 2009, the Millennium Challenge Account – Philippines (MCA-P) was established as the accountable entity or the central point of contact for Compact Implementation. It was incorporated with the Securities and Exchange Commission on January 10, 2010 as a subsidiary of the Development Bank of the Philippines Management Corporation (DBPMC).

The Government and the MCC, on behalf of the United States Government signed a Compact Agreement for a US \$433.910 million grant to be implemented over five years. The agreement was signed on September 23, 2010 and entered into force on May 25, 2011.

The objectives for which the Company was incorporated are the following:

- To be the Philippines' designated accountable entity or central point of contact for the projects funded by the Millennium Challenge Corporation (MCC), a United States government corporation, under a grant agreement referred to as the Millennium Challenge Compact between MCC and the Philippines;
- To oversee the MCC-funded projects and their various components and activities ("Program"), allocate resources, oversee and implement a financial plan, approve expenditures and procurements, continue the consultative process, and be accountable for the Program's results;
- To be the single point of contact on behalf of the Philippine government during the implementation of the program for MCC, other donors, contractors and consultants, as well as the general citizenry;
- To be the responsible entity for the Philippine government's commitments under the agreement;
- To ensure that the limitations on the use of MCC funding are observed; and
- To sue and be sued, to enter into contracts and to exercise all the powers of a corporation under the Corporation Code.

The Compact Program will finance the following:

Projects and Other Items	MCC Grant
1. Secondary National Road Development Project (SNRDP) – DPWH	US\$ 222.490
2. Revenue Administration Reform Project (RARP) – DOF-BIR	44.024
3. Kapit-Bisig Laban sa Kahirapan- Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) – DSWD	132.000
4. Monitoring and Evaluation	8.207
5. Program Administration and Oversight	27.189
Total MCC Funding	US\$ 433.910

The Board of Trustees, chaired by the Secretary of the Department of Finance, Honorable Cesar V. Purisima, is responsible for evaluating and approving major decisions to be implemented by MCA-P and oversees the functions of the Management Unit, which is headed by Ms. Ma. Victoria E. Añonuevo as Managing Director and Chief Executive Officer.

For the year 2016, MCA-P had a manpower complement of 52 regular employees.

Compact End Date

The five-year Compact ended on May 25, 2016. In view of the Compact end date, MCA-Philippines had formulated the Program Closure Plan (PCP) in accordance with MCC guidelines. The post compact arrangements for program assets and compliance with the provisions of the PCP were carried out during the Compact Closure Period from May 26, 2016 through September 22, 2016.

MCA-Philippines Program Management and Oversight (PMO) Assets and Program Assets under the KALAHI-CIDSS, SNRDP and RARP were transferred to the Department of Finance (DoF) and implementing entities namely Department of Social Welfare and Development (DSWD), Department of Public Works and Highways (DPWH) and Bureau of Internal Revenue (BIR), respectively, evidenced by Deeds of Transfer which was signed by DoF on September 22, 2016.

Temporary Cessation of Operations

Pursuant to a resolution of the Company's Board of Trustees' made on December 3, 2015, the Company temporarily ceased operations on September 22, 2016 until a second Compact is signed with MCC or until the Government of the Philippines (GOP) issues a directive to continue the Company's operations.

SCOPE OF AUDIT

Except for the MCC funding for the KALAHI-CIDSS, the audit covered examination of accounts and transactions of MCA-P, on a test basis, for the period January 1 to December 31, 2016 to enable us to express an opinion on the financial statements for the years ended December 31, 2016 and 2015 in accordance with the Philippine Public Sector Standards on Auditing. Audit of the KALAHI-CIDSS is conducted by the Supervising Auditor of the Department of Social Welfare and Development (DSWD).

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2016	2015	Increase/ (Decrease)
Assets	1,000,000	836,351,610	(835,351,610)
Liabilities	0	436,946,443	(436,946,443)
Net Assets/Equity	1,000,000	399,405,167	(398,405,167)

Comparative Results of Operations

	2016	2015	Increase/ (Decrease)
Revenue	4,190,136,099	4,083,116,356	107,019,743
Non-operating income	2,343,693	10,020,208	(7,676,515)
Personal services	190,373,634	84,137,436	106,236,198
Maintenance and other operating Expenses	4,395,823,939	4,171,087,550	224,736,389
Deficit	(398,405,167)	(162,088,422)	(236,316,745)

Fund Utilization

Projects	Amount (in USD millions)		
	Budget	Cumulative Expenditures	Balances
1. Secondary National Road Development Project (SNRDP)	222.490	199.850	22.640
2. Revenue Administration Reform Project (RARP)	44.024	30.281	13.743
3. Kapit-Bisig Laban sa Kahirapan- Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS)	132.000	124.999	7.001
4. Monitoring and Evaluation	8.207	5.947	2.260
5. Program Administration and Oversight	27.189	23.995	3.194
Total	433.910	385.072	48.838

AUDITOR'S OPINION

The auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of MCA-P for the years ended December 31, 2016 and 2015. However, attention was drawn to Note 1 to the Financial Statements which disclosed, among others, the MCA-P's temporary cessation of operations on September 22, 2016 pursuant to a resolution of the Company's Board of Trustees made on December 3, 2015.

STATUS OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the four audit recommendations embodied in CY 2015 audit report, three were implemented and one was not implemented. Compliance with the unimplemented audit recommendation is no longer pursued by Management due to the temporary cessation of MCA-P operations.