Finance Copy

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

FINANCIAL AUDIT REPORT

on the

SANTA MARIA WATER DISTRICT
Santa Maria, Bulacan

For the Year Ended December 31, 2018

Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. III
City of San Fernando, Pampanga

Tel No. (045) 455-4274 • Telefax No. (045) 455-4273 • Website: www.coa.gov.ph

May 23, 2019

Ms. CARMELITA T. FRANCISCO
Chairperson of the Board of Directors
Santa Maria Water District
Santa Maria, Bulacan

Dear **Chairperson Francisco:**

We are pleased to transmit the Financial Audit Report on the audit of the Santa Maria Water District, Santa Maria, Bulacan for the Calendar Year 2018 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445). The audit was conducted in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the results of our audit.

The audit was conducted to (a) ascertain the degree of reliance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

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

The audit report consists of Part I - Audited Financial Statements, Part II - Audit Observations and Recommendations and Part III - Status of Implementation of Prior Year's Unimplemented Audit Recommendations.

The audit observations and recommendations were discussed with concerned officials of the District in the exit conference held on May 16, 2019. Management's comments were incorporated in the report, where appropriate.

We request that a status report, thru accomplishing the attached **Agency Action Plan and Status of Implementation (AAPSI)** form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 93 of the General Provisions of the General Appropriations Act for FY 2018.

We appreciate the invaluable support and cooperation extended by the officials and staff of the District during the audit engagement.

Very truly yours,

LYNN S.F. SICANGCO
Regional Director

SANTA MARIA WATER DISTRICT
Santa Maria, Bulacan

AGENCY ACTION PLAN
and
STATUS of IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2018
As of ___________

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan		Target Implementation Date		Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/Dept. Responsible	From	To			

Agency sign-off:

______________________________ ______________
Name and Position of Agency Officer Date

Note: Status of implementation may either be (a) Fully Implemented; (b) Ongoing; (c) Not Implemented; (d) Partially Implemented; or (e) Delayed

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May 23, 2019

Engr. CARLOS N. SANTOS, JR.
General Manager
Santa Maria Water District
Santa Maria, Bulacan

Dear **Manager Santos:**

We are pleased to transmit the Financial Audit Report on the audit of Santa Maria Water District, Santa Maria, Bulacan for the Calendar Year 2018 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445). The audit was conducted in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the results of our audit.

The audit was conducted to (a) ascertain the degree of reliance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

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We appreciate the invaluable support and cooperation extended by the officials and staff of the District during the audit engagement.

Very truly yours,

LYNN S.F. SICANGCO
Regional Director

SANTA MARIA WATER DISTRICT
Santa Maria, Bulacan

AGENCY ACTION PLAN
and
STATUS of IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2018
As of ____________

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan		Target Implementation Date		Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
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May 22, 2019

Ms. LYNN S.F. SICANGCO
Regional Director
COA Regional Office No. III
City of San Fernando, Pampanga

Dear **Director Sicangco:**

We are pleased to submit herewith the Financial Audit Report on the audit of the Santa Maria Water District, Santa Maria, Bulacan for the Calendar Year 2018 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445).

The audit was conducted to (a) ascertain the degree of reliance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

The attached report consists of Part I - Audited Financial Statements, Part II -Audit Observations and Recommendations and Part III - Status of Implementation of Prior Year's Unimplemented Audit Recommendations.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the audit results. We rendered an unmodified opinion on the fairness of presentation of the financial statements.

We acknowledge the invaluable support and cooperation extended by the officials and staff of the District.

Very truly yours,

CARMELITA R. ALVAREZ
Supervising Auditor

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COMMISSION ON AUDIT
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City of San Fernando, Pampanga

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May 16, 2019

Ms. CARMELITA R. ALVAREZ
Supervising Auditor
Water Districts Audit Group
This Region

Madam:

We are pleased to submit herewith the Financial Audit Report on the audit of the Santa Maria Water District, Santa Maria, Bulacan for the Calendar Year 2018 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445).

The audit was conducted to (a) ascertain the degree of reliance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's unimplemented audit recommendations.

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We conducted our audit in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the audit results.

We acknowledge the invaluable support and cooperation extended by the officials and staff of the District.

Very truly yours,

ARCEL T. DABU
OIC-Audit Team Leader

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

FINANCIAL AUDIT REPORT

on the

SANTA MARIA WATER DISTRICT

Santa Maria, Bulacan

For the Year Ended December 31, 2018

EXECUTIVE SUMMARY

A. INTRODUCTION

The original water system of the Santa Maria Water District was constructed way back in 1931. It was then managed and operated by the defunct National Waterworks and Sewerage System (NAWASA). Upon the dissolution of NAWASA in 1971, the Management was turned over to the local government. Since then, however, the water system could not be maintained and operated efficiently for lack of funds. To address this predicament, the District was established in September 1986 thru Sangguniang Bayan Resolution No. 12.

The actual operation of the District began on September 23, 1987 with the issuance of a Conditional Certificate of Conformance, making it the 310th Water District in the Philippines, by the authority of the Local Water Utilities Administration (LWUA). The District is among the various agencies benefited by PD No. 198, known as the Local Water Utilities Act of 1973, creating LWUA to aid and assist provincial and urban water users through loans, technical assistance, training, and regulatory service.

Since 1992, by virtue of the Supreme Court En Banc decision, G.R. No. 95237 – 38 (Davao City Water District, et al.), water districts were declared Government Owned and/or Controlled Corporation with original charter, and as such they are placed under jurisdiction of the Civil Service Commission, the Department of Budget and Management, and the Commission on Audit.

The District was created for the following purposes:

1. To acquire, install, improve, maintain and operate water supply and distribution systems for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of the District;

2. To provide, maintain and operate wastewater collection, treatment and disposal facilities; and

3. To conduct such other functions and operations incidental to water resource development, utilization, and disposal within the District, as are necessary or incident to said purposes.

The District belongs to Category "B" headed by General Manager Engr. Carlos N. Santos Jr., with the support of two Department Managers, one Division Manager, 76 permanent, 17 casual, and 44 job order employees. It has 30,345 active service connections as of December 31, 2018.

The policy making body of the District is vested in its Board of Directors, composed of the following:

Name	Position	Sector
Ms. Carmelita T. Francisco	Chairperson	Civic Oriented
Ms. Teodora J. Catiis	Vice-Chairperson	Business Sector
Engr. Brian Emerson D. Hernandez	Secretary	Professional Sector
Ms. Amelia S. de Jesus	Auditor	Educational Institution
Ms. Annaliza C. Ramirez	PRO	Women's Organization

B. FINANCIAL HIGHLIGHTS

	2018	2017
Financial Position		
Assets	₱554,910,945.80	₱477,388,251.44
Liabilities	211,015,085.01	204,229,322.78
Equity	343,895,860.79	273,158,928.66
Results of Operation		
Income	253,094,277.98	233,987,491.66
Expenses	197,456,238.13	194,447,372.52
Net Income	55,638,039.85	39,540,119.14

C. SCOPE OF AUDIT

We conducted an audit of the financial transactions and operations of the District for the year ended December 31, 2018 on a sampling basis in accordance with International Standards of Supreme Audit Institutions and Corporate Government Sector Memorandum dated August 24, 2018, prescribing the General Audit Instructions for the conduct of CY 2018 Audit of Water Districts and for other matters. We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion. The audit was conducted to (a) ascertain the degree of reliance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

D. INDEPENDENT AUDITOR'S REPORT

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the District for the year ended December 31, 2018.

E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The significant audit observations noted during the audit and the corresponding recommendations are presented below.

1. The collectability of the inactive accounts receivable (AR) amounting to ₱2,276,854.21 aged one day to more than five years was remote contrary to Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I. ***(Observation No. 1)***

We recommended that the General Manager (a) instruct the Utilities/Customer Services Officer A to continuously send demand/collection letters together with the Statement of Account to all inactive accounts; and (b) initiate action to request authority from the Commission on Audit for the write-off of long dormant receivables deemed uncollectible, after all remedies have been exhausted.

2. The Due from National Government Agencies (NGAs) account amounting to ₱677,000.00 which remained dormant for more than four years was not yet collected contrary to Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I. ***(Observation No. 2)***

We recommended that the General Manager instruct the Department Managers of Operations and Administrative, Finance and General Services to coordinate with the DPWH Bulacan 2nd DEO, Sta. Maria, Bulacan for the recovery of their posted bonds amounting to ₱677,000.00.

3. The costs/values/lot areas of the two untitled donated lots were not disclosed in the Notes to Financial Statements contrary to Paragraph 125 of the Philippine Accounting Standards 1. ***(Observation No. 3)***

We recommended that the General Manager (a) seek the assistance of an Independent Appraiser to determine the value of the donated lots; and (b) instruct the Department Manager B- Administrative, Finance and Division Manager - General Services thru the Senior Corporate Accountant C to disclose the donated lots in the Notes to Financial Statements pending titling and recognition in the books of accounts.

4. The existence, condition and accuracy of the balances of Property, Plant and Equipment (PPE) accounts located in the District's Pumping Stations with carrying value of ₱105,364,480.71 as of December 31, 2018 could not be established due to (a) non conduct of physical count of PPE and absence of Report of Physical Count of Property, Plant and Equipment (RPCPPE) contrary to COA Circular No. 80-124 dated January 18, 1980; and (b) non-preparation and maintenance of the prescribed records and controls contrary to Section 55.a.1a of GAAM Volume III. ***(Observation No. 4)***

We recommended that the General Manager instruct the (a) Inventory Committee to conduct physical count of inventory of all District's properties at least once a year and prepare the RPCPPE as prescribed in COA Circular No. 80-124; (b) Property/Supply Assistant A to maintain the Property Cards (PCs) for each type of property; (c) Senior Corporate Accountant C to maintain the Property Plant, and Equipment Ledger Cards (PPELCs); and (d) Property/Supply Assistant A and Senior Corporate Accountant C to (i) facilitate reconciliation of the PCs and PPELCs; and (ii) reconcile the details and balances of the properties recognized in the PPE lapsing schedule and RPCPPE and investigate/evaluate discrepancy, if there is any.

5. Properties of the District with carrying value of ₱111,484,797.61 as of December 31, 2018 were not insured with the Government Service Insurance System (GSIS) contrary to COA Circular No. 79-112 dated August 30, 1979 implementing the Property Insurance Law (Republic Act No. 656), as amended by PD No. 245 and COA Circular No. 2018-002 dated May 31, 2018. ***(Observation No. 6)***

We recommended that the General Manager instruct the Property Officer to coordinate with the GSIS for the appraisal and eventual determination of the amount of premiums to be paid for all its insurable properties to protect the interest of the District.

6. Franchise Taxes in CY 2018 was passed-on by the District to its concessionaires as reflected in their water bills and official receipts instead of filing and paying the same to the BIR contrary to Section 119 of Title V of the National Internal Revenue Code (NIRC) of 1997. ***(Observation No. 7)***

We recommended that the General Manager direct the Division Manager – Commercial to exclude the 2% Franchise Tax in the water bill and stop from imposing the tax to its concessionaires but instead charge the same to District's operations.

F. SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

There were no audit suspensions, disallowances and charges issued for the audited transactions for CY 2018. Unsettled audit disallowances amounting to ₱1,272,023.77 as of December 31, 2018 pertained to audited transactions for CYs 2012 to 2014.

G. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S UNIMPLEMENTED AUDIT RECOMMENDATIONS

Of the 12 audit recommendations embodied in the CY 2017 Financial Audit Report, six were fully implemented, two were partially implemented and four were not implemented.

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PART I – AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Maria Water District
Santa Maria, Bulacan

Unmodified Opinion

We have audited the financial statements of Santa Maria Water District, which comprise the Statement of Financial Position as at December 31, 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the 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 the Santa Maria Water District as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Unmodified Opinion

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

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

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

Those charged with governance are responsible for overseeing the District'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 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.

COMMISSION ON AUDIT
By:

CARMELITA R. ALVAREZ
Supervising Auditor

Date: May 16, 2019

Santa Maria
WATER DISTRICT

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the Santa Maria Water District is responsible for the preparation of the financial statements as at December 31, 2018, including the additional components attached thereto in accordance with 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 misstatement 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 the financial statements of the SANTA MARIA WATER DISTRICT in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

Dir. Carmelita T. Francisco
Chairman of the Board

3/21/2019
Date Signed

Ms. Jovita I. Dalmacio
Department Manager, Administrative, Finance and General Services

3/21/2019
Date Signed

Engr. Carlos N. Santos, Jr.
General Manager

3/21/19
Date Signed

SANTA MARIA WATER DISTRICT
STATEMENT OF FINANCIAL POSITION
As at December 31, 2018
(With Comparative Figures for CY 2017)

	Note	2018	2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	₱ 96,586,672.48	₱ 65,823,038.45
Receivables, Net	5, 18	4,931,987.83	4,448,103.93
Inventories	6	33,729,823.74	16,329,312.20
Other Current Assets	7	10,438,831.49	12,792,410.73
Total Current Assets		**145,687,315.54**	**99,392,865.31**
Non-Current Assets			
Investments		6,654,048.20	5,890,729.53
Property, Plant and Equipment, Net	8	401,631,188.15	371,147,262.73
Intangible Assets, Net		66,750.07	85,750.03
Other Non Current Assets		871,643.84	871,643.84
Total Non-Current Assets		**409,223,630.26**	**377,995,386.13**
TOTAL ASSETS		**₱554,910,945.80**	**₱477,388,251.44**
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Financial Liabilities	9,18	₱ 46,972,049.08	₱ 29,728,825.88
Inter-Agency Payables	10	4,207,881.11	2,621,342.29
Trust Liabilities	11	15,246,355.02	13,973,657.97
Other Payables		365,170.17	445,745.29
Total Current Liabilities		**66,791,455.38**	**46,769,571.43**
Non-Current Liabilities			
Financial Liabilities	9,18	134,931,693.81	150,149,738.09
Provisions	12	8,337,792.92	6,563,118.74
Deferred Credits/Unearned Income		954,142.90	746,894.52
Total Non-Current Liabilities		**144,223,629.63**	**157,459,751.35**
TOTAL LIABILITIES		**211,015,085.01**	**204,229,322.78**
EQUITY			
Government Equity		289,561.81	289,561.81
Retained Earnings		343,606,298.98	272,869,366.85
TOTAL EQUITY		**343,895,860.79**	**273,158,928.66**
TOTAL LIABILITIES AND EQUITY		**₱554,910,945.80**	**₱477,388,251.44**

The notes on pages 8 to 27 form part of these statements.

SANTA MARIA WATER DISTRICT
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2018
(With Comparative Figures for CY 2017)

	Note	2018	2017
INCOME			
Service and Business Income	13	₱248,980,794.72	₱228,922,272.51
Other Non-Operating Income		4,113,483.26	5,065,219.15
Total Income		**253,094,277.98**	**233,987,491.66**
EXPENSES			
Personnel Services	14	46,265,131.46	42,313,037.55
Maintenance and Other Operating Expenses	15	121,590,226.54	118,841,999.67
Financial Expenses	16	13,141,231.94	14,618,141.69
Non-Cash Expenses	17	16,459,648.19	18,674,193.61
Total Expenses		**197,456,238.13**	**194,447,372.52**
NET INCOME		**₱ 55,638,039.85**	**₱ 39,540,119.14**

The notes on pages 8 to 27 form part of these statements.

SANTA MARIA WATER DISTRICT
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2018

	GOVERNMENT EQUITY	RETAINED EARNINGS	TOTAL
BALANCE AT DECEMBER 31, 2017	₱289,561.81	₱272,869,366.85	**₱273,158,928.66**
Add (Deduct):			
Net Income for the year		55,638,039.85	55,638,039.85
Other Adjustments		15,098,892.28	15,098,892.28
BALANCE AT DECEMBER 31, 2018	**₱ 289,561.81**	**₱ 343,606,298.98**	**₱ 343,895,860.79**

The notes on pages 8 to 27 form part of these statements.

SANTA MARIA WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018
(With Comparative Figures for CY 2017)

	Note	2018	2017
Cash Flows from Operating Activities			
Cash Inflows			
Collection of Income/Revenues		₱264,522,291.34	₱245,543,420.53
Trust Receipts		1,288,928.00	1,600,108.70
Other Receipts		5,677,442.30	4,804,242.56
Adjustments		10,981,701.86	2,856,083.73
Total Cash Inflows		**282,470,363.50**	**254,803,855.52**
Cash Outflows			
Payment of Expenses		139,571,474.71	127,775,047.28
Purchase of Inventories		18,075,101.76	20,934,419.32
Grant of Cash Advances		3,935,457.31	2,534,786.06
Prepayments		1,785,101.78	3,283,420.21
Remittance of Personnel Benefits Contributions and Mandatory Deductions		22,638,796.39	22,585,256.52
Other Disbursements		379,678.22	119,773.50
Adjustments		2,856,083.73	7,814,891.88
Total Cash Outflows		**189,241,693.90**	**185,047,594.77**
Net Cash Provided by (Used in) Operating Activities		**93,228,669.60**	**69,756,260.75**
Cash Flows from Investing Activities			
Cash Outflows			
Purchase/Construction of PPE		(30,649,278.29)	(41,091,801.61)
Investments		(757,998.34)	(1,478,452.82)
Total Cash Outflows		**(31,407,276.63)**	**(42,570,254.43)**
Net Cash Provided by (Used in) Investing Activities		**(31,407,276.63)**	**(42,570,254.43)**
Cash Flows from Financing Activities			
Cash Inflows			
Proceeds from Domestic and Foreign Loans		0.00	8,000,000.00
Total Cash Inflows		0.00	8,000,000.00
Cash Outflows			
Payment of Long-Term Liabilities		17,960,359.35	18,325,265.53
Payment of Interest Expenses		13,097,399.59	14,382,094.76
Total Cash Outflows		**31,057,758.94**	**32,707,360.29**
Net Cash Provided by (Used in) Financing Activities		**(31,057,758.94)**	**(24,707,360.29)**
Increase (Decrease) in Cash and Cash Equivalents		**30,763,634.03**	**2,478,646.03**
Cash and Cash Equivalents, January 1		65,823,038.45	63,344,392.42
Cash and Cash Equivalents, December 31	**4**	**₱96,586,672.48**	**₱65,823,038.45**

The notes on pages 8 to 27 form part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. Agency Information and Authorization for issue of the Financial Statements

1.1 Agency Background

The original water system of the Santa Maria Water District was constructed way back in 1931. It was then managed and operated by the defunct National Waterworks and Sewerage System (NAWASA). Upon the dissolution of NAWASA in 1971, the Management was turned over to the local government. Since then, however, the water system could not be maintained and operated efficiently for lack of funds. To address this predicament, the District was established in September 1986 thru Sangguniang Bayan Resolution No. 12.

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Engr. Brian Emerson D. Hernandez	Secretary	Professional Sector
Ms. Amelia S. de Jesus	Auditor	Educational Institution
Ms. Annaliza C. Ramirez	PRO	Women's Organization

1.2 Authorization for Issue of the 2018 Financial Statements

The financial statements of the District for the year ended December 31, 2018 were authorized for issue by the Board of Directors on March 21, 2019 as appearing in the Statement of Management's Responsibility.

2. Accounting Policies

2.1 Basis of Financial Statements Presentation

The financial statements of the District have been prepared using historical cost basis. The financial statements are presented in Philippine Peso (₱), which is the District's functional and presentation currency. All values are rounded off to two decimal places, except when otherwise indicated.

For the year ended December 31, 2018, the District prepared its financial statements (FS) in accordance with generally accepted accounting principle in the Philippines and Philippine Financial Reporting Standards (PFRS).

2.2 Statement of Compliance

The financial statements were prepared in compliance with Philippine Financial Reporting Standards (PFRS), which includes statements named PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council and Revised Chart of Accounts (RCA) for Government Corporations prescribed in COA Circular Nos. 2015-010 and 2016-006 dated December 1, 2015 and December 29, 2016, respectively.

2.3 Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of the District's financial statements are summarized on the next page.

2.3.1 Current versus Noncurrent Classification

The District presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to sell or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within twelve months after the reporting period; or
- There is no unconditional right to deter the settlement of the liability for at least twelve months after the reporting period

The District classifies all other liabilities as noncurrent.

2.3.2 Fair Value Measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the District. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The District uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the District determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the District has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.3.3 <u>Cash and Cash Equivalents</u>

Cash includes cash on hand and in banks. Cash in bank earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

2.3.4 <u>Financial Instrument</u>

Date of recognition

The District recognizes a financial asset or a financial liability in the statement 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 and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of financial instruments

Financial instruments are initially recognized at fair value, which is the fair value of the consideration given (in case of a financial asset) or received (in case of a financial liability). Except for securities at Fair Value through Profit or Loss (FVPL), the initial measurement of financial instruments includes transaction costs.

The District classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, Available For Sale (AFS) financial assets and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, reevaluates this classification at every reporting date.

As at December 31, 2018 and 2017, the District does not have financial assets and financial liabilities at FVPL, HTM investments, and AFS.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less 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. The amortization is included in "Interest income" in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for probable losses and doubtful accounts" in profit or loss.

As at December 31, 2018 and 2017, this category includes the District's Receivables account.

Other financial liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the District having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.

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 fees that are an integral part of the effective interest rate.

This accounting policy applies to the District's long-term debt, accounts and other payables except statutory liabilities.

2.3.5 Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- The right to receive cash flows from the assets has expired;
- The District retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- The District has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired.

Where an existing financial liability is replaced by another financial liability 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 profit or loss.

2.3.6 Impairment of Financial Assets

The District assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with default. For the District's receivables from customers, evidence of impairment may also include non-collection of the District's trade receivables, which remain unpaid after thirty days from bill generation.

Loans and receivables

For loans and receivables carried at amortized cost, the District first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the District determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The District's Allowance for impairment of its Accounts Receivable was determined as the likely amount that will not be collected from delinquent customers.

2.3.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.3.8 Classification of Financial Instruments between Debt and Equity

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

- Deliver cash or another financial asset to another entity; or
- Exchanged financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the District; 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 District 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.

2.3.9 Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method.

Inventories are recognized as an expense when deployed for the utilization or consumption in the ordinary course of operations of the District.

2.3.10 Property and Equipment

Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE. The characteristics of PPE are as follows:

- Tangible items;
- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- Are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- It is probable that future economic benefits or service potential associated with the item will flow to entity;
- The cost or fair value of the item can be measured reliably; and
- The cost is at least ₱15,000.00.

PPE, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of PPE comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the PPE to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period.

Expenditures incurred after the PPE have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which 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 PPE beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related PPE.

Depreciation and amortization of PPE commences once the PPE are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the PPE as presented below:

Category	**Number of years**
Office furniture and equipment	5
Transportation equipment	7
Machinery and equipment	10
Other Structures	10-20
Utility Plant in Service	30

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of PPE.

Fully depreciated PPE are retained in the accounts until they are no longer in use and no further depreciation are charged to current operations.

When PPE is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

2.3.11 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

The District does not have intangible asset as at December 31, 2018 and 2017.

2.3.12 <u>Impairment of Non-financial Assets</u>

The District assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the District estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.3.13 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the District and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

2.3.14 Income from Waterworks System

Water revenue are recognized when the related water services are rendered. Water is billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers.

For the period ending December 31, 2018 and 2017, Income from Waterworks System was classified under Service and Business Income in the Statement of Comprehensive Income.

2.3.15 Fines and Penalties not related to taxes

The District recognizes revenue from fees and fines, except those related to taxes, when earned and the asset recognition criteria are met. Deferred income is recognized instead of revenue if there is a related condition attached that would give rise to a liability to repay the amount.

The District charges fines and penalties to customers when there is a delay in the payment of water bill. A penalty of 10% of the water bill is automatically charged by the Billing and Collection System the day following the due date.

For the period ending December 31, 2018 and 2017, Fines and Penalties was classified under Service and Business Income in the Statement of Comprehensive Income.

2.3.16 Other Business Income

Other customer related fees such as connection, reconnection and disconnection fees are recognized when these services have been rendered.

2.3.17 Interest Income

Interest income is recognized as it accrues, taking into account the effective yield of the assets.

2.3.18 Cost of Services and Operating Expenses

Cost of services and operating expenses are recognized as they are incurred. Cost and expenses are recognized in the profit and loss when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has risen other than distributions to equity participants that can be measured reliably. Cost and expenses are recognized in the profit and loss 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 expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the statement of financial position as an asset.

2.3.19 Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset shall be recognized for all deductible temporary differences and operating loss carryforward when it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. (PAS12.24)

Relative thereto, Section 14 of PD No. 198 and Department of Justice ruling under case No. OSJ-2005-03 provides that the Water Districts are exempted from imposition of Income tax and liable only to two percent (2%) Franchise Tax based on its gross receipts. Recognition of deferred tax is not applicable as stated above.

2.3.20 Provisions and Contingencies

Provisions

A provision is recognized when the District has (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, 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 an interest expense. Where the District expects a provision to be reimbursed, the reimbursement is not recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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 disclosed when an inflow of economic benefits is probable.

2.3.21 Employee Benefits

The employees of the District are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage. Employee entitlements to annual earned leave are recognized as a liability when they are accrued to the employees.

The District recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the District's financial statements in compliance with PFRS requires Management to make judgments, estimates and assumptions that affect the amounts reported and disclosure in the financial statements and the related notes. Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results could differ from those estimates, and such, will be adjusted accordingly.

The District believes the following represent a summary of these significant judgments, estimates and assumptions, and the related impact and associated risks in the financial statements.

Judgments

In the process of applying the District's accounting policies, Management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements.

3.1 Determination of impairment of non-financial asset

The District assesses the impairment of non-financial assets (PPE, other current assets, and other noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the District considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of usage of the acquired assets or the strategy for the District's overall business; and
- Significant negative industry or economic trends.

In 2018 and 2017, the District has not identified any impairment indicator, thus, no impairment was recognized.

3.2 Estimates and Assumptions

Key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Determination of impairment of receivables

The District reviews its receivables at each reporting date to assess whether provision for doubtful accounts should be recorded in profit or loss. The District maintains an allowance for impairment - accounts receivable based on the results of the individual and collective impairment assessments under PAS 39. Allowance for impairment - accounts receivable is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. These factors include, but not limited to, age and status of receivables, the concessionaire's payment behavior and known market factors. An evaluation of receivables, designed to identify potential charges to the allowance is performed on a continuous basis throughout the year.

The District computes the Allowance for Impairment-Accounts Receivable based on the aging of receivables.

Determination of estimated useful lives of PPE

The useful life of each of the District's item of PPE is estimated based on the period over which the asset is expected to provide economic benefits. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expense and decrease the carrying value of PPE.

There were no changes in the estimated useful lives of PPE in 2018 and 2017.

4. Cash and Cash Equivalents

This account pertains to cash collecting officers, petty cash fund, and cash in bank readily available in the payment of current obligations of the District and not subject to any restriction, contractual or otherwise. Details are as follows:

	2018	2017
Petty Cash Fund	₱ 40,000.00	₱ 40,000.00
Cash Collecting Officers	370,978.55	122,172.80
Cash in Bank-Local Currency, Current Account	82,341,059.64	53,137,421.32
Cash in Bank-Local Currency, Savings Account	13,834,634.29	12,523,444.33
Total Cash and Cash Equivalents	**₱ 96,586,672.48**	**₱ 65,823,038.45**

5. Receivables, Net

This account includes all amounts due arising from services rendered to customers/concessionaires, water sales, incidental services and allowance for impairment.

	2018	2017
Accounts Receivable	₱ 4,019,376.98	₱ 3,366,069.05
Less: Allowance for Impairment - Accounts Receivable	108,408.34	90,430.92
Net Accounts Receivable	3,910,968.64	3,275,638.13
Notes Receivable	343,169.19	205,263.41
Receivables-Disallowances/Charges	0.00	288,888.46
Other Receivables	850.00	1,313.93

	2018	2017
Due from National Government Agencies	677,000.00	677,000.00
Receivables, Net	**₱ 4,931,987.83**	**₱ 4,448,103.93**

5.1 Aging/Analysis of Accounts Receivable (AR)

CY 2018					
Status of AR	**1-60 days**	**61-80 days**	**181-365 days**	**Over 1 Year**	**Total**
Active	₱1,189,292.45	₱1,025,291.97	₱ 575,144.38	₱1,223,478.18	₱4,013,206.98
Inactive	4,050.00	1,270.00	465.00	385.00	6,170.00
Total	**₱1,193,342.45**	**₱1,026,561.97**	**₱ 575,609.38**	**₱1,223,863.18**	**₱4,019,376.98**

CY 2017					
Status of AR	**1-60 days**	**61-80 days**	**181-365 days**	**Over 1 Year**	**Total**
Active	₱ 650,828.45	₱605,644.42	₱ 240.00	₱ 120.00	₱1,256,832.87
Inactive	359,341.45	336,452.05	381,618.68	1,031,824.00	2,109,236.18
Total	**₱1,010,169.90**	**₱942,096.47**	**₱381,858.68**	**₱1,031,944.00**	**₱3,366,069.05**

6. Inventories

This account consists of un-issued materials and supplies, which are kept in the stockroom and available for future use by the District in its operations.

	2018	2017
Office Supplies Inventory	₱ 236,712.03	₱ 297,426.02
Accountable Forms, Plates and Stickers Inventory	507,000.00	695,820.00
Non-Accountable Forms Inventory	133,132.33	12,678.61
Medical, Dental and Laboratory Supplies Inventory	644,899.60	418,914.60
Construction Materials Inventory	32,208,079.78	14,904,472.97
Total Inventories	**₱ 33,729,823.74**	**₱ 16,329,312.20**

7. Other Current Assets

This account consists of the following:

	2018	2017
Advances to Contractors	₱ 1,913,896.26	₱ 3,346,132.15
Prepaid Rent	54,000.00	54,000.00
Prepaid Insurance	77,501.18	79,088.36
Guaranty Deposits	829,752.75	1,828,903.04
Deferred Charges/Losses	7,563,681.30	7,484,287.18
Total Other Current Assets	**₱ 10,438,831.49**	**₱ 12,792,410.73**

8. Property, Plant and Equipment (PPE), Net

This account includes properties of a relatively permanent character that are used in normal operations. The details of PPE are presented below:

CY 2018	Balance at Cost, January 1	Additions / Acquisitions	Disposals / Adjustments	Balance at Cost, December 31	Accumulated Depreciation, December 31	PPE, Net
Land	₱ 28,014,796.60	₱ 0.00	₱ 0.00	₱28,014,796.60	₱ 0.00	₱28,014,796.60
Infrastructure Assets	355,656,382.25	37,824,782.91	0.00	393,481,165.16	89,654,194.31	303,826,970.85
Buildings and Other Structures	14,169,153.85	3,259,784.62	0.00	17,428,938.47	4,875,630.90	12,553,307.57
Machinery and Equipment	11,195,999.27	1,060,474.30	0.00	12,256,473.57	7,377,809.64	4,878,663.93
Land Transportation Equipment	10,198,513.00	57,900.00	0.00	10,256,413.00	8,783,909.09	1,472,503.91
Furniture, Fixtures and Books	683,704.50	0.00	0.00	683,704.50	191,854.69	491,849.81
Other PPE	49,113,010.98	2,482,338.28	0.00	51,595,349.26	14,849,706.65	36,745,642.61
Construction in Progress	27,282,634.51	0.00	13,635,181.64	13,647,452.87	0.00	13,647,452.87
TOTAL	**₱496,314,194.96**	**₱44,685,280.11**	**₱13,635,181.64**	**₱527,364,293.43**	**₱125,733,105.28**	**₱401,631,188.15**

CY 2017	Balance at Cost, January 1	Additions / Acquisitions	Disposals / Adjustments	Balance at Cost, December 31	Accumulated Depreciation, December 31	PPE, Net
Land	₱ 28,014,796.60	₱ 0.00	₱ 0.00	₱ 28,014,796.60	₱ 0.00	₱ 28,014,796.60
Infrastructure Assets	335,281,318.02	20,375,064.23	0.00	355,656,382.25	86,205,289.31	269,451,092.94
Buildings and Other Structures	14,169,153.85	0.00	0.00	14,169,153.85	5,374,040.03	8,795,113.82
Machinery and Equipment	9,001,673.77	2,235,825.50	41,500.00	11,195,999.27	6,201,114.53	4,994,884.74
Land Transportation Equipment	10,198,513.00	0.00	0.00	10,198,513.00	8,205,326.17	1,993,186.83
Furniture, Fixtures and Books	683,704.50	0.00	0.00	683,704.50	148,943.05	534,761.45
Other PPE	46,349,753.68	2,763,257.30	0.00	49,113,010.98	19,032,219.14	30,080,791.84
Construction in Progress	15,262,842.06	33,047,665.25	21,027,872.80	27,282,634.51	0.00	27,282,634.51
TOTAL	**₱ 458,961,755.48**	**₱58,421,812.28**	**₱21,069,372.80**	**₱ 496,314,194.96**	**₱125,166,932.23**	**₱ 371,147,262.73**

9. Financial Liabilities (FL)

This account pertains to the unpaid credit and accrued expenses payable to suppliers of materials for expansion project, other service providers and tax refunds payable.

	2018	2017
Current FL		
Accounts Payable	₱ 30,342,910.45	₱ 11,404,354.22
Due to Officers and Employees	1,355,784.23	357,085.08
Loans Payable- Domestic	15,273,354.40	17,967,386.58
Total Current FL	**46,972,049.08**	**29,728,825.88**
Non Current FL		
Loans Payable- Domestic	**134,931,693.81**	**150,149,738.09**
Total FL	**₱ 181,903,742.89**	**₱ 179,878,563.97**

10. Inter-Agency Payables

This account consists of the following:

	2018	2017
Due to BIR	₱3,416,584.89	₱1,946,364.75
Due to GSIS	635,257.14	543,884.33
Due to Pag-IBIG	104,419.03	92,218.21
Due to PhilHealth	51,620.05	38,875.00
Total Inter-Agency Payables	**₱4,207,881.11**	**₱2,621,342.29**

11. Trust Liabilities

This account consists of the following:

	2018	2017
Peformance/Bidders/Bail Bonds Payable	₱ 1,347,391.32	₱ 1,329,391.32
Guaranty/Security Deposits Payable	13,898,963.70	12,644,266.65
Total Trust Liabilities	**₱15,246,355.02**	**₱13,973,657.97**

12. Provisions

This is the balance of Leave Benefits Payable account which pertains to the monetary value of the accumulated leave credits of officials and employees of the District.

13. Service and Business Income

This account is composed of:

	2018	2017
Sales Revenue	₱238,784,815.70	₱220,014,103.41
Less: Sales Discount	899,543.09	1,244,787.45
Net Sales	237,885,272.61	218,769,315.96
Interest Income	76,632.86	133,455.73
Fines and Penalties- Business Income	5,172,795.25	4,479,085.82
Other Business Income	5,846,094.00	5,540,415.00
Total Service and Business Income	**₱248,980,794.72**	**₱228,922,272.51**

14. Personnel Services (PS)

This account is composed of:

	2018	2017
Salaries and Wages	₱ 29,374,177.88	₱ 25,199,915.08
Other Compensation	10,936,541.20	10,885,456.82
Personnel Benefits Contributions	3,184,956.26	2,839,175.06
Other Personnel Benefits	2,769,456.12	3,388,490.59
Total PS	**₱ 46,265,131.46**	**₱42,313,037.55**

15. Maintenance and Other Operating Expenses (MOOE)

This account is composed of:

	2018	2017
Traveling Expenses	₱ 1,460,668.12	₱ 1,084,428.95
Training Scholarship Expenses	2,723,244.20	1,671,636.49
Supplies and Materials Expenses	5,132,465.87	7,167,187.67
Utility Expenses	969,350.70	846,086.56
Communication Expenses	1,068,123.23	941,299.52
Generation, Transmission and Distribution Expenses	*89,369,318.82*	*78,917,722.57*
Extraordinary Expenses and Miscellaneous Expenses	172,600.00	177,600.00
Professional Services	1,513,066.60	222,774.70
General Services	2,109,623.72	1,727,090.12
Repairs and Maintenance	12,355,580.28	20,676,586.60
Taxes, Duties and Licenses	358,825.62	325,261.47
Other Maintenance and Operating Expenses	4,357,359.38	5,084,325.02
Total MOOE	**₱121,590,226.54**	**₱118,841,999.67**

16. Financial Expenses

This account is composed of:

	2018	2017
Interest Expenses	₱13,131,238.64	₱14,572,919.19
Bank Charges	9,993.30	45,222.50
Total Financial Expenses	**₱13,141,231.94**	**₱14,618,141.69**

17. Non- Cash Expenses

This account is composed of:

	2018	2017
Depreciation Expenses	₱ 16,422,670.81	₱ 18,638,395.62
Amortization Expenses	18,999.96	14,249.97
Impairment Loss	17,977.42	21,548.02
Total Non- Cash Expenses	**₱ 16,459,648.19**	**₱ 18,674,193.61**

18. Fair Value Measurement

The carrying amounts approximate fair values of the District's financial assets and liabilities are as follows:

	2018		**2017**	
	Carrying Amount	**Fair Value Significant unobservable inputs (Level 3)**	**Carrying Amount**	**Fair Value Significant unobservable inputs (Level 3)**
Loans and Receivables				
Accounts Receivable	₱ 4,019,376.98	₱ 4,019,376.98	₱ 3,366,069.05	₱ 3,366,069.05
Financial Liabilities				
Accounts Payable	30,342,910.45	30,342,910.45	11,404,354.22	11,404,354.22
Loans Payable	150,205,048.21	150,205,048.21	168,117,124.67	168,117,124.67
Total Financial Liabilities	₱180,547,958.66	₱180,547,958.66	₱179,521,478.89	₱179,521,478.89

<u>Fair Value Hierarchy</u>

There were no financial assets measured at fair value as of December 31, 2018 and 2017. During these periods, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

Collectability of Accounts Receivable (AR) was remote- ₱2.277 million

1. The collectability of the inactive accounts receivable (AR) amounting to ₱2,276,854.21 aged one day to more than five years was remote contrary to Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I.

1.1 The Utilities/Customer Services Officer A was able to send demand letters but not for all inactive accounts and not on a regular basis for CY 2018 despite our prior years' audit recommendation.

1.2 The system generated Aging Schedule of AR as of December 31, 2018 showed a balance of ₱4,019,382.64 which pertains to accounts aged one day to more than five years. Of this amount, ₱2,276,854.21 or 56.65 per cent represents inactive accounts. Details are as follows:

Status of AR	1 day to 180 days	181 days to one year	More than one year to five years	More than five years	Total	%
Active accounts	₱1,581,688.02	₱160,700.41	₱ 140.00	₱ 0.00	₱1,742,528.43	43.35%
Inactive accounts	638,216.24	414,908.97	838,419.95	385,309.05	2,276,854.21	56.65%
Total	**₱2,219,904.26**	**₱575,609.38**	**₱838,559.95**	**₱385,309.05**	**₱4,019,382.64**	**100.00%**

1.3 As noted, the first and second demand letters were sent in CYs 2015 to 2018 to 181 concessionaires with total AR of ₱1,053,133.17. The result of the sending of demand letters is summarized below.

Feedback from concessionaires	No. of concessionaires	Amount Due
Letters were received but not responded	60	₱ 474,190.40
Cannot be located	51	268,199.35
Paid their accounts	64	200,156.37
Deceased	3	28,381.40
Issued promissory note to pay on installment basis	1	10,745.65
Caretaker refused to receive the letter	1	47,443.20
Requested for the latest copy of Statement of Account	1	24,016.80
Total	**181**	**₱1,053,133.17**

1.4 The District did not request from COA authority to write-off these AR particularly on the concessionaires which cannot be located and deceased.

1.5 The District prepared the Aging Schedule (system generated) but was unable to regularly institute actions for the collection thru sending of demand letters to all inactive concessionaires as required under Section 64 of the Government Accounting and Auditing Manual which states that *Quarterly, each agency accounting unit shall prepare* *a statement scheduling overdue accounts receivable. The agency head, or his authorized representative, shall review and sign this statement as an indication that he has examined the list of overdue accounts and has instituted, or will institute action for their collection.*

1.6 For lack of commitment of the officers and employees concerned in the exercise of their functions, the recovery/collectability of the delinquent accounts was remote thus, deprived the District of the opportunity cost on the funds tied up on these receivables.

1.7 **We recommended and the General Manager agreed to (a) instruct the Utilities/Customer Services Officer A to continuously send demand/collection letters together with the Statement of Account to all inactive accounts; and (b) initiate action to request authority from the Commission on Audit for the write-off of long dormant receivables deemed uncollectible, after all remedies have been exhausted.**

Dormant Due from NGAs account – ₱0.677 million

2. The Due from National Government Agencies (NGAs) account amounting to ₱677,000.00 which remained dormant for more than four years was not yet collected contrary to Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I.

2.1 Verification of the District's Financial Statements showed the balance of Due from NGAs account amounting to ₱677,000.00 which pertains to the cash bond posted by the District to the DPWH – Bulacan 2nd District Engineering Office (DEO), Santa Maria, Bulacan on May 27, 2013 and August 27, 2013 on the two projects which were completed in August 2013 and May 2014, respectively. The details are as follows:

Project Name	Amount of bond	Journal Entry Voucher No./date	Check No./date	DPWH Official Receipt No./date
Excavation, pipelaying and survey restoration works along Santa Maria - San Jose Del Monte National Road, from Junction of National Road-Kaybitin Road going to Tumana-San Gabriel Boundary.	₱155,000.00	2013-1008/ 5/27/2013	LBP 458569/ 5/27/2013	8004260/ 5/30/2013
Excavation, pipelaying and survey restoration works along Santa Maria – Angat	522,000.00	2013-1519/ 8/13/2013	PNB 2024719/ 8/13/2013	8004276/ 8/27/2013

Project Name	Amount of bond	Journal Entry Voucher No./date	Check No./date	DPWH Official . Receipt No./date
National Road, from Dulong Bayan Poblacion to Sitio Bato, Guyong; and for Santa Maria - San Jose Del Monte National Road, from Muzon-San Vicente Boundary going back to San Vicente Barangay Hall.				
Total	**₱677,000.00**			

2.2 The District sent two letters both dated October 10, 2014 to the District Engineer of the DPWH Bulacan 2nd DEO, Sta. Maria, Bulacan requesting the withdrawal of the cash bond. As of the audit date, DPWH Bulacan 2nd DEO had not yet responded.

2.3 The audit team sent a confirmation letter to the Audit Team Leader (ATL) of DPWH Bulacan 2nd DEO, Sta. Maria, Bulacan on April 22, 2019 thru email asking if these posted bonds were recognized in the books of accounts of their audited agency. The ATL thru email on April 25, 2019 informed us that the balance of ₱677,000.00 was correctly recognized in the books of accounts of DPWH Bulacan 2nd DEO, Sta. Maria, Bulacan under Guaranty/Security Deposits Payable account as shown in their Subsidiary Ledger.

2.4 Inquiry with the Department Manager B - Administrative, Finance and General Services revealed that it is a usual transaction with the said agency and that other previous years' bond posted were returned to the District except these two bonds amounting to ₱677,000.00. She admitted that they failed to follow up their request. The non-monitoring of receivables violated Section 64 of the Government Accounting and Auditing Manual which states that *Quarterly, each agency accounting unit shall prepare a statement scheduling overdue accounts receivable. The agency head, or his authorized representative, shall review and sign this statement as an indication that he has examined the list of overdue accounts and has instituted, or will institute action for their collection.*

2.5 Had these posted bonds been returned, the District may have used the funds to finance its operations.

2.6 We recommended and the General Manager agreed to instruct the Department Managers of Operations and Administrative, Finance and General Services to coordinate with the DPWH Bulacan 2nd DEO, Sta. Maria, Bulacan for the recovery of their posted bonds amounting to ₱677,000.00.

Donated lots not disclosed in the Notes to FS

3. The costs/values/lot areas of the two untitled donated lots were not disclosed in the Notes to Financial Statements contrary to Paragraph 125 of the Philippine Accounting Standards 1.

3.1 Based on verification, the balance of the Land account per Statement of Financial Position as of December 31, 2018 reconciled with its Schedule and all lots acquired through purchase have a Transfer of Certificate of Titles (TCT) in the name of the District and the audit team was able to obtain a copy of these TCTs. However, it was noted that two donated lots used in the District's operations were not disclosed in the Notes to Financial Statements contrary to Paragraph 125 of the Philippine Accounting Standards 1 which states that *An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have significant risk of resulting in a material adjustments to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:*

(a) their nature, and
xxx

3.2 The District had entered into a Deed of Donation on these two donated lots with a total lot area of 185 square meters. Details are as follows:

	Location	Name of the Donor	TCT No. in the name of the donor	Lot area	Date of the Deed of Donation
1	Garden Village, Pulong Buhangin, Santa Maria, Bulacan	Lena Realty Construction and Development Corporation	T-50.910(M)	150	August 11, 2008
2	Labanos, Tumana, Santa Maria, Bulacan	Norma Perez	T-297615(M)	35	February 17, 2006
Total				**185**	

3.3 Inquiry with the Senior Corporate Accountant C revealed that he was not aware that the nature of these donated lots should be disclosed in the Notes to Financial Statements as provided under Paragraph 125 of the Philippine Accounting Standards 1.

3.4 The failure to disclose information in the Notes to Financial Statements may mislead the users as to the nature and true status of the donated lots.

3.5 We recommended and the General Manager agreed to (a) seek the assistance of an Independent Appraiser to determine the value of the donated lots; and (b) instruct the Department Manager B- Administrative, Finance and Division Manager - General Services thru the Senior Corporate Accountant C to disclose the donated lots in the Notes to Financial Statements pending titling and recognition in the books of accounts.

Doubtful balance of Property, Plant and Equipment (PPE)

4. The existence, condition and accuracy of the balances of Property, Plant and Equipment (PPE) accounts located in the District's Pumping Stations with carrying value of ₱105,364,480.71 as of December 31, 2018 could not be established due to (a) non conduct of physical count of PPE and absence of Report of Physical Count of Property, Plant and Equipment (RPCPPE) contrary to COA Circular No. 80-124 dated January 18, 1980; and (b) non-preparation and maintenance of the prescribed records and controls contrary to Section 55.a.1a of GAAM Volume III.

a) Non conduct of physical count of PPE and absence of RPCPPE

4.1 The Management was able to create an Inventory Committee through its Memorandum No. 2012-005 dated April 17, 2012. They conducted an actual inventory count of properties located in the District's Main and Extension Offices and prepared the RPCPPE before the end of CY 2018. However, inquiry with the Division Manager B – General Services revealed that they were not able to conduct the physical inventory count of the PPE items located in the Pumping Stations in CY 2018 and previous years due to voluminous workload thus there were no records to prove the existence of the PPE recognized in the books of accounts contrary to COA Circular No. 80-124 dated January 18, 1980. The Circular pertained to Inventory of Fixed Assets of Government-Owned and/or Controlled Corporations and Subsidiaries, including self-governing boards, commissions, agencies and state colleges and universities. It provides that: *Physical inventory of fixed assets shall be made at least once a year as of December 31.*

4.2 The audit team requested for a copy of PPE Lapsing Schedule as of December 31, 2018 and it was noted that the total amount reconciled with the balance per books. The properties located in the Pumping Stations for which inventory taking was not made had an acquisition cost and carrying value of ₱152,455,164.62 and ₱105,364,480.71, respectively, as of December 31, 2018. Details are as follows:

Account Code/Name	Cost	Carrying Value
(10604990-001) - Other Structures	₱14,590,140.17	₱ 9,835,482.59
(10603110-013) - Plant-Utility Plant in Service - Hydrants	973,281.59	682,228.94
(10603110-004) - Plant-Utility Plant in Service - Wells	57,248,736.07	36,191,154.02
(10698990-002) - Other Property, Plant and Equipment - Power Production Equipment	12,513,136.54	8,263,919.44
(10698990-003) - Other Property, Plant and Equipment - Pumping Equipment	34,921,765.92	24,877,157.85
(10698990-004) - Other Property, Plant and Equipment - Water Treatment Equipment	3,747,352.19	855,723.84
(10603110-008) - Plant-Utility Plant in Service - Reservoirs and Tanks	28,460,752.14	24,658,814.03
Total	**₱152,455,164.62**	**₱105,364,480.71**

4.3 Upon inquiry and verification, the Division Manager B – General Services and the Property/Supply Assistant A conducted an inventory of PPE items located in Pumping Stations on February 26, 2019. However, they only made a list of the PPE items without details on the cost in the Report of Inventory Count and no reconciliation was made against the PPE lapsing schedule.

4.4 On April 26, 2019, the audit team accompanied by the Department Manager B - Administrative, Finance and General Services, Engineering Assistant (representative from Water Resource Division) and Property/Supply Assistant A (representative from the General Services Division) conducted an ocular inspection on the sample PPE items located in the Pumping Stations. During the inspection, we referred to the Report of Inventory Count for each Pumping Stations and we traced which among of the PPE items in the Lapsing Schedule were recognized in the books of accounts vis-à-vis the Report of Inventory Count. However, we have difficulty in tracing these properties due to lack of acquisition costs on the Report of Inventory Count while some PPE items were recognized in lump sum in the Lapsing Schedule.

4.5 Property, Plant and Equipment is a group of asset that is vital in the District's operations because its revenue generation greatly depends on its usage more particularly those located in the Pumping Stations. Likewise, inventory taking of these properties is important in order to assess their existence and condition. The District failed to submit the RPCPPE and no reconciliation was made on these two reports from Finance and General Services Division namely PPE Lapsing Schedule and RPCPPE, respectively.

b) Non-preparation and maintenance of the prescribed records and controls

4.6 The Property Cards (PC) which should be reconciled with the PPE Ledger Cards (PPELC) were not maintained by the Property/Supply Assistant A and Senior Corporate Accountant C, respectively, contrary to Section 55.a.1a of GAAM Volume III stating that *Periodic reconciliation of accounts which involves verifying the accuracy of one set of records against an independent set of documents.* The PC and PPELC should be reconciled at the end of each quarter, to be updated periodically and reconciled with the General Ledger (GL) balances to ensure that these are in agreement.

4.7 With the above noted deficiencies, the existence, condition and accuracy of the balance of the PPE account could not be ascertained.

4.8 **We recommended and the General Manager agreed to instruct the (a) Inventory Committee to conduct physical count of inventory of all District's properties at least once a year and prepare the RPCPPE as prescribed in COA Circular No. 80-124; (b) Property/Supply Assistant A to maintain the Property Cards (PCs) for each type of property; (c) Senior Corporate Accountant C to maintain the Property Plant, and Equipment Ledger Cards (PPELCs); and (d) Property/Supply Assistant A and Senior Corporate Accountant C to (i) facilitate reconciliation of the PCs and PPELCs; and (ii) reconcile the details and balances of**

the properties recognized in the PPE lapsing schedule and RPCPPE and investigate/evaluate discrepancy, if there is any.

Unserviceable properties remain undisposed as of year end

5. Unserviceable properties with total acquisition cost of ₱2,855,566.78 and carrying value of ₱871,643.84 were not disposed as of year end in violation of Section 79 of PD No. 1445.

5.1 Validation on the implementation of the prior years' audit recommendation in the CY 2017 Financial Audit Report revealed that unserviceable assets were still undisposed as of year end of 2018.

5.2 Review of the schedule of Other Assets account as of December 31, 2018 disclosed unserviceable properties with total acquisition cost of ₱2,855,566.78 and carrying value of ₱871,643.84. The breakdown and the year when these assets were found to be unserviceable and transferred to Other Assets is as follows:

Year when assets were found to be unserviceable and transferred to Other Assets account	Acquisition Cost	Carrying Value	Quantity of PPE items
2009	₱ 514,808.70	₱25,740.44	18
2010	257,874.00	27,995.35	10
2011	100,654.00	5,032.70	4
2012	269,136.44	49,889.50	13
2013	1,264,706.20	565,537.21	35
2014	252,025.20	162,740.85	6
Subtotal	*2,659,204.53*	*836,936.04*	*86*
2015	129,084.25	10,739.45	2
2016	67,278.00	23,968.35	2
Total	**2,855,566.78**	**₱871,643.84**	**90**

5.3 There were no unserviceable properties identified by the District's Inventory Committee for CYs 2017 and 2018.

5.4 As shown in the table, 96.02% of the total or ₱836,936.04 were unserviceable since 2009 to 2014. Had these properties been disposed in previous years, these might have been sold at higher value.

5.5 This is contrary to Section 79 of PD No. 1445 which provides that *when government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned, and, if found to be valueless or unsalable, it may be destroyed in their presence. If found* *to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission.*

5.6 The District did not request for the technical inspection on the disposal of these unserviceable properties.

5.7 Annex M of COA Memorandum No. 2005-027 dated February 28, 2005 provides the following documents to be submitted to COA Regional Office No. III for technical evaluation of appraised value of these unserviceable properties, to wit:

a) Duly signed Inventory and Inspection Report of Unserviceable Property;
b) In-house Appraisal Report with supporting computation on the appraised values;
c) Complete technical description of the property indicating the capacity, type, model, brand, dimension, and other relevant description;
d) The date when the properties were put into operation;
e) Duly authenticated colored photographs of the property;
f) Duly certified copies of equipment ledger/record of maintenance/repair of the equipment; and
g) Lapsing Schedule of PPE.

5.8 The Division Manager B – General Services informed us that they were not able to dispose these properties due to the failure to comply with some of the documentary requirements.

5.9 The delayed disposal exposed the unserviceable assets to further deterioration and reduction of economic value. Besides, immediate disposal of these assets will free up storage areas for other purposes.

5.10 **We recommended and the General Manager agreed to instruct the Division Manager B – General Services to complete the required documents and eventually dispose the property in accordance with the Manual on Disposal of Unserviceable Properties.**

Properties not insured with GSIS

6. Properties of the District with carrying value of ₱111,484,797.61 as of December 31, 2018 were not insured with the Government Service Insurance System (GSIS) contrary to COA Circular No. 79-112 dated August 30, 1979 implementing the Property Insurance Law (Republic Act No. 656), as amended by PD No. 245 and COA Circular No. 2018-002 dated May 31, 2018.

6.1 Audit of the CY 2018 disbursements revealed that the District paid the insurance premium amounting to ₱100,440.95 of their Motor Vehicles to GSIS. Details are as follows:

LBP Check No	Check date	DV No.	Particulars	Insurance Premium
617005	13-Jan-2018	18-01-040	Payment for annual insurance coverage of service vehicles with plate numbers SG 1252, SJM 192 and SM2632.	₱ 7,137.96
617018	17-Jan-2018	18-01-062	Payment for annual insurance of service vehicle with plate number SLG 523.	4,210.26
617158	21-Feb-2018	18-02-183	Payment for annual insurance of service vehicles with plate number SGR 613 and SG 8613.	4,817.32
617274	16-Mar-2018	18-03-295	Payment for annual insurance coverage of service vehicles with plate numbers SGR 924,SKR 924, SG 8614 and SH 4184.	11,292.93
617409	2-May-2018	18-05-454	Payment for annual insurance coverage of service vehicles with plate numbers AAN 4555, SK 9105, SG 8615, SGR 935, SH 4185 and SG 2675.	13,926.22
617529	1-Jun-2018	18-05-543	Payment for the insurance coverage of 2011 Toyota Fortuner TXI 261 from July 1, 2018 to June 30, 2019.	15,305.28
617533	4-Jun-2018	18-06-563	Payment for annual insurance coverage of service vehicles with plate numbers AAN 4506, SG 8616, SL 9636, SG 8617 and MV 34.	11,102.66
617606	19-Jun-2018	18-06-628	Payment for annual insurance coverage of service vehicles with plate numbers SL 9637 and SG 2617.	2,997.92
653458	31-Jul-2018	18-07-786	Annual insurance coverage of service vehicles with plate numbers SL 8978, SG 1258, and SGK 388.	5,394.20
653553	28-Aug-2018	18-08-881	Annual insurance coverage of service vehicles with plate numbers SL 8979 and SG 8489.	2,750.35
653620	5-Sep-2018	18-09-949	Annual insurance coverage of service vehicle with plate number SJM 190.	3,533.79
653755	12-Oct-2018	18-10-1088	Annual insurance coverage of service vehicle with plate number MV 40 Honda Wave 110R.	1,424.39
653863	14-Nov-2018	18-11-1179	Total Annual Premium Insurance coverage of service vehicle-Toyota Innova ALA 1080 from December 14, 2018 to Dec. 13, 2019.	16,547.67
Total				**₱100,440.95**

6.2 It was noted that properties with total acquisition cost and carrying value of ₱167,603,089.49 and ₱111,484,797.61, respectively, were not insured with the GSIS contrary to the Property Insurance Law (Republic Act No. 656), as amended by PD No. 245 and COA Circular No. 2018-002, to wit:

Account Code/Name	Acquisition Cost	Carrying Value
(10604010-001) - Buildings	₱ 2,838,798.30	₱ 1,846,377.99
(10604990-001) - Other Structures	14,590,140.17	9,835,482.59
(10605020-001) - Office Equipment	3,426,918.30	1,120,698.28
(10607010-001) - Furniture and Fixtures	52,653.00	8,098.66
(10605030-001) - Information and Communications Technology Equipment	5,258,841.40	1,615,217.26
(10605070-001) - Communication Equipment	894,842.08	328,756.26
(10605080-001) - Construction and Heavy Equipment	2,675,871.79	1,201,168.45
(10603110-013) - Plant-Utility Plant in Service - Hydrants	973,281.59	682,228.94
(10603110-004) - Plant-Utility Plant in Service - Wells	57,248,736.07	36,191,154.02
(10698990-002) - Other Property, Plant and Equipment - Power Production Equipment	12,513,136.54	8,263,919.44
(10698990-003) - Other Property, Plant and Equipment - Pumping Equipment	34,921,765.92	24,877,157.85
(10698990-004) - Other Property, Plant and Equipment - Water Treatment Equipment	3,747,352.19	855,723.84
(10603110-008) - Plant-Utility Plant in Service - Reservoirs and Tanks	28,460,752.14	24,658,814.03
Total	**₱167,603,089.49**	**₱111,484,797.61**

6.3 COA Circular No. 79-112 dated August 30, 1979 which quoted the provisions of Republic Act No. 656, otherwise known as Property Insurance Law, as amended, requires all properties of the government, including government-owned and/or controlled corporations to be insured with the Property Insurance Fund administered by the GSIS. Section 5 of the aforementioned law states that *every government, except a municipal government below first class, is required to insure its property with the fund against any insurable risk herein provided and to pay the premiums thereon. xxx.*

6.4 Moreover, COA Circular No. 2018-002 dated May 31, 2018 prescribes the Guidelines for the submission of the Property Inventory Form as basis for the assessment of general insurance coverage over all insurable assets, properties and interests of the government with the General Insurance Fund of the GSIS. Item 4.1 of this Circular gives a clear definition of insurable assets/properties. It includes *vessels and craft, motor vehicles, machineries, permanent buildings, properties stored therein (i.e. furniture, fixtures, equipment, supplies and materials, etc.) or in buildings rented by the government, or properties in transit, the ownership of which had already passed to the government.*

6.5 The non-coverage of these items under property insurance exposed the District to risks that they may not recover/indemnify the value of the properties in case of loss thru fire or any unforeseen/unfortunate events.

6.6 **We recommended and the General Manager agreed to instruct the Property Officer to coordinate with the GSIS for the appraisal and eventual determination of the amount of premiums to be paid for all its insurable properties to protect the interest of the District.**

Franchise Taxes charged to concessionaires

7. Franchise Taxes in CY 2018 was passed-on by the District to its concessionaires as reflected in their water bills and official receipts instead of filing and paying the same to the BIR contrary to Section 119 of Title V of the National Internal Revenue Code (NIRC) of 1997.

7.1 Post audit of official receipts pertaining to collection of water bills revealed that the 2% Franchise Tax was passed-on by the District to its concessionaires instead of paying the same or charging to its operations despite of prior years' audit recommendation.

7.2 For CY 2018, the District's passed on franchise taxes to its concessionaires amounting to ₱4,659,770.26.

7.3 A letter from the LWUA Acting Senior Deputy Administrator Daniel I. Landingin dated April 28, 2009 addressed to the General Manager of the District states that the 2% franchise tax on gross receipts is not imputed on the approved water tariff of the District and they may opt to shoulder this expense should its finances will allow, otherwise, the franchise tax that was imposed on the Water Districts can be reasonably passed-on to concessionaires.

7.4 Analysis on the liquidity ratio of the District for CYs 2018, 2017 and 2016 showed that the ratio is more than one which means that the District has the ability to pay other obligations/expenses aside from its short term and maturing obligations. Computation of the liquidity ratio is as follows:

	2018	2017	2016
Cash and Cash Equivalents	₱96,586,672.48	₱65,823,038.45	₱63,344,392.42
Accounts Receivable	4,254,987.83	3,670,781.26	3,272,828.21
Total Liquid Assets	100,841,660.31	69,493,819.71	66,617,220.63
Current Liabilities	66,791,455.38	46,769,571.43	55,536,295.09
Liquidity Ratio	**1.510**	**1.486**	**1.200**

7.5 The audit team believes that the District's finances can shoulder the 2% franchise tax passed on to its concessionaires contrary to Section 119 of Title V of the NIRC of 1997 or RA No. 8424 which enumerates Other Percentage Taxes to be imposed such as (a) tax on persons exempt from Value Added Tax (VAT); (b) percentage tax on Domestic Carriers and Keepers of Garages, (c) percentage tax on International Carriers; and (d) tax on Franchises which were fully discussed on Sections 116 to 119 of this Code.

7.6 The pertinent portion of Section 119 is as follows:

> *Tax on Franchises. – Any provision of general or special law to the contrary notwithstanding, there shall be levied, assessed and collected in respect to all franchises on radio and/or television broadcasting companies whose annual gross receipts of the preceding year does not exceed Ten million pesos (₱10,000,000.00), subject to Section 236 of this Code, a tax of three percent (3%) and on gas and water utilities, a tax of two percent (2%) on the gross receipts derived from the business covered by the law granting the franchise: Provided, however, That radio and television broadcasting companies referred to in this Section shall have an option to be registered as a value added taxpayer and pay the tax due thereon: Provided, further, That once the option is exercised, said option shall be irrevocable.* (underscoring ours)

7.7 The District, a water utility, is subject to 2% franchise tax based on gross receipts and this is a kind of Percentage Tax as provided for under Section 119 of the NIRC. Moreover, Percentage Tax is a direct tax and cannot be passed on to consumers as discussed in paragraph eight of the article, who will pay the tax, written by Maria Lourdes M. Yanuaria, CPA, one of the owner of MPM Consulting Services with a topic on "Difference between VAT and Non-VAT". Thus, franchise tax cannot also be passed on to consumers.

7.8 Further inquiry and verification revealed that the present minimum charge on water consumption for every 0-10 cu. m. for Residential type was ₱195.00 plus 2% franchise tax as reflected in the water bills and official receipts of the concessionaires that was imposed starting August 2009 billing to date which were lower than the approved water rates per letter dated November 8, 2007 of the LWUA Acting Senior Deputy Administrator Daniel I. Landingin and LWUA Board of Trustees Board Resolution No. 150 series of 2007 dated November 7, 2007, to wit:

Effectivity	**Minimum Charge for Residential (0-10 cu. m.)**
November 2007 and after the lapsed of seven calendar day posting as required by law	₱175.00
June 2009 and after lapse of seven calendar day posting as required by law	210.00
June 2011 and after lapse of seven calendar day posting as required by law	240.00

7.9 As mentioned in the 3rd paragraph of the District's BOD Resolution No. 2009-26 dated May 7, 2009, they did not implement the increase in water tariff of ₱210.00 effective June 2009, as approved by LWUA, due to current economic situation of the country and taking into consideration its socio-economic impact to its concessionaires. The minimum rate of ₱195.00 plus 2% franchise tax was their tariff rate since then. This was the reason of the Management why they passed on the said tax instead of increasing its water tariff. However, the passing on of franchise tax was contrary to abovementioned rules and regulations.

7.10 By passing-on the Franchise Tax as an add-on charge, the burden was transferred to its concessionaires for which the District was liable for the filing and paying.

7.11 We recommended and the General Manager agreed to direct the Division Manager – Commercial to exclude the 2% Franchise Tax in the water bill and stop from imposing the tax to its concessionaires but instead charge the same to District's operations.

Non submission of contracts

8. Contracts and related supporting documents were not submitted to the Commission on Audit (COA) pursuant to COA Circular No. 2009-001 dated February 12, 2009.

8.1 Review of the projects completed during CY 2018 diclosed that the contracts for the said projects were not submitted to COA contrary to COA Circular No. 2009-001 dated February 12, 2009 which restates with amendment the COA Circular No. 87-278 and COA Memorandum No. 2005-027 on the submission of copy of government contracts, purchase orders and their supporting documents to the Commission on Audit within five working days upon approval to implement a systematic and effective review process with a view of generating timely and relevant audit results.

8.2 Moreover, Section 3.1.2 of the COA Circular enumerates the required supporting documents submitted but not limited to the following:

a. Invitation to Apply for Eligibility and to Bid;
b. Letter of Intent;
c. Eligibility Documents and Eligibility Data Sheet;
d. Eligibility Requirements;
e. Results of Eligibility Check/Screening;
f. Bidding Documents (Section 17.1, IRR-A, RA 9184);
g. Minutes of Pre-bid Conference, if applicable;
h. Agenda and/or Supplemental Bid Bulletins, if any;
i. Bidders Technical and Financial Proposals;
j. Minutes of Bid Opening;
k. Abstract of Bids;
l. Post Qualification Report of Technical Working Group;
m. BAC Resolution declaring winning bidder;
n. Notice of Post Qualification;
o. BAC Resolution recommending approval;
p. Notice of Award;
q. Contract Agreement;
r. Performance Security;

s. Program of Work and Detailed Estimates;
t. Certificate of Availability of Funds, Obligation Request;
u. Notice to Proceed; and
v. Such other documents peculiar to the contract and/or to the mode of procurement and considered necessary in the auditorial review and in the technical evaluation thereof.

8.3 One of the projects completed during 2018 on which contract was not submitted to COA was the Design and Construction of two (2) - 1,000 cu. m. Glass Fused Steel Bolted Tank in Patag and Sitio Bato Pumping Stations located at Baranggays Patag and Guyong, respectively with contract amount of ₱25,093,139.67.

8.4 Compliance on the submission of copies of perfected contracts and supporting documents within the prescribed period must be observed otherwise the officials and employees concerned may be penalized as prescribed by law pursuant to Section 4.1 of the Circular which states that *"Any unjustified failure of the officials and employees concerned to comply with the requirements herein imposed shall be subject to the administrative disciplinary action provided in (a) Section 127 of Presidential Decree (PD) No. 1445; (b) Section 55, Title I-B, Book V of the Revised Administrative Code of 1987; and (c) Section 11 of Republic Act (RA) No. 6713"* and unsubmitted documents must be suspended in audit.

8.5 **We recommended and the General Manager agreed to instruct the official/s concerned to comply with COA Circular No. 2009-001 dated February 12, 2009 to submit a copy of government contracts, purchase orders and their supporting documents within five days upon perfection of the contract.**

GSIS contributions and remittances

9. The District's monthly deduction of employees' and employer's contributions were remitted in full to the Government Service Insurance System (GSIS) within the first ten days of the calendar month following the month to which contributions apply pursuant to Sections 5 and 6(b) of RA No. 8291, the GSIS Act of 1997.

9.1 Audit of the Due to GSIS account (20201020) showed that the District withheld employees' share/loans and remitted these including the employer's share to the GSIS. Based on the general ledger, hereunder is the summary of the GSIS employees' and employer's contributions withheld as well as the corresponding remittances for the CY 2018.

	2018
Beginning Balance, January 1	₱ 543,884.33
Amount Withheld from employees and total employer's share for the year	6,798,691.52

	2018
Total	7,342,575.85
Less: Remittances from January to December	6,707,318.71
Unremitted as of December 31	**₱ 635,257.14**

9.2 The Financial Assistant B deducted correctly the mandatory contributions for CY 2018 representing employees' share of 9% and employer's share of 12% of the basic monthly salaries of its officials and employees as set forth under Section 5 of RA No. 8291, the Government Service Insurance System (GSIS) Act of 1997, which states that *the mandatory monthly contribution of each employee and employer is 9% and 12%, respectively, of the basic monthly compensation.*

9.3 The contributions were remitted directly to the GSIS within the first ten days of the following month pursuant to Section 6(b) of the same Act that states that *Each employer shall remit directly to the GSIS the employees' and employer's contributions within the first ten (10) days of the calendar month following the month to which the contributions apply. The remittance by the employer of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees.*

9.4 The District is compliant with the GSIS rules and regulations. There were no notable over or under remittances as shown in the table below:

Month	Beginning	Withheld	Remittance	Balance
January	₱543,884.33	₱564,160.35	₱543,884.33	₱564,160.36
February	564,160.36	573,380.35	563,905.48	573,635.22
March	573,635.22	560,121.95	573,561.34	560,195.83
April	560,195.83	570,028.24	560,121.95	570,102.12
May	570,102.12	567,616.31	570,102.12	567,616.31
June	567,616.31	552,813.59	567,616.31	552,813.59
July	552,813.59	547,759.49	552,813.59	547,759.49
August	547,759.49	531,351.64	547,759.49	531,351.64
September	531,351.64	527,544.37	531,351.64	527,544.37
October	527,544.37	549,255.95	527,544.37	549,255.95
November	549,255.95	619,402.14	549,255.95	619,402.14
December	619,402.14	635,257.14	619,402.14	635,257.14
TOTAL		**₱6,798,691.52**	**₱6,707,318.71**	

9.5 **We commended the Financial Assistant B for remitting on time the GSIS contributions in compliance with the provisions of Sections 5 and 6 of RA No. 8291**

9.6 **We recommended and the General Manager agreed to continuously comply with the aforementioned GSIS Regulation.**

BIR contributions and remittances

10. The District complied with the provisions of Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 of the Bureau of Internal Revenue (BIR) on the withholding of taxes from salaries of officials and employees as well as from payments to suppliers and dealers, and the remittance thereof within ten days of the ensuing month.

10.1 As of December 31, 2018, the Due to BIR account (20201010) has a balance of ₱3,416,584.89, as summarized below:

PARTICULARS	*AMOUNT*
Tax Withheld on Compensation	₱ 122,115.19
Tax Withheld on Directors' Fee and EWT and Percentage Taxes	447,332.40
Tax Withheld on VAT and Percentage Taxes	1,713,072.26
Tax Withheld on Franchise Tax	1,134,065.04
Balance per General Ledger (GL) as of December 31, 2018	**₱3,416,584.89**

10.2 Audit of the account relative to the amount of taxes withheld and remitted to the Bureau of Internal Revenue (BIR) for CY 2018 revealed that the District strictly complied with Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 which requires that *all government agencies as tax withholding agents remit all taxes withheld by them on or before the 10th day of the succeeding month* and on Revenue Memorandum Circular No. 26-2018 dated April 19, 2018 for Franchise Taxes on or before the 25th day of the following quarter. However, the Audit Team noted that franchise taxes was passed-on by the District to its concessionaires as reflected in their water bills and official receipts contrary to Section 119 of Title V of the National Internal Revenue Code (NIRC) of 1997. This finding was separately discussed in Observation No. 7 of this report.

10.3 The withholding of the applicable taxes for each month from the employees' compensation and from the payments of goods and services and the remittance thereof within the prescribed period as prepared by the Financial Planning Assistant B and verified by the audit team is shown below:

Nature	**Beginning Balance**	**Taxes**		**Ending Balance**
		Withheld	**Remittance**	
Compensation	₱ 142,474.10	₱ 818,336.12	₱ 883,071.53	₱ 77,738.69
VAT	1,102,447.15	6,617,777.42	6,007,152.31	1,713,072.26
Expanded	371,248.05	1,981,737.84	1,905,653.49	447,332.40
Franchise	330,195.45	4,702,947.86	3,854,701.77	1,178,441.54
Total	**₱1,946,364.75**	**₱14,120,799.24**	**₱12,650,579.10**	**₱3,416,584.89**

Month	Beginning	Withheld	Remittance	Balance
January	₱1,946,364.75	₱1,215,273.97	₱1,966,315.24	₱1,195,323.48
February	1,195,323.48	595,778.29	831,536.74	959,565.03
March	959,565.03	1,296,190.56	221,593.12	2,034,162.47
April	2,034,162.47	865,257.97	2,051,437.81	847,982.63
May	847,982.63	1,494,085.81	443,748.65	1,898,319.79
June	1,898,319.79	1,073,026.39	1,113,400.43	1,857,945.75
July	1,857,945.75	1,141,107.68	1,874,597.56	1,124,455.87
August	1,124,455.87	788,820.05	746,538.56	1,166,737.36
September	1,166,737.36	799,731.85	393,916.39	1,572,552.82
October	1,572,552.82	1,466,860.16	1,588,136.36	1,451,276.62
November	1,451,276.62	765,805.62	1,074,421.62	1,142,660.62
December	1,142,660.62	2,618,860.89	344,936.62	3,416,584.89
TOTAL		**₱14,120,799.24**	**₱12,650,579.10**	

10.4 There were no over or under remittance of taxes during the year. The ending balance of ₱3,416,584.89 as of December 31, 2018 as shown in the preceding table, was remitted on the following month.

10.5 **We commended the Financial Planning Assistant B for continuously complying with the BIR regulations on the withholding and remittance of the appropriate taxes within the prescribed period. We recommended and Management agreed to continuously comply with the aforementioned BIR Regulation.**

NRW below the maximum acceptable level

11. The District registered an average rate of 13.15 per cent of Non-Revenue Water (NRW) in CY 2018, which was below the maximum acceptable NRW of 30 per cent set by LWUA under Memorandum Circular No. 011-18 dated June 1, 2018.

11.1 Review of the operations of the District for CY 2018 showed that of the total 10,202,257 cubic meters of water produced that were available for distribution, only 8,860,992 cubic meters were billed to concessionaires resulting in a difference of 1,341,265 cubic meters or 13.15 per cent which was less than the 30 per cent acceptable NRW set by LWUA. Details are as follows:

Month	Water Produced (in cu. m.) (A)	Water Billed (in cu. m.) (B)	Difference (A-B)=C	% of NRW (C)/(A)	Peso equivalent of NRW (C)/10*₱195.00
January	864,092	750,705	113,387	13.12%	₱2,211,046.50
February	844,912	705,101	139,811	16.55%	2,726,314.50
March	764,449	633,163	131,286	17.17%	2,560,077.00
April	895,767	811,382	84,385	9.42%	1,645,702.50

Month	Water Produced (in cu. m.) (A)	Water Billed (in cu. m.) (B)	Difference (A-B)=C	% of NRW (C)/(A)	Peso equivalent of NRW (C)/10*₱195.00
May	820,577	719,229	101,348	12.35%	1,976,286.00
June	876,005	777,344	98,661	11.26%	1,923,889.50
July	834,619	738,519	96,100	11.51%	1,873,950.00
August	863,545	740,059	123,486	14.30%	2,407,977.00
September	871,348	756,128	115,220	13.22%	2,246,790.00
October	851,992	715,753	136,239	15.99%	2,656,660.50
November	879,379	801,653	77,726	8.84%	1,515,657.00
December	835,570	711,956	123,614	14.79%	2,410,473.00
Total	**10,202,257**	**8,860,992**	**1,341,265**	**13.15%**	**₱26,154,823.50**

11.2 Overall, the total NRW of 1,341,265 cu. m. equivalent to at least ₱23,592,843.61 computed based on prevailing current rate of ₱195.00 per 10 cu. m. are income opportunity lost by the District.

11.3 In order to maintain performance levels required for various concerns such as incentives, credit classification, re-categorization, loan application, Board per diem adjustments and other performance based concerns, LWUA issued Memorandum Circular (MC) No. 011-18 dated June 1, 2018 increasing the NRW acceptable level rate of 20% to ≤30 per cent.

11.4 The close monitoring of operations resulted in low NRW level; however, the remaining NRW can be attributed to the following reasons: (a) road widening, road elevation and drainage construction projects affecting water distribution in various areas and water main pipeline leakages caused by these projects; and (b) the accuracy of flow meters and individual water meters affected the increase in NRW.

11.5 Further, under LWUA Memorandum Circular No. 014-10 dated December 2, 2010, WDs were enjoined to periodically conduct performance audit of water meters being used by customers to ensure their accuracy. Depending on the condition of operations, the water meter should be tested for accuracy after five years of utilization. Water meters showing errors of more than the following tolerance levels should be calibrated or replaced as follows:

From Maximum Flow to Transitional Flow ± *2%*
From Minimum Flow to Transitional Flow ± *5%*

In order to meet this requirement, all WDs were encouraged to allocate funds to establish their own water meter testing facility.

11.6 Although the average NRW was below the acceptable level of 30 per cent, Management should still be concerned on how to minimize these losses at approximately ₱26,154,823.50 for CY 2018, to ensure that whatever resources taken from nature are put to good use or properly conserved and that the corresponding billings are collected and used to improve services and facilities of the District.

11.7 **We commended Management for maintaining an average rate of 13.15 per cent NRW for CY 2018, which is less than the 30 per cent maximum acceptable NRW set by the LWUA. We recommended and Management agreed to further reduce its NRW by (a) conducting regular inspection to trace leakages; and (b) applying immediate preventive measures, such as: conduct of regular calibration of the flow meters, regular maintenance of the distribution lines and establish its water meter testing facility as required under LWUA Memorandum Circular No. 014-10 dated December 2, 2010.**

Gender and Development

12. The Annual GAD Plan and Budget (GPB) and the corresponding Accomplishment Reports (AR) were submitted for review to LWUA in accordance with Item 4 of Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2016-06 dated October 10, 2016. Likewise, the District was able to allocate and to utilize at least five per cent of the Corporate Operating Budget (COB) pursuant to Section 30 of the General Appropriations Act (GAA) for FY 2018.

12.1 The Audit Team noted that the GPB and AR for CY 2018 prepared by the District's GAD Focal Point System were submitted to LWUA for review and evaluation in accordance with Item 4 of PCW MC No. 2016-06 dated October 10, 2016 which pertains to the extension of moratorium on the PCW's review and endorsement of local water district's annual GPBs. It states that: *All LWD GPBs and GAD ARs shall be submitted to LWUA. In addition, for Categories A, B, C LWDs, their GPBs shall be reviewed by LWUA, but will not be reviewed nor endorsed by PCW during the moratorium period.*

12.2 Information on the allocation/attribution for GAD and actual expenditures related thereto for CY 2018 is as follows:

Allocation/Attribution for GAD				GAD Expenditures		
Agency's Total Corporate Operating Budget (COB)	5% of Agency's Total COB	Actual GAD Allocation	% of Actual GAD Allocation to COB	GAD Related Activities (Amount)	% of Actual Expenditures to GAD Allocation	% of GAD Expenditures to COB
₱276,081,363.46	₱13,804,068.17	₱21,591,533.33	7.82%	₱17,705,160.10	82.00%	6.41%

12.3 As shown in the preceding table, the District was able to allocate 7.82% of its total COB to GAD programs, projects and activities (PPAs) amounting to ₱21,591,533.33 and 82.00% or ₱17,705,160.10 was utilized by the District in its GAD PPAs or 6.41% of the total Corporate Operating Budget represents the actual GAD expenditures in compliance with Section 30 of the GAA for FY 2018.

12.4 **We recommended and the General Manager agreed to continue its adherence to rules and regulations on Gender and Development.**

Enforcement of Audit Suspensions, Disallowances and Charges

13. There were no audit suspensions, disallowances and charges issued for the audited transactions for CY 2018. Unsettled audit disallowances amounting to ₱1,272,023.77 as of December 31, 2018 pertained to audited transactions for CYs 2012 to 2014.

13.1 The District has unsettled audit disallowances amounting to ₱1,272,023.77 as of December 31, 2018 for audited transactions for CYs 2012 to 2014. There were no audit suspensions, disallowances and charges issued for the audited transactions for CY 2018. The status of audit suspensions, disallowances and charges as of December 31, 2018 is as follows:

	Beginning Balance (December 31, 2017)	**Issued this period January 1 to December 31, 2018**		**Ending Balance (December 31, 2018)**
		NS/ND/NC	**NSSDC**	
Notice of Suspension	₱ 0.00	₱ 0.00	₱ 0.00	₱ 0.00
Notice of Disallowance	1,712,570.33	0.00	440,546.56	1,272,023.77
Notice of Charge	0.00	0.00	0.00	0.00
Total	**₱1,712,570.33**	**₱ 0.00**	**₱440,546.56**	**₱1,272,023.77**

13.2 Section 5.4 of the Rules and Regulations on the Settlement of Accounts (RRSA) provides that *An audit suspension, disallowance/charge shall be settled by the persons responsible or liable therefor through compliance with the requirements or payment/restitution or by any of the modes of extinguishment of obligation provided by law, respectively.*

13.3 The details of the disallowances are as follows:

ND No./date	**Amount of ND**	**NSSDCs amount**	**Balance of ND as of December 31, 2018**	**Remarks**
2013-001-SMWD(2012)	₱ 899,424.32	₱ 270,000.00	₱ 629,424.32	The amount of NSSDC pertains to the COA Decision No 189 dated January 29, 2018 which partially lifted the disallowance.
2013-002-SMWD(2012)	341,930.70	302,149.41	39,781.29	Persons liable settled by instalment.
2015-11-001 SMWD(2013-2014) dated 11/13/2015	602,818.16	0.00	602,818.16	Appealed at COA Regional Office No. III on June 1, 2016.
Total	**₱1,844,173.18**	**₱ 572,149.41**	**₱1,272,023.77**	

13.4 **We recommended and Management agreed to continue to abide with laws, rules and regulations to avoid audit suspensions, disallowances and charges.**

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

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

Of the 12 audit recommendations embodied in the CY 2017 Financial Audit Report, six were fully implemented, two were partially implemented and four were not implemented, as detailed below:

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
1. The collectability of the inactive Accounts Receivable amounting to ₱2,109,236.18 aged one month to over five years which constituted 62.66 per cent of the account balance was remote contrary to Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I. We recommended that Management -	FAR 2017 Obs. No. 1		
a) instruct the Division Manager - Commercial to continuously send demand letters to persuade/encourage the concessionaires to pay the outstanding balance of inactive accounts; and			Partially Implemented Reiterated in Observation No. 1 of the CY 2018 FAR.
b) initiate to request from the Commission on Audit, for the write-off of long dormant receivables deemed uncollectible, after all remedies have been exhausted.			Not Implemented Reiterated in Observation No. 1 of the CY 2018 FAR.
2. Unserviceable properties with total acquisition cost of ₱2,855,566.78 and carrying value of ₱871,643.84 were not disposed as of yearend contrary to Section 79 of PD No. 1445, exposing the properties to	FAR 2017 Obs. No. 2		

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
further deterioration and reduction in economic value. We recommended that Management exert utmost effort to – a) take an inventory and appraisal of the unserviceable properties; b) prepare the required documents; and c) eventually disposed the unserviceable properties.			Not Implemented Reiterated in Observation No. 5 of the CY 2018 FAR. Not Implemented Reiterated in Observation No. 5 of the CY 2018 FAR. Not Implemented Reiterated in Observation No. 5 of the CY 2018 FAR.
3. The approved amount of fidelity bond for the District's Cashier of ₱350,250.00 was insufficient by ₱1,149,750.00 while the total amount of bond premiums paid of ₱5,253.75 was less than ₱17,246.25 to cover the total cash accountabilities of ₱2,996,488.34 which is equivalent to the bond amount of ₱1,500,000.00 per revised	FAR 2017 Obs. No. 3		

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
schedule of premium rates under Paragraphs 5.1, 5.3 and 7.3 of Treasury Circular No. 02-2009 dated August 6, 2009, thus, the District may not recover funds that may be lost through theft or force majeure. We recommended that Management require the – a) Cashier to apply for the renewal of bond application using the maximum cash accountability; and		On May 3, 2018, the Cashier's bond amounting to ₱22,500.00 based on her maximum amount of accountability was paid under Check Number 617425 dated May 3, 2018.	Fully Implemented
b) Department Manager – Administrative, Finance and General Services to pay the appropriate amount of bond premium pursuant to Paragraphs 5.1, 5.3 and 7.3 of Treasury Circular No. 02-2009 dated August 6, 2009.			Fully Implemented
4. The District did not display information on disasters contrary to NDRRMP 2011 to 2028 despite of prior years' audit recommendation; thus, the awareness and understanding of disasters by its personnel and concessionaires were not promoted. We recommended that the General Manager instruct the Department	FAR 2017 Obs. No. 4		

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
Manager – Administrative, Finance and General Services to – a) display information materials like NDCC alerto tips charts at customer's waiting areas and office bulletin boards; and		For CY 2018, information materials for earthquake and fire were posted in the District's main office. Moreover, additional fire extinguishers were placed in the office extensions located in Farmacia Emilia.	Fully Implemented
b) continuously conduct briefings/alert drills to assess the preparedness of its personnel in the event of calamities.			Fully Implemented
5. *The District was not able to collect and generate sex-disaggregated data and statistics contrary to the provisions of Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2014-05 dated November 28, 2014 and Local Water Utilities Administration (LWUA) MC No. 011-17 dated June 20, 2017; thus, the identified GAD programs, projects and activities may not address gender issues.* We recommended that Management adhere with the provisions of PCW MC No. 2014-05 dated November 28, 2014 and LWUA MC No. 011-17	FAR 2017 Obs. No. 5		Partially Implemented

Audit Observations and Recommendations	**Ref.**	**Management's Action**	**Status of Implementation/ Reason for Partial/ Non Implementation**
dated June 20, 2017 to collect and generate sex-disaggregated data and statistics that may help in identifying gender issues during the preparation of the District's GAD Plan and Budget.			
6. The District's monthly deduction of employees' and employer's contributions were remitted to the Government Service Insurance System (GSIS) within the first ten days of the calendar month following the month to which contributions apply pursuant to Sections 5 and 6(b) of RA No. 8291, the GSIS Act of 1997. However, analysis of the Due to GSIS account revealed over or under remittance of monthly contributions ranging from negative amount of ₱8,482.92 to ₱6,882.38.	FAR 2017 Obs. No. 7		
We recommended the Department Manager – Administrative, Finance and General Services and Financial Planning Assistant B to –			
a) continuously comply with the provisions of Sections 5 and 6(b) of RA No. 8291; and			Fully Implemented
b) require the Financial Planning Assistant B to be more cautious in recording the contributions and remittances in the books of accounts to avoid errors that could result in the under or over remittances.			Fully Implemented